

EUGENE CITY COUNCIL

AGENDA ITEM SUMMARY



Adoption of Resolution 4997 Authorizing the Execution of HUD Section 108 Notes in the Amount of \$5,189,000

Meeting Date: January 11, 2010
Department: Central Services
www.eugene-or.gov

Agenda Item Number: 3D
Staff Contact: Sue Cutsogeorge
Contact Telephone Number: 682-5589

ISSUE STATEMENT

The City has the ability to use Federal Housing and Urban Development Section 108 Loan Guarantee Program (HUD 108) funds in combination with the Brownfield Economic Development Initiative (BEDI) grant for certain redevelopment projects in downtown. This resolution would authorize the use of HUD 108 and BEDI funds to provide a loan to Beam Development (Beam) for rehabilitation of the Centre Court Building at the southwest corner of Willamette and Broadway in downtown Eugene. (See Attachment A for the resolution.)

BACKGROUND

In January 2006, the federal government awarded the City a \$2 million BEDI grant to assist redevelopment projects within the City's two urban renewal districts. BEDI grant funds must be used in conjunction with projects financed by HUD 108 funds. HUD 108 is the loan guarantee provision of the Federal Community Development Block Grant (CDBG) program. HUD 108 allows cities to borrow up to five times their annual allocation of CDBG funds. HUD authorized Eugene to borrow up to \$7,895,000 in HUD 108 funds, which is the maximum amount allowed under the program.

On February 26, 2007, the council approved Ordinance No. 20376 authorizing the use of HUD 108 loans as a financing tool. The ordinance established the City's general ability to borrow for HUD 108 projects with the stipulation that individual projects be approved by council resolution after a public hearing conducted before council.

In July 2008, the City utilized a combination of federal and local funds for the first step in the acquisition and redevelopment of the three properties that are the footprint of the Beam redevelopment project. The City used \$685,000 of BEDI grant funds and issued \$2,706,000 of HUD 108 notes to acquire the Washburne and Centre Court buildings and adjacent vacant lot. This left \$5,189,000 of HUD 108 loan funds authorized but unissued, and \$1,315,000 of BEDI grant funds (together the "BEDI/108 funds") available for rehabilitation of the Centre Court building.

On December 14, 2009, the council approved amendments to the Purchase and Sale Agreement with Beam to allow phasing of the project, beginning with the rehabilitation of the Centre Court building. The amendment included provisions designed to protect the City in the proposed transaction. With regard to the HUD 108 loan, before drawing down any loan funds from HUD, the Purchase and Sale Agreement requires that Beam demonstrate tenant commitment sufficient to cover the interest payments

on the loan to the satisfaction of the URA Director (City Manager). A reversionary clause also allows the URA to repurchase the property under certain conditions. Prior to commencement of construction and expenditure of construction loan funds, the URA has the right to repurchase the property for the purchase price plus any redevelopment costs incurred by Beam and approved by the Agency. After construction has commenced, Beam is required to make interest payments on the construction loan. If Beam fails to do so, the Agency has the right to foreclose on the property, or to work with Beam to rectify the situation. As part of the action approving the amendments, the council also directed the City Manager to place this resolution authorizing the use of HUD 108 loan funds for the Beam project on the consent calendar on January 11, 2010.

On December 14, 2009, the council also held a public hearing on the proposed use of the BEDI/108 funds for the rehabilitation of the Centre Court building, as outlined in the Proposed HUD Section 108 Individual Project #2 Application (See Attachment B). Two individuals spoke at the hearing in favor of the application and proposed use of the BEDI/108 funds for this project. In addition to the public hearing, a 30-day public comment period began on November 30, and continued through December 31. Comments were submitted by two individuals (see Attachment C: Public Comments Received).

The City's Loan Advisory Committee reviewed the credit underwriting on December 7, 2009, and recommended approval for the proposed use of the BEDI/108 funds. The City's CDBG Advisory Committee reviewed and also recommended approval on December 8, 2009.

This project is a cooperative effort between the City of Eugene and the Eugene Urban Renewal Agency (URA). The HUD funds are available to the City, which then passes the funds on to the URA to use for approved projects. The arrangement between the City and Agency is formalized in an Intergovernmental Agreement.

HUD 108 Loan Contract

To borrow money under the HUD 108 program, HUD requires a two-step process. First, the City must enter into a loan contract with HUD. This is like a master loan agreement. Second, the City must draw down funds under a project note. The project notes are governed by the terms in the loan contract.

The City entered into a loan contract (or master agreement) with HUD in June 2008, for acquisition of the Washburne and Centre Court buildings and adjacent vacant lot. The City executed a project note to purchase the properties. Those properties were subsequently sold by the City to Beam, and Beam financed the purchase largely through loans from the URA. A portion of the loan authorization (\$2,706,000) was used for the acquisition, with \$5,189,000 remaining to be used for rehabilitation of the Centre Court.

This second HUD 108 may be executed as an amendment to the current loan contract with a second project note, or may be executed as a new loan contract and project note. The resolution allows either approach, depending on HUD's determination about the form of the contract and note.

Beam's payments to the City would be the primary source of repayment for the proposed HUD 108 loan. To secure the loan to Beam, the City will have the only lien (first position trust deeds) on the Centre Court real property, the adjacent vacant parcel, and the Washburne Building real property. Additional security would include an ability to claim rent payments from tenants (assignment of leases)

on the Centre Court and Washburne buildings, and a personal guarantee from the Beam owner. More details about the security for the loan can be found in the collateral section of Attachment B.

In the event that the primary sources to repay the HUD 108 loan are not realized, there are some alternative strategies. As part of the City's agreement with Beam, failure to make a loan payment would enable the URA to reclaim the property. The URA could then address any tenanting issues and sell the building to a private party, or work with other institutions including the City to lease the space. (City occupancy would require repayment of the BEDI/108 funds.)

HUD requires local governments that borrow HUD 108 funds to pledge their current and future CDBG allocations as a secondary source of repayment for the borrowing. In the event that all of the other collateral and other options open to the City to make payments on the loan were unsuccessful, HUD would withhold CDBG funds. The City does not anticipate utilizing future CDBG allocations as a source of repayment for this project because of the collateral pledged for this project and other avenues available to cure any shortfall in payments from Beam. In addition, \$600,000 in Urban Renewal funds are reserved as a precautionary measure, to pay debt service during an interim period while other actions are taken to cure any default or to repurchase the property and either sell or reuse it for another purpose.

After council approval of the resolution, staff will submit the application for the Centre Court building construction loan to HUD. HUD's review is anticipated to take several weeks. Assuming favorable review, Beam should have access to construction financing through BEDI/108 funds by March.

RELATED CITY POLICIES

Downtown development is guided by policies in the Downtown Plan and the Growth Management Policies. With regard to financial tools to assist with development, the Downtown Plan includes policies that state that the City should: "Use downtown development tools and incentives to encourage development that provides character and density downtown."

A number of financial policies guide the creation of the final economic development finance plan, including the City's debt policies.


COUNCIL OPTIONS

The council may adopt the resolution as proposed, suggest amendments to the resolution, or decline to authorize the resolution. If the resolution is not adopted, the City will not be able to use HUD 108 loan and BEDI grant funds to provide a loan to Beam for rehabilitation of the Centre Court building. As a result, the City will have to identify other funding sources to assist Beam in accomplishing the project, or discontinue the rehabilitation effort.

CITY MANAGER'S RECOMMENDATION

The City Manager recommends adoption of the resolution.

SUGGESTED MOTION

Move to adopt Resolution  authorizing the execution of HUD Section 108 Notes in the amount of \$5,189,000.

ATTACHMENT

- A. Resolution Authorizing Execution of HUD Section 108 Notes in the Amount of \$5,189,000
- B. Proposed HUD Section 108 Individual Project #2 Application (revised December 21, 2009)
- C. Public Comments Received

FOR MORE INFORMATION

Staff Contact: Sue Cutsogeorge, Finance Director
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Staff E-Mail: sue.l.cutsogeorge@ci.eugene.or.us

RESOLUTION NO. 4997

**A RESOLUTION AUTHORIZING EXECUTION OF HUD
SECTION 108 NOTES IN THE AMOUNT OF \$5,189,000.**

The City Council of the City of Eugene finds as follows:

A. The City of Eugene was one of only eleven communities in the United States to be approved for a Brownfields Economic Development Initiative (“BEDI”) grant from the United States Department of Housing and Urban Development (“HUD”) in Fiscal Year 2005. The grant is in the amount of \$2,000,000.

B. The BEDI grant award is conditioned upon, and must be used in conjunction with, a new Section 108-guaranteed loan commitment made by HUD pursuant to section 108 of title I of the Housing and Community Development Act of 1974, as amended and 24 CFR Part 570, Subpart M (the “HUD Loan Guarantee Law and Regulations”). The guaranteed loan is authorized up to \$7,895,000.

C. The City enacted Ordinance No. 20376 on February 26, 2007, authorizing the City to issue up to \$7,895,000 of revenue bonds to finance loans and other assistance for economic development, property acquisition, public facilities, large-scale physical development projects and any other projects that are eligible for funding under Section 108 (the “Projects”). More than thirty days have passed since that ordinance was enacted, no citizens petitioned to have the ordinance authorizing those bonds referred to the voters, and the City is now authorized to issue the revenue bonds described in that ordinance.

D. Ordinance No. 20376 authorized the City to secure any HUD Loan Contracts with federal grant funds, revenues and rights the City obtains in connection with the projects, repayments of loans and other assistance provided by the City pursuant to Section 108, payments from the Urban Renewal Agency of the City of Eugene (the “Agency”), and similar amounts.

E. On July 23, 2007, the City Council adopted Resolution No. 4914, authorizing: (i) execution and delivery of a “Contract For Loan Guarantee Assistance Under Section 108 Of The Housing And Community Development Act of 1974, As Amended, 42 U.S.C. §5308” with HUD (the “2007 HUD Loan Contract”) in the amount of \$7,895,000, (ii) the execution and delivery of a revenue bond under Ordinance No. 20376 in the form of one or more Notes that are required by the 2007 HUD Loan Contract in the amount of not more than \$7,895,000 to finance property acquisition for the West Broadway Redevelopment Project (the “2007 Project”). Pursuant to Resolution No. 4914 the City executed the 2007 HUD Loan Contract and issued notes for the 2007 Project in the amount of \$2,706,000, leaving the City with \$5,189,000 of unused borrowing authority under Ordinance No. 20376. The City completed the property transaction in July 2008.

F. The City adopts this resolution to authorize: (i) the execution and delivery of a revenue bond under Ordinance No. 20376 in the form of one or more Notes that are required by a HUD Loan Contract in the amount of not more than \$5,189,000 to finance rehabilitation of the Centre Court building and pay related costs (the “2010 Project”); and (ii) the execution of

additional HUD Loan Contracts and any related HUD documents; and (iii) City staff to take other actions to obtain funds from HUD under the HUD Loan Contracts for the 2010 Project.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Eugene, a municipal corporation of the State of Oregon, as follows:

Section 1. Notes Authorized. The City Council hereby authorizes the execution and delivery of a revenue bond under Ordinance No. 20376 in the form of one or more Notes (the “2010 Project Notes”) that are required by the HUD Loan Contracts for the 2010 Project. The 2010 Project Notes shall be in a maximum principal amount of \$5,189,000, and proceeds of the 2010 Project Notes shall be used to provide financial assistance for the 2010 Project.

Section 2. HUD Documents Authorized. The City Council hereby authorizes the execution and delivery of additional HUD Loan Contracts and any other documents that are required by HUD to finance the 2010 Project with the 2010 Project Notes.

Section 3. Delegation. The City Official may, on behalf of the City and without further action by the Council:

- (1) Negotiate the final terms of, execute and deliver the 2010 Project Notes, and perform all of the City’s obligations under the 2010 Project Notes.
- (2) Negotiate the final terms of, execute and deliver any additional HUD Loan Contracts and other documents that are required by HUD to finance the 2010 Project with the 2010 Project Notes.
- (3) Pledge to secure the City’s obligations under any HUD Loan Contract and the 2010 Project Notes, and grant HUD a right of assignment in all or any portion of, the following: (a) the allocations or grants which have been made or for which the City may become eligible under Section 106 of title I of the Housing and Community Development Act of 1974, as amended (the “Act”), as well as any grants which are or may become available to the City pursuant to Section 108(q) of the Act; (b) “program income,” as defined at 24 CFR 570.500(a) (or any successor regulation), directly generated from the use of the amounts received by the City under any HUD Loan Contracts and the 2010 Project Notes; (c) payments made by the Agency to the City under an intergovernmental agreement signed on June 30, 2008 that sets out the agreement for payments between the Agency and City for the Projects; (d) proceeds (including insurance and condemnation proceeds) from any of the foregoing; (e) funds or investments in the accounts established under any HUD Loan Contracts; and (f) any other amounts that are required by HUD.
- (4) Execute and deliver any agreements or certificates and take any other action in connection with the HUD Loan Contracts and the 2010 Project Notes which the City Manager finds is desirable to permit the City to execute and deliver the 2010 Project Notes and obtain funds from HUD for the 2010 Project.

Section 4. **Effective Date.** This resolution shall take effect immediately upon adoption.

The foregoing Resolution adopted on the 11th day of January, 2010.

City Recorder

Individual Project #2 Application for HUD Section 108
City of Eugene, Oregon, Funds to Rehabilitate Centre Court Building
 DRAFT for Review: December 4, 2009 (revised December 21, 2009)

Background

The City received approval from the Portland field office for its first individual Section 108 loan for the acquisition of downtown property in August 2007. The individual project application was revised in March 2008 and approved by the Portland field office in June 2008 (Loan #1).

The City utilized a combination of federal and local funds for the first step in the redevelopment of properties at the heart of downtown. The City has an agreement with Beam Development, who has since purchased two properties from the City, to redevelop the important intersection of Willamette and Broadway into a vital area with restaurants, retailers, and office space. The national objective for the first individual Section 108 project was the elimination of slums and blight. The Individual Project #2 Application is to provide construction financing to Beam for the rehabilitation of the Centre Court building.

The City has worked with Beam since May 2007 and formalized a partnership with a Purchase and Sale Agreement in May 2008. The City purchased the property with BEDI/108 funds and subsequently sold it to Beam in July 2008. Based on the Purchase and Sale Agreement, Beam is committed to the rehabilitation of the existing five-story, vacant building located at the southwest corner of Broadway and Willamette Street. See Property Location Map, Exhibit B.

1. Project Description

The City of Eugene proposes to utilize a combination of federal and local funds to assist the redevelopment of the Centre Court building. The City of Eugene seeks to provide construction financing to Beam (\$5,189,000 from Section 108 and \$1,315,000 from BEDI). Rehabilitation of the Centre Court building will contribute approximately 60,000 gross square feet. Net square feet assumptions are 10,000 square feet of retail and 43,000 square feet of office space.

2. Sources & Uses: Preliminary Development Financing Plan

SOURCES OF FUNDS	
Private Investment	\$ 735,000
BEDI Grant	\$1,315,000
Section 108 Loan (#2)	\$5,189,000
Urban Renewal Cash	\$ 65,000
DLRP funds	<u>\$ 350,000</u>
TOTAL SOURCES	\$7,654,000
 USES OF FUNDS	
Hard Costs	\$6,064,000
Soft Costs	\$1,300,000
Financing	<u>\$ 290,000</u>
TOTAL USES	\$7,654,000

Urban Renewal Cash: The cash balances in the urban renewal funds, plus cash that becomes available over the next few years, would be used to pay for transaction costs associated with BEDI/108 project #2.

Downtown Revitalization Loan Program: The Downtown Urban Renewal District has a loan program called the Downtown Revitalization Loan Program (DRLP). A \$350,000 predevelopment loan to Beam has already been committed from this program.

3. Project Structure & Participants

a. Principal Developer:

Beam is responsible for the rehabilitation of the Centre Court building. The Purchase and Sale Agreement fully delineates the obligations of the developer including the form and character of the development, timing, the mix of uses, private financing and equity, and other obligations including those associated with federal program compliance.

b. Developer’s Contractor & Leasing Agency:

Beam’s contractor is John Hyland Construction, Inc., a local and reputable general contractor. Beam will be responsible for securing leases for the building and is currently working with Evans, Elder and Brown, Inc., local commercial real estate brokers.

c. Private Funds Source:

Beam equity will originate from company cash and Business Energy and Historic tax credits, as applicable.

d. Asset Ownership Upon Completion:

Beam will maintain ownership of the Centre Court building during and after rehabilitation.

e. Borrower:

The City of Eugene will act as borrower for the Section 108 loan funds. The City has entered into an agreement with the URA to carry out the project. (The URA would lend Section 108/BEDI funds to Beam for the rehabilitation of the building.)

4. Repayment Schedule

Year	Principal Repayment	Year	Principal Repayment
1	\$ -	11	\$ 288,000
2	\$ -	12	\$ 288,000
3	\$ 288,000	13	\$ 288,000
4	\$ 288,000	14	\$ 288,000
5	\$ 288,000	15	\$ 288,000
6	\$ 288,000	16	\$ 288,000
7	\$ 288,000	17	\$ 288,000
8	\$ 288,000	18	\$ 288,000
9	\$ 288,000	19	\$ 288,000
10	\$ 288,000	20	\$ 293,000
		Total	\$ 5,189,000

5. Financial Summary: Collateral and Debt Service Coverage

COLLATERAL

The City of Eugene’s Urban Renewal Agency (the “City”) will have first position trust deeds on the Centre Court real property, the adjacent vacant parcel, and the Washburne Building real property. The existing Section 108 Loan #1 and the proposed Section 108 Loan #2 would be secured by an assignment of the trust deeds on the three properties to HUD. The value of the Centre Court Building at stabilization is projected to be \$8,659,679. The appraised value of the Washburne building is \$1,721,000. The vacant parcel has an appraised value of \$454,000. The combined value of the three properties is \$10,834,679. The total Section 108 debt on the Centre Court building and Washburne building will be \$7,895,000, resulting in a loan to value ratio of 73%. (The BEDI loans will be collateralized by subordinate trust deeds to secure Beam’s obligation to repay the BEDI loans based on an agreement to distribute a percentage of the project’s net earnings to the City. The BEDI loans are not included in the loan to value calculation.) Additional collateral for the City would include assignment of leases on the Centre Court and Washburne buildings, and a personal guarantee from the Beam owner, all of which would be assigned to HUD. The City Downtown Revitalization Loan Program (DRLP) loans in the amounts of \$404,000 and \$350,000 would be subordinate to the Section 108 Loan #1 and Loan #2.

Centre Court Projected Value (7.5% Cap)	\$ 8,659,679
Washburne Building Appraised Value	1,721,000
Vacant Parcel Appraised Value	454,000
<u>Collateral Value</u>	<u>\$10,834,679</u>

Total Section 108 Debt \$ 7,895,000

Loan-to-Value 73%

@ 8% Cap Value on Centre Court 77%

PROJECTED INCOME AND OPERATING EXPENSES – CENTRE COURT BUILDING:

	Rentable Sq ft	Monthly Rate	Annual Income
Ground Floor	9,852	\$ 1.50	\$ 177,336
2 nd Floor	10,000	\$ 1.58	\$ 190,000
3 rd Floor	11,449	\$ 1.33	\$ 183,184
4 th Floor	11,018	\$ 1.50	\$ 198,324
5 th Floor	11,018	\$ 1.67	\$ 220,360
Other			\$ 14,400
TOTAL INCOME			\$ 983,604
- Less Vacancy @ 10%			98,360
- Less Annual Operating Expenses			<u>235,768</u>
Net Operating Income (NOI)			\$ 649,476

PROJECTED VALUE – CENTRE COURT BUILDING

NOI \$ 649,476
Divided by Cap Rate 7.5%

PROJECTED VALUE \$8,659,679

@ 8% Cap Rate \$8,118,450

DEBT SERVICE : (Including Washburne Building and Vacant Parcel)

	<u>Amount</u>	<u>Terms</u>	<u>Annual Payments</u>
Proposed:			
Section 108 – Loan #2	\$ 5,189,000	20yr/5%	\$ 410,941
City – DRLP Loan	350,000	20yr/5%	27,718
Existing:			
Section 108 – Loan #1	\$2,706,000	20yr/5%	214,301
City – DRLP Loan/Vacant Parcel	404,000	20yr/5%	31,995
TOTAL	\$ 8,649,000		\$ 684,955

NOI – Centre Court Bldg. \$ 649,476
NOI – Washburne Bldg. 142,837
Total \$ 792,313

Total Debt Service \$ 684,955

Debt Service Coverage – 108 Debt 1.27
Debt Service Coverage – All Debt 1.16

Projected income is based on a range of lease rates between \$1.33/mo. to \$1.67/mo. Rates are based on a modified gross lease which requires the tenant to pay the base lease rate plus a load factor for a share of the utility and janitorial service costs. The second floor, which includes the large rounded windows and the 5th floor are expected to demand the highest lease rates. The range of rates is considered to be within the range of market rents for retail and office space in the downtown core area. Income projections include a 10% vacancy factor. Operating expenses at 24% of income are within standard operating cost assumptions for commercial buildings. (Note: Net operating income for the Washburne Building is derived from the 2007 appraisal).

A 7.5% cap rate is used to derive the value of the property upon completion. Applying the cap rate to \$649,476 in projected NOI results in a projected value of approximately \$8.6 million (\$134/sq ft). A more conservative 8% cap rate analysis is also provided.

6. Project Implementation

a. Estimated Project Schedule & HUD 108 Timing:

Several required Federal processes have already been completed to enable the use of Section 108 funds for construction financing. The target date for the dispersal of funds to Beam is the end of February 2010.

Environmental Review

The City of Eugene completed an Environmental Assessment for the West Broadway project area in September 2007, which included acquisition and rehabilitation of the Centre Court Building. Subsequently, the HUD Regional Office signed the Request for Release of Funds on September 24, 2007.

Project Specific – December 2009 through 2011

Amended Purchase and Sale Agreement – December 2009

Permitting – March 2010 through June 2010

Construction – July 2010 through March 2011

Individual Project Application – Loan #2 (loan to developer)

Internal review (including Loan Advisory Committee, CDBG Advisory Committee, 30-day public comment, public hearing at City Council, and City Council resolution) – December 2009 through January 2010

HUD Portland Field Office Review – Mid January 2010

Loan documents between City-HUD, City-URA, and URA-Beam signed, issue obligations – Late February 2010

7. Eligible Activity

BEDI/108 funds will be used for the eligible activity described at 24 CFR 570.703(i)(1) economic development activities eligible under 570.203 (specifically, 570.203(b) provision of assistance to a private for-profit business). Uses of BEDI funds will qualify under 24 CFR 570.703(i)(1) economic development activities (570.203(b) provision of assistance to a private for-profit business).

8. National Objective

The proposed BEDI/108 project will qualify for compliance with national objective 24 CFR 570.208(a)(4) job creation and retention activities for low- and moderate-income persons.

Beam is actively recruiting retail and office tenants. Based on industry employment standards for office and retail, an estimated 192 permanent jobs will occupy the completed building. A minimum of 51% of the created jobs will be available to low- to moderate-income individuals. The City/URA will require Beam to enter into a Memorandum of Understanding with the Oregon Employment Department for the outreach and recruitment of low- to moderate-income persons for the permanent jobs made available by the project.

9. Public Benefit Standards

- The total amount of Section 108 and BEDI funds to be used in the project: \$6,504,000
- The total number of permanent full-time-equivalent jobs to be created or retained as a result of the project (at a minimum): 186
- The cost per job created: \$35,000

10. Brownfield Conditions

Brownfields are vacant and underutilized properties where redevelopment is complicated by actual or perceived environmental contamination. The Centre Court building was most recently used as commercial office, but was vacated in advance of a planned housing development project. However, significant asbestos contamination and seismic related structural problems halted redevelopment of the site for that project. The Centre Court building has been vacant for years and is located along a two-block stretch of West Broadway that has been characterized by high vacancy rates and depressed market conditions for over 20 years. The building currently has environmental issues including mold and asbestos. Given the long-term vacancy and history of asbestos the project meets the brownfield definition.

11. City Contact

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Community Development Division Manager
99 West 10th Avenue
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541-682-5572 (fax)
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Exhibit A: Property Location Map

Beam Development Project



Aerial Photography: 2008

City of Eugene
Planning and Development
Community Development Division
December 2, 2009



Caution: This map is based on imprecise source data, subject to change and for general reference only.

ATTACHMENT C

Public Comments Received

From: Mary Ann Holser [mailto:mahols@comcast.net]
Sent: Thursday, December 17, 2009 17:20
To: Mary Ann Holser
Cc: eugene.budget.committee@ci.eugene.or.us; eugene.budget.committee@ci.eugene.or.us
Subject: Beam downtown proposal

To: Eugene Budget Committee Members, City Councilors, the mayor and Finance Committee staff

I, unfortunately, missed the forum opportunity to testify about supplemental, capital, and urban renewal funding for the proposed greatly scaled down Beam development of Centre Court. With the council, I sincerely hope for a good outcome for our financial support to Beam and I am sure all they will try hard to obtain tenants. However, I want to express high caution in carrying out this financial plan, dependent on loans to Beam to buy the property of 3.5 million and 5.2 million in Federal housing and urban renewal, grants, and a 1,3 million federal grant construction. Eugene will contribute 350,000 of local downtown revitalization funds and Beam will contribute \$750,00 for construction. Beam has presented a scaled down version of an office and residential building, Council will meet for approval of the Beam proposal and city and financing proposal on January 11. Presently Beam has located tenants for only 9,000 square feet of the lower cost space of the 50,000 square feet of the building. The HUD funds are expected to be approved and the whole package is to be approved at that time. The only councilor to express concern was Mike Clark who discussed what could happen if tenants weren't found, the HUD money was not approved and if Beam could not repay their loans? Beam does not plan to develop the pit, which shall remain a big hole downtown, although Beam suggests that restoring and fixing Centre Court will encourage development there!

What options would the city have? Find a new developer? Develop the property by the city? I hope the optimism of the council, the City manager and Beam is validated, but think we should hold off the risky venture until Beam finds tenants, and the big piece of HUD money is actually approved. Though very slightly improving, the economy shows very slow recovery and commercial and residential real estate ventures are still risky. Downtown has empty office spaces. I would recommend advice on this venture from outside the real estate and housing market industries. It is their function to remain optimistic to remain in business. Governments are expected to be more cautious with public monies.

Mary Ann Holser
Citizen Budget Committee member

From: ramin@metrocomdev.com [mailto:ramin@metrocomdev.com]
Sent: Friday, December 18, 2009 9:31 AM
To: HOLSER Mary Ann (SMTP)
Cc: *Eugene Budget Committee; *Eugene Budget Committee
Subject: RE: Beam downtown proposal

Mary Ann,

As a new member of budget committee, I also missed the forum opportunity. Furthermore, I have not been preview to much of decision making process as well as the prudent contractual process that is and should be done behind the scenes by the city officials and lawyers.

However, I want to agree whole heartedly with you on your email. I believe the city needs to be extremely cautious given the times we live in. I have worked with World Bank and been preview to numerous public/private initiated civil work projects as well development projects internationally. I currently own and manage commercial properties in Eugene and the coast.

So in this context, my background affords me some knowledge of cost of properties, reconstruction costs of properties as well as the rental market.

In addition to your concerns I wanted to add that I hope the city officials make certain that major safeguards are in place to protect tax payers. I would hope the city officials at the minimum ensure the following:

- 1) Signed and commitment leases from reputable tenants for majority of the space. Enough commitment should be made so that the income from rents will be sufficient to pay for the loan, operating cost, and capital cost.
- 2) The least terms should be not less than five years commitments.
- 3) Personal guarantees from Beam principals for the loan amounts (this is very important) – Today, if any developer wants to get a loan for construction, they will have to give personal guarantee from principals. After-all it seems that the interest rate charged for this project to be below market rates.
- 4) Mechanism in place to ensure that the funds made available for construction will all be used for construction. i.e. if Beam borrows “x” dollars there is evidence to show that they spend \$”x” on the property.

I am hopeful that my concerns are without warrant and wish the project every success.

All the best,

Ramin