



**RCA
CITY OF AUSTIN
RECOMMENDATION FOR COUNCIL ACTION**

AGENDA ITEM NO.: 19
AGENDA DATE: Thu 12/01/2005
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SUBJECT: Approve a resolution authorizing Austin Revitalization Authority (ARA) to assign its \$5.5 million HUD 108 Loan Program loan agreement and promissory note with the City to Eleven East Corp., an affiliate of ARA (Eleven East); continuing ARA's liability under the loan agreement and note, and approving the subordination of the City's note to one or more liens created by Eleven East for the benefit of ESIC New Markets XIC Limited Partnership (ESIC), a lending affiliate of J.P. Morgan Chase Bank (Chase Bank) to allow Eleven East and Chase Bank to participate in the New Markets Tax Credit Program

AMOUNT & SOURCE OF FUNDING: N/A

FISCAL NOTE: N/A

REQUESTING Neighborhood Housing **DIRECTOR'S**
DEPARTMENT: and Community **AUTHORIZATION:** Paul Hilgers
Development

FOR MORE INFORMATION CONTACT: Paul Hilgers, Director, Neighborhood Housing and Community Development, 974-3108.

PRIOR COUNCIL ACTION: N/A

BOARD AND COMMISSION ACTION: N/A

PURCHASING: N/A

MBE / WBE: N/A

This action will approve a resolution authorizing ARA to assign its \$5.5 million HUD 108 Loan Program loan agreement and promissory note with the City to Eleven East. The action will also approve the subordination of the City's \$5.5 million note to one or more liens created by Eleven East to ESIC, a lending affiliate of Chase Bank, for the purpose of participating in the New Markets Tax Credit Program. However, this new transaction will not release ARA from its original obligations under the HUD 108 Loan Program loan agreement.

In April 2003 the City of Austin entered into a \$5.5M loan transaction (only \$4.7 has been advanced to date) with ARA. The original City transaction was subordinated to a Chase Bank \$7.7M loan to ARA. With the loan proceeds ARA constructed the Street-Jones and Snell Buildings at 1000 and 1050 East 11th Street in the East 11th and 12th Streets Urban Renewal Area. The City currently has a long-term lease with ARA for approximately 26,546 square feet of the Street-Jones Building for lease space to house the *Neighborhood Housing and Community Development Office and Austin Housing Finance Corporation*. The City lease provides cash flow to ARA to meet substantially all of the debt service requirements on both the City and Chase Bank loans.

ARA desires to participate in the federal New Markets Tax Credit (NMTC) Program. The NMTC



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Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated community development entities. Substantially all of the qualified equity investment must in turn be used by the development entity to provide investments in low-income communities, including the East Eleventh and Twelfth Street Urban Renewal Area. The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year credit allowance period. JP Morgan Chase Bank has received funding as a development entity under the NMTC Program and desires to loan proceeds to ESIC. This new loan will refinance the current \$7.7M bank loan to ARA.

The ESIC limited partnership entity is created to take advantage of the NMTC Program. Chase Bank created ESIC to enable Chase Bank to transfer its interest in the \$7.7M bank loan to ARA in order to receive federal tax credits. ESIC will enter into two loans with Eleven East. One note will be in an amount equal to \$5.5M and a second, deferred payment forgivable note in an amount equal to \$2.2M. These two notes each have a 7-year term and the notes refinance the existing Chase Bank \$7.7M note. ARA is obligated to pay on the office buildings. The reduced debt service requirement will increase the cash flow to ARA by approximately \$144,000 each year. In addition ARA will receive a management fee to carry-out the responsibilities of Eleven East. Monthly, after Eleven East pays all expenses of operating the buildings, management services and debt service on the ESIC and City loans, any remaining retained earnings Eleven East receives from the project will be transferred directly to ARA.

Under the NMTC Program Eleven East is responsible to comply with all NMTC Program requirements and guidelines. Default provisions under the transaction documents include refinancing the \$5.5M ESIC senior loan prior to the end of its term, leasing space to a non-qualified active low-income community business, and not refinancing the balance of the \$5.5M ESIC loan at the term of the loan. Provided these obligations are met, the \$2.2M note will have no debt service requirements and be finally forgiven at the term of the loans. In addition Eleven East will transfer its interest in the buildings and assign its obligations under the refinanced note to ARA at the term of the loans. This transaction should improve ARA's ability to repay the City \$5.5M subordinate note and enhance ARA's goal to achieve self-sufficiency.

RESOLUTION NO. 20051201-NNN

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:

The Council approves the assignment by the Austin Revitalization Authority (ARA) of its \$5.5 million HUD 108 Loan Program loan agreement and promissory note with the City to Eleven East Corp.(Eleven East), an affiliate of ARA; continuing ARA's liability under the loan agreement and note; and further approves the subordination of the City's note to one or more liens created by Eleven East for the benefit of ESIC New Markets XIC Limited Partnership a lending affiliate of J.P. Morgan Chase Bank (Chase Bank) to allow Eleven East and Chase Bank to participate in the New Markets Tax Credit Program.

ADOPTED: _____, 2005

ATTEST: _____
Shirley A. Brown
City Clerk