

EUGENE CITY COUNCIL

AGENDA ITEM SUMMARY



Work Session: Downtown Site Development

Meeting Date: August 11, 2010
Department: Planning & Development
www.eugene-or.gov

Agenda Item Number: A
Staff Contact: Denny Braud
Contact Telephone Number: 541-682-5536

ISSUE STATEMENT

The council is being asked to provide direction on a redevelopment proposal for the vacant parcel owned by Beam Development located at Broadway and Willamette Street and adjacent to the Centre Court building. Given various time constraints, the council is being asked to indicate its general support for the project concept and Recovery Zone bond financing proposal so that the necessary approvals can be considered in September.

BACKGROUND

Bennett Management Company (BMC), a locally-owned property management and real estate development firm, is working with Beam Development and the City to acquire and develop the vacant parcel owned by Beam, directly south of the Centre Court building ("Vacant Parcel"). (See the map in Attachment A.) The conceptual development proposal would provide approximately 50,000 square-feet of new construction including ground floor retail and four floors of commercial office space. The total project cost is estimated at \$10 million.

BMC and Beam are in discussions regarding the transfer of ownership of the Vacant Parcel. The consideration for the property transaction would likely be limited to BMC's assumption of the existing Downtown Revitalization Loan Program (DRLP) loan on the property and restructuring of the loan terms. The primary sources of financing for the new construction would include a bank loan that achieves a tax-exempt interest rate through conduit financing by the City (see additional detail below), BMC equity, and gap financing provided through the DRLP.

BMC has received a preliminary verbal commitment from its bank (to be followed shortly by a written commitment) to finance the proposed project. To meet the bank's underwriting criteria; BMC will need to achieve specific pre-leasing, loan-to-value, and cash flow coverage requirements. The City is considering assistance as follows specifically directed at helping BMC meet the bank's underwriting criteria.

- Subordination and restructuring of the existing \$404,000 DRLP financing on the Vacant Parcel.
- Utilization of the City's Recovery Zone bond authority to allow BMC to achieve a lower, tax-exempt interest rate on its bank loan.
- To help meet the bank's 65%-70% pre-leasing requirement, a City commitment to occupy up to 10,000 square-feet of office space in the new building, and guarantee an additional 10,000 square feet of office space. (Similar to the 50,000 square-foot lease commitment

previously made to Beam for new construction on the Vacant Parcel, the City's lease commitment would be reduced if sufficient private lease commitments are achieved.)

- A potential DRLP loan in an amount needed to assist BMC in closing gaps in meeting the bank's loan-to-value and cash flow coverage underwriting criteria.

For BMC to move forward with the proposed project, the City and Urban Renewal Agency (URA) will need to consider the following actions:

1. Approval of the ownership transfer for the vacant parcel from Beam to BMC, along with the assignment of development rights under Beam's Purchase and Sale Agreement.
2. Designation of a "Recovery Zone," which would provide BMC the opportunity to utilize Recovery Zone Facility Bonds to access lower-cost tax-exempt interest rates for the project.
3. Authorization for the City to issue the Recovery Zone Facility Bond in support of the project.

Transfer of Ownership and Development Rights

The URA purchased and sold the Vacant Parcel to Beam in July 2008 for \$454,000 (appraised value). The URA provided DRLP financing to Beam in the amount of \$404,000 for the purchase. The Purchase and Sale Agreement associated with the Vacant Parcel specifies that on or before May 1, 2011, Beam shall submit conceptual plans, a construction budget, and firm commitments for debt and equity financing and other information deemed reasonably necessary by the URA for its determination as to whether Beam can viably redevelop the Vacant Property. The redevelopment proposal is subject to review and approval by the URA.

Beam's redevelopment of the adjacent Centre Court building is underway and they have been working on strategies to move forward with the redevelopment of the Vacant Parcel. Beam has concluded that the best way to move forward is to convey the property for a compatible development plan. Beam's compensation for the sale of the property to BMC would be the transfer of the \$404,000 DRLP loan to BMC.

Recovery Zone Bonds

BMC has asked that the City assist the project by providing access to tax-exempt interest rates. The City can do this by using a limited-term opportunity provided through the American Recovery and Reinvestment Act of 2009 (ARRA) federal stimulus program.

The ARRA revised the Internal Revenue Code to create Recovery Zone bonds in order to promote job creation and economic recovery in areas impacted by employment decline. The City received two Recovery Zone bond authorizations: Recovery Zone Facility Bonds (RZ Facility Bonds) of \$11,083,000 and Recovery Zone Economic Development Bonds (RZ Economic Development Bonds) of \$7,389,000. RZ Facility Bonds may be used by private companies to access tax-exempt financing. RZ Economic Development Bonds may be used by public entities for infrastructure and facilities, among other items.

Recovery Zone bonds must be issued inside a Recovery Zone, which is an area designated by the government issuing the bonds. The proposed new commercial office building is an eligible use (residential development is not eligible). Considerable latitude is given to governments in designating the Recovery Zone boundaries. The City's bond counsel recommends that for maximum flexibility in the use of these tools, the City consider drawing the City limits as the boundary for the Recovery Zone designation.

Under the RZ Facility Bond approach, BMC would obtain a loan from a bank. That loan would be secured by payments from BMC and other security that is required by BMC's bank. Although the specific mechanics of how this would occur need to be worked out, the City would layer a bond structure over the bank loan in order to provide the tax-exempt interest rates. No City money would be used for the transaction. The City would not be lending money to BMC; the City would not be taking any financial risk by entering into this transaction on behalf of BMC. The City's Recovery Zone bond allocation has a limited duration, and the State of Oregon has indicated that it will pursue the City's allocation in September for another purpose if those allocations are not committed to local projects. To utilize the program, the BMC project would need to close its bank loan and begin drawing funds by the end of calendar year 2010. With these time constraints, the council is being asked to indicate its general support for the project concept and Recovery Zone bond financing proposal so that the necessary approvals can be considered in September.

RELATED CITY POLICIES

Development of the Vacant Parcel addresses many goals for Eugene and downtown, including activity in the core, employment, and sustainability. This project is supported by the Downtown Plan; Downtown Code Amendments; West Broadway Advisory Committee Recommendations; Central Area Transportation Study; Downtown Vision; City Council's Downtown Collective Statements from August 2009; Downtown Policing Action Plan Team Short-Term Public Safety Strategy Recommendations 2004; Cultural Policy Review; Mayor's 2004 Committee on Economic Development; Growth Management Policies; Sustainable Business Initiative; and JEO's regional economic development principles.

The City's debt policies set out provisions for the use of conduit financing, which is what BMC has requested for this project. Under those policies (which are included as Attachment B), a project has to meet certain criteria, including that the City not incur any moral or financial obligation from the borrowing, and that the private party requesting the financing pays all of the costs of the borrowing.

COUNCIL OPTIONS

1. Direct the City Manager to bring back additional project details for consideration including:
 - a) Request for URA Board approval of the transfer of ownership of the vacant parcel from Beam to BMC, along with the assignment of Beam's development rights under Beam's Purchase and Sale Agreement;
 - b) A resolution designating a Recovery Zone which would provide BMC the opportunity to utilize Recovery Zone Facility Bonds as a tool to lower interest rates on the project; and
 - c) A resolution authorizing the City to issue Recovery Zone Facility Bonds in support of BMC's bank financing.
2. Take no action.

CITY MANAGER'S RECOMMENDATION

The City Manager recommends that the council declare support for the BMC project and that the following items be brought back for consideration: a) transfer of ownership of the vacant parcel from Beam to BMC, along with the assignment of development rights under Beam's Purchase and Sale Agreement; b) a resolution designating a Recovery Zone which would provide BMC the opportunity to

utilize Recovery Zone Facility Bonds to finance the project; and c) a resolution authorizing the City to issue Recovery Zone Facility Bonds in support of BMC's project financing.

SUGGESTED MOTION

Move to support the Bennett Management Company proposal in concept, and direct the City Manager to bring back additional project details for consideration including a) the transfer of ownership of the Vacant Parcel from Beam to Bennett Management Company, along with the assignment of development rights under Beam's Purchase and Sale Agreement; b) a resolution designating a Recovery Zone which would provide Bennett Management Company the opportunity to utilize Recovery Zone Facility Bonds to finance the project; and c) a resolution authorizing the City to issue Recovery Zone Facility Bonds in support of Bennett Management Company's project financing.

ATTACHMENTS

- A. Vacant Parcel Map
- B. Excerpt from Debt Policies – Conduit Financing

FOR MORE INFORMATION

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Vacant Parcel



Map Aerial Photography: 2008

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

Excerpt from City Debt Policies

CONDUIT FINANCINGS

1. Conduit financings are financings that the City provides for the benefit of non-governmental entities to allow those non-governmental entities to obtain low cost, tax-exempt financing. Conduit financings are not secured by any revenues or assets of the City except revenues and assets provided by the non-governmental entities that benefit from the conduit financings.
2. The United States Internal Revenue Code substantially limits the ability of the City to provide conduit financing; conduit financings are only available for small manufacturing facilities, facilities used by qualified 501(c)(3) organizations, certain kinds of low income housing projects, and other projects that can be financed with “qualified bonds” as defined in the Internal Revenue Code.
3. Recognizing that the City is able to issue debt for broad purposes, it may be appropriate to enter into a conduit financing on behalf of another party when the City Council determines that the proposed project will provide a general benefit to City residents and/or the City economy.
4. Conduit financing will be considered only when a project is consistent with the city’s overall service and policy objectives.
5. The City should not incur any moral or financial obligation under a conduit borrowing.
6. The City will only consider conduit financings that will insulate the City from any credit risk.
7. Any financing issued through the City must qualify for an investment grade rating by one of the nationally recognized statistical rating agencies or provide alternative credit enhancement from a third party satisfactory to the City or a corporate guaranty if the corporation carries an investment grade rating.
8. All expenses related to conduit financing will be borne by the third-party applicant for whom the debt is being issued.
9. The City will establish review procedures of the requesting party for projects, including adherence to public contracting requirements, development of a financial feasibility study of the project, and submission of annual financial statements to ensure the ability to repay the debt.