

REDEVELOPMENT AGENCY STAFF MEMO

DATE: November 10, 2015

ITEM #: 7.B.

PREPARED BY: Ben Davis

RE: Consideration and Adoption of a Resolution Approving the Term Sheet for a Loan Request from MC Felt, LLC to Fund Renovations to the Felt Building at 341 South Main Street in the Central Business District Project Area.

REQUESTED ACTION: Consideration and approval of a resolution to fund a Building Renovation Loan to MC Felt, LLC.

POLICY ITEM: Central Business District Project Area 2014-2019 Strategic Plan – Objectives #2, 6, 7 and 8; Obligations #2 and 3.

BUDGET IMPACTS: \$2,809,267 allocated from the Agency's Revolving Loan Fund.

EXECUTIVE SUMMARY: MC Felt, LLC ("Applicant"), a single-purpose entity of Mountain Classic Real Estate (MCRE), is requesting a \$2,809,267 Building Renovation Loan (the "Loan"). The proceeds of the Loan would be used to make significant capital improvements to the Felt Building, a five-story, historic building located at 341 South State Street (the "Property"). The Applicant believes that such improvements are needed to reposition the Property in the market.

The proposed loan aligns with many objectives of the Central Business District Project Area 2014-2019 Strategic Plan (see Attachment), including leveraging economic development and adaptive reuse opportunities.

The Building Renovation Loan Criteria states that the RDA "will loan a maximum of 50% of building renovation project costs." The Applicant is requesting a waiver of this standard term and requests that the RDA fund 100% of the remaining building renovation costs. To balance this request, Staff recommends that the standard 10-year-call term be reduced to five years. In addition, Staff recommends amortizing the loan over 30 years, instead of the standard 20 years, as a means of achieving the minimum debt service coverage ratio.

LOAN COMMITTEE RECOMMENDATIONS: The RDA Loan Committee reviewed the Applicant's loan application on November 5. The Committee recommends approval of the loan with the following conditions:

1. The project currently has a short-term bridge loan. Applicant will obtain a loan commitment for permanent financing.

2. Applicant will demonstrate a 10% commercial vacancy on the project's cash flow analysis.
3. The loan amount is contingent upon a minimum debt service coverage ratio of 1.10.
4. The property is on the National Register of Historic Places. Applicant will apply for federal rehabilitation tax credits as a source of equity.

ANALYSIS & ISSUES: The Applicant acquired the Property in March 2015. At the time of purchase, the Applicant was able to assemble \$2,300,000 of equity to support the purchase and begin renovations of the Property. However, the Applicant was unable to secure conventional financing because of the Property's low occupancy, deficient parking scenario, and deferred maintenance issues. As a result, the Applicant was required to seek bridge financing and the associated higher cost of capital that comes with this arrangement.

Since the property was purchased, the Applicant has completed some renovation work and has secured long-term leases to increase occupancy from under 40% to over 95%. The Property is expected to be 100% occupied by early 2016. With tenants secured, significant renovations need to be made in order to retain them. To this end, the Applicant will install solar panels; update elevator equipment; overhaul the HVAC system; make needed roof repairs; renovate the main lobby; install gym, shower, locker, and bike storage facilities; and install tenant improvements.

Receiving RDA loan funds is contingent upon the Applicant demonstrating that there is a quantifiable gap in the project's financing. The Applicant believes that it has taken the necessary action to warrant an RDA Building Renovation Loan (see Attachment).

PREVIOUS BOARD ACTION: Not applicable.

ATTACHMENTS:

- 1. Resolution**
- 2. Central Business District Project Area 2014-2019 Strategic Plan**
- 3. Loan Term Sheet**
- 4. Need for RDA Funding**

RESOLUTION NO. 763.____

November 10, 2015

RESOLUTION OF THE BOARD OF DIRECTORS OF THE REDEVELOPMENT AGENCY OF SALT LAKE CITY APPROVING THE TERM SHEET FOR A LOAN REQUEST FROM MC FELT, LLC TO FUND RENOVATIONS TO THE FELT BUILDING AT 341 SOUTH MAIN STREET IN THE CENTRAL BUSINESS DISTRICT PROJECT AREA.

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

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

WHEREAS, the RDA has established a revolving loan fund to provide loans in its project areas; and

WHEREAS, the RDA adopted the Central Business District Project Area 2014-2019 Strategic Plan; and

WHEREAS, MC Felt, LLC purchased the Felt Building at 341 South State Street (“Property”) in March 2015; and

WHEREAS, MC Felt, LLC has recently completed renovations to the Property; and

WHEREAS, MC Felt, LLC has requested a loan from the RDA to execute further renovations to the Property; and

WHEREAS, the RDA Building Renovation Loan Criteria states that the RDA will loan a maximum of 50% of building renovation project costs; and

WHEREAS, MC Felt, LLC has requested a waiver of the RDA Building Renovation Loan Criteria and requests that the RDA fund 100% of the current building renovation project costs; and

WHEREAS, the RDA Building Renovation Loan Criteria states that loans shall be amortized for a maximum period of twenty (20) years; and

WHEREAS, MC Felt, LLC agrees that the proceeds from this building renovation loan will be amortized for a period of thirty (30) years; and

WHEREAS, the RDA Building Renovation Loan Criteria states that a ten (10) year call applies to the loan proceeds of a building renovation loan; and

WHEREAS, MC Felt, LLC agrees to a five (5) year call on any loan proceeds from this Building Renovation Loan application; and

WHEREAS, the RDA staff has negotiated the attached set of terms for a potential Building Renovation Loan to MC Felt, LLC for the Project (“Term Sheet”); and

WHEREAS, the RDA is willing to provide a Building Renovation Loan to MC Felt, LLC to facilitate redevelopment of the Property.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE REDEVELOPMENT AGENCY OF SALT LAKE CITY, that we do hereby approve the Building Renovation Loan outlined in the 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 the legal documents attendant to such loan between the Redevelopment Agency of Salt Lake City and MC Felt, LLC, in accordance with the Term Sheet attached hereto. The documents shall also incorporate such other terms as recommended by RDA legal counsel.

Passed by the Board of Directors of the Redevelopment Agency of Salt Lake City, this 10th day of November, 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 legal form:_____



SLCRDA

Central Business District Project Area **2014-2019 Strategic Plan**

(Project Area Expires 2040)

Section I - Objectives

1. Contribute to the development of a high-quality housing stock that serves the needs of a population with mixed-incomes, multiple generations, and varying household sizes.
2. Work with downtown stakeholders to develop projects that reinforce downtown Salt Lake City's role as a major economic center that is active, safe, and vibrant.
3. Support the development of public infrastructure that contributes to improved connectivity, quality urban design, innovative public art, and high-density development in Downtown Salt Lake City.
4. Work with the Administration to develop amenities that emphasize Main Street as a significant cultural, historical, and entertainment center for Salt Lake City.
5. Work with the Develop new public open spaces that are creatively designed and located.
6. Encourage the adaptive reuse of existing structures that contribute to the historic character of downtown Salt Lake City.
7. Support the construction of real estate projects that implement sustainable development principles and limit carbon emissions.
8. Maximize the impact of RDA funding by leveraging it with other public and private sources. Potential non-RDA sources include impact fees, special assessment districts, and grants.
9. Work with the Administration to improve city parking policies and operations.

Section II – Obligations

1. Project Area Budget: Taxing Entity Payment: 60% of Tax Increment

2. Tax Increment Reimbursement:
 - a. 222 South Main Reimbursement:
 - Principal: \$6,000,000
 - Paid: \$1,524,149
 - Remaining: \$4,475,851
 - b. Salt Palace Solar Panel Reimbursement:
 - Principal: \$88,200
 - Paid: \$2,726
 - Remaining: \$85,474
3. Debt Obligations: Ongoing obligations for the CBD project area include \$16,252,321 in debt service and contractual payments during the 2014-2015 fiscal year for the Energy Solutions Arena, Salt Palace Convention Center, Franklin Covey Field, the 500 West Park Blocks, and the Guardsman Way Ice Sheet projects. Commencing in the 2015-2016 fiscal year, the RDA will fund annual payments of approximately \$8.7 million to service bonds for The Eccles Theater. Contributions from Salt Lake City and Salt Lake County, as well as private fundraising, will assist in funding debt service. In FY2015/2016 \$3,000,000 of RDA tax increment from the CBD will be required to service these bonds.
4. Downtown Streetcar Alternatives Analysis Matching Funds: \$141,000

Section III – Non-Obligated Funds (Projections):

FY 2015/2016:	\$2,264,177
FY 2016/2017:	\$2,219,263
FY 2017/2018:	\$2,165,077
FY 2018/2019:	\$2,100,661
FY 2019/2020:	\$2,024,973

Section IV – Implementation Program Prioritization:

1. **Housing Programs (2014-2019)** – Loan and tax increment reimbursement programs and housing funds encourage high-density well designed housing development that serves populations that have mixed-incomes, varying household sizes, and are multi-generational.
2. **Adaptive Reuse (2014-2019)** – Loan and tax increment reimbursement programs encourage the adaptive reuse of existing buildings for residential

and commercial development.

3. **Economic Development (2014-2019)** – Loan programs and tax increment reimbursement programs shall be used to encourage commercial development that contributes to downtown Salt Lake City’s role as a major economic center. Eligible projects will support the creation, retention, or recruitment of innovative businesses that provide high-quality jobs.

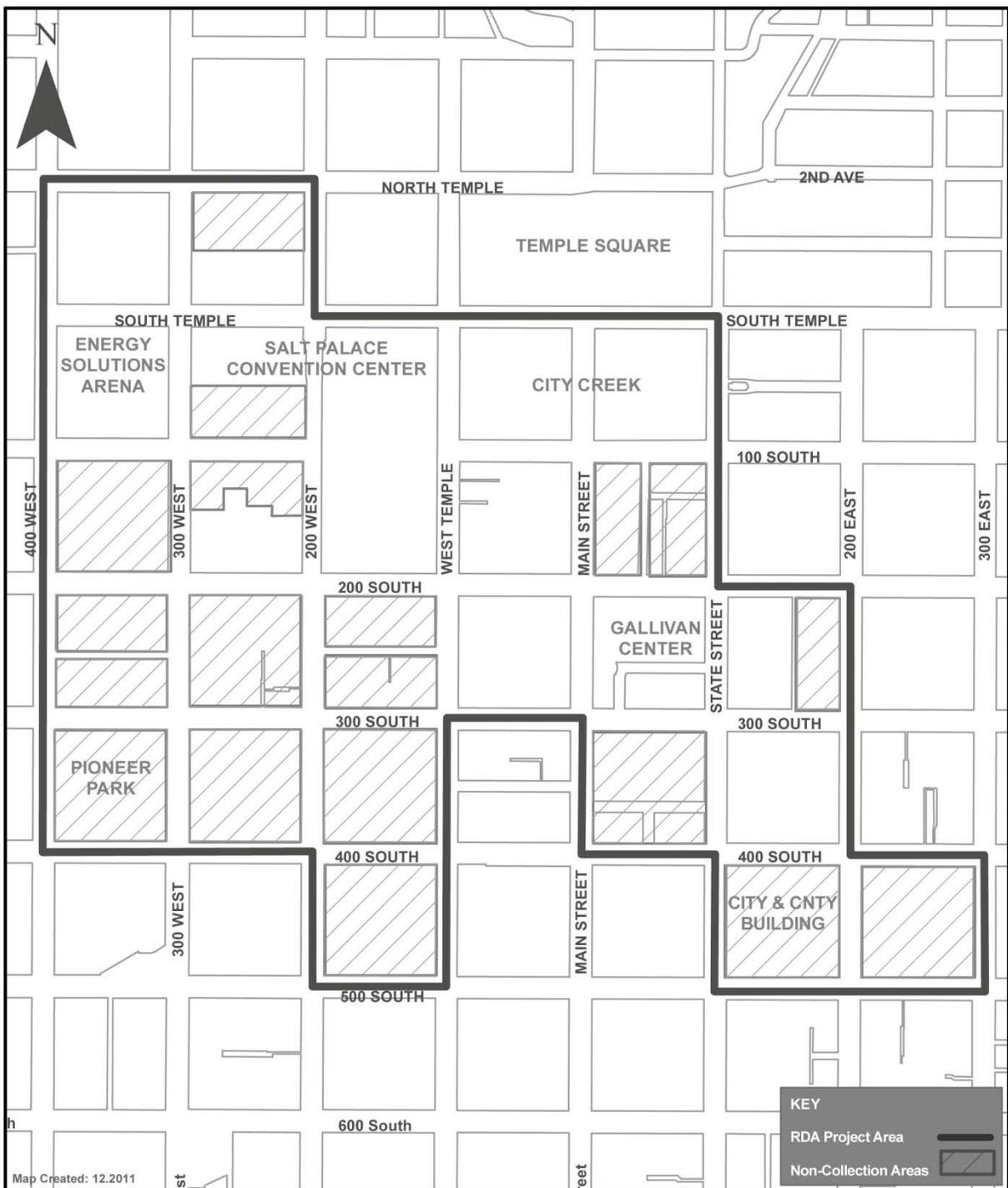
Section V – Implementation Project Prioritization:

1. **George S. and Dolores Doré Eccles Theater (2014-2016):** The RDA shall complete construction of the Eccles Theater and work to integrate the building with other businesses and improvements on Block 70.
2. **Regent Street Redevelopment (2014-2016):** The RDA shall design and construct improvements that enhance the pedestrian links and urban spaces from City Creek Center to the Gallivan Center and Regent Street to State and Main Streets. These improvements will provide access and connectivity for the Eccles Theater Entrance on Regent Street and its black box theater, as well as the 111 South Main Office Tower, parking amenities, and other surrounding uses on Block 70.
3. **Plaza at State Street Development (2015-2016):** The RDA shall work with Tannach Properties LLC to complete the development of the Plaza at State Street. This development included 180 residential units, 20,000 square feet of commercial space, and two levels of underground parking.
4. **Convention Center Hotel (2015-2019):** The RDA shall assist Salt Lake County, the State of Utah, and the hotel developer to construct a Convention Center Hotel within 1,000 feet of the Salt Palace Convention Center. The RDA will participate in the project as prescribed by State Code.
5. **Downtown Streetcar (2015-2019):** The RDA and Administration are currently conducting an alternatives analysis for the construction of a Downtown Streetcar Line. The project is intended to contribute to a more versatile and effective transit system, as well as catalyze new and sustainable development in Downtown. To complete this project, staff will work with the Administration to complete the planning and design for the project and potentially contribute resources to the construction of the streetcar line.

6. **Utah Paperbox Development (2015-2018):** The RDA shall redevelop the Utah Paperbox Site at 230 South 300 West between 300 West and 400 West. Initial planning efforts will consider residential, commercial, and open space uses.
7. **Pioneer Park Improvements (2015-2017):** The RDA shall work with the Administration to construct improvements in Pioneer Park that are recommended as part of the current planning initiatives.
8. **Utah Theater Redevelopment (2015-2018):** The RDA shall establish and identify step to implement a reuse policy for the Utah Theater.
9. **Mid-block Connections (2015-2018):** The RDA shall pursue opportunities to design and construct mid-block streets and pedestrian ways as part of RDA-led developments, private developments, and public infrastructure projects.
10. **Gallivan Utah Center (2015-2018):** The RDA shall continue to maintain, program, and operate the Gallivan Utah Center and Gallivan Avenue.
11. **300 South Public Art (2015-2018):** The RDA shall contribute to design and installation of public art as a component of public infrastructure projects.
12. **Public Open Space Creation (2015-2019) –** The RDA will coordinate with the Salt Lake City Administration on the use of impact fees and other resources in creating public open space opportunities in the project area.

Central Business District Project Area

Redevelopment Agency of Salt Lake City



RDA LOAN TERM SHEET

August 18, 2015

BORROWER NAME: MC Felt, LLC

CONTACT PERSONS: R. Kevin Phipps and David Phipps

PROPOSED LOAN:	
AMOUNT:	\$2,809,267*
*LOAN PROGRAM WAIVER REQUEST:	Loan criteria states that the RDA will loan a maximum of 50% of the building renovation project costs. Applicant is requesting that the RDA fund 100% of the building renovation project costs. This being said, please note and consider that the Applicant has contributed \$2,300,000 in equity to the project.
RATE:	3% fixed rate per annum. Amortized over 30 years.
**LOAN PROGRAM DEVIATION:	Loan criteria states that loans shall be amortized for a maximum period of twenty (20) years. In order to achieve the minimum required debt coverage ratio, Staff recommends a thirty (30) year amortization.
TERM:	5 Years*** 60 months
***LOAN PROGRAM DEVIATION:	Loan criteria states that there shall be a ten year call. In an effort to offset the waiver request noted above, Staff recommends a five year call.
ESTIMATED PAYMENTS:	\$11,844/month Amortizing monthly payment of Principal and Interest over a 30 year period
CONSTRUCTION INTEREST:	Interest to accrue during construction beginning upon the first draw of funds but no payments are required until occupancy, at which time construction interest is added to the principal balance and amortized over 30 years to determine monthly principal and interest payments.
PROPOSED DRAWDOWNS:	Up to 12 drawdowns over 12 months
COMMITMENT FEE / BORROWER'S DEPOSIT:	None
RDA LEGAL:	Hourly bill. To be paid by Applicant at closing.
PREPAYMENT PENALTIES:	None
ELIGIBLE USES OF FUNDS:	Eligible construction costs.

COLLATERAL AND GUARANTEES

- (a) A second mortgage lien on the property located at 341 South Main Street, Salt Lake City, Utah, 84111. This lien shall be only subordinate to a first mortgage lien by the primary lender of the property purchase, A10 Capital, LLC; and
- (b) A second lien on all business assets of MC Felt, LLC; and
- (c) A second lien on all machinery and equipment, furniture and fixtures acquired with loan proceeds; and
- (d) Unlimited corporate guarantees of all affiliates: MC Felt, LLC; and
- (e) Personal guarantees of R. Kevin Phipps and David Phipps.

COVENANTS AND CONDITIONS

- (a) All of the Applicant/Guarantor equity must be expended prior to initial disbursement of RDA funds for renovation construction; and
- (b) Where applicable, RDA funds must be disbursed in equal amounts to those of a primary lender as approved by the RDA until the RDA's loan is fully disbursed; and
- (c) Where applicable, evidence of commitment and availability of all other loan funds; and
- (d) Evidence of required equity investment in the form of documented project costs or escrowed funds needed to meet project costs, and
- (e) Appraisal/valuation satisfactory to RDA on 341 South Main Street, Salt Lake City, Utah with a value of at least \$7,438,480 (as stabilized); and
- (f) All management and marketing fees to be paid to related parties must be subordinated to loan payments; and
- (g) A guaranteed maximum price contract, and a performance and payment bond will be required from the General Contractor, or alternative acceptable to RDA such as a Construction Completion Commitment; and
- (h) Property is eligible for Federal rehabilitation tax incentives. Seventy five percent of Federal rehabilitation tax incentives secured by the Applicant in conjunction with this renovation project must be used to pay down its loan to the RDA. Twenty five percent of these proceeds may be retained by the Applicant to cover staff time and any application-associated fees to pursue the credits; and
- (i) Provide shower and locker facilities as required in all RDA-funded new construction and renovation projects that do or will house 25 or more employees within the renovated or newly constructed space.

ADDITIONAL RECOMMENDATIONS

- a) Staff will have determined that the loan meets all lending criteria established by the RDA and the RDA's Loan Committee.
- b) The execution of loan documents (e.g. promissory notes, loan agreements, security documents, and guarantees) as deemed necessary by the RDA and its legal counsel.
- c) Applicant shall provide evidence of insurance in such amounts and with such coverage as deemed necessary by the RDA for the Property.
- d) The RDA 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
- e) The Applicant must provide the Contractor Agreement(s) for RDA approval.
- f) The Applicant must receive all necessary approvals from the City, as further defined in the loan agreement.
- g) Such other terms as recommended by the Agency's legal counsel.



October 28, 2015

Redevelopment Agency of Salt Lake City
451 South State, Room 418
Salt Lake City, UT 84111

To Whom It May Concern:

We are seeking funding from the RDA for the additional improvements that are necessary at the Felt Building at 341 S Main St. While there is sufficient equity in the property to justify the requested funding we have been unable to get approval from traditional lending sources for the required improvements. We approached First National Bank and they rejected us. They were unwilling to take a second lien position loan on the property, and they weren't able to do a first position loan to refinance the existing loan because it was too large, there exists a prepayment penalty, they weren't comfortable with the small amount of parking, and therefore wouldn't be willing to increase the loan to value. We asked the current lender, A10 Capital, and they were unwilling/unable to increase the loan amount on the property for similar stated reasons. We've requested a formal letter of rejection which they are getting released to us.

Due to the low occupancy before acquisition, the lack of sufficient parking, and the large amount of deferred maintenance at the property, no traditional lenders were interested in lending on this property. They especially weren't interested in funding a higher loan to value ratio, as would be required to do some of the larger capital improvements such as the elevators and HVAC renovation. Therefore we had to go with a bridge lender to fund the purchase and renovation of the property, which came with much higher interest rates and less favorable terms than traditional financing. Had traditional financing been available, which are much easier to work with, and cost much less, we would have gone that route for the purchase and renovation of this property.

We knew before purchase that this property would need assistance through RDA

financing, and after approaching the RDA nearly a year ago we received great feedback about this being a project that the RDA funds were meant for. Since the RDA was working on restructuring their program we were told that we couldn't apply quite yet, but we were given very strong feedback that this was a perfect project for the RDA to assist with. We received approval from our lender to allow RDA financing after closing. It has now become even more important to receive this financing as the elevators and HVAC specifically has become a much larger issue than inspections projected now that occupancy has increased and the strain on those systems has increased.

Without the additional RDA funds we are unable to get the needed resources to fix up those items that are necessary at the property for the increased occupancy and required renovations.



David Phipps
MCRE, Inc.
801-310-9267

dhipps@mcremgmt.com

THOROFARE CAPITAL, INC.

October 28, 2015

Redevelopment Agency of Salt Lake City
451 South State, Room 418
Salt Lake City, UT 84111

To Whom It May Concern:

TC Debt Opportunities, LLC, an affiliate of Thorofare Capital, Inc. (“Lender”) entered into a loan agreement with 10 CLIFT, LLC (“The Borrower”), on October 16, 2015, to finance the acquisition and repositioning of The Clift Building, located at 10 West Broadway, Salt Lake City, Utah (“the Property”). \$2,450,000 will be made available for Tenant Improvements and an additional \$1,723,000 will be made available for funding Capital Expenditures.

The above amounts are the extent of funds available to 10 CLIFT, LLC for Capital Expenditures and TI/LC. We understand the Borrower is requesting additional funding from the Redevelopment Agency of Salt Lake City for overall building improvements and additional tenant improvements. Additional capital is required to complete the planned property renovations, per the finalized scope of work and construction budget, in order to have sufficient funds to upgrade all of the existing systems and completely renovate the Property.

We confirm that the additional capital is highly necessary and are not available through our organization.

Sincerely,

Felix Gutnikov
EVP, Origination