



Office of the City Manager

CONSENT CALENDAR

November 18, 2014

To: Honorable Mayor and Members of the City Council

From:  Christine Daniel, City Manager

Submitted by: Jane Micallef, Director, Health, Housing & Community Services

Subject: Oxford Retail – BEDI Loan Modifications

RECOMMENDATION

Direct the City Manager to prepare and execute an amendment to the City's Brownfields Economic Development Initiative (BEDI) loan to the Oxford Plaza and David Brower Center projects which retroactively reduces the loan's interest rate to 0%.

FISCAL IMPACTS OF RECOMMENDATION

The fiscal impact is difficult to quantify but likely to be minimal. The City's 4% interest rate results in \$53,010 in additional debt from the interest accruing annually. Loan payments are to be made as a portion of cash flow, if sufficient cash flow is available, or otherwise at the end of the term or in the event of a sale. The project has not had and is not projected to have adequate cash flow to pay off the interest, making it unlikely that the City would ever actually receive the accruing interest. If the City received interest payments, they would be deposited into budget code 036-8151-361-2120.

CURRENT SITUATION AND ITS EFFECTS

Resources for Community Development (RCD) has requested that the City make a modification to its \$1,767,000 BEDI loan to the commercial portion of the Oxford Plaza and David Brower Center ("Oxford Commercial"). Specifically, RCD asks that the City retroactively reduce the interest rate on the loan to 0%, effectively forgiving about \$350,000 in accrued interest and eliminating future interest for the remaining 22 years.

The loan proceeds were used for environmental remediation of the former City parking lot. While the loan helped make the project feasible, it did not result in increased value of the improvements. As a result, the project has a large amount of debt compared to the value of the retail space, a common hurdle for redeveloping contaminated sites. Many communities provide BEDI funds in the form of a grant for this reason. Because of the comparatively large amount of debt on the property, RCD is not able to access conventional forms of financing, and is itself providing the project with a loan to refinance. RCD is working on refinancing the commercial space now because the project's New Market Tax Credits compliance period is coming to an end and the related financing structure is being dismantled as planned.

At its October 2, 2014 meeting, the Housing Advisory Commission passed a motion recommending that Council approve the modification to the BEDI loan as recommended by staff. (M/S/C: Darrow/Magofna; Ayes: Darrow, Magofna, Skjerpig, Salas-Barrios, Tregub; Noes: None; Abstain: None; Recused: Wolfe; Absent: Casalaina (unexcused), Drake (excused), Droste (excused).) Commissioner Wolfe recused herself because she serves on the Board of Directors for RCD.

### BACKGROUND

The City obtained the BEDI loan funds as a grant from HUD specifically for the Oxford Plaza/David Brower Center project. BEDI grants are available from HUD related to the Section 108 program, and are intended to reduce the risk of non-repayment of Section 108 loans. The City also made a \$4 million Section 108 loan to the project. In the planned refinancing, the project will repay the \$2 million portion of the Section 108 associated with Oxford Commercial, using a loan from RCD. HUD regulations require BEDI income (the repaid principal and any interest) be treated similarly to Community Development Block Grant (CDBG) funds.

### ENVIRONMENTAL SUSTAINABILITY

The proposed interest rate reduction has no direct environmental effect.

### RATIONALE FOR RECOMMENDATION

There are a number of reasons for this recommendation:

- Reducing the interest rate provides support for RCD, a local nonprofit public benefit corporation for which the City also provides operating support;
- The modification supports a refinancing which will include a repayment of \$2 million of the City's Section 108 loan. This reduces risk to the City's CDBG funds, which guarantee the loan;
- Because of the large amount of debt on the property and modest cash flow, the City is unlikely to recoup the interest on this loan. Many communities provide BEDI funds in the form of a grant because of the difficulty of financing brownfield clean up; and
- Reducing the total debt on the property puts RCD in a better position to access conventional financing in the future, although it has no immediate plan to do so.

### ALTERNATIVE ACTIONS CONSIDERED

The City could leave the interest rate at 4%. However, it is unlikely that the City would ever recover the interest. Maintaining the interest rate disadvantages RCD's ability to access conventional financing for the project in the future.

### CONTACT PERSON

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