IMPROVING OUR COMMUNITY

COLUMBIA GATEWAY URBAN RENEWAL AGENCY

CITY OF THE DALLES

AGENDA

Columbia Gateway Urban Renewal Agency
City Council Chamber
313 Court Street, The Dalles, Oregon

Meeting Conducted in a Handicap Accessible Room

Monday, June 10, 2013
Immediately Following the City Council Meeting

I. CALL TO ORDER

II. ROLL CALL

III. APPROVAL OF AGENDA

IV. AUDIENCE PARTICIPATION

During this portion of the meeting, anyone may speak on any subject which does not later appear on the agenda. Five minutes per person will be allowed. If a response is requested, the speaker will be referred to the City Manager for further action. The issue may appear on a future meeting agenda for Agency Board consideration.

V. APPROVAL OF MINUTES

A. Approval of April 22, 2013 Regular Meeting Minutes

VI. PUBLIC HEARINGS

A. Public Hearing to Receive Testimony Regarding Proposed 2013-14 Fiscal Year Budget

1. Resolution No. 13-001 Adopting the Fiscal Year 2013-14 Budget for the Columbia Gateway Urban Renewal Agency, Making Allocations and Certifying a Request for Maximum Tax Revenue to the County Assessor

VII. ACTION ITEMS

A. Approval of Modifications to the Interest Buy Down Program

VIII. ADJOURNMENT

MINUTES

COLUMBIA GATEWAY URBAN RENEWAL AGENCY

REGULAR MEETING
OF
APRIL 22, 2013

CITY COUNCIL CHAMBER
313 COURT STREET
THE DALLES, OREGON

PRESIDING:	Chair Steve Lawrence
AGENCY PRESENT:	Bill Dick, Carolyn Wood, Dan Spatz, Tim McGlothlin, Linda Miller
AGENCY ABSENT:	None
STAFF PRESENT:	City Manager Nolan Young, City Attorney Gene Parker, City Clerk Julie Krueger, Economic Development Specialist Dan Durow, Administrative Fellow Garrett Chrostek

CALL TO ORDER

The meeting was called to order by Chair Lawrence at 7:03 p.m.

ROLL CALL

Roll call was conducted by City Clerk Krueger; all members present.

APPROVAL OF AGENDA

It was moved by Wood and seconded by McGlothlin to approve the agenda as presented. The motion carried unanimously.

AUDIENCE PARTICIPATION

None.

APPROVAL OF MINUTES

It was moved by Wood and seconded by McGlothlin to approve the minutes of April 8, 2013 regular meeting. The motion carried unanimously.

ACTION ITEMS

Approval of Development and Disposition Agreement With Rapoza for Granada Block Redevelopment

City Attorney Parker reviewed the staff report. He highlighted significant sections of the agreement.

Chair Lawrence noted Section 2.1.6 listed the Bank Hotel property, but it was not included in the exhibit. City Attorney Parker said it could be part of the project, but was not in the exhibit because it was not part of the urban renewal properties. He said it was privately owned. City Manager Young said the exhibit could be changed to color that property in a different color to indicate it was not included in the urban renewal portion of the development.

Lawrence questioned the term "unless waived" in Section 2.9.1. He asked what control there would be for waiving any conditions and said the Board should have that authority rather than staff. City Attorney Parker said it would be a Board decision. Lawrence asked that the word Board be included for clarification purposes.

Lawrence said it seemed unrealistic that the developers could complete the redevelopment plan within 45 days. City Manager Young said if they were making good progress by that time, the DDA allowed for a 120 day extension, but the 45 day requirement would give the developers a good opportunity to show progress. Lawrence said it seemed easier to just required the Plan to be completed by December 31.

Lawrence said evidence of financing had not been enumerated in the DDA. He asked what would be received, and how, and when it would be reviewed. City Attorney Parker said the attorney who had helped draft the agreement, Jeannette Launer, had recommended the details not be included in this document. Lawrence said he believed it should be included sooner, rather than later to ensure financing was secured. City Manager Young said the financial information would be completed before signing of the final development agreement. Lawrence asked if the DDA should include what documents would be required.

Spatz said he was comfortable with the general terms noted in the DDA and would be comfortable receiving financial details at a later date. Spatz said he was pleased to see the Section regarding historic protection of the Granada Theater.

Lawrence said it seemed impossible to expect the number of parking spaces needed could be determined by the May 15 deadline. Architect Jim Marsh said he was already working on the document and had a range, so he would only need to refine the work once the number of spaces needed was determined by the developer.

City Manager Young said the team was in place to make the project successful and everyone was in agreement they wanted to move forward as quickly as possible.

Lawrence asked if tax credits would be part of the financing package. City Manager Young said the Agency would take a support role in assisting with any tax credit process. Lawrence asked about including provisions to require a lender to protect the Agency. City Attorney said the Agency could not mandate conditions to a lender, but it would be asked for.

Lawrence asked if demolition of the Recreation building would commence upon execution of the DDA. City Manager Young said he believed it would and that there was already a letter of agreement, included as Exhibit J.

Lawrence pointed out that the DDA, Section 6.1 indicated there could be no assignment, but Section 6.2 provided conditions for assignment. City Attorney Parker said there could be no assignment except for the exceptions listed in Section 6.2. He said Rapoza was still obligated to carry through the conditions of the DDA.

Lawrence asked what type of information might be considered in Section 9.2, regarding confidentiality. Parker said the developer may identify something as confidential information. He said if something was considered confidential and a person requested access to the information, there was a process to go through for a decision regarding disclosure of the information.

Development Team members in attendance were introduced: Michael Leash, Rapoza Development; Jens Von Gierke and Jason Pasternak from Wave Hospitality; James Marsh, Architect; and Patrick Spear representing Hilton Hotels.

Lawrence asked if Rapoza Development had applied for new market tax credits. Michael Leash said it had been looked at, but a Plan needed to be in place before an application could be submitted.

Mr. Von Gierke said Rapoza had been talking informally with investors for about three years and once the DDA was completed, they would be able to secure financing, but the document needed to be completed in order to show investors the agreement.

Lawrence said the Board had been told a 70% occupancy rate would be needed to make a hotel financially profitable. He asked how that would be accomplished. Mr. Spear said there was a formula used to calculate rates that was loosely based on a 69% occupancy, but he said much of the information would depend on the total development costs. He said the 75% figure was not a true calculation of success. Mr. Spear said Hilton had provided a letter of interest, and once the DDA was completed, formal negotiations would begin.

Miller asked if any other Hilton Hotels were located near railroad tracks, a wastewater treatment plant and freeways. Spear said the Hilton company had approximately 1,800 Hampton Inns, which were all located near freeways. He said any sound issues would be dealt with through construction, and sound proofing measures.

In response to a question, Mr. Spear said once all documentation was received by Hilton, it would take approximately 90 days to complete the application process.

Wood said she hoped the design of the development would fit with the historic nature of the downtown. Mr. Marsh said the design would be respectful and complimentary to the surroundings of the downtown.

Miller asked how many similar developments had been completed by Rapoza Development. Mr. Leash said Rapoza Development was a group assembled just for this proposed development.

Miller asked if Rapoza had made a financial commitment to the project at this time. Mr. Leash said it had, but declined to disclose the amount.

It was moved by Dick and seconded by Wood to approve the agreement for disposition of property for redevelopment of downtown blocks and the Granada Theater with the addition of language in Section 9.7 to indicate the Agency meant the Agency Board and authorize the Agency Chair to sign the agreement. The motion carried; Miller and Lawrence opposed.

ADJOURNMENT

Being no further business, the meeting adjourned at 8:23 p.m.

Submitted by/
Julie Krueger, MMC
City Clerk

SIGNED: ______________________
Stephen E. Lawrence, Chair

ATTEST: ______________________
Julie Krueger, MMC, City Clerk

CITY of THE DALLES
313 COURT STREET
THE DALLES, OREGON 97058

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AGENDA STAFF REPORT
COLUMBIA GATEWAY URBAN RENEWAL DISTRICT

MEETING DATE	AGENDA LOCATION	AGENDA REPORT #
June 10, 2013	Public Hearing VI, A, 1	

TO: Columbia Gateway Urban Renewal Agency Board of Directors

FROM: Kate Mast, Finance Director

THRU: Nolan K. Young, City Manager NY

DATE: May 28, 2013

ISSUE: Public Hearing on Columbia Gateway Urban Renewal District Approved Budget for FY13/14 as Required by Oregon Budget Law, and Consideration of Resolution No. 13-001 Adopting the FY13/14 Budget for the Columbia Gateway Urban Renewal Agency, Making Allocations, and Certifying a Request for Maximum Tax Revenue to the County Assessor.

BACKGROUND: The Agency Budget Committee reviewed the proposed budget and approved that budget, with minor changes, on April 29, 2013. The Urban Renewal Agency Board will hold the required Public Hearing on June 10, 2013, and will consider the proposed resolution adopting the budget on that same agenda.

BUDGET IMPLICATIONS: At this time staff has no recommendations for changes to the budget approved by the Urban Renewal Budget Committee. If staff should identify any changes that may be needed, they will inform the Board during the Public Hearing.

If the Board determines that changes are necessary, Oregon Budget Law allows a governing body, prior to final adoption, to make changes to a fund approved by the Budget Committee in the amount of $5,000 or 10% of the operating portion of that Fund, whichever is greater. The operating portion includes the Personnel, Materials & Services, and Capital Outlay categories, but does not include Interfund Transfers, Contingencies, or Unappropriated amounts. If the changes the governing body wishes to make are greater than these limits allow, another Public Hearing must be held on June 24, 2013, with the required published notices, prior to adoption.

ALTERNATIVES:

A. **Staff Recommendation:** ***Move to adopt Resolution No. 13-001 adopting the FY13/14 Budget for the Columbia Gateway Urban Renewal Agency, Making Allocations, and Certifying a Request for Maximum Tax Revenue to the County Assessor.***

B. The Board could elect to change the approved budget and direct staff to include those changes in the adopting resolution. If the changes are greater than the limit allows, another Public Hearing must be held, with the required published notices, prior to adoption. Supplemental budgets and budget amendments are to be used during the fiscal year for situations that were unknown at the time the original budget was adopted. Any issues known at this time would not be legitimately eligible for later "fixes".

RESOLUTION NO. 13-001

A RESOLUTION ADOPTING THE FISCAL YEAR 2013-2014 BUDGET FOR THE COLUMBIA GATEWAY URBAN RENEWAL AGENCY, MAKING ALLOCATIONS, AND CERTIFYING A REQUEST FOR MAXIMUM TAX REVENUE TO THE COUNTY ASSESSOR

WHEREAS, the Urban Renewal Budget Committee has reviewed and acted on the proposed Urban Renewal budget; and

WHEREAS, the Urban Renewal Budget Committee, on April 29, 2013, approved and recommended a balanced budget to the Urban Renewal Board of Directors; and

WHEREAS, in accordance with State Law, the Urban Renewal Board of Directors held a Public Hearing on the approved budget on June 10, 2013; and

WHEREAS, the Urban Renewal Board of Directors wishes to adopt the approved budget and carry out the programs identified in the budget;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COLUMBIA GATEWAY URBAN RENEWAL AGENCY AS FOLLOWS:

Section 1. Adoption of the Budget for FY13/14.
The Board of Directors of the Columbia Gateway Urban Renewal Agency hereby adopts the budget for Fiscal Year 2013-2014 in the total of **$3,321,356**, now on file in the office of the City Finance Director.

The amounts for the Fiscal Year beginning July 1, 2013 and for the purposes shown below are hereby appropriated:

Capital Projects Fund (200)	
Materials & Services	$ 630,811
Capital Outlay	1,061,053
Contingency	27,016
Total Capital Projects Fund	**$1,718,880**
Debt Service Fund (210)	
Debt Service	$ 1,602,476
Total Debt Service Fund	**$ 1,602,476**
Total Appropriations, All Funds	**$ 3,321,356**

Section 2. <u>Certifying to County Assessor</u>.

The Board of Directors of the Columbia Gateway Urban Renewal Agency resolves to certify to the County Assessor, for the Columbia Gateway Downtown Plan Area, a request for the maximum amount of revenue that may be raised by dividing the taxes under Section 1c, Article XI, of the Oregon Constitution and ORS Chapter 457.

PASSED AND ADOPTED THIS 10th DAY OF JUNE, 2013

Voting Yes: ______________________

Voting No: ______________________

Absent: ______________________

Abstaining: ______________________

AND APPROVED BY THE CHAIR THIS 10th DAY OF JUNE, 2013

SIGNED:	ATTEST:
______________________	______________________
Stephen E. Lawrence, Chair	Julie Krueger, MMC, City Clerk

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COLUMBIA GATEWAY URBAN RENEWAL AGENCY

CITY OF THE DALLES

AGENDA STAFF REPORT
Columbia Gateway Urban Renewal
Agency Board

MEETING DATE	AGENDA LOCATION	AGENDA REPORT #
June 10, 2013	Action Items VII, A	

TO: Urban Renewal Agency Board

THRU: Nolan K. Young, City Manager NY

FROM: Garrett Chrostek, Administrative Fellow

DATE: May 24, 2013

ISSUE: Proposed Interest Buy Down Program Changes

PREVIOUS AGENDA REPORT NUMBERS: None.

BACKGROUND: One of the opportunities available within the Agency's Property Rehabilitation Grant and Loan Program is a loan interest buy down. Under existing program rules, the Urban Renewal Agency has discretion to subsidize up to twelve (12) percentage points worth of interest on property rehabilitation projects, with an emphasis on exterior work, within the Urban Renewal District. In practice, the Agency pays some or the entire interest portion of the applicant's monthly payment for a number of years determined by the Agency. Currently, there is no minimum or maximum loan principal amount to be eligible for the program and there is no cap on the total value of the buy-down. To date, five (5) loan interest buy-downs have been approved by the Agency:

Table I: Summary of Interest Buy Downs to Date

Recipient	Loan Principal	Interest Rate	FY 12/13 Monthly Value of Subsidy	FY 12/13 Annual Value of Subsidy	End Date	Total Value of Subsidy[1]	Total Value as % of Loan Principal
• Columbia Bank-- MJG (2001)	$2,050,000	3.25% + 5 year T-bill	$ 3,655	$ 43,855	2015	$ 570,000	27.80%
• Sigman's (2002)	$ 106,000	9.5%	$ 858	$ 10,300	2012	$ 72,000	67.92%
• Canton Wok (2011)	$ 55,000	6.0%	$ 275	$ 3,300	2019	$ 18,000	32.73%
• Dong Xi (2010)	$ 104,000	7.0%	$ 620	$ 7,440	2019	$ 59,000	56.73%
• Gayer Building (2011)	$ 315,000	6.0%	$ 1,615	$ 19,380	2026	$ 163,000	51.75%
Total	$2,630,000	-	$ 7,023	$ 84,275	-	$ 882,000	-

Demand for this program is growing, and because the Agency has committed significant current and future monies to other projects in the Urban Renewal Plan, the available funding for this program in the future has limited room for growth. In addition to the funds already committed to existing loan subsidies,[2] the FY 13/14 proposed budget only calls for fifty-six thousand eight hundred and eighty-five dollars ($56,885) for *new* projects for the entire Property Rehabilitation Grant and Loan Program, which also includes Historic Design and Restoration Grants, Civic Improvement Grants, and Blighted Property Demolition Loans/Grants.

Given increased demand for Property Rehabilitation resources and budget limitations, Staff took a comprehensive review of the interest buy down program including investigating loan subsidy programs in other communities and consulting with commercial lending professionals. Specifically, Staff sought out technical changes to the existing program to preserve incentives for property owners to invest in their properties while promoting fairness in the loan subsidies offered to applicants. Based on that review, Staff proposes the following changes to serve as guidelines for the Agency (or Staff if the loan is small enough to be approved administratively) in administering the interest subsidy program in the future:

1. Maximum interest rate eligibility
2. Mandatory interest rate shopping
3. A cap on the maximum total value of the loan subsidy
4. Provide the Agency the option of "buying points" on the loan
5. Obligatory refinancing
6. A limit on the life of the loan of ten (10) years, or the life of the agency, whichever is shorter
7. Lowering the threshold for Agency approval

1. **Maximum Interest Rate Eligibility:** The program's rules do not establish any minimum financial eligibility requirements. To filter out excessively risky loans, Staff proposes using

[1] Unadjusted for inflation or time-value

[2] A table showing Agency loan interest buy down commitments and forecasted resources is attached to this Agenda Staff Report.

the lesser of the Wall Street Journal ("WSJ") prime rate[3] plus 6 percentage points or 12% as the maximum interest rate eligible for a loan subsidy.

At the Urban Renewal Advisory Committee ('URAC") meeting of May 21, 2013, the Committee recommended that the Agency Board set the maximum interest rate at the lower of the WSJ Prime rate plus 6 points or 12%.

<u>Alternatives:</u> **1. Set the maximum eligible interest rate for the program at the lower of WSJ Prime rate plus 6 points or 12% (Staff Recommendation).**
2. Set the maximum eligible interest rate for the program at some other threshold.
3. Continue without a maximum eligible interest rate for the program.

2. **<u>Mandatory Interest Rate Shopping</u>:** Applicants to the program are not required to demonstrate to the Agency that they shopped around for their loan. This is a concern because if only a single quote is required, banks may not provide competitive loans rates if they know the loan is being considered for a subsidy from the Agency. Multiple quotes also provide staff more information on the applicant's default risk. Staff proposes that the applicant obtain quotes, not necessarily approvals, from a minimum of three lending institutions approved by Agency Staff prior to receiving final subsidy approval.

   At the Urban Renewal Advisory Committee ('URAC") meeting of May 21, 2013, the Committee recommended that applicants obtain a minimum of three quotes prior to receiving final subsidy approval.

   <u>Alternatives:</u> **1. Require applicants to obtain quotes from a minimnm of three lending institutions prior to receiving final subsidy approval (Staff Recommendation).**
   2. Require applicants obtain a different number of quotes prior to receiving final subsidy approval.
   3. Continue to only require a single quote prior to receiving final subsidy approval.

3. **<u>Cap on Maximum Value of Loan Subsidy</u>:** Currently, there is no cap on the maximum value of the subsidy. A cap on the total value of the subsidy will establish expectations for applicants, ensure that Agency Resources are not consumed by one or two loans, and provide some assurance to the public that the agency is not playing favorites. The following are three potential methods for accomplishing this objective.

   a. Percentage of Loan Principal—Regressive Structure

   A goal of the Urban Renewal Agency has been to maximize the number of benefiting parties/properties. Accordingly, a regressive structure will keep the focus of the program and the majority of the benefit on small to mid-sized loans. Thus, an initial concept is setting the maximum total value of the loan subsidy as a percentage of the loan principal

[3] The WSJ prime rate, currently at 3.25%, is an index of the commercial loan rates of the 30 largest U.S. lending institutions.

with the percentage declining as the amount of the loan principal increases. The following table depicts this structure along with the maximum nominal value of the subsidy, the effective APR, the interest rate that would produce an effective rate of 0% with the maximum nominal subsidy, and the average monthly savings for the upper limit of the intervals (i.e. $50,000, $100,000, $200,000, etc. in principal) for a 10-year loan on a standard payment plan. The absolute cap for the maximum nominal value of the buy-down would be three hundred thousand dollars ($300,000). Under this structure, the Agency will have the capacity to award a loan interest subsidy that will enable the average commercial applicant to obtain a loan of fifty thousand dollars ($50,000) or less at an effective rate of zero percent (0%), given present market rates of between four (4%) and six percent (6%).

Table II: Cap on Maximum Value—Regressive Structure

Amount of Loan Principal	Max Value[4]	Nominal Max Value at Intervals[5]	Applicant's Average Monthly Savings[6]	Effective APR on a 7% Loan[7]	Rate for Effective Rate of 0%
1. <$50,000	35%	$17,500	$146	0.83%	6.30%
2. $50,001 to <$100,000	32%	$32,000	$267	1.41%	5.80%
3. $100,001 to <$200,000	29%	$58,000	$483	1.99%	5.29%
4. $200,001 to <$500,000	25%	$125,000	$1,042	2.72%	4.61%
5. $500,001 to <$1,000,000	19%	$190,000	$1,583	3.79%	3.56%
6. $1,000,001 to $1,750,000	13.5%	$236,250	$1,969	4.75%	2.57%
7. $1,750,001 to $3,000,000	8.75%	$262,500	$2,188	5.56%	1.69%
8. >$3,000,001	6%	Capped at $300,000	$2,500	6.02%[8]	1.19%[9]

b. Percentage of Estimated Future Property Taxes

The objective of Urban Renewal is to use public investment to produce a net increase in property tax revenue. Accordingly, a second method of capping the maximum value of the loan subsidy is on a net return of real property tax basis. More specifically, the maximum value of the loan could be capped as a percentage of the estimated future increase in real property taxes that will result from property rehabilitation through increased assessed real property values—thus yielding return on Agency investment.

To that end, Staff calculated estimated future tax revenues (inclusive of real property taxes dedicated to school districts, but not inclusive of special levies) for various levels of loan

[4] Measured by the value of total interest payments as a percentage of loan principal
[5] Not accounting for inflation or time-value
[6] Savings based on a 10-year loan on a standard repayment plan with 0% down as compared to not receiving any subsidy.
[7] 10-year loan on standard repayment plan with 0% down
[8] Calculation based on $5,000,000 in loan principal
[9] Calculation based on $5,000,000 in loan principal

principal invested in rehabilitation. These calculations assume that the amount of principal invested in rehabilitating individual properties will result in a one-for-one dollar ($1:$1) increase in real market value. It also assumes that the assessed value will be seventy-seven percent (77%) of real market value (the current average ratio within the Urban Renewal District), and that assessed values will increase by two and one-half percent (2.5%) per year. Additionally, the figures in the following table assume that the life of the improvements will be twenty (20) years—prior redevelopment agreements have required that any improvements made with URA funds have a usable life of twenty (20) years. Finally, the nominal max value was set at 88%[10] of estimated future real property taxes as a contingency and to yield return.

The results of these calculations determined that, when measured purely in terms of net return on real property taxes on an individual property, maximum values at or below 25.96% of the loan principal will allow the Agency to recoup its investment in future real property taxes and likely produce return. It should be noted that the Agency can exceed its expected return indirectly through increased assessed values on adjoining properties and increased investment in personal property and directly if the applicant also uses equity as part of the financing to complete the improvements.

Table III: Cap on Maximum Value—Property Tax Structure

Amount of Loan Principal	Max Value	Nominal Max Value at Intervals[11]	Applicant's Average Monthly Savings	Effective APR on a 7% Loan[12]	Rate for Effective Rate of 0%
1. <$50,000	25.96%	$12,982	$108	2.55%	4.77%
2. $50,001 to <$100,000	25.96%	$25,964	$216	2.55%	4.77%
3. $100,001 to <$200,000	25.96%	$51,927	$433	2.55%	4.77%
4. $200,001 to <$500,000	25.96%	$129,818	$1,082	2.55%	4.77%
5. $500,001 to <$1,000,000	25.96%	$259,636	$2,164	2.55%	4.77%
6. $1,000,001 to $1,750,000	25.96%	$454,363	$3,786	2.55%	4.77%
7. $1,750,001 to $3,000,000	25.96%	$778,908	$6,491	2.55%	4.77%
8. >$3,000,001	25.96%	$1,298,179[13]	$10,818	2.55%	4.77%

c. Hybrid

As a third option, the Agency could take a hybrid approach. Namely, the Agency could pursue a structure where the max value never exceeds the estimated future property taxes

[10] This methodology produces a very low annualized return (<0.5% per year for most loans). However, the Agency can exceed this return on real property taxes under four non-mutually exclusive scenarios: 1) offering the applicant less than the max value, 2) where the increase in property values exceeds the costs of improvements, 3) if annual property tax increases exceed 2.5% per year, and 4) if the improvements last for more than twenty years. The agency controls source 1, carefully selected projects should satisfy sources 2 and 3, and property tax increases are capped at three percent per year.

[11] Not accounting for inflation or time-value

[12] 10-year loan on standard repayment plan with 0% down

[13] Calculation based on $5,000,000 in loan principal

and decreases as the size on the loan principal increases. This hybrid structure could also include an absolute cap on the total value of any loan. The following is a table depicting this hybrid approach, which Staff prefers. Although the max value exceeds 25.96% for loans of less than $200,000, loans below 28% in max value still provide a net return on real property taxes if the 12% contingency is removed. Increasing the max value above 25.96% would also provide additional room for the Agency to incentivize smaller loans.

At the May 21, 2013 URAC meeting, the Committee recommended that the Agency Board set the max value of future loan interest buy downs as depicted in Table IV.

Table IV: Cap on Maximum Value—Hybrid Structure

Amount of Loan Principal	Max Value[14]	Nominal Max Value at Intervals[15]	Applicant's Average Monthly Savings	Effective APR on a 7% Loan[16]	Rate for Effective Rate of 0%
1. <$50,000	28%	$14,000	$117	2.15%	5.14%
2. $50,001 to <$100,000	27%	$27,000	$225	2.35%	4.95%
3. $100,001 to <$200,000	26%	$52,000	$433	2.55%	4.77%
4. $200,001 to <$500,000	25%	$125,000	$1,042	2.72%	4.61%
5. $500,001 to <$1,000,000	23%	$230,000	$1,917	3.08%	4.26%
6. $1,000,001 to $1,750,000	20%	$350,000	$2,917	3.62%	3.74%
7. $1,750,001 to $3,000,000	19%	Capped at $400,000	$3,333	4.78%	2.54%
8. >$3,000,001	18%	Capped at $400,000	$3,333	5.68%[17]	1.55%[18]

Alternatives: **1. Set the maximum value of future loan interest buy downs according to the hybrid formula with the cap at $400,000 as depicted in Table IV (Staff Recommendation).**

2. Set the maximum value of future loan interest buy downs according to some other formula and cap.

3. Continue the program without a cap on the maximum value of loan interest buy downs.

4. **Provide Agency the Option of "Buying Points":** Under the existing program, the Agency makes some or all of the applicant's monthly interest payment each month. This process avoids a major upfront expenditure by the Agency and allows the Agency to discontinue the subsidy if the applicant defaults. However, the current procedures add administrative expense to the Agency in tracking and processing monthly payments. Additionally, the Agency currently forgoes potential savings in "purchasing points" off the loan. Purchasing points refers to pre-paying interest upfront in exchange for a lower interest rate. This arrangement

[14] Measured by the value of total interest subsidy as a percentage of loan principal
[15] Not accounting for inflation or time-value
[16] 10-year loan on standard repayment plan with 0% down
[17] Calculation based on $5,000,000 in loan principal
[18] Calculation based on $5,000,000 in loan principal

can result in net savings to the borrower when the loan is held long enough that the savings in lower monthly payments exceeds the amount of the interest pre-payment. Purchasing points thus has the potential to more efficiently utilize Agency resources and to save the Agency administrative expense because buying points is a one-time transaction.

The major risk in buying points is that the Agency's money is sunk early in the process, which reduces the Agency's leverage in ensuring the applicant applies the loan consistent with the terms of the rehabilitation program. If the applicant defaults, the Agency could lose its investment to the extent that the applicant's improvements, to date, do not cover future increases in property taxes. Accordingly, the Agency might wait until after the rehabilitation is complete before executing an option to buy points if it would be beneficial to the Agency. Under Staff's proposal, if the Agency elects to purchase points, the Agency would spend the amount necessary to produce a savings equivalent to the value of the subsidy awarded by the Agency under the terms of the loan. In other words, if an applicant is awarded a $50,000 loan subsidy, the Agency would not purchase $50,000 in points, but would instead spend an amount on points that would result in $50,000 in total savings to the applicant over the life of the loan.

At the May 21, 2013 URAC meeting, the Committee recommended that the Agency Board include an option for the Agency to buy points on the loan subject to the approval of the Agency in future loan interest buy down agreements.

<u>Alternatives:</u> **1. Require that future loan interest buy down agreements include an option for the Agency to buy points on the loan subject to the approval of the Agency (Staff Recommendation).**

2. Recommend to the Agency Board that the Agency not require an option to buy points on the loan.

5. **<u>Obligatory Refinancing</u>:** When the Agency is covering all of the applicant's interest payments, there is no incentive for the applicant to refinance. This can result in unnecessary expense to the Agency where sufficiently lower interest rates are available. As a condition of the loan subsidy, the Agency could obligate the applicant to refinance, consistent with the terms of the loan and at the Agency's expense, where it would produce adequate benefit to the Agency.

   At the May 21, 2013 URAC meeting, the Committee recommended that the Agency Board require applicants for future loan interest buy-down agreements be subject to obligatory refinancing.

   <u>Alternatives:</u> **1. Require that applicants be subject to obligatory refinancing (Staff Recommendation).**

   2. Not require that applicants be subject to obligatory refinancing.

6. **<u>Cap on Time Limit for Interest Subsidy</u>:** The existing program rules do not establish a limit on the period of time that the interest subsidy may run. Rather, that is left to the discretion of the applicant and bank with ultimate approval by the Agency. While the cap on the maximum amount of value removes the advantage of stretching out the duration of the loan to capitalize on below-market interest rates, there is still some value in setting a time limit on the loan

subsidy. Specifically, setting a shorter time limit reduces the amount of administrative time spent on any individual loan. Staff proposes the lesser of ten (10) years or the end of the life of the Urban Renewal Agency, which is currently projected at FY 2025/2026. If the Agency elects to buy points on a loan, a time limit cap would not be applicable.

Alternatives: **1. Set the time limit for the loan interest buy down at the lesser of 10 years or the end of the life of Urban Renewal Agency (Staff Recommendation).**

2. Set the time limit for the loan interest buy down at some other time limit.

3. Continue the program without a cap on the time limit of the loan interest buy down.

7. **Adjusting Threshold for Agency Review:** The current trigger for Advisory Committee and Agency Board review of a loan interest subsidy is fifteen thousand dollars ($15,000) in *annual value*. If the Board adopts the total value guidelines proposed above, the threshold for Advisory Committee and Board review might be adjusted to reflect those parameters. Specifically, Staff had originally proposed that the Advisory Committee and Board review and approve any loan subsidies of more than $75,000 in *total value* over the course of the loan.

   At the May 21, 2013 URAC meeting, the Committee recommended that the Agency Board review and approve all loan interest subsidies of $50,000 or more in total value.

   Alternatives: **1. Require that all loan interest subsidies of $50,000 or more in total value be subject to review and approval by the Advisory Committee and Agency Board (Staff Recommendation).**

   2. Require that all loan interest subsidies of some other threshold be subject to review and approval by the Advisory Committee and Agency Board.

   3. Continue the program with the threshold for review and approval by the Advisory Committee and Agency Board remaining at $15,000 in annual value.

8. **Loan Programs in Other Communities:** Staff is unaware of any other Oregon communities that have an interest subsidy program of the type employed by the Agency. However, other Oregon communities do engage in direct subsidized (below-market rate) lending to businesses and properties within their respective Urban Renewal Districts. The following is a sample of those Oregon programs.

Lincoln City Property Rehabilitation Loan Program

The Program

- Loan Program for commercial properties in the Urban Renewal District
- Loan funds are subject to availability of annual funding
- Property owners must have 30% equity

Property Owners

- $75,000 maximum secured loan to property owners per property
- 0% interest rate
- Loan Processing and closing costs paid by borrower
- Ten -Year payback, fully amortized through monthly payments
- Up to 20 hours free design consultation (maximum $1200)

Business Owners

- $5,000 maximum personally guaranteed loan to business owners
- 0% interest rate and
- Loan Processing and closing costs paid by borrower
- Five-Year payback, fully amortized through monthly payments
- Up to 10 hours free design consultation (maximum $600)
- Funds can be used for structural and static building improvements, but must include facade improvements.

Redmond Restoration Loan Program

The Urban Renewal Board will provide a one-time loan of up to $50,000 for restoration, meeting architectural and historically compatible requirements in compliance with the 2006 Downtown Action Plan Architectural Design Standards. The loans are intended to assist the property owners to apply for a staggered interest loan on a 10 year incentive payback period with a potential accompanied small grant. It is expected that additional design work and detailed specifications will be required and included as part of the project that is funded by the loan and other funds.

The Urban Renewal Board will stagger interest rates on loans to pay for the restoration work according to the approved designs and the incentive payback period. In most cases, the effective rate for the borrower will be 0% for the first 2 years; 2% for years 3 to 5; and 4% for 6 to 10 years.

North Gateway (Salem) Loan Program

Loan Terms:

- Maximum Loan Amount $100,000
- Interest Rate: 3% fixed rate
- Term: 10 years fixed*
- Loan Fee: $500.00

*Length of term may be extended to 20 years in order to coincide with terms of primary lender where Urban Renewal Agency is in a second lien position.