



Staff Report

File #: 19-70

Version: 1

Date: 2/11/2019

Item #: 3.3d.

TO: Mayor and City Council

THROUGH: Steve Powers, City Manager

FROM: Kristin Retherford, Urban Development Director

SUBJECT:

Ratification of the Subordination of two Community Development Block Grant loans.

Ward(s): Ward 1

Councilor(s): Councilor Kaser

Neighborhood(s): CANDO

Result Area(s): Welcoming and Livable Community.

ISSUE:

Shall the City Council ratify the subordination of two Community Development Block Grant (CDBG) deferred payment forgivable loans for the Salem Family YMCA, located at 685 Court Street?

RECOMMENDATION:

Ratify the subordination of two Community Development Block Grant (CDBG) deferred payment forgivable loans for the Salem Family YMCA, located at 685 Court Street.

SUMMARY:

Approval will ratify the subordination of two CDBG rehabilitation deferred payment forgivable loans, allowing the Salem Family YMCA to obtain loan funds to begin the demolition and reconstruction of their facility, located at 685 Court Street NE.

FACTS AND FINDINGS:

The Salem Family YMCA (the Y) is requesting a \$6,450,000 loan from Faith Foundation in order to obtain funds to begin demolition and reconstruction of their existing facility. The Y has informed the City that the loan had to close before January 31, 2019, or the Y would lose approximately \$12 million in State lottery funds for the project. In order for the new \$6,450,000 to be approved, the

lender is requiring that two CDBG loans from the City for rehabilitation of the Y totaling \$142,301 be subordinated to the new loan and to an existing \$550,000 loan.

By subordinating the City's loans, the City will be junior in interest to the new lender, and the existing lender, meaning that in the event of a default and foreclosure on the loans, the City will be subject to the two superior loans.

The CDBG loans were made in 2010 and 2011. The loans are deferred payment forgivable loans. The loans do not require repayment and will be converted to grants in 2020 and 2021, respectively, providing the Y maintains the current use of the property.

The City Manager authorized the subordination to be executed in time for the YMCA's loan to close. The City Attorney, as the City's trustee, may execute subordinations subject to certain contains set forth in Resolution 2013-22, including the requirement that the subordination not drop the City's lien position, and that the City's loan be for \$20,000.00 or less.

City Manager action was taken, and ratification is recommended because the two CDBG loans are deferred payment and forgivable at the end of their ten year periods, 2020 and 2021 respectively, if the Y remains at the site. The purpose of the new \$6,540,000 loan is the continued operation of the Y in Salem, the same purpose as the two CDBG loans. The State Lottery funds are the Y's best opportunity to build a new facility.

BACKGROUND:

The Salem Family YMCA provides a variety of services to the community, including child care and youth activities.

The Salem Family YMCA has been awarded \$12 million in state lottery funds to assist with the construction of their new facility. If the City declines to subordinate its security interest, the Salem Family YMCA will be unable to secure the new loan it is seeking, and will also lose access to the lottery funds.

CDBG funds allow for the funding of improvements to public facilities.

Renee K Frazier
Financial Services Manager

Attachments:
1. None