

Memorandum



CITY OF DALLAS

DATE June 19, 2020

TO Honorable Mayor and Members of the City Council

SUBJECT **Upcoming Agenda Item #74, June 24, 2020 City Council Agenda - HUD Note to Defer Section 108 Loan Principal Payment – TEOF Hotel LP (Lorenzo Hotel)**

On June 24, 2020, City Council will be asked to consider a council item to authorize an amendment to Resolution No. 150147 loan agreement between the City of Dallas and the United States Housing and Urban Development Agency (HUD), as well as a corresponding agreement between the City of Dallas and TEOF Hotel LP as follows:

Authorize **(1)** the City of Dallas (City) to enter into an additional note agreement with variable interest rate with the United States Housing and Urban Development Agency (HUD) for the deferral of principal payment on Section 108 loan B-12-MC-48-0009 due by the City to HUD on August 1, 2020 in the amount of \$504,000.00; **(2)(a)** an amendment to Resolution No. 15-0147, previously approved on January 14, 2015 related to the existing loan agreement between the City and HUD, to reflect this additional promissory note to the referenced Section 108 loan, related to the rehabilitation of a blighted vacant structure, now the Lorenzo Hotel (Hotel), and add any and all the relevant terms and conditions imposed by HUD, including but not limited to the variable interest rate due quarterly to HUD on the \$504,000.00 additional note, **(2)(b)** an amendment to the agreement between the City and TEOF Hotel LP to reflect the equivalent amendment terms and conditions to this agreement as those referenced in (2)(a) between HUD and the City, given that the City had loaned the referenced Section 108 funds to TEOF for the referenced rehabilitation project, TEOF Hotel LP communicated that the Hotel will not be making the upcoming payment due to the City (principal payment of \$504,000.00 and interest of \$141,306.35) due to COVID-19 impact on the hotel industry; **(3)** an increase in appropriations in an amount not to exceed \$90,214.15 for interest on the additional note and any other relevant/pertinent note related costs; and **(4)** as repayments from TEOF Hotel LP are received, as per HUD's amended repayment schedule with the City, on the outstanding loan and additional promissory note; the City be authorized to receive, deposit and disburse those funds to repay the principal plus interest to HUD on the existing Section 108 loan B-12-MC-48-0009, the additional related promissory note, other related expenditures and any other related costs terms and conditions imposed by HUD. – Estimated amount of \$90,214.15 - Financing: \$90,214.15 Program Income from TEOF Hotel LP or other TEOF Hotel LP funds

Background

Section 108 Loan Program was part of the Housing Department when the loan was made to TEOF Hotel LP. Recently, the outstanding loans were transferred to the Office of Economic Development to administer. Back in January 2009, the scope of the program was expanded to include projects that sustained or increased the level of business activity in an area by increasing economic opportunities for job creation and retention, the provision of jobs to low-to-moderate income persons in Community Development Block Grant (CDBG) eligible areas, or providing elimination of specific conditions of blight, physical decay, or environmental contamination not located in slum or blighted areas in conjunction with other eligible special economic development activities.

DATE June 19, 2020

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It has also been important to the City that Section 108 loan repayments from borrowers match the City's required repayments to HUD on the Section 108 Guarantee Loan. Annual repayments of Section 108 Guarantee loans should be credit enhanced to eliminate risk of City making payments from annual CDBG allocations, to the extent reasonably possible.

In October 2012, the City received a proposal from Texas Educational Opportunity Fund (TEOF) for a loan in the amount of \$11 million in CDBG Section 108 Guarantee Loan Program funds for eligible activities which would have included property acquisition, environmental remediation, elimination of adverse health and safety hazards, loan interest reserve, and financial costs for the Section 108 public offering to assist with rehabilitation of a vacant commercial building, formerly Plaza Hotel, for the Hotel Project. The project consisted in the renovation of a vacant hotel building located at 1011 South Akard Street to be re-used as a hotel. The completed project was to create an estimated 110 permanent full-time equivalent jobs including an estimated 90 permanent full-time jobs intended to be held by or made available to individuals with incomes at 80% or less of Area Median Family Income as established by HUD.

The application was submitted to HUD on February 11, 2013, requesting Section 108 Guarantee Loan Funds in the amount of \$11 million for development of the Hotel Project. The City Council public hearing held on January 23, 2013, complied with HUD regulations and the City's Citizen Participation Plan of 30 days comment period from date of call of public hearing.

During HUD's review of the application the project ownership structure and name branding of the proposed hotel changed. The application requested funding for two activities including acquisition by a limited liability nonprofit subrecipient of the City, TEOF, and rehabilitation of a blighted structure to carry out an economic development project. TEOF had proposed to relend the Section 108 guaranteed proceeds to its subsidiary, TEOF Hotel LP; a for-profit, single asset entity, to carry out the activities. With the change in project structure, the Section 108 proceeds would be provided directly from the City to TEOF Hotel LP. The developer was willing to make a \$6.5 million equity investment of the value of the property to the project and transferred ownership of the property to TEOF Hotel LP.

The Section 108 funds were to be used for acquisition of \$6.5 million and economic development and related costs of \$4.5 million. Acquisition was removed from the funding requested, and the City reallocated the project costs and loaned the entire \$11 million to TEOF Hotel LP for economic development and related costs for rehabilitation of a blighted former hotel into a new, 237-room hotel that was to result in the creation of an estimated 220 permanent full-time equivalent jobs provided by the hotel and commercial tenants operating businesses located on the project premises.

The developer had proposed rehabilitating a vacant hotel, formerly Plaza Hotel, located at 1011 South Akard Street into a Holiday Inn & Suites hotel with 220 rooms under the governing criteria of the Holiday Inn Express brand, which would have been a two or three-star hotel. The developer's franchise license to operate a Holiday Inn had expired, and the developer entered into a new franchise agreement with Choice Hotels International, Inc. for development of a four-star hotel with 237 rooms under its Ascend Collection of boutique hotels. With the upgrade in hotel class rating, operation of a hotel under the new franchise would provide for the creation of an estimated 220 permanent full-time equivalent jobs, which was an increase from 110 jobs identified in the application.

DATE June 19, 2020

SUBJECT **Upcoming Agenda Item #74, June 24, 2020 City Council Agenda - HUD Note to Defer Section 108 Loan Principal Payment – TEOF Hotel LP (Lorenzo Hotel)**

The economic development activity would meet the CDBG National Objective of benefiting low-to-moderate income persons and the public benefit standard set forth in HUD Regulations. The CDBG National Objective required that at least 51% of the jobs created (113 jobs) would be held by or made available to low-to-moderate-income persons with incomes at 80% or less of Area Median Family Income as established by HUD. The public benefit standard required the activity undertaken to create at least one permanent full-time equivalent job per \$50,000 of CDBG funds used, for a total of 220 permanent full-time equivalent jobs. Based on the most recent decennial census, which had been replaced by the American Community Survey 5-year estimates for 2006-2010, the project is located in census tract 204.00 where at least 20% of the population in all of the block groups in that census tract was below the poverty level. On this basis, all of the jobs created by the project could be presumed to be low-to-moderate income jobs pursuant to HUD regulations. This would also mean that the commercial development of the project was to meet the statements of community development objectives in the City's Consolidated Plan.

The Section 108 Loan funds were to be used to fund exterior and interior rehabilitation of approximately 165,006 square feet for a 12-floor, 237-room hotel and a structured parking garage, and to fund sitework, loan interest reserve, and financing costs related to the Section 108 public offering. The total project cost to develop the Hotel Project including rehabilitation of the exterior and approximately 165,006 square feet of interior space was of about \$32.6 million with the City contributing 34%. Funding for the project was to come from the proposed \$11 million Section 108 Loan Funds and from a first lien note of \$12.9 million, mezzanine loan of \$2.3 million, owner equity of \$5.4 million and TIF proceeds of \$1 million. A bank loan of \$12,912,615 for construction would be in first lien position followed by the Section 108 loan of \$11 million in second lien position. A mezzanine loan of \$2,324,913 was to be a soft lien in third position.

The Section 108 loan application requested \$11 million for the Hotel Project was at an interest rate determined by the three (3)-month London Interbank Offered Rate (LIBOR), with interest only payments due for the first two years and principal and interest payments due for years 3 through 13. The City applied to HUD for two years of interest reserve to cover the interest payments on the Section 108 Borrower Loan during the construction and lease up period of the project. TEOF Hotel LP was to repay principal and interest on the City's Section 108 Hotel Project Loan with cash flow from the project which was estimated to be sufficient to cover the first and second lien debt and fund a debt service reserve of approximately \$152,000 per year until the City's Section 108 HUD loan was paid in full. Interest would be paid during construction with an interest reserve built into the construction loan and with \$330,000 of Section 108 funds.

The interest rate on the loan to the developer was to be .50% higher than the Section 108 Loan from HUD and both loans were to have matching amortization. All loan payments by borrower would provide adequate funds for the City to make its payments on the Section 108 Loan from HUD. However, if the project's cash flow fell short of estimate and was not sufficient for the City to make the required annual payments to HUD, or if the project otherwise failed, any applicable loan payments would be made from the City's future CDBG allocation of entitlement funds.

The City has a current Section 108 loan agreement with HUD; which in turn the City loaned to TEOF Hotel LP for the re-development of the structure to address and remove slum blight in that area. The City mirrored its obligation with HUD into its agreement with TEOF Hotel LP.

DATE June 19, 2020

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Recently, the City has received communication, from TEOF Hotel LP, indicating the Hotel would not be able to make the annual principal payment amount of \$504,000 and corresponding interest payment of \$141,306.35 (due to corona virus impact), which in turn the City of Dallas owes to HUD.

TEOF Hotel LP does not have funds in the repayment account of the loan to service the principal nor the interest due to the City at this time; therefore, the City of Dallas has been in communication with HUD seeking options to address and resolve this issue. HUD indicated that the option the City had was to defer the principal payment via an additional note to be added to the existing loan for the remainder of the repayment schedule of the original loan, with a suggested flat payment amount added to the annual principal; however, the additional note for the \$504,000 would have a variable interest rate and would require quarterly interest payments for the remainder of the original loan term. HUD also indicated that the Interest payment of \$141,306.35 from TEOF Hotel LP will be due from the City by the deadline of August 1, 2020, for which funds from an upcoming reimbursement will be used, as per agreement terms and conditions under Section 10 of a related agreement to the Hotel project, which provides the City an option to offset any amounts due and payable. The balance of the reimbursement amount will be retained by the City, in the debt service account for the Hotel loan, to service the variable interest (payable quarterly to HUD) on the additional note to the Hotel loan related to the deferral of the principal payment due August 1, 2020 and any other relevant/pertinent note related expenditures.

Given the situation impacting TEOF Hotel LP, the City considers that a due-diligence review of the Hotel project should take place before making any additional amendments to the agreement, between the City and TEOF Hotel LP, beyond reflecting the equivalent amendments on the City of Dallas HUD agreement.

Funding for the amendment should be coming from hotel operating proceeds in the form of program income related to the HUD Section 108 loan or other TEOF Hotel LP funds.

The City will amend its agreement with HUD regarding the additional promissory note to defer the principal payment due to HUD on August 1, 2020 and reflect an equivalent amendment in its agreement with TEOF Hotel LP.

Attachment A is the proposed HUD amended repayment schedule reflecting the deferral of the \$504,000 principal due August 1, 2020 and reflect an equivalent amendment in its agreement with TEOF Hotel LP.

OWNER

TEOF Hotel LP

John P. Greenan, Chairman of the Board
Texas Educational Opportunity Fund

Lawrence E. Hamilton, Chief Executive
Officer, Hamilton Properties Corporation

DATE June 19, 2020

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Should you have any questions, please contact Courtney Pogue, Director of the Office of Economic Development, at 214-670-0170.



Dr. Eric Anthony Johnson
Chief of Economic Development & Neighborhood Services

[Attachment]

c: T.C. Broadnax, City Manager
Chris Caso, City Attorney
Mark Swann, City Auditor
Biliera Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizer Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
Nadia Chandler Hardy, Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
Laila Aleqresh, Chief Innovation Officer
M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion
Directors and Assistant Directors

ATTACHMENT A
HUD PROPOSED REPAYMENT SCHEDULE REFLECTING DEFERRED PRINCIPAL OF \$504,000

Borrower Dallas, TX
Remaining Balance \$ 9,572,000
Public Offering Series 2015-A

Loan # B-12-MC-48-0009
Project Monocle Hotel

Principal Due Date	Current Permanent Finance Note		Deferral Amount	Remaining Permanent Note		New Interim Note	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest
8/1/20	\$ 504,000.00	\$ 141,306.35	\$ 504,000.00		\$ 141,306.35		
11/1/20							*
2/1/21		\$ 136,316.75			\$ 136,316.75		*
5/1/21							*
8/1/21	\$ 520,000.00	\$ 136,316.75		\$ 520,000.00	\$ 136,316.75	\$ 72,000.00	*
11/1/21							*
2/1/22		\$ 130,206.75			\$ 130,206.75		*
5/1/22							*
8/1/22	\$ 535,000.00	\$ 130,206.75		\$ 535,000.00	\$ 130,206.75	\$ 72,000.00	*
11/1/22							*
2/1/23		\$ 123,653.00			\$ 123,653.00		*
5/1/23							*
8/1/23	\$ 551,000.00	\$ 123,653.00		\$ 551,000.00	\$ 123,653.00	\$ 72,000.00	*
11/1/23							*
2/1/24		\$ 115,939.00			\$ 115,939.00		*
5/1/24							*
8/1/24	\$ 568,000.00	\$ 115,939.00		\$ 568,000.00	\$ 115,939.00	\$ 72,000.00	*
11/1/24							*
2/1/25		\$ 107,845.00			\$ 107,845.00		*
5/1/25							*
8/1/25	\$ 585,000.00	\$ 107,845.00		\$ 585,000.00	\$ 107,845.00	\$ 72,000.00	*
11/1/25							*
2/1/26		\$ 99,216.25			\$ 99,216.25		*
5/1/26							*
8/1/26	\$ 602,000.00	\$ 99,216.25		\$ 602,000.00	\$ 99,216.25	\$ 72,000.00	*
11/1/26							*
2/1/27		\$ 89,885.25			\$ 89,885.25		*
5/1/27							*
8/1/27	\$ 5,707,000.00	\$ 89,885.25		\$ 5,707,000.00	\$ 89,885.25	\$ 72,000.00	*
Total Payment	\$ 9,572,000.00	\$ 1,747,430.35		\$ 9,068,000.00	\$ 1,747,430.35	\$ 504,000.00	

* is calculated quarterly based on interim rate. Rate is currently 3 month Libor rate plus 0.2%