

CITY OF OAKLAND

COUNCIL AGENDA REPORT

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: CEDA, Commercial Lending
DATE: June 13, 2006

SUBJECT: Action on a Report and Staff Recommendation for the Restructuring and Collection of Enhanced Enterprise Community, Economic Development Initiative and HUD 108 Loans with Outstanding Principal Notes Totaling \$240,000 to Stanton D. Bluiett dba Pill Hill Printing

SUMMARY

On October 18, 2005, staff presented a report to City Council detailing negotiations to collect funds owed to the City, as a result two loans to Stanton Bluiett, dba Pill Hill Printing. Monies funding Mr. Bluiett's loans were portions of a U.S. Department of Housing and Urban Development (HUD) Enhanced Enterprise Community (EEC) grant awarded the City in 1996. Mr. Bluiett's loans totaling \$240,000 were funded through two loans of \$120,000 each of HUD EEC Section 108 and HUD EEC Economic Development Initiative (EDI) funds.

At the October meeting, the City Council voted to adopt a resolution authorizing staff to negotiate a loan restructuring with Stanton D. Bluiett, dba Pill Hill Printing, for outstanding principal notes.

After a review of restructuring options, City Council authorized staff to negotiate with Mr. Bluiett around the following:

- a. Full repayment (payoff) of the EEC HUD Section 108 loan by April 30, 2006.
- b. Deferral of loan payments for a period not to exceed 18 months on the EEC EDI loan to provide borrower necessary time to execute restructuring plans for greatest opportunity of resuming regular payments.
- c. To cancel the Life Insurance policy requirement.
- d. Determination of appropriate collateral required to secure the remaining \$120,000 EEC EDI note and transfer of collateral from personal residence to equipment if sufficient security exists.
- e. Reduce opportunity for an escalation of the City's cost related to required collection actions for defaulted loans and they relate to foreclosure cost, and;

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- f. Authorization of the City Administrator to execute a restructuring plan consistent with City Council direction.

Additionally Vice Mayor Brunner made a motion, seconded by Councilmember Reid, that the matter be approved as amended and specifically requested staff to analyze and determine the appropriate collateral required to secure the remaining \$120,000 EEC EDI loan after the borrower fully repaid the EEC HUD Section 108 loan of \$120,000.

FISCAL IMPACT

Restructuring of the Pill Hill Printing loans as recommended by staff, will serve the following purposes: 1) provide immediate repayment of outstanding HUD EEC Section 108 loan balance of \$152,792.36; 2) the HUD EDI loan balance of \$133,962.40 will be deferred for up 18 months to provide the borrower additional time to execute restructuring plans for greatest opportunity of resuming regular payment; 3) retain Pill Hill Printing as an Oakland based business; and 4) prevent further escalation of the City's cost for collection of defaulted loans.

This loan repayment revenue has not been anticipated in the FY2005-07 budget. These funds, once received, will be deposited and appropriated in EEC HUD-108 Fund (2107), One Stop Small Business Center Organization (88579) in numerous projects – EEC HUD-108 Revolving Project (G02955); OPCS Fees-EDI Project (H66639) and Economic Development Initiative Program Project (H66631).

BACKGROUND

Pill Hill Printing is a West Oakland based company, which has been in business 13 years. The business is a full-service printing firm, which provides offset printing, full color printing, binding, cutting and copying service. Pill Hill Printing has a full darkroom and computerized graphic design equipment. In early 2002, the borrower leased a 3,000 sq. ft. warehouse space at 1357-5th Street in West Oakland and currently conducts all business from that address.

In July 2001, the City extended two (2) loans totaling \$240,000 to Mr. Bluiett to purchase printing equipment and provide working capital to assist the expansion of his existing Oakland business. The City collateralized the two loans by recording a senior UCC-1 filing on all existing and new business equipment, 2nd and 3rd Deeds of Trust on the personal residence of Stanton and Laquita Bluiett, a required key man life insurance policy in the amount of \$250,000 with the City named as primary beneficiary, and an executed personal guarantee of Mr. Bluiett.

Pill Hill Printing discontinued making regular scheduled payments as of June 2003. During the ninety days following the first non-payment, Pill Hill Printing was notified by letter on three separate occasions of its delinquency. City staff and Mr. Bluiett maintained communication over several months as Pill Hill Printing explored possible solutions that would enable the company to resume payments. In response to the prolonged delinquency, City staff proposed a restructuring plan for the two notes to provide Mr. Bluiett the opportunity to repay his debt over a longer term and with reduced payments. The City's restructuring was to have been accomplished through

Mr. Bluiett refinancing his personal residence, which the City holds as collateral for the notes. Mr. Bluiett considered the City's proposal and countered with a proposal of his own which included partial repayment of the \$120,000 Section 108 loan and forgiveness of the \$120,000 EDI loan.

Mr. Bluiett presented his restructuring proposal to the Community and Economic Development Committee of City Council in July 2005. The Council Committee directed staff to evaluate Mr. Bluiett's proposal as to the potential fiscal impacts to the City if forgiveness of the EDI note was granted, especially as any forgiveness of the borrower loan would require repayment of the HUD notes by the City.

Staff forwarded a letter to the U.S. Department of Housing and Urban Development (HUD) requesting HUD's evaluation and opinion of the Pill Hill Printing restructuring proposal. HUD suggested the City consider restructuring of the EEC HUD 108 and EDI loan to require the business owner to promise new or existing jobs that become vacant will be filled by low-and moderate income EEC residents and collateral be provided for the both restructured loans. Per HUD, if two of the jobs created by Pill Hill Printing were not filled by low-and moderate income EEC residents, then repayment of the Section 108 funds would have to be made from non-federal funds as activities would not be eligible since the national objective and contract condition to hire low-and moderate-income EEC residents had not been met. Therefore, the expenditure of the EDI grant funds would not meet a national objective and the City could be required to repay the EDI matching grant funds from non-federal sources. HUD's representative further suggested that the City consider its collateral position and the potential use of liquidated collateral as a repayment source for the EEC Section 108 and EDI loans.

KEY ISSUES AND IMPACT

Mr. Bluiett has not complied with the City Council approved loan restructuring plan within the allotted time period. Mr. Bluiett has stated to staff that his hesitancy in complying is based on his financial condition and undisclosed outstanding liens on his personal residence, on which the City maintains 2nd and 3rd deeds of trust. City staff's recommendation of a pay-off of the 2nd deed of trust through Mr. Bluiett's refinancing of his personal residence was based on property value and current lien statements of a property profile report dated March 2005. Unfortunately, that profile report was not inclusive of federal tax liens which would significantly reduce the borrower's equity and refinance capacity.

Mr. Bluiett's request to transfer collateral from his personal residence to a combination of business assets and personal guarantees would place the City in a negative security position. As verification of the soundness of collateral proposed by Mr. Bluiett, staff executed a contract with a certified appraiser for a value assessment of Pill Hill Printing's equipment. That assessment evaluated original equipment on which the City holds a UCC-1 and new equipment purchased after the City's loan execution date.

Staff received a summary determination of the collateral value of Pill Hill Printing's equipment, Table 1. A target equipment collateral value of \$120,000 would be required to secure the \$120,000 EEC EDI loan, after full pay-off of the EEC HUD 108 \$120,000 loan.

Table 1 Pill Hill Printing Equipment Collateral Listing			
	Collateral - UCC1 (10-23- 2002)		Appraised Equipment 2005
1	(3) Macintosh Power Mac G-4 Computer CPU (gray) w/keyboard & mouse s/n XB2120ZPMK9; ZB2100P6MK9; XB212BSMKS	1	(3) Macintosh Power Mac G4 computers with Envision monitors & keyboards
2	(2) Microteck Scanmaker 3800 s/n W211814751	2	(2) Microtex flatbed scanners
3	Umax Astra 1200s Scanner s/n H750H28301150	3	Umax 1200 flatbed scanners
4		4	Hewlett Packard Laser Printer, mod. 4MV, w/ 2 cassettes
5		5	Hewlett Packard Laser Printer, mod 2100M w/2 cassettes
6		6	Brother Interifax, mod 2800
7	Hewlett Packard Scan Jet TI CX Scanner s/n 3337A95189	7	Hewlett Packard Scanjet TI CX Scanner, mod 4200C
8		8	Gateway desktop PC with monitor & keyboard
9	X-Rite m/n 360T s/n 07812	9	X-Rite mod. 360T, s/n 07812
10	Xerox Docucolor 12 Color Copier s/n 900217205	10	Xerox Docucolor 12 Color copier, s/n 90021705 w/ Xerox MXP computer rip server
11		11	Graphic Lite view table, mod D5000, 25" x 42" table surface
12		12	X-Rite 400 Densetometer
13	Heidelberg Type 53 m/n 608917 s/n 30796 w/ Royse space saver circulation system	13	Heidelberg 2 color printer, mod 53 MOZ-P, s/n 608917, Royce system, 20,700,000 impress
14	Bestronic mini shrink tunnel m/n 1913 -MB s/n 06870412	14	Bestronic hear shrink tunnel, mod. TI4-8, s/n 06870412
15	Graphic Wizard m/n GW12000 s/n 1512201 w/Campbell hausfield compressor	15	Graphic Wizard mod GW12000, s/n 1512201, w/ Campbell mini compressor, w/ scoring tool, dual number striking tool, perforating tool, 14" x 20" cap.
16	Challenge Pow-R-fold s/n PFA1657	16	Challenge Pow-R-fold, s/n PFA 1657, 14" x 20" cap
17	Polar Motor m/n 92-EM960 s/n 5811026	17	Polar 36" paper cutter, mod 92-EM, s/n 5811026 w/ precision back gauge
18	Itek Offset Duplicator m/n 111105A-001 s/n 12166	18	Itek Offset press, mod. 960, s/n 12166, 2 color, 12" x 18" cap
19	Small Offset Press m/n 975CPD s/n 7532	19	Itek Offset press, mod. 975CPD, s/n 7532, 2-color, swing way T-head, 12" x 18" cap
20		20	Itek Offset press, mod. 960, s/n 11766, 2 color, swing a way T-head, 12" x 18" cap
21	Challenge Machine m/n Lincoln s/n 72238	21	Challenge paper hole punch, mod. Lincoln s/n 72238, bench mounted
22	Bostitch Wire stitcher m/n 7 s/n 778282	22	Bostich wire stitcher, mod. 7, s/n 778282
23		23	Interlake wire stitcher, mod S3A-3/4, s/n 5460, mgf 1986
24		24	USI 25" laminator, mod. ARL-25, s/n ARL-25-559, bench mounted

25		25	(2) Ibico bench top comb & spiral binding machines, manual op
26	Ordibel Type 30STGP s/n 2374	26	Ordibel 30 bin collator, mod. 30STR-GF, s/n 2374, 11" x 17" cap., w/ stitcher attachment
27	(2) Xerox 5100 Copy/Duplicator Machine s/n not visible	27	Xerox 5100 copier/Duplicator, mod. RA-1, mfg mid 90's
28	Xerox Docucolor 4 CP Floor model YBA - 1 s/n 300239	28	Xerox Docucolor 4CP 2-try color copier
29	Xerox 5090 w/monitor s/n not accessible (unit too big) 5 parts	29	Xerox Docutech 5090 copier/duplicator, Type W98, mfg mid 90's
30		30	Xerox Docutech 135 copier/duplicator, type JF-1, mfg mid-90's
31		31	Kodak Imagesource 85 copier, w/ Ecktaprint finisher
32	Multigraphics m/n SP890 part a 890-85-8-105716	32	Multigraphic platemaker, mod SP890, s/n 890-85-8-105716, makes paper plates
33	Herkules linotypo-hell s/n not visible	33	Herkules Linotype-Hell, s/n 10279-33, mfg 1994, w/ generic pc computer & monitor to run Linotype machine, battery backup
34	3M m/n 1133BG s/n 102540	34	3M plate developer, mod 1133G, s/n 102540, developer & processor
35	Montakop 95M Machine	35	Theimer Montakop platemaker, mod 95M, w/ overhead lightsource, drapes
36		36	Craftsman line up light table, mod 1S, s/n 2309, 52" x 40" table, moveable guide x & y
37		37	Stoesser register desk top pin plate punch
38		38	Powis & Parker desktop foil printer
39		39	(2) Powis & Parker desktop "fast-back" book binders, mod. 8
40		40	Roland vinyl letter cutter, bench mount, to be hooked up to computer
41		41	Xerox 5328 copier, 3 drawer, w/ 10 tray collator, old, not hooked up
42		42	Toshiba 2550 copier, 1 drawer w/ 2 removable trays, collator, not hooked up
43	Rosback Perforator m/n 220 s/n 220792410		
44	Itek Offset Duplicator m/n 111105A-002 s/n 4336		
45	Abdick m/n 9035 s/n 000260		
46	Heidelberg Offset Press m/n type KODE s/n 356366 w/printer speed controllers m/n		
47	AMISC2 s/n 4325		
48	(3) Kodak Eletaprint 235 Copier/Duplicator w/finisher s/n not visible		
49	Ibico Printing Machine m/n KOMBO s/n 46881		
50	Ordible Type AF22 s/m 6525		
51	Platemaker Adobe Postscript 3/Xante Printing Co/ XVA_1 s/n 310-2308		
52	Macintosh centrig 660AV w/keyboard & mouse s/n a107446		
53	Monitor m/n CJS4306JJ9X		

54	Epson Stylus Photo 100 Printer s/n BKJ0022098		
55	Image set 3 plus m/n 3428N/MN-1450 s/n E134786		
56	Monitor m/n EN71DE s/n C3DN218629634		
57	I-Omega Disk Drive (external) m/n ZIP250 s/n EM49ESTT		
58	Smart Disk SDUSB-TM12		
59	Macintosh Power PC w/keyboard & mouse s/n not visible		
60	Monitor (Macintosh) s/n S15234BQIXOX		
61	Zip Drive 100(external) s/n RALH49V9VK		
62	Xerox Copier w/2 drawers stand (white) m/n PA-1 s/n 96E614440		
63	Canon Color Lawer Copier m/n P131200 s/n NK500664		
64	Xerox Copier 1065/K50 w/ attached collator s/n K51 702577		
65	EFI Field Server 200 1 s/n A00553		
66	Challenge paper Cutter m/n HB s/n 16898		
67	Xerox YBA – 3 s/n BD9H100179 w/floorstand		
68	Hewlett Packlard Fax Machine m/n 920 s/n MY011E2032		
69	Envision Monitor m/n EN-710E s/n C3C321B069638		
70	Envision Monitor m/n EN-710E s/n C3DN21B629657		
71	Xerox Computer m/n MXP-01 s/n F00043525		
			REPLACEMENT VALUE - \$115,000 LIQUIDATION VALUE - \$ 35,000

On December 5, 2005, the City received the requested equipment appraisal from Mark Clar, AMEA Certified Appraiser with Joe Clar & Sons, Inc (machinery and equipment appraisers) stating and certifying the **fair market value** to be \$105,000 to \$115,000 in value. The fair market value as used in the appraisal report is defined as “a professional opinion of the estimated most probable price expressed in terms of cash in U.S. dollars to be realized for the property in an exchange between a willing buyer and a willing seller, with equity to both, neither being under any compulsion to buy or sell, both parties fully aware of all relevant facts as of the effective date of the appraisal report (December 5, 2005).” However, if the City is forced to pursue foreclosure and is forced to liquidate the equipment, it is Mr. Clar’s opinion the **forced liquidation value** (auction) of all appraised equipment would be between \$28,000 and \$35,000.

The City of Oakland’s Real Estate Division has completed an appraisal of the residential property located at 1241 Gateway Drive, Vallejo, California held as collateral (2nd and 3rd Deeds of Trust) for the two loans. On November 16, 2005, staff received an updated limited restricted appraisal report determining the market value of the subject collateralized residential property to be approximately \$580,000. Mr. Bluiett’s mortgage company has reported an outstanding principal balance of approximately \$160,000. Staff recently requested that the Real Estate Division order an updated Preliminary Title Report to verify any recent liens recorded and an updated appraisal on Mr. Bluiett’s residential property. Mr. Bluiett recently informed staff that

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the original proposal was not durable because of undisclosed tax liens that did not reflect at that time and there was not enough equity in his property to refinance his residential property to attain a loan to pay the City's HUD EEC HUD 108 loan in full. Also, Mr. Bluiett was not clear that approved Council action to proceed with the proposal to restructure both loans allowed cancellation of the required Key-Man life insurance policy to allow a more fluid cashflow to meet his financial obligations. This misunderstanding was in-part due to the Commercial Lending Manager not submitting to Mr. Bluiett written confirmation of the City's authorization to cancel the Key-Man Life policy. On April 27, 2006, a letter was forwarded to Mr. Bluiett reiterating the verbal authorization, that the City's past requirement to maintain a Key-Man life insurance policy was no longer a condition of his loan. Staff has not received confirmation from Mr. Bluiett or the insurance company that the policy has been cancelled.

Staff has received evidence that Mr. Bluiett has begun the process to refinance his home. Staff is confident that through this refinance, the 2nd deed of trust will be paid off. On May 11, 2006, staff received a request from Bayline Mortgage for loan balance information and payment status on both loans. This information was forwarded to Bayline Mortgage on May 15, 2006. On May 17, 2006, Bayline Mortgage furnished a copy of a current Residential Appraisal Report reflecting an appraised value on Mr. Bluiett's residential property located at 1241 Gateway Drive, American Canyon (formerly Vallejo) CA at \$589,930.

City of Oakland Obligation to HUD

The U.S. Department of Housing and Urban Development awarded the City of Oakland Enhanced Enterprise Community status in 1996. HUD secured the City's EEC Section 108 award with the City's annual CDBG allocation, allowing HUD to recover any un-repaid balances of EEC Section 108 loans from the City's annual CDBG allocation. The HUD EDI was provided to the City as a grant, intended to serve as a loan loss reserve for any defaulted EEC Section 108 loan. To underwrite the EDI loan, the City sought special permission from HUD. HUD also provided the City the option of utilizing the HUD EDI portion as a loan pool for higher risk loans. EDI funds provided as direct loans decrease the availability of loan loss reserve funds for use should defaults occur in the City's EEC loan portfolio.

City staff recently consulted with representatives of the HUD regional office to confirm the City's obligation related to EEC EDI loan loss reserves. HUD maintains that the City would not be required to repay unrecoverable portions of the EDI grant for EEC EDI loan loss reserves.

SUSTAINABLE OPPORTUNITIES

The City would retain Pill Hill Printing as a local business and continue to receive business taxes from revenue generated by this business, as well as maintain Pill Hill Printing as a potential employer in West Oakland.

DISABILITY AND SENIOR CITIZEN ACCESS

There are no senior citizen or ADA access issues contained in this report.

RECOMMENDATIONS/CONCLUSION

Mr. Bluiett initiated the process to refinance his residence in order to pay-off the outstanding portion of the \$120,000 HUD Section 108 loan. Commercial Lending staff has been contacted by Mr. Bluiett's mortgage company requesting loan pay-off amounts and subordination authorization and have supplied all requested information and material in a timely manner. Information obtained from the mortgage company on May 25th was that the City should anticipate pay-off of the HUD Section 108 loan the first week of June, barring any unforeseen circumstances.

The Commercial Lending Manager was informed by the City's Purchasing Division that Pill Hill Printing would not be awarded the City Council Agenda packet printing contract. This fact causes concern for the Commercial Lending staff, as Mr. Bluiett has made a correlation of receiving this City contract and his ability to repay his outstanding HUD notes.

Staff recommends that should Mr. Bluiett continue the process to refinance his home and the City receives pay-out of negotiated HUD Section 108 principal, interest and fees, that the City Council direct staff to negotiate around the following terms for the repayment of the remaining HUD EDI loan:

1. Authorize staff to negotiate collection of outstanding notes to protect the City's financial interest to the greatest extent possible.
2. Maintain hard collateral interest sufficient to secure 75% of outstanding notes.
3. Negotiate a restructured HUD EDI note with adjusted payment terms comparable to amounts required to maintain former life insurance policy.
4. Authorize a maximum six-month deferment period on any restructured notes.
5. Authorize staff to immediately pursue collection of outstanding note, without returning to City Council, should Mr. Bluiett not comply at any point with the restructured terms.

ACTION REQUESTED OF THE CITY COUNCIL

Authorize staff to use its best judgment to protect the City of Oakland's financial interest in regards to loan restructuring or debt collection in accordance to the guidelines previously established by City Council.

Respectfully Submitted

for Patrick A. Law

Daniel Vanderpriem, Director
Redevelopment, Economic Development, Housing
and Community Development

Reviewed by:

Gregory Hunter, Manager

Prepared by:

Lisa Brown, Project Manager
Commercial Lending

**APPROVED FOR FORWARDING TO
THE COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE:**

Heidi A. Loggins
Office of the City Administrator

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