COUNTY OF SAN MATEO
Inter-Departmental Correspondence

Real Property Division

DATE: May 24, 2004
BOARD MEETING DATE: June 8, 2004

TO: Honorable Board of Supervisors

FROM: Steve Alms, Real Property Services Manager

SUBJECT: Agreement Between County of San Mateo And Peninsula Conflict Resolution Center

Recommendation
Adopt a Resolution authorizing termination of the Financing Agreement, and acceptance of an unsecured note from PCRC for the outstanding balance of the Non-Profit Agency Office Purchase Loan.

Background
In September 2000, in response to soaring commercial rents, your Board established the Non-Profit Agency Office Purchase Loan Program to assist qualified non-profit agencies in the acquisition of real property for agency use. As part of that innovative program, in May 2001, the Board authorized a Financing Agreement, which provided for a loan from the County to PCRC in the amount of $477,125 for the purpose of acquiring and improving 1300 El Camino Real, Belmont, CA. The County agreed to subordinate its interest to primary financing for acquisition and renovation of the building. At the time of acquisition, the property was improved with a 10,000 square foot office building. When the Agreement was entered, it was anticipated that the total cost of acquisition and renovation would be $2,018,500.

The Office of Housing's recommendation of the Office Purchase Loan was predicated on the value of the property in 2001 as an existing office building. That value appeared to be adequate security for the County's loan, which was subordinate to the $1,150,125 loan made by Comerica Bank for acquisition and renovation. In the office market that existed in 2001, PCRC and the non-profit agencies that intended to share the building would have reduced and stabilized long-term occupancy costs compared to the alternative of continuing to lease facilities.

Subsequent to acquisition of the property, PCRC learned of serious structural deficiencies in the existing building, and determined that renovation of the structure was ill-advised. The structural deficiencies, undetected in the pre-closing inspection performed by a general contractor acting on behalf of PCRC, were so severe that the true value of the property was roughly equivalent to the land value. The value of the land, even at the height of the market, was less than the amount of the Comerica Bank loan.

PCRC engaged an architect to design a new building, found a reputable contractor and obtained a building permit to construct a 9,000 square foot building on the site. The original building was demolished, leaving only the foundation and original slab. To fund construction of the new design, PCRC attempted to renegotiate its loan commitment with Comerica Bank.

Although your Board, in April 2003, authorized subordination of the County's loan to new Comerica construction funding of $594,000 so that PCRC could complete construction of a new building, Comerica did not approve that loan. In attempts to restructure the debt on the property in a fashion that would satisfy the requirements of Comerica, PCRC entered an extended period of negotiation.

Following months of negotiation and a variety of creative proposals, Comerica refused to commit additional funds to the project on terms that PCRC could accept. In November 2003, PCRC elected to default on the Comerica loan rather than continue to pursue a solution that might have established a long-term debt burden that the agency could not service. Comerica recorded a Notice of Default on December 4, 2003. The default on the $1,150,125 Comerica loan effectively eliminates the County's subordinate lien.

Discussion

Despite defaulting on the Comerica loan, PCRC has remained current in its payments to the County and has continuously reaffirmed its intention to repay the County the full amount of its debt. While foreclosure by Comerica has voided the original note and deed of trust in favor or the County, and PCRC has no further legal obligation to repay the County's loan, PCRC has agreed to execute an unsecured note for the outstanding balance. PCRC has proposed revised loan terms, including a short-term deferral of payments to ensure its ability to service the debt. In exchange, PCRC agrees to accelerate the due date of the loan by ten years from June 2031 to June 2021.

The County Manager's Office has negotiated the following terms for the unsecured loan effective July 1, 2004:

- Interest rate: No change
- July 2004 through June 2006: No payments of principal or interest. Interest accrues monthly, increasing the balance of principal owed.
- July 2006 through June 2009: Monthly payments of interest only (plus a $6 service fee).
- July 2009 through June 2021: Fixed monthly payments of fees, principal and interest of $2,040.00 (equal to the monthly payment under the original loan).
- June 30, 2021: Payment in full of the outstanding balance.

This transaction requires two separate actions for which board authorization is hereby requested. The first is the termination of the 2001 agreement to assist in financing. The second transaction is the agreement for the unsecured loan which will replace the original loan. The deed of trust securing the original note has been extinguished by the Comerica Bank foreclosure, and no further action is necessary. The Financing Agreement is an agreement that addresses only the purchase by PCRC of 1300 El Camino Real, and termination of the agreement is an appropriate administrative act.

Fiscal Impact

There is no impact on the General Fund. The Non-Profit Agency Office Purchase Loan fund will be reimbursed in full on an accelerated schedule.

cc: Penny Bennett, Deputy County Counsel
Maureen Borland, Director, Human Services Agency
Steve Cervantes, Director, Office of Housing
Jack Marquis, Office of Housing