



AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Alexa Jeffress
Director, Economic and
Workforce Development
Department

SUBJECT: Commercial Development Loan For
The Swan's Marketplace Project

DATE: November 10, 2020

City Administrator Approval

Date: November 5, 2020

RECOMMENDATION

Staff Recommends That The Oakland Redevelopment Successor Agency Adopt A Resolution Approving The Resubordination And Modification Of An Existing Commercial Development Loan For The Swans Marketplace Project To Extend The Term Of The Loan To 2050.

EXECUTIVE SUMMARY

Staff is recommending the Oakland Redevelopment Successor Agency (ORSA) adopt a resolution approving the re-subordination and modification of a \$1,150,000 secured Commercial Development loan made by the former Oakland Redevelopment Agency in 1997, and was previously re-subordinated in 2013, to allow East Bay Asian Local Development Corporation (EBALDC) to pursue refinancing options for the Swan's Marketplace project. The terms of the new financing will grant EBALDC an extended amortization schedule, aid in the unwinding of the New Markets Tax Credit (NMTTC) structure which was used to renovate the project, and to allow EBALDC to pursue funding for the project to address business impacts from COVID-19.

BACKGROUND / LEGISLATIVE HISTORY

In 1999, the former Oakland Redevelopment Agency sold the Swan's Marketplace complex, a historic landmark located on Washington Street, between 9th Street and 10th in Council District 3, to EBALDC to facilitate the building's adaptive reuse for affordable housing and commercial space. At the same time, the Oakland Redevelopment Agency made a deferred payment loan of \$1,150,000 (Loan) to fund restoration and development of the commercial portion of the Marketplace with interest accruing at 3 percent simple interest per year and payments made from surplus cash flow generated from the commercial lease of the building (**Attachment A**). The Loan was secured by a second deed of trust on the commercial portions of the property

that was subordinate to a \$3,500,000 loan from StanCorp Mortgage. The Oakland Redevelopment Agency and StanCorp entered into and recorded a subordination agreement at the time of loan closing. EBALDC was able to rehabilitate the Swan's Marketplace complex into a mixed-use project that featured affordable and co-op housing as well as commercial space for non-profits and small businesses.

In 2013 pursuant to Resolution No. 84519 C.M.S. (**Attachment B**), EBALDC was able to successfully complete a second round of renovations to Swan's Marketplace using NMTC financing, turning it into an indoor open marketplace for small businesses which was designed to increase visibility, foot traffic, and food-centric services. At this time, the Loan was re-subordinated to the lenders in the NMTC structure to facilitate the transaction. The deed of trust securing the Loan was subordinated in lien priority to the leases and the NMTC loan security, just as the Loan was originally subordinated by the Oakland Redevelopment Agency to the StanCorp Mortgage financing. There were no other changes to the repayment terms of the Loan or to any other loan terms or conditions (**Attachment C**).

In 2020, the NMTC financing structure is set to go through an unwinding process where the NMTC investors, lenders, and community development entities (CDE) exit the transaction, requiring EBALDC to refinance the Swan's Marketplace project. The NMTC financing consists of seven-year loans within the NMTC compliance period, that are repaid at maturity with conventional debt. The NMTC loans mature on October 30, 2020, but the lenders have approved an extension until December 31, 2020. Because of the NMTC unwinding process, the Loan must be re-subordinated as new financing for the Swan's Marketplace project is secured. Additionally, EBALDC has negotiated changes to the Loan terms and repayment schedule (**Attachment D**) at this time due to uncertain economic impacts on businesses from COVID-19 and to ensure the future sustainability of businesses and tenants at Swan's Marketplace. This includes increasing the first loan to \$4,750,000.

ANALYSIS AND POLICY ALTERNATIVES

City of Oakland Public/Private Development Division staff has negotiated with EBALDC to allow changes to the terms of the loan to conform with the State of California Department of Finance's guidance on Redevelopment Agency Dissolution law (existing loan terms are shown in **Table 1**, below). Additionally, given the fact that the loan is now an asset owned by ORSA, the re-subordination of this loan will be reviewed by the County of Alameda Countywide Oversight Board for legislative approval.

The proposed terms for the re-subordinated Loan meets the criteria of the State of California Department of Finance's guidance on Redevelopment Agency Dissolution law in three ways:

1. The proposed terms for the re-subordinated loan decreases liabilities to the taxing entities by allowing EBALDC to avoid triggering a balloon payment in the NMTC unwind process by establishing a 2050 maturity date.
2. A one-time fee of \$50,000 payable to ORSA will reflect a modest revenue increase to the taxing entities.
3. The proposed terms for the re-subordinated loan avoids potential default on a Successor Agency loan by extending the repayment schedule and allowing EBALDC to pursue

refinancing opportunities in the future, particular in the face of uncertain economic impacts as a result of COVID-19 (see **Table 2**, below).

Table 1. Existing Loan Terms:

| | |
|-----------------------|---|
| Principal Loan Amount | \$1,150,000 |
| Interest Rate | 3% per annum |
| Term Length | 30-year, 2028 maturity date or maturity can be triggered in an event of refinancing |
| Repayment Terms | 100% of available cash flow after operating expenses and partnership management fee of \$15,000 |

Table 2. Proposed Re-Subordinated Loan Terms:

| | |
|-----------------------|---|
| Principal Loan Amount | \$1,150,000 |
| Interest Rate | 3% per annum, \$722,000 accrued interest balance to date |
| Term Length | 22-year extension, 2050 maturity date |
| Repayment Terms | 100% of available cash flow after operating expenses and partnership management fee of \$15,000 |
| Loan Extension Fee | One-time fee of \$50,000 payable to ORSA |

If ORSA does not approve the re-subordination to the new senior lender, EBALDC estimates that they will not be able to repay the existing NMTC debt, which could result in foreclosure of Swan's Marketplace, and the Loan could be wiped out partially or even fully. It is in the best interest of the ORSA to support the re-subordination of the Loan and legislative approval to ensure future repayment of the Loan.

The new loan that EBALDC is negotiating for Swans Market has a 30-year amortizing schedule with a ten-year term requiring a balloon in 2030. At that time EBALDC will need to refinance the project again and the Successor Agency will need to amend the Loan again to subordinate to the new financing. But the new financing should allow EBALDC to make a substantial payment from principal from the new loan or, if the loan amount is kept low, to make payments from cash flow. If the amortizing schedule for the new financing is kept to 30 years from the date of the current refinancing, by negotiating a 20-year amortizing loan in 2030, then there should be sufficient capacity to refinance in 2050 and pay off the Loan fully (**Attachment E**).

FISCAL IMPACT

A one-time Loan Extension Fee in the amount of \$50,000 will be paid by EBALDC to ORSA, which will be reflected in the 2020-2021 City of Oakland Recognized Obligation Payment Schedule. These funds will be deposited in an Account and a Project to be determined later for appropriation.

Based on current cash flow projection, there will not be any surplus cash over the next ten years to make loan payments on the Loan. However, in ten years, when the subject senior loan matures, there should be sufficient loan proceeds from the next refinance to make a substantial partial repayment on the Loan. Additionally, EBALDC estimates that they have provided

\$651,000 in advanced financial support to Swan's Marketplace since the shelter-in-place order was issued in response to COVID-19. Without securing additional funding after the NMTC unwind and refinancing of the Swan's Marketplace project, EBALDC estimates a rent collection shortfall of \$757,000 will not be met.

PUBLIC OUTREACH / INTEREST

The proposed terms of the re-subordination of the Loan will be reviewed by the County of Alameda Countywide Oversight Board, which oversees the Alameda County Successor Agencies and the dissolution process of their former Redevelopment Agencies. The Countywide Oversight Board is composed of members of the various taxing entities in the County of Alameda. More specifically, this includes:

1. One member may be appointed by the County Board of Supervisors.
2. One member of the public may be appointed by the County Board of Supervisors.
3. One member may be appointed by the city selection committee established pursuant to Section 50270 of the Government Code. In a city and county, the mayor may appoint one member.
4. One member may be appointed by the independent special district selection committee established pursuant to Section 56332 of the Government Code, for the types of special districts that are eligible to receive property tax revenues pursuant to Section 34188.
5. One member may be appointed by the county superintendent of education to represent schools if the superintendent is elected. If the county superintendent of education is appointed, then the appointment made pursuant to this paragraph shall be made by the county board of education.
6. One member may be appointed by the Chancellor of the California Community Colleges to represent community college districts in the county.
7. One member may be appointed by the recognized employee organization representing the largest number of successor agency employees in the county.

COORDINATION

Staff from the Economic and Workforce Development Department (EWD) - Public/Private Development Division, City Administrator's Office, Finance Department - Budget Bureau, and City Attorney's Office have collectively worked together with EBALDC and the County of Alameda Countywide Oversight Board to review and approve this legislation.

SUSTAINABLE OPPORTUNITIES

Economic: The proposed re-subordination terms for the Loan will secure the existing loan for EBALDC, ORSA, and the City for future repayment. as a result of the re-subordination of the Loan, Swan's Marketplace will be able to pursue refinancing opportunities as well as address the uncertain economic impacts as a result of COVID-19 on businesses and tenants.

Environmental: There are no applicable environmental impacts from the approval of this loan re-subordination legislation.

Race & Equity: EBALDC will continue to operate and manage Swan's Marketplace as an equitable and inclusive project for businesses, tenants, and customers.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The Oakland Redevelopment Successor Agency Adopt A Resolution Approving The Resubordination And Modification Of An Existing Commercial Development Loan For The Swans Marketplace Project To Extend The Term Of The Loan To 2050.

For questions regarding this report, please contact David Le, Urban Economic Analyst, at 510-238-2330.

Respectfully submitted,



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Attachments (5):

- A. Resolution No. 97-19 C.M.S.
- B. Resolution No. 84519 C.M.S.
- C. ORSA Resolution No. 2013-7
- D. EBALDC Letter of Request for Loan Modification
- E. Second Amendment to 1998 Commercial Development Loan Agreement