



City of San Antonio

Agenda Memorandum

File Number:17-5156

Agenda Item Number: 2.

Agenda Date: 10/18/2017

In Control: Comprehensive Plan Committee

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 of 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

BACKGROUND INFORMATION:

On July 31, 2009, San Antonio Alternative Housing Corporation No. 17 ("SAAHC No. 17") executed a promissory note payable to the City of San Antonio ("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, a 43 unit multi-family development, located at 642 Gillette Boulevard, in Council District 3. 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.

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.

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 downturn in the real estate market. At the time lending institutions were not providing construction or permanent financing; therefore, they 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 matured 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 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.

SAAHC has recently used \$60,000 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.

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.

RECOMMENDATION:

Staff recommends forwarding to the full City Council 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.