



IMPROVING OUR COMMUNITY

COLUMBIA GATEWAY URBAN RENEWAL AGENCY

CITY OF THE DALLES

AGENDA STAFF REPORT

URBAN RENEWAL AGENCY

Meeting Date: November 24, 2014

DATE: November 19, 2014

TO: Urban Renewal Agency Board

FROM: Nolan Young, Urban Renewal Manager *ny*

ISSUE: Request from Discover Development to Allow for Time Extension for Repayment of Loan and Purchase of Sunshine Mill Property

BACKGROUND: The Columbia Gateway Urban Renewal Agency owns the former Sunshine Mill property. We have two agreements with James Martin, acting as Discover Development, for this property. The first is a \$600,000 loan/line of credit, for which he has drawn the entire amount. This loan has a monthly interest payment equal to an annual interest rate of 4.25%. The only collateral is the improvements made to the property with these loan funds and other funds provided by Discover. There was a balloon payment of the entire principal amount due on October 14, 2014. The Urban Renewal Agency granted a two month extension to allow us to consider a request to extend the agreement for three years. The full principal is also due when Discover exercises the purchase option for the Sunshine Mill.

The second agreement is a purchase option for the Sunshine Mill Property (payable when purchase is exercised) at \$305,123.69. The option ends May 15, 2015. The cost to Discover Development for this option is a 1% annual interest charge at time of purchase, and to pay the property tax, utilities and to keep the property in good repair. Mr. Martin has requested a three year extension of this option as well.

The Urban Renewal Agency had a committee consisting of the City Manager, City Attorney and Mayor, meet with Discover Development on their requests. With the assistance of an accountant we have reviewed the financial records of Discover Development. We identified that the only revenue of Discover Development is rent paid by Copa di Vino. Copa di Vino is currently operating a wine tasting room in conjunction with Quenett Winery, and a bottling operation for wine by the glass.

The original intent was that Discover Development in partnership with Copa di Vino would be able to obtain a commercial loan in order to retire the debt and purchase the property. Because of the financial aspects of starting a new business like Copa di Vino Mr. Martin has asked for a three year extension. The Urban Renewal Agency became involved by assisting with startup to create an environment where a vacant piece of property could become a thriving business

creating jobs. We have been successful in creating jobs, as Copa has between 50 and 100 jobs in the bottling operation. They currently have 67 employees, during the off season, with 50 local.

STAFF RECOMMENDATION:

A: Loan Retirement After meeting with Mr. Martin and reviewing the financial records we feel that the rent revenue received by Discover Development would allow for the retirement of the debt over a two year period, from May 15, 2015. We recommend the following retirement schedule:

May 15, 2015 - \$150,000 principal payment
May 15, 2016 - \$100,000 principal payment
May 15, 2017 - \$350,000 principal payment

In addition to these principal payments, we propose to increase the interest rate from an annual rate of 4.25% to 5.25%. This should be a sufficient amount to pay the interest on any debt the Urban Renewal Agency will need as explained under Budget Implications.

City Attorney Gene Parker has prepared a Third Amendment for the Loan Agreement that establishes these new requirements (attached).

B: Purchase Option We recommend that the purchase option be extended for three year to May 15, 2018. For this extension Discover Development will pay interest on the purchase amount at an annual rate of 5.25%, with equal monthly interest payments. The purchase price has been accruing 1% interest for the last 18 months (4,576.67). The new total purchase price is \$309,700.36. The monthly interest payment would be \$1,354.94 or \$16,259.28 per year.

City Attorney Gene Parker has prepared a First Amendment for the Land Sale Contract that establishes this approach (attached).

URBAN RENEWAL ADVISORY COMMITTEE (URAC) RECOMMENDATION: The URAC met to consider this request on November 18. They have recommended that the Agency Board approve the staff recommendation for extension of both the loan and purchase option. Attached are the draft minutes from that meeting. Today we received some additional questions and comments from a URAC member. I have summarized those comments in Attachment A.

BUDGET IMPLICATIONS: The Urban Renewal Agency's budget had been prepared expecting to receive over \$900,000 that would be repaid from the loan payment and the sale of this property this fiscal year. Under the staff recommendation we would only receive \$150,000, plus the additional interest of approximately \$27,860. To make up the remaining funds, we may have to obtain a loan of approximately \$1 million. We believe Urban Renewal has that borrowing capacity. The additional interest rate of 5.25% will help pay for any interest on that loan.

AGENCY ALTERNATIVES:

1. **Staff Recommendation:** Move to authorize signing of the Thrid Amendment to the Loan Agreement for the Sunshine Mill that increases the interest rate to 5.25%, paid in monthly increments with balloon principle payments of \$150,000 being due on May 15, 2015; \$100,000 on May 15, 2016; and \$350,000 on May 15, 2017, and authorize the

signing of the First Amendment to the Land Sale Contract for the Sunshine Mill property extending the purchase option to May 15, 2018 with Discover Development paying an interest rate on the purchase amount equal to 5.25% annually, with equal monthly payments.

2. Approve some other option for repayment of the loan and purchase of the property.

Attachment A – Questions since Urban Renewal Advisory Committee Meeting

Since the Advisory Committee meeting we have received the following general questions that we felt should be shared with Mr. Martin, in order for him to respond, and with the Urban Renewal Agency Board for them to consider.

1. Was there a plan for repayment of the loan when it was originally agreed to? If so, what has changed since then so that plan was not successful?
2. Can the extension be written to accept monthly payments instead of lump sum payments to increase the feasibility of the loan being repaid?
3. Would it be beneficial to add a guarantor to the loan extension? Almost any bank loan for commercial loans requires a guarantor.
4. Why hasn't Discover increased the rent to Copa di Vino to meet the loan payment obligation?
5. What happens to the rent from Copa if Copa is sold? Will this jeopardize the loan repayment, because Discover would no longer have any revenue?

In addition to these questions there was a request for clarification between Sunshine Mill (Discover Development) and Copa di Vino. Copa di Vino is a separate entity with separate financial statements. We were only able to review Discover Development financial statements because they are the company the agreement is with. All employees at the Sunshine Mill are employees of Copa di Vino; this includes the employees associated with the tasting room and events that take place at Sunshine Mill. Discover expenses are primarily property tax and maintenance needs to the facility.

**THIRD AMENDMENT FOR LOAN AGREEMENT
FOR SUNSHINE MILL PROPERTY**

WHEREAS, on October 12, 2009, the Columbia Gateway Urban Renewal Agency, hereinafter referred to as “Lender”, entered into a Loan Agreement with Discover Development LLC and TGE, LLC aka Quenett Winery LLC, hereinafter referred to as “Borrower”, where the Lender agreed to make two sources of funding available to the Borrower for the purpose of making tenant improvements to the structures located upon the site of the Sunshine Mill Property; and

WHEREAS, on September 19, 2010, Lender and Borrower entered into a First Amendment for the Loan Agreement for the Sunshine Mill Property authorizing an additional \$100,000 to be added to the second source of funding created by the October 12, 2009 Loan Agreement, to be used for exterior improvements, repairs, and painting of the milling building and silo building located upon the Sunshine Mill property; allowing an assignment by Discover Development LLC and TGE, LLC aka Quenett Winery LLC of their obligations under the Loan Agreement to Discover Development LLC, dba Sunshine Mill; and releasing TGE, LLC from its obligations under the Loan Agreement, and have the obligations under the Loan Agreement be assumed solely by an entity to be known as Discover Development LLC, dba Sunshine Mill; and

WHEREAS, on October 31, 2014, Lender and Borrower entered into a Second Amendment for the Loan Agreement for the Sunshine Mill Property extending the due date for the balloon loan payment for the loan for the first and second source of funding from October 12, 2014 until December 12, 2014; and

WHEREAS, upon the recommendation of the Columbia Gateway Urban Renewal Advisory Committee, the Agency Board for the Lender voted on November 24, 2014, to authorize an amendment to the October 12, 2009 Loan Agreement between the Lender and Borrower, to increase the interest rate upon the repayment of the outstanding principal balance, and to establish a schedule for repayment of the principal balance in three installment payments;

NOW, THEREFORE, in consideration of the provisions set forth herein, it is mutually agreed as followed.

1. Sections 1(A)(2) and 1(B)(2) shall be modified to provide that effective December 1, 2014, the interest rate for the monthly interest payments to be made by the Borrower shall be increased from the rate of 4.25% per annum to 5.25% per annum. Monthly interest payments shall be made upon the fifteenth (15th) day of each month, beginning on December 15, 2014. Sections 1(A)(2) and 1(B)(2) shall be further modified to establish the following payment schedule for the repayment of the principal balance of the loan:

- A. On May 15, 2015, Borrower shall make a payment of \$150,000.00.
- B. On May 15, 2016, Borrower shall make a payment of \$100,000.00.
- C. On May 15, 2017, Borrower shall make a payment of \$350,000.00.

2. Borrower agrees to make a good faith effort to investigate opportunities for obtaining a commercial loan to allow Borrower to pay of the principal balance of the loan at an earlier date than the schedule of payments outlined in Section 1 of this Third Amendment. Nothing in this agreement prohibits Borrower for paying off all or a portion of the principal balance owing to the Lender at any time prior to May 15, 2017.

**FIRST AMENDMENT FOR LAND SALE
CONTRACT FOR SUNSHINE MILL PROPERTY**

WHEREAS, on May 15, 2013, the Columbia Gateway Urban Renewal Agency, hereinafter referred to as “Seller”, entered into a Land Sale Contract with Discover Development LLC dba Sunshine Mill, hereinafter referred to as “Purchaser”, where the Seller agreed to sell and the Purchaser agreed to purchase the property commonly referred to as the Sunshine Mill Property; and

WHEREAS, upon the recommendation of the Columbia Gateway Urban Renewal Advisory Committee, the Agency Board for the Lender voted on November 24, 2014, to authorize an amendment to the May 15, 2013 Land Sale Contract extending the closing date for the purchase from May 15, 2015 to May 15, 2018, subject to certain conditions;

NOW, THEREFORE, in consideration of the provisions set forth herein, it is mutually agreed as followed.

1. Section 1.1 shall be modified to provided that effective December 15, 2014, the total purchase price for the property shall be determined by application of the following formula:

Original purchase price + (original purchase price x interest rate divided by 1 year x number of years since date land sale contract was executed)

$\$305,124.69 + (305,123.69 \times 0.01 \text{ divided by } 1 \times 1.5) = \text{new purchase price}$

Based upon application of this formula, Purchaser shall pay Seller as the total purchase price for the Property the sum of \$309,700.36 (US) plus interest. Beginning December 15, 2014, interest payments in the amount of \$1,354.94 shall be made on a monthly basis, with the first interest payment to be made on December 15, 2014, with a like payment to be made on the fifteenth (15th) day of each month thereafter, until the total purchase price is paid at closing as defined in Section 3.1. The interest rate which is effective as of December 15, 2014 shall be five and a quarter percent (5.25%).

2. Section 1.2 shall be modified to extend the date for payment of the full purchase price as modified by Section 1.1 above from May 15, 2015 until May 15, 2018.
3. Section 2.2 shall be modified to acknowledge that the terms for repayment of the principal balance and accrued interest for the Loan Agreement dated October 12, 2009, have been modified by the Third Amendment to the Loan Agreement entered into by Seller and Purchaser. Section 2.2 shall be further modified to provide that as a condition precedent to the conveyance of the property by the Seller to the Purchaser, at the time of closing for the purchase of the property, the Purchaser shall have paid the entire amount of the principal balance and accrued interest which is due and owing for the Loan Agreement between Seller and Purchaser dated October 12, 2009.
4. Section 3.1 shall be modified to extend the closing date from May 15, 2015 to May 15, 2018. Borrower agrees to make a good faith effort to investigate opportunities for

obtaining a commercial loan to allow Borrower to pay the full purchase price and all applicable accrued interest prior to the scheduled closing date of May 15, 2018.

5. Except as modified by this First Amendment, the terms and conditions of the Land Sale Contract dated May 15, 2013 shall remain in full force and effect.

Dated this _____ day of _____, 2014.

SELLER:

Columbia Gateway Urban Renewal Agency

Stephen E. Lawrence, Chairperson

PURCHASER:

**Discover Development LLC, dba
Sunshine Mill**

James Martin

Title

**Columbia Gateway Urban Renewal Agency Advisory Committee
Meeting Minutes**

Tuesday, November 18, 2014

5:30 PM

City Hall Council Chambers

313 Court Street

The Dalles, OR 97058

Conducted in a handicap accessible room.

CALL TO ORDER

Chair Grossman called the meeting to order at 5:31 PM.

Grossman welcomed the new Urban Renewal Advisory Committee member, Jennifer Dewey.

ROLL CALL

Members Present: Gary Grossman, Jennifer Botts, Jennifer Dewey, Atha Lincoln, Linda Miller, Greg Weast

Members Absent: Steve Kramer, Robin Miles*, John Nelson*

Staff Present: City Manager Nolan Young, City Attorney Gene Parker, Administrative Secretary Carole Trautman

PLEDGE OF ALLEGIANCE

Grossman led the group in the Pledge of Allegiance.

APPROVAL OF AGENDA

It was moved by Weast and seconded by Botts to approve the agenda as submitted. The motion carried unanimously; Kramer, Miles, Nelson absent.

APPROVAL OF MINUTES

It was moved by Weast and seconded by Miller to approve the September 16, 2014 minutes as submitted. The motion carried unanimously; Kramer, Miles, Nelson absent.

PUBLIC COMMENT

None

ACTION ITEM – Recommendation Concerning an Amendment to the Loan Agreement and/or Purchase Agreement Between the Agency and Discover Development LLC

*NOTE: Miles joined the meeting at 5:36 PM. Nelson joined the meeting at 5:39 PM.

City Manager Young highlighted the main points of the staff report. It was noted by the Committee that the request for the extension of the purchase option for three years would bring the extension due date to May 15, 2018 rather than May 15, 2015.

James Martin, Discover Development representative, stated that in a perfect world all of Discover Development's goals would have been achieved. He explained that one of Discover Development's (Discover) early endeavors was to formulate a viable business that would create new jobs, one of the requirements for an approximate 1.6 million dollar federal grant to construct Urban Renewal's roundabout project. Mr. Martin said Discover met the goal and created new jobs; 50 locally and 67 nationally. He said building a company had challenges and required taking a substantial amount of risks. At the same time, trying to pay off all the loans in a short amount of time was difficult. He started in 2009 when the economy was suffering. Mr. Martin stated that through meetings with staff and the Mayor to formulate a loan payment timeline plan, he had a clear perspective on the direction of the project – where jobs would not be cut, and the company could continue to grow.

Martin explained that Sunshine Mill Winery was the dba of Discover Development. Copa Di Vino and TGE were entities of the wine business. Approximately \$900,000 had been used for property development including occupancy improvements, meeting fire code requirements, and painting the facility. Tenants paid over \$700,000 for tenant improvements to work towards a viable production winery, now the second largest in the state of Oregon. He said Discover would be unable to obtain a standard commercial loan because of the nature of the property. A special type of loan would be required.

Botts asked what the Agency's financial commitment was to the roundabout project, and would the project have happened without Discover's project. City Manager Young said he did not know the total dollar amount spent by Urban Renewal and he offered to research that information. He said the roundabout project would not have happened without the grant funds.

Regarding budget implications, Botts asked what other UR projects would be impacted if Discover's funds were not available, aside from the Agency obtaining a one million dollar loan. City Manager Young clarified that a one million dollar loan was one option, depending upon the rate of progress on the other projects. He said Urban Renewal would be spending \$200,000 for a new HVAC system in the Granada Theater. The Washington Street Undercrossing project would not begin until July 2015. Projects using existing cash included \$300,000 for the Civic (next fiscal year); \$200,000 for UR property rehabilitation; \$100,000 for the Lewis and Clark Fountain project (next spring); and \$220,000 for the Thompson Pool Project (next spring). Young said it might not be necessary to borrow, but if it was necessary, Urban Renewal would have the capacity to do so. Miller stated she did not think Urban Renewal typically borrowed money for projects. Young said the basic concept of Urban Renewal was to borrow funds for projects, then use the property tax increased revenues to pay off debt.

Miller asked if Copa Di Vino's (Copa) rent would cover the three year payments. Mr. Martin said the rent would cover approximately 50% of the \$900,000. He explained that Discover had not sought out the option of Copa (or other investors) buying into the property, because it could cause complications later on where other property investors could have different business expectations other than what the Martin family envisioned.

City Manager Young gave a detailed explanation of the proposed purchase option interest payment calculation over a three year extension period which would equal over \$16,000 a year, and \$48,000 over three years.

Miles stated she was in favor of the extension request because the property had been beautifully enhanced, and Mr. Martin's project was a great asset in the community. Discover created jobs for people in the community who need to pay bills, she said.

Dewey asked what would be the consequences if Discover's extension request was not granted. Weast said the worst case scenario would be that on December 15 Mr. Martin would walk away from the project and 50 employees would be unemployed. If the request was approved, and he could not make a loan payment later on, the worst case scenario would be that 50-70 people could possibly be unemployed.

It was moved by Miles and seconded by Nelson to recommend to the Columbia Gateway Urban Renewal Agency to accept the staff's recommendation as submitted: 1) Loan Retirement – Allow for the retirement of the debt over a two year period beginning May 15, 2015, with three principal payments as listed in staff's recommendation, and an increase in the interest rate to 5.25%; and 2) Purchase Option – Extend the purchase option for three years to May 15, 2018. Discover Development will pay interest on the purchase amount at an annual rate of 5.25%, with equal monthly payments. Grossman, Dewey, Miles, Weast, Nelson, Lincoln and Miller voted in favor, Botts opposed, the motion carried; Kramer absent.

ONGOING URBAN RENEWAL PROJECTS UPDATE

City Manager Young presented an update on the UR property rehabilitation grant project on the Independent Order of Odd Fellows façade restoration project. Young stated that one transom window still needs restorative work, it will be completed when the severe weather ends.

FUTURE MEETING – November 25, 2014 (Special Meeting)

ADJOURNMENT

Chair Grossman adjourned the meeting at 6:16 PM.

Respectfully submitted by Administrative Secretary Carole Trautman.

Gary Grossman, Chairman