



City of San Antonio

Agenda Memorandum

File Number: 17-5028

Agenda Item Number: 28.

Agenda Date: 11/9/2017

In Control: City Council A Session

DEPARTMENT: Neighborhood and Housing Services

DEPARTMENT HEAD: Verónica R. Soto, Director

COUNCIL DISTRICTS IMPACTED: Council District 3

SUBJECT:

Partial Neighborhood Stabilization Program Loan Forgiveness for the Gillette Square Apartments

SUMMARY:

Consideration an Ordinance authorizing partial Neighborhood Stabilization Program loan forgiveness in the amount of \$136,487.69 (and accrued interest as of the date of City Council Action) of the original loan amount of \$2,517,838.00, for the Gillette Square Apartments, a 43 unit multi-family development, located at 642 Gillette Boulevard, in Council District 3; and acceptance of a \$600,00.00 pay off amount.

BACKGROUND INFORMATION:

On January 15, 2009, the City of San Antonio (“the City”) was awarded \$8,635,899.00 in Neighborhood Stabilization Program (NSP) funds authorized and appropriated under the Housing and Economic Recovery Act of 2008. The City utilized this funding for various affordable housing initiatives, which included the acquisition and rehabilitation of the Gillette Square Apartments, a 43 unit multi-family development, located at 642 Gillette Boulevard, in Council District 3. Gillette Square Apartments was originally built in 1968. Forty units were set aside for households with incomes at or below 50% of Area Median Income (AMI) and three units for households with incomes at or below 120% AMI. For a household of four, 50% AMI is \$31,750 and 120% AMI is \$76,200, based on 2017 figures.

On July 31, 2009, San Antonio Alternative Housing Corporation No. 17 (“SAAHC No. 17”) executed a promissory note payable to the City in the original principal amount of \$1,699,838.00 (the “2009 Note”) for the acquisition and rehabilitation of the Gillette Square Apartments. The 2009 Note is partially repayable and partially forgivable, requiring the repayment of \$118,989.00 at 2% interest over thirty (30) years and forgiving the balance of \$1,580,849.00 at 0% interest over time provided the borrower complies with the terms of the

contract with the City. The 2009 Note is secured by a lien against the Gillette Square Apartments and matures on July 31, 2039.

In exchange for the 2009 Note, SAAHC No. 17 provided forty units at or below 50% AMI and three units at or below 120% AMI. The affordability period expires on July 31, 2039.

As of October 18, 2017, the balance due on the 2009 Note is:

Repayable Portion	\$ 94,717.34
Forgivable Portion	\$1,580,849.00

The Commitment Letter for this loan included a provision stating that “Borrower (SAAHC No. 17) will obtain an additional loan in the amount of approximately \$970,000 from a third-party lender, the proceeds of which will be used by Borrower to rehabilitate the Property.” Subsequently, SAAHC No. 17 was not able to obtain third party financing to rehabilitate the property due to the downturn in the real estate market from about 2009 to 2010. At the time lending institutions were not providing construction or permanent financing; therefore, SAAHC No. 17 requested additional funding from the City of San Antonio to complete this project.

On December 10, 2009, the City Council approved Ordinance 2009-12-10-0996 authorizing the allocation of up to \$2,571,134.70 (included the original award) in Neighborhood Stabilization Program (NSP) funds to San Antonio Alternative Housing Corporation No. 17 (“SAAHC No. 17”) for the acquisition and rehabilitation of the Gillette Square Apartments.

On May 19, 2010, Gillette Apartments No. 17, Inc., an affiliate of SAAHC No. 17, executed a promissory note payable to the City in the original principal amount of \$818,000.00 at 5% interest (the “2010 Note”) for Gillette Square Apartments. The 2010 Note originally was due to mature according to its terms on September 1, 2015, but has been extended by the City until December 1, 2017. The 2010 Note is secured by a second lien against the Gillette Square Apartments.

In exchange for the 2010 Note, a second covenant was executed by this borrower extending the affordability period to May 20, 2040.

As of October 18, 2017, the balance due on the 2010 Note is \$736,487.69.

For the past two (2) years, the City has worked with SAAHC No. 17 to address the financial challenges in repaying the 2010 Note. Recently, SAAHC No. 17 notified the City that it will not be able to pay the full balance of the 2010 Note when it matures on December 1, 2017. SAAHC No. 17 has explained that the 2010 Note jeopardizes the continued operation of the Gillette Square Apartments as affordable housing units due to cash flow. To address the impending maturity of the 2010 Note, and assure the long-term viability of the Gillette Square Apartments, SAAHC No. 17 has sought to refinance the 2010 Note with a related entity, San Antonio Alternative Housing, Inc. (“SAAHC”).

ISSUE:

SAAHC No. 17 has offered a lump sum payment of \$600,000.00 to pay off the 2010 Note. If this offer is accepted by City Council, the balance of the 2010 Note and all accrued interest will be forgiven.

The source of the funds will be financed through a related entity, SAAHC, in the amount of \$450,000.00. The remaining \$150,000.00 will be paid by a SAAHC account from funds that were originally intended to be used for another development project. Staff has received a commitment letter from SAAHC for the \$450,000.00

loan and a bank statement confirming the \$150,000.00 in reserves.

Staff conducted a review of SAAHC No. 17's proposal and proforma to assess the amount of debt the property can carry. Based on the information provided and assessment conducted, the property can carry \$450,000.00 in debt. SAAHC No. 17 has recently used \$60,000.00 in the last six months to do repairs and maintenance for the Gillette Square Apartments. By refinancing and paying off the 2010 Note, it would stabilize the long-term operations of Gillette Square Apartments and ensure the forty units remain available to at or below 50% AMI and three units at or below 120% AMI and this may necessitate the sale of the units to another operator without affordability restrictions.

On August 18, 2017, the Community Investment Committee (CIC), comprised of staff with the City's Neighborhood and Housing Services Department, Finance Department, and City Attorney's Office, convened a quarterly meeting to consider this SAAHC No. 17's proposal. Initially, SAAHC No. 17's first proposal included a partial loan payoff of \$450,000.00. After extensive discussion, SAAHC No. 17 was able to obtain another \$150,000.00 from their parent company for a total payoff amount of \$600,000.00. After careful consideration of their proposal, the CIC recommended forwarding this item to the Comprehensive Plan Committee (CPC). This item was considered by the CPC on October 18, 2017 and approved for forwarding to the full City Council for consideration.

ALTERNATIVES:

An alternative would be to reject this offer and continue with the 2010 Note that matures on December 1, 2017. However, this could jeopardize the long-term viability of the forty units restricted to households at or below 50% AMI and the three units restricted to households at or below 120% AMI.

FISCAL IMPACT:

The City would not realize \$136,487.69 in NSP Program Income to utilize for other affordable housing development activities; however, it would stabilize the long-term operations of Gillette Square Apartments and ensure the forty units remain available to households at or below 50% AMI and three units at or below 120% AMI. In addition, the \$600,000 payoff would continue to be utilized for the development of affordable housing through the Neighborhood Stabilization Program.

RECOMMENDATION:

Staff recommends the partial loan forgiveness of \$136,487.69, and accrued interest as of date of City Council action, of Neighborhood Stabilization Program funds for the Gillette Square Apartments, a 43 unit multi-family development, located at 642 Gillette Boulevard, in Council District 3 and acceptance of a \$600,000.00 payoff amount.