

# REPORT

To the Honorable Mayor and City Council  
From the City Manager

July 27, 2015

## **SUBJECT**

Fire Safety First Program -- Loan Forgiveness Program with Rent Stabilization

## **RECOMMENDATION**

Adopt Resolution Authorizing Fire Safety First Program Loan Forgiveness Program with Rent Stabilization.

## **BACKGROUND**

Recently, the City Council adopted an ordinance requiring older residential buildings with four units or more to install Automatic Sprinkler Systems. (Introduction – May 18, 2015; Adoption June 8, 2015). Compliance is voluntary for the first five years and mandatory thereafter. This proposed resolution – the Fire Safety First Program -- is a companion piece to the ordinance. The Program provides an economic incentive for owners to retrofit these at-risk residential buildings during the five year voluntary compliance period in exchange for an agreement to slow rent increases presently challenging our community.

## **ANALYSIS**

During the City Council's May 18, 2015 meeting, staff presented the "City of Redwood City Fire Safety First Pilot Program" (the "Program"), which then included two components: (1) a low interest loan program that allowed for an owner of a pre-July 1, 1989 multi-unit residential building with four units or more to apply to have the City offset the costs of retrofitting a building with a low interest loan; and (2) a Rent Stabilization Loan Program whereby, alternatively, the borrower's loan payments could be deferred and ultimately forgiven in exchange for entering into the rent stabilization program.

The City Council was favorably disposed toward such an incentive program but directed staff to return with a proposal that focused on rent stabilization in the context of the program. In order to maximize the community benefits of a rent stabilization program, staff recommends the following revisions to the previously proposed program:

- Offer the previously styled "Rent Stabilization Loan Program" only. Given a choice between a low interest loan and a loan forgiveness program with conditions that limit rent increases, applicants may be more inclined to elect the low interest loan. Therefore, eliminating the low interest loan option will ensure

the program will provide an economic benefit to both the property owner (forgivable loan) and to the residents (rent stabilization). The building safety aspects of the program will also be shared by the property owners and residents.

- Clarify that the program will only be offered for five (5) years so that potential applicants do not delay program participation and compliance.
- Limit funding in first year to \$1.5 million to encourage early participation.
- Require the rent stabilization to continue for at least 5 years and require compliance with these conditions through a deed of trust recorded on the property.
- Re-evaluate the program in 6 months.

The following are some of the key program elements:

- The owner of a pre-1989 multi-family residential building within the City that lacks an automatic sprinkler system may apply to participate in the Program at the same time they apply to the City for a building permit to install an automatic sprinkler system in their pre-1989 residential building.
- The Program allows an eligible Owner to receive a Program Loan to assist them in paying for the cost of the automatic sprinkler installation. The amount of the Program Loan may not exceed \$5.00 per square foot (gross square footage) of the residential building unless the Program Manager approves a greater amount due to unusual circumstances.
- Under the terms of a Program Loan, the loan payments are automatically deferred and ultimately forgiven if the borrower does not increase the rents in their residential building more than 5% or the increase in CPI, whichever is less, in any 12 month period during the term of the loan. If these agreed rent restrictions are breached, then the loan becomes immediately due and payable with accrued interest.
- To receive a Program Loan, an eligible Owner must not have recently imposed an unusual rent increase on the tenants in their residential building. Under the proposed Program parameters, the applicant must demonstrate to the satisfaction of the Program Manager that no rent increase in the 12 months preceding their application, and continuing through the date they receive a Program Loan, has been greater than the average increases on a percentage basis than during the 5 year period preceding their application. (See Section III.A.6. of Attachment A, City of Redwood City Fire Safety First Pilot Program).
- To participate in the Loan Program, an eligible Owner must complete and execute a loan agreement, promissory note and deed of trust as required by the

Program Manager. The loan agreement contains the terms of the contract between the Owner/borrower, including the loan forgiveness and rent stabilization provisions. The promissory note is the instrument reciting the promise to repay the amount loaned unless the loan is forgiven as provided in the loan agreement. The deed of trust creates a lien against the property where the automatic sprinkler system has been installed as security for the Program Loan.

- An eligible Owner's priority to receive a Program Loan will depend upon their obtaining a Program Loan Commitment Letter from the Program Manager. A Program Loan Commitment Letter will only be issued if the Program Manager determines the proposed cost for design, purchase and/or installation of the automatic sprinkler system is satisfactory and eligible for reimbursement through a Program Loan, and determines adequate Program Loan Funds are available.
- The Program Loan Commitment Letter will assure the applicant that Program Loan Funds will be reserved for their loan in the amount and for the length of time specified in the Program Loan Commitment Letter.
- Unless directed otherwise by the City Council, if the City receives loan payments due to a breach of the agreed rent stabilization terms, all loan payments will be deposited back into the Program Loan Fund to be available for further Program Loans.

#### **ALTERNATIVES**

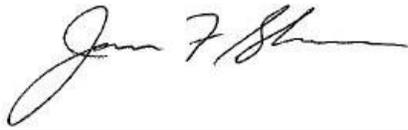
1. Council may choose not to adopt the resolution or may make other changes.
2. The Council may choose to approve to adopt the resolution and add evaluation criteria and/or goals for the program. This criteria could help determine whether program components should be revised during the 6-month Council review.

#### **FISCAL IMPACT**

Initial fiscal impact is \$1.5 million dollars. The City Council may decide in its sole and unfettered discretion to not authorize this expenditure or to not authorize any additional funds to this program.

#### **ENVIRONMENTAL REVIEW**

Funding a loan program and/or loan forgiveness program is not a project under CEQA as defined in CEQA Guidelines, section 15378(b) (4), because the Fire Safety Program involves a government funding mechanism other governmental fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact in the environment. This activity is also not a project under CEQA Guidelines, section 15378(b)(5) because organization or administrative activities of government such as funding a loan program will not result in direct or indirect physical changes in the environment.



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JIM SKINNER  
FIRE CHIEF



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AARON AKIN  
INTERIM CITY MANAGER

**ATTACHMENTS**

1. Fire Safety Loan Program Revised Resolution
2. Fire Safety Loan Program Revised Loan Program (Attachment A)
3. Fire Safety Loan Program Revised Loan Agreement
4. Fire Safety Loan Program Revised Promissory Note
5. Fire Safety Loan Program Revised Deed of Trust
6. Fire Safety Loan Program Revised Loan Commitment Letter