

REDEVELOPMENT AGENCY STAFF MEMO

DATE: April 14, 2015

ITEM #: 7.B.

PREPARED BY: Matt Dahl

RE: Consideration and Adoption of a Resolution of the Board of Directors of the Redevelopment Agency of Salt Lake City Approving a Construction Loan and Permanent Financing for the Plaza at State Street Development

REQUIRED ACTION: Consideration of a resolution approving construction and permanent financing for the Plaza at State Street Development.

POLICY ITEM: Central Business District Strategic Plan – Priority Project #3

BUDGET IMPACTS: Tannach has requested a \$3.5 million loan. If approved \$2.5 million of the loan would be funded from the proceeds of the RDA's sale of property for the Plaza at State Street, which is currently being held in escrow, and the remaining \$1.0 million would be funded by the Revolving Loan Fund.

EXECUTIVE SUMMARY/ANALYSIS:

Tannach Properties, LLC has requested that the RDA modify the terms of its previously approved construction and permanent loans for the Plaza at State Street development, so that the loans can be used to balance the project's sources and uses budget and prevent a default or other financing or the Development Agreement. Staff is asking the Board to review the requested modifications to the RDA's loan terms. While these modifications depart from the RDA's established requirements and practice, and carry the risk that our funds may not be repaid, they also provide essential funds to keep the project moving and increase its likelihood of success. Without these modifications, the project has a very significant possibility of going into default with its other financing sources, resulting in a very difficult situation that will inevitably take a long time and additional financial resources to solve.

ANALYSIS & ISSUE:

In April 2012, Tannach Properties LLC (Tannach) purchased RDA-owned property located at 255 South State Street (the “Property”) for the purpose of developing the Plaza at State Street (the “Project”). As part of the original terms of the transaction, the RDA agreed to hold \$2.5 million from the sale to Tannach as source of take-out financing for Commercial Condo Unit B, which is comprised of most of the ground floor commercial units and the Rex Theater. In March 2014, the RDA Board approved the terms of a \$2.5 million construction loan that would replace the original take-out loan and be used to partially address an \$8.9 million funding gap that developed over the course of the Project’s construction. Tannach did not fulfill the conditions to closing on the construction loan by the established deadline, and the RDA Board’s approval expired. Therefore, the RDA is still committed to only providing take-out financing at this time. Tannach has returned to the RDA to request a total of \$3.5 million in construction and permanent financing. The terms of the request are discussed below.

Initial Project Financing: At closing on the sale of the Property in April 2012, the total development budget for the Plaza at State Street was \$32.5 million. To fund the Project, Tannach secured construction and permanent financing through a combination of several sources. These sources include Salt Lake City (subordinate construction lender), the State of Utah (subordinate construction lender), Stratford Capital (low income housing tax credit investor), Citibank (primary construction lender), Utah Housing Corporation (bonds), the Logue Foundation (subordinate construction lender), and Freddie Mac (permanent lender). Citibank provided the majority of the construction financing for the project with a \$19,055,000 loan.

Construction Phase Delays and Cost Increases: Over the course of the past 30 months, several issues have resulted in Project delays and increases in cost. These issues include:

- Subcontract administration problems;
- Problems with construction accounting and cash flow;
- Ongoing Overhead and Interest;
- Structural design modifications;
- Platform system manufacturing inefficiencies;
- Construction modifications resulting from surveying errors;
- Architectural design errors and ongoing modifications;
- Poor winter weather (2012/2013);
- Unknown site conditions (e.g., higher than expected ground water levels, excavating a drywell, cantilevering of adjacent building’s foundation);

As a result of these issues, the total development budget has increased from \$32.5 million to \$55.2 million. To address this change in the budget, Ben Logue has contributed \$2.6 million in equity, brought in a new equity partner that has contributed an additional \$2.5 million, and received additional funding from other funding partners. At this time, the current calculation of the Source and Uses indicates that there is a \$15.45 million gap during the construction phase of the project. Tannach anticipates filling the gap with the following sources:

- Michael Weinholtz (Equity Partner): \$11,200,000
- RDA Loan: \$3,500,000
- Salt Lake City: \$750,000

Proposed Loan Terms: The following includes the basic terms of the proposed construction loan and a description of the more complex terms associated with the proposed permanent financing.

Construction Loan Terms:

- Loan Amount: \$3,500,000
- Interest Rate: 5% Per Annum on all disbursed funds.
- Loan Maturity: January 31, 2016, with a two 6-month extensions.
- Debt Service:
 - \$2.5 million of the Construction Loan will convert to permanent financing, if all conditions to conversion are addressed.
 - \$1.0 million of the Construction Loan will be due by the end of the construction loan term.
- Collateral: Junior Lien on the Property (Units A, B, and 1)
- Guaranties: Michael Weinholtz and Ben Logue shall provide personal guaranties.

Permanent Financing:

Upon completion of construction and lease-up, the RDA's \$2.5 million loan would be converted into a \$2,055,000 (plus accrued interest) permanent loan to Tannach Properties LLC that will be secured by Units A and 1(Loan 1), and a \$445,000 loan to Tannach Commercial Properties LLC that will be secured by Unit B (Loan 2). The following provides additional detail on the individual permanent loans:

- Loan 1
 - Borrower: Tannach Properties LLC
 - Loan Principal: \$2,055,000 plus Accrued Construction Phase Interest
 - Loan Maturity Date: December 1, 2030
 - Debt Service: Annual Excess Cash Payments (**Income - Expenses - Debt Service - 75% Olene Walker Cash Flow Payment = Excess Cash**)
 - Collateral: Junior Lien on Units A and 1
 - Subordination: Freddie Mac's subordination terms are not favorable to junior lien holders. They prevent junior lien holders from requiring the borrower to make monthly amortized payments, restrict the ability of the junior lien holder to foreclose on the collateral, and prevent many unique forms of securitization, such as pledges of interest.
- Loan 2
 - Borrower: Tannach Commercial Properties LLC
 - Loan Principal: \$445,000
 - Loan Maturity Date: Construction Completion and Lease-Up plus 7 years

- Debt Service: \$445,000 at 5% interest amortized over 7 years (\$6,360/Month).
- Collateral: Junior Lien on Unit B
- Subordination: The RDA will subordinate its lien to the primary permanent lender on Unit B.

This financing structure is intended to address the Freddie Mac subordination requirements, the RDA's interest in being repaid in a relatively short period of time, and the division of value among the condo units in the Plaza at State Street. Freddie Mac's standard subordination requires the term of any loan secured by junior liens on Units A and 1 to be extended past the Freddie Mac Loan's maturity date of July 1, 2030, which is significantly longer than normal term for an RDA Loan. Freddie Mac also places significant restrictions on the RDA's ability to foreclose in the case of a default and prevents the RDA from requiring monthly amortized payments. For these reasons, Staff would prefer not to lien Units 1 and A to achieve the requisite 95% Loan to Value, but given that most of the Project's value is held in these units, there was not another option. The developer anticipates that Units 1 and A will generate significant Excess Cash, which will be used to pay off the RDA's \$2,050,000 permanent loan (Excess Cash is estimated to exceed \$300,000 in Year-2 and escalate annually), though these payments are soft, and may not be made at all if there are unanticipated expenses. In order to counter the long term of the Unit A lien restrictions and supplement the soft payments, Staff is proposing that \$445,000 be secured by a junior lien on Unit B. This permanent loan would have a term of 7 years and amortized monthly payments. **The developer's projections show that the joint payments of Excess Cash from Unit A and the monthly payments from Unit B will allow the full \$2.5 million of the original construction loan to be paid off at the end of 7 years. If there are no Excess Cash payments, the RDA may not be repaid the funds secured by Units 1 and A until 2030.**

Risk: The RDA's loan will be secured by junior lien positions, which is a common practice for the RDA. The reality is that in a foreclosure scenario, junior lien holders are unlikely to receive full repayment of their loan from the sale of the collateral. In many scenarios, junior lien holders receive little to no repayment. In this particular case, the RDA's lien positions would be significantly restricted by the subordination requirements of multiple lien holders that are senior to the RDA. **This significantly increases the risk of the RDA not being repaid in the case of a foreclosure. This means that assurances of success are crucial to the RDA. This project warrants some concern in this regard:**

- Construction progress has been very slow, and has not proceeded at a normal pace in well over one year.
- The project has suffered from significant cash flow issues;
- Project accounting is subpar;
- The project has had its completion date moved back 27 months and the current construction schedule is aggressive given past performance;
- The Project construction budget has increased by \$19.5 million;
- Tannach has regularly missed milestones established by Citibank and the RDA.
- Tannach has had to execute a forbearance agreement with Citibank and the RDA to prevent a default on the project.

- Tannach has not executed all contracts for all major subcontractors (contracts in excess of \$500,000), as required.
- The project has developed a \$15.4 million short fall during the construction phase of the project.
- The budget is less volatile now, but until all sources and uses have executed agreements the budget is still likely to fluctuate.

On the other hand, Tannach and the project's funding sources have taken several steps to correct past issues and keep the project moving forward:

- Tannach has replaced its original construction superintendent.
- Tannach has replaced its original architectural staff.
- La Porte Properties, LLC, the owner of Tannach Properties, LLC, brought in Michael Weinholtz as an equity partner. Mr. Weinholtz, the long time CEO, and current Executive Chairman of CHG Healthcare brings substantial organization development skills to the project, as well as significant financial support.

Staff is also proposing the following terms for the RDA Loan that would help mitigate the RDA's risk:

Pre-Closing:

- The RDA would not close on its loan until Tannach has secured sufficient funding to balance the project's sources and uses budget.
- The RDA will require the execution of all subcontracts prior to closing on its loan.
- The RDA will require Michael Weinholtz to provide a personal guaranty. Prior to closing staff will review Mr. Weinholtz's personal financials to verify that he has sufficient resources to secure the RDA's loan.
- The RDA will review the cash and financial accounting operations procedure to confirm that all project funds are expended for appropriate purposes.
- The RDA will require Tannach to hire a project management firm that will be charged with:
 - Providing regular unaudited reports to all project stakeholders.
 - Provide all necessary resources to bring project accounting up to professional standards.
 - Provide on-site project engineering services.
 - Identify current project deficiencies and work with Tannach to address them.

Pre-Disbursement:

- The RDA will only disburse funds after the bridge loan provided by Michael Weinholtz has been disbursed, which shall not be less than \$11.2 million, and concurrently with Citibank. The RDA and Citibank shall disburse their funds proportionally based on the remaining balance of each party's construction loan.
- The RDA will require all RDA loan funds be disbursed in manner that ensures the direct payment of subcontractors.
- The RDA will utilize its standard process for approving loan disbursements.

Options: If the RDA approves the proposed construction financing, staff will proceed with preparing loan documents and administering the pre-closing requirements. The RDA loan would likely close in May 2015, after all other sources of funding have been committed.

If the RDA does not approve the construction financing, Tannach would need to identify and obtain additional funding for the project. This scenario could result in a default under Tannach's various agreements with its construction funding sources. In the case of a default and foreclosure, the complexity of the Project's financing could result in the Project remaining in an incomplete state for a long period of time. The RDA would have the opportunity to find a replacement developer in the case of a default that is not remedied, though doing so in the time frame allotted in the Curative Rights Agreement with Citibank would be challenging.

Staff will be prepared to discuss the loan request at the Board meeting.

PREVIOUS BOARD ACTION:

- Staff marketed the State Street properties from December 2007 until May 1, 2008. No responses were submitted in response to the Request for Proposals.
- In November 2008, the Board directed staff to issue a Request for Letters of Intent for the State Street Properties.
- In May 2009, the Agency received three responses to the Request for Letters of Intent.
- In June 2009, the Agency issued a Request for Qualifications to the three firms who responded to the Request for Letters of Intent.
- On September 3, 2009, two firms responded to the Request for Qualifications
- On October 13, 2009, the RDA Board approved Resolution No. 665.02, which authorized the Agency to enter into a six-month exclusive negotiation with the La Porte Group/Tannach.
- On April 7, 2010, RAC recommended that the Board approve extending exclusive negotiations with the La Porte Group/Tannach until September 30, 2010. They also recommended that the Board approve the La Porte Group/Tannach's updated design proposal.
- On April 20, 2010, the RDA Board approved an updated version of the La Porte Group/Tannach's development proposal, and extended exclusive negotiations to September 30, 2010.
- On June 2, 2010, RAC recommended that the Board approve the Term Sheet for the purchase and development agreements.
- On June 8, 2010, the RDA Board approved Resolution 679.02, which approved the Term Sheet for the purchase and development agreements. The Term Sheet did not include a purchase price.
- On July 13, 2010 the RDA Board approved Resolution 680.01, which approved an amendment to the Term Sheet that included the purchase price for the property.
- On July 27, 2010 the Purchase and Sale Agreement for the sale of the State Street Property was executed by the RDA and the Tannach Properties.

- On October 12, 2010 the RDA Board approved Resolution 683.02, which approved an amendment to the unit income requirements included in the Purchase and Sale Agreement.
- On November 16, 2010, the RDA Board approved Resolution 685.02, which approved an amendment to the Purchase and Sale Agreement that extended the outside closing date to March 31, 2011.
- On February 8th, the RDA Board approved a Resolution, which approved an amendment to the Purchase and Sale Agreement that extended the outside closing date to May 31, 2011.
- On April 12, 2011, the RDA Board approved resolutions increased the number of apartment units from 157 to 180 and approved the Final Construction Documents.
- On May 10, 2011, the RDA Board approved Resolution 696.03 extending the outside closing date to August 31, 2011 and the date for submitting the construction financing and construction contract to July 31, 2011.
- On August 9, 2011, the RDA Board approved Resolution 699.01 extending the outside closing date to October 31, 2011 and the date for submitting the construction financing and construction contract to September 30, 2011. The Resolution also included changes to the completion bond requirement and required Tannach to cover the holding costs for the Property.
- On October 7, 2011, the RDA Board approved Resolution 702.01 extending the outside closing date to December 16, 2011.
- On December 13, 2011, the RDA Board approved Resolution 704.01 extending the outside closing date to February 16, 2012.
- On February 14, 2011, the RDA Board approved Resolution 708.01 extending the outside closing date to December 30, 2012.
- On April 11, 2012 Tannach acquired the Plaza at State Street Site from the RDA and commenced asbestos abatement.
- On August 20, 2013 the RDA Board approved Resolution 736.04 extending the Substantial Completion Date to November 15, 2014 by amendment of the Development Agreement.
- On December 10, 2013, the RDA approved Resolution 741.01 approving a construction loan for the Plaza at State Street Development
- On March 18, 2014, the RDA Board approved Resolution 744.03 approving a construction loan and permanent financing for the Plaza at State Street Development.
- On June 1, 2014, the authorization to negotiate and execute the loan documents granted by Resolution 744.03 expired without the Developer meeting the conditions to closing.

ATTACHMENTS:

- A. Resolution
- B. Loan Term Sheet

CONSIDERATION AND ADOPTION OF A RESOLUTION OF THE BOARD OF DIRECTORS OF THE REDEVELOPMENT AGENCY OF SALT LAKE CITY APPROVING A CONSTRUCTION LOAN AND PERMANENT FINANCING FOR THE PLAZA AT STATE STREET DEVELOPMENT

WHEREAS, the Redevelopment Agency of Salt Lake City (“Agency”) was created to transact the business and exercise the powers provided for in the Utah Community Development and Renewal Agencies Act; and

WHEREAS, the Agency adopted the “C.B.D. Neighborhood Development Plan” on May 1, 1982; and

WHEREAS, the Agency owned certain property within the Central Business District Project Area and desires to have it redeveloped in accordance with the C.B.D. Neighborhood Development Plan; and

WHEREAS, on October 13, 2009, the Board adopted Resolution No. 665.02 authorizing the Agency to enter into a six-month exclusive negotiation period with The La Porte Group for the development of the Agency-owned property located at 235-255 South State Street and 241 and 247 South Floral Street (the “Property”); and

WHEREAS, on April 20, 2010, the Board adopted Resolution No. 677.01 authorizing the Agency to extend the exclusive negotiation period with the La Porte Group until September 30, 2010; and

WHEREAS, on June 8, 2010, the Board adopted Resolution No. 679.02 approving specific terms that were to be included in the agreements for the purchase and development of the Property; and

WHEREAS, on July 13, 2010, the Board adopted Resolution No. 680.02 approving the purchase price for the Property; and

WHEREAS, on July 27, 2010, the Agency and Tannach Properties, LLC (Tannach), an affiliate of the La Porte Group, executed a Purchase and Sale Agreement (the “Purchase Agreement”) for the development of the Property; and

WHEREAS, the Purchase Agreement included a requirement that the parking not exceed the greater of 160 parking stalls; or the minimum number of parking stalls required by Salt Lake City for the Property; and

WHEREAS, on February 8, 2011 the Board adopted Resolution No. 689.01 approving the extension of the Purchase Agreement’s Outside Closing Date to May 31, 2011; and

WHEREAS, on April 21, 2011 the Agency and Tannach executed the First Amendment to the Purchase and Sale Agreement; and

WHEREAS, on May 10, 2011 the Board adopted Resolution No. 696.03 approving the terms for a second amendment to the Purchase and Sale Agreement; and

WHEREAS, on May 31, 2011 the Agency and Tannach executed the Second Amendment to the Purchase and Sale Agreement; and

WHEREAS, on August 9, 2011 the Board adopted Resolution No. 699.01 approving the terms for a third amendment to the Purchase and Sale Agreement; and

WHEREAS, on August 30, 2011 the Agency and Tannach executed the Third Amendment to the Purchase and Sale Agreement; and

WHEREAS, on October 26, 2011, the Agency and Tannach executed the Fourth Amendment to the Purchase and Sale Agreement; and

WHEREAS, on December 20, 2011, the Agency and Tannach executed the Fifth Amendment to the Purchase and Sale Agreement; and

WHEREAS, on April 11, 2012 the Agency sold the Property to Tannach and the Agency and Tannach executed the Development Agreement between Agency and Tannach (the "Development Agreement"), which established the requirements for the development of the Plaza at State Street; and

WHEREAS, on April 11, 2012 the Agency and Tannach Commercial Properties, L.L.C. (Tannach Commercial) executed a Loan Agreement and Escrow Agreement between Agency and Tannach Commercial, which included a commitment by the Agency to provide a \$2.5 million backup bridge-loan after the construction of the Plaza at State Street; and

WHEREAS, on February 10, 2014 the Agency and Tannach executed the First Amendment to the Development Agreement; and

WHEREAS, Tannach has requested that the RDA replace the bridge-loan commitment with a \$3.5 million construction and permanent loan; and

WHEREAS, the Agency is willing to provide a \$3,500,000 construction loan and permanent financing to Tannach and Tannach Commercial to facilitate the development of the State Street Plaza development.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE REDEVELOPMENT AGENCY OF SALT LAKE CITY, that we do hereby approve the terms in the RDA Loan Term Sheet attached hereto.

BE IT FURTHER RESOLVED, that we do hereby authorize the Chief Administrative Officer and the Executive Director to negotiate and execute amendments to the Loan Agreement and Escrow Agreement between the Redevelopment Agency of Salt Lake City and Tannach Commercial Properties L.L.C. for the Property in accordance with the Term Sheet attached hereto. The authorization to negotiate and execute an amendment and the RDA Board's approval of the changes shall expire on June 10, 2015 if the amendments have not been executed by both parties. The amendment shall also incorporate such other terms as recommended by Agency's legal counsel.

Passed by the Board of Directors of the Redevelopment Agency of Salt Lake City, this 14th day of April, 2015.

Stan Penfold, Chairperson

ATTEST:

D. J. Baxter, Executive Director

Transmitted to the Chief Administrative Officer on _____. The Chief Administrative Officer

___ does not request reconsideration

___ requests reconsideration at the next regular Agency meeting.

Ralph Becker, Chief Administrative Officer

ATTEST:

D. J. Baxter, Executive Director

Approved as to form: _____
Jones, Waldo, Holbrook & McDonough, P.C.

**Plaza at State Street
Loan Agreement Term Sheet**

Construction Loan Amount	Up to \$3,500,000
Construction Loan Borrower	Tannach Properties, LLC
Use of Construction Loan Funds:	RDA loan funds may only be used to reimburse or pay for hard costs and soft costs associated with on-going construction that are accounted for in the Plaza at State Street Budget, as approved by RDA staff.
Construction Loan Interest:	<ol style="list-style-type: none"> 1. The interest rate for the loan shall be 5% per annum. 2. Interest shall accrue on loan funds from the time they are disbursed and shall be added to the principal at the time of conversion to permanent financing.
Construction Loan Term:	The maturity date shall be January 31, 2016. The loan term may be extended twice. Each extension will be for a period of 6-months. Each extension will only be granted if requested by Citibank.
Construction Loan Debt Service:	No monthly payments will be required during the Construction Loan Phase. If the construction loan matures without being paid-off or converted to permanent financing, a balloon payment of all outstanding interest and principal will be due.
Construction Period Collateral:	<ol style="list-style-type: none"> 1. During the construction phase of the project, the RDA shall secure its loan with junior liens on Unit A, Unit B, and Unit 1 of the Plaza at State Street (the "Property"). 2. The RDA will subordinate its lien to any existing lien, provided the terms of the subordination are acceptable to the RDA. 3. Prior to closing on the RDA loan documents the RDA shall determine, in its sole discretion, that the Loan to Value ratio for all loans secured by Unit A, Unit B, and Unit 1, collectively, do not exceed 95% .
Conditions to Closing on the Construction Loan:	<ol style="list-style-type: none"> 1. Construction Borrower shall be in compliance with all RDA agreements related to the Plaza at State Street development. 2. Construction Borrower shall obtain estoppels from all construction funding sources to verify that Construction Borrower is not in default under any construction funding agreements. 3. The RDA will verify that Freddie Mac's take out commitment remains in full force and effect, and will be so at the time of completion of construction. 4. Prior to closing the Construction Borrower shall provide the RDA with a current balanced sources and uses budget that has been

	<p>approved by all construction funding sources.</p> <ol style="list-style-type: none">5. The RDA shall receive an unconditional personal guaranty for the full amount of the RDA's loan from Michael Weinholtz. The RDA shall also have reviewed Michael Weinholtz's personal financial information and determined that sufficient resources are available to support Mr. Weinholtz's obligations in the personal guaranty.6. The Construction Borrower at or before closing shall have secured all necessary funding for the construction of the Plaza at State Street.7. Construction Borrower shall have hired a Project Management entity that the RDA, in its own discretion, determines is appropriate.8. Construction Borrower shall execute all lending documents deemed necessary by the Agency and its legal counsel.9. Applicant shall provide evidence of insurance covering public liability, fire, and such other insurance in such amount and with such coverage as deemed necessary by the Agency for the Property.10. All taxes and any assessments that are due and payable affecting the Property shall have been paid and discharged in full.11. The Agency shall have been furnished at Applicant's expense an ALTA lender's title policy including such endorsements as may be required by the Agency, issued by First American Title Insurance Company through Landmark Title Company, its agent, or another title insurance company approved by the Agency. Such title insurance shall insure the Agency as a holder of a junior mortgage lien on the Property, free from any exceptions except those approved by the Agency or its legal counsel.12. The RDA will require Tannach to hire a project management firm that will be charged with:<ul style="list-style-type: none">o Providing regular unaudited reports to all project stakeholders.o Provide all necessary resources to bring project accounting up to professional standards.o Provide on-site project engineering services.o Identify current project deficiencies and work with Tannach to address them.13. The Construction Borrower and the project's General Contractor shall not be subject to any judgments or lawsuits that impact, or may impact, the ability of either entity to complete the project.14. The Agency's and its legal counsel's review and approval of all matters pertaining to title, legality of the loan, and the legality, sufficiency, and the form and substance of all documents that are deemed reasonably necessary for the loan transaction.15. At or before closing, the existing RDA Loan Agreement for back-up bridge financing shall be terminated.16. Construction Borrower shall provide an updated monthly cash flow
--	---

	<p>projection through the lease-up period of the Project. 17. Such other terms as recommended by the RDA’s legal counsel.</p>
Initial Construction Loan Disbursement Conditions:	<p>The following are conditions must be met prior to the initial disbursement of RDA Loan funds:</p> <ol style="list-style-type: none"> 1. The existing RDA Loan Agreement for back-up bridge financing shall be terminated. 2. Construction Borrower shall provide lien waivers for all work completed at the time of the disbursement request. 3. The RDA will only disburse funds after the bridge loan provided by Michael Weinholtz has been disbursed, which shall not be less than \$11.2 million, and concurrently with Citibank. The RDA and Citibank shall disburse their funds proportionally based on the remaining balance of each party’s construction loan. 4. Construction Borrower shall provide written confirmation that all construction funding sources, excepting only equity contributions from Stratford Capital and Salt Lake City, have been exhausted. 5. The RDA shall verify that there are no new liens, judgments, or other title encumbrances. The RDA shall also review the Utah Construction Registry to verify that no potential mechanics liens are pending. 6. The RDA shall have established a system for directly paying all subcontractors and other vendors. All costs associated with the payment system shall be borne by Tannach.
Loan Disbursement Conditions:	<p>The following are conditions must be met prior to each disbursement of RDA loan funds:</p> <ol style="list-style-type: none"> 1. Construction Borrower shall provide invoices for all work being funded by the current disbursement request. 2. Construction Borrower shall provide lien waivers for all previous work funded by previous RDA disbursements. 3. Construction Borrower shall provide a current and balanced sources and uses budget for the project. 4. Construction Borrower shall provide an updated construction schedule.
Permanent Financing:	<p>The RDA shall allow its Construction Loan to be converted into two permanent loans. One permanent loan shall be provided to Tannach Properties, LLC (the owner of Units 1 and A) and the other shall be provided to Tannach Commercial Properties (the owner of Unit B).</p>

Tannach Properties Permanent Loan – Principal Amount	The loan amount shall be the sum of all outstanding interest and principal from the Construction Loan, less the principal amount secured by Unit B.
Tannach Properties Permanent Loan - Interest	Interest shall accrue at 5% per annum.
Tannach Properties Permanent Loan – Term:	The maturity date of the Tannach Properties Permanent Loan shall be December 1, 2030.
Tannach Properties Permanent Loan – Collateral and Subordination	<ol style="list-style-type: none"> 1. The RDA will subordinate to one senior lien securing debt on Units 1 and A, provided: <ol style="list-style-type: none"> a. The Loan to Value Ratio for Units 1 and A does not exceed 95% b. The RDA, at its sole discretion, finds the terms of subordination to be acceptable. The RDA shall review and approve the subordination terms prior to closing on the RDA Loan.
Tannach Properties Debt Service:	<ol style="list-style-type: none"> 1. Borrower shall provide annual loan payments of Excess Cash generated by Units 1 and A following the Final Cash Flow Payment to Olene Walker. The excess cash payments shall be calculated as follows: <ol style="list-style-type: none"> a. $\text{Income} - \text{Expenses} - \text{Debt Service} = \text{Net Income}$ b. $\text{Net Income} * 75\% = \text{Excess Cash}$ 2. If Excess Cash exists at the time of the final Cash Flow Payment to Olene Walker, that Excess Cash shall be paid to the RDA. 3. Excess Cash shall be determined on an annual basis utilizing Audited Financial Reports. Excess Cash payments shall be due on the earlier of 90 days following the issuance of the Audited Financial Reports or 180 days after the end of the fiscal year. 4. Proceeds of any refinancing or sale shall be deemed to be Excess Cash.
Tannach Commercial Properties Permanent Loan - Principal Amount	\$445,000

Tannach Commercial Properties Permanent Loan - Interest	Interest shall accrue at 5% per annum.
Tannach Commercial Properties Permanent Loan – Term:	The maturity date shall be seven years after the Payment Commencement date.
Tannach Commercial Properties Permanent Loan - Collateral	<ol style="list-style-type: none"> 1. The RDA will subordinate to one senior lien on Unit B, provided: <ol style="list-style-type: none"> a. The Loan to Value Ratio for Unit B does not exceed 95%. b. The RDA, at its sole discretion, finds the terms of subordination to be acceptable. The RDA shall review and approve the subordination terms prior to closing on the RDA Loan.
Tannach Commercial Properties Debt Service:	<ol style="list-style-type: none"> 1. Monthly loan payments shall begin on the earlier of Stabilization of Unit B or 12 months following the issuance of the Certificate of Completion (“Payment Commencement Date”). 2. Upon the Payment Commencement Date a proportionate amount of the accrued and outstanding interest on the Construction loan shall be added to the principal amount. 3. Monthly loan payments shall be made for seven years, the amount of which will be calculated using \$445,000 amortized over 7 years. 4. The balance of principal due at maturity.
Permanent Loan Closing Conditions:	<ol style="list-style-type: none"> 1. Borrower shall be in compliance with all RDA agreements related to the Plaza at State Street development. 2. Borrower shall execute all lending documents deemed necessary by the Agency and its legal counsel. 3. Borrower shall provide evidence of insurance covering public liability, fire, and such other insurance in such amount and with such coverage as deemed necessary by the Agency for the Property. 4. All taxes and any assessments that are due and payable affecting the Property shall have been paid and discharged in full. 5. The Agency shall have been furnished at Applicant’s expense an ALTA lender’s title policy including such endorsements as may be required by the Agency, issued by First American Title Insurance Company through Landmark Title Company, its agent, or another title insurance company approved by the Agency. Such title insurance shall insure the Agency as a holder of a junior mortgage lien on the Property, free from any exceptions except those

	<p>approved by the Agency or its legal counsel.</p> <ol style="list-style-type: none"> 6. Borrower shall verify that the Loan to Value Ratio for Units 1, A, and B does not exceed 95%. 7. Borrower shall verify that the Debt Service Coverage Ratio for Units 1, A, and B is not less than 1.1. 8. Property B shall be conveyed to Tannach Commercial Properties, LLC. 9. Conversion to Permanent Freddie Mac financing shall have occurred or will occur simultaneously with the conversion of the RDA construction loan to a permanent loan. 10. The RDA shall have issued a Certificate of Completion for Units 1, A, and B. 11. The Agency's and its legal counsel's review and approval of all matters pertaining to title, legality of the loan, and the legality, sufficiency, and the form and substance of all documents that are deemed reasonably necessary for the loan transaction. 12. Such other terms as recommended by the RDA's legal counsel.
Term of RDA Approval:	The RDA's approval of the Loan Agreement Term Sheet shall expire on June 10, 2015 if the requisite loan documents have not been executed.
Guaranty of Full Indebtedness:	<ol style="list-style-type: none"> 1. Ben Logue and Michael Weinholtz shall provide personal guarantees with terms approved by the Agency's legal counsel.
Miscellaneous:	<ol style="list-style-type: none"> 1. Such other terms as recommended by the RDA's legal counsel. 2. Borrower shall pay closing costs, including the Agency's legal fees.