



Legislation Text

File #: 19-1433, Version: 1

STRATEGIC PRIORITY: Economic and Neighborhood Vitality
AGENDA DATE: September 25, 2019
COUNCIL DISTRICT(S): 8
DEPARTMENT: Office of Economic Development
EXECUTIVE: Michael Mendoza

SUBJECT

Authorize the second amendment to Resolution No. 19-0385, previously approved on February 27, 2019, [as amended](#) and the first amendment to Resolution No. 19-0944, previously approved on June 12, 2019, for a mixed-income multifamily residential development to be located at 7202 South Westmoreland Road (Development) to: **(1)** remove the permanent repayment guaranty requirement of Palladium USA, Inc.; **(2)** add to the requirement that the City only be added as an additional obligee on the payment and performance bonds furnished by Palladium Redbird, Ltd. to its senior construction lender, if allowed by the permanent lender; ~~and~~ **(3)** add a minimum investment requirement for Palladium Redbird, Ltd. of \$30,000,000.00 to construct the improvements for the Development as additional consideration; **(4)** [clarify that the nonprofit entity may assign certain obligations under the conditional grant agreement to Palladium Redbird, Ltd.](#); and **(5)** [allow the City's deed restrictions to be subordinate to the U.S. Department of Housing and Urban Development covenants and restrictions, to the extent that they do not conflict](#) - Financing: No cost consideration to the City

BACKGROUND

On February 27, 2019, City Council authorized a development loan with Palladium Redbird, Ltd. (PRL) and conditional grant agreement with a to be determined nonprofit to acquire land, and construct a new, 300-unit, multifamily complex with structured parking for approximately 450 spaces at the site of the former Red Bird/Southwest Center Mall. Crossroads Housing Development Corporation (Crossroads) has been selected as the nonprofit. The proposed Development will have two 4-story buildings with elevators. Planned amenities include a clubhouse with a fitness center, a business center, a club room, a resort-style swimming pool, a playground, pedestrian access to the Redbird Mall Area, and a dog park. PRL is an affiliate of Palladium USA International, Inc. who will serve as the co-developer for the Development along with the City of Dallas Housing Finance Corporation (DHFC). As part of the terms, Palladium USA, Inc. (Guarantor) would provide a completion and permanent repayment guaranty for the Development.

Staff has been working with PRL and Crossroads to finalize negotiations on the loan agreement and conditional grant agreement. During negotiations, it was realized that the City's loan is a recourse loan requiring a full repayment guaranty. However, the permanent guaranty requirement impacts the ability for the 4 percent housing tax credits, which will fund a portion of the costs for the Development, to be reallocated by the Investor for the Development. Therefore, Investors will not invest or participate under any scenario where the debt is full recourse.

For the conditional grant agreement, Crossroads will execute the conditional grant agreement and simultaneously loan the \$2,028,424.00 of 2012 General Obligation Bond funds to PRL for the proposed Development. To collateralize the loan from Crossroads to PRL, the loan documents for \$2,028,424.00 loan will be assigned by Crossroads to the City. It was intended for Crossroads to assign its obligations under the related conditional grant agreement to PRL. The resolutions adopted by Council allow for the conduit loan structure; however, it does not allow for the nonprofit entity to assign its obligations to PRL.

Additionally, PRL is utilizing a 221(d)(4) U.S. Department of Housing and Urban Development (HUD) permanent loan to finance the Development. HUD requires payment and performance bonds for construction of the Development. The City under its terms for the loan agreement and conditional grant agreement required PRL to provide a completion guaranty or accepted the City being an additional obligee on the payment and performance bonds required by the construction lender. But, staff was informed that HUD does not allow additional obligees on payment and performance bonds. Staff has requested that HUD reconsider adding the City as an additional obligee.

HUD also requires the City to subordinate its deed restrictions. The terms and conditions approved by Council allows the City's lien securing financing to be subordinate to the senior lender. However, the City's deed restrictions which run with the land cannot be subordinated. HUD's restrictions are more restrictive than the City's.

To remedy these situations and to move forward with closing the transaction, staff proposes the following amendments to the terms of the loan and conditional grant agreements:

1. Remove the requirement of Guarantor, to provide full, unconditional guarantees of repayment for PRL; and
2. Add to the requirement that the City only be added as an additional obligee on payment and performance bonds furnished by PRL to its senior construction lender, if allowed by the permanent lender; and
3. Add a minimum investment requirement by PRL of \$30,000,000.00 to construct the improvements for the Development as additional consideration; and
4. Allow Crossroads to assign certain obligations under the conditional grant agreement to PRL; and
5. Allow the City's deed restrictions to be subordinate to HUD's covenants and restrictions, to the extent that it does not conflict with the City's requirements.

Staff recommends amending the terms since there will be adequate measures in place to secure the City's financing. The Guarantor is providing completion and payment guaranty for construction in addition to an operating deficit guaranty to fund operating deficits on behalf of PRL. The City's loan and grant are will be secured by a deed of trust on the property and all improvements. All other terms and conditions from the original Resolution No. 19-0385, previously approved on February 27, 2019 and Resolution No. 19-0944, previously approved on June 12, 2019, shall remain unchanged and in full force and effect.

PRIOR ACTION/REVIEW (COUNCIL, BOARDS, COMMISSIONS)

On January 25, 2019, the DHFC Board of Directors approved owning the land, entering into a long-term ground lease, and taking an ownership interest in Palladium Redbird, Ltd. and an inducement of multifamily mortgage revenue bonds.

On February 19, 2019, the Economic Development and Housing Committee was briefed on the development loan agreement with Palladium Redbird, Ltd. and approved moving forward to Council for consideration.

On February 27, 2019, City Council authorized (1) a development loan agreement with Palladium Redbird, Ltd. or an affiliate thereof in an amount not to exceed \$6,271,576.00 (comprised of \$3,575,276.00 in HOME Investment Partnerships Program Funds and \$2,696,300.00 of Community Development Block Grant Funds); (2) a conditional grant agreement with Palladium Redbird, Ltd. or an affiliate thereof for the development of a multifamily residential development to be located at the intersection of West Camp Wisdom Road and South Westmoreland Road in an amount not to exceed \$2,028,424.00 in 2012 General Obligation Bond Funds; and (3) the City of Dallas Housing Finance Corporation to purchase and own the land and to enter into a long-term ground lease with Palladium Redbird, Ltd., and take an ownership interest in Palladium Redbird, Ltd. by Resolution No. 19-0385.

On June 12, 2019, City Council authorized an amendment to Resolution No. 19-0385 to: (1) amend the development loan amount with Palladium Redbird, Ltd. or an affiliate ("Palladium Redbird") to only include an amount not to exceed \$5,000,000.00 in HOME Investment Partnership Program ("HOME") funds for construction, (2) authorize a development loan agreement with Palladium Redbird or the City of Dallas Housing Finance Corporation ("DHFC") for acquisition of land and construction, subject to DHFC Board of Directors' approval, in an amount not to exceed \$1,271,576.00 in Community Development Block Grant Funds, (3) allow the closing of the Palladium Redbird and DHFC grant/loan to occur prior to closing on the equity and all other financing for the development, (4) allow Palladium Redbird and DHFC to be reimbursed for costs associated to acquisition at closing, but must meet all other requirements under the agreement to be reimbursed the remaining loan and grant amounts, and (5) allow the City to maintain no less than 3rd lien position

City Council was briefed by memorandum regarding this matter on September 13, 2019.

FISCAL INFORMATION

No cost consideration to the City.

OWNER/DEVELOPER

Palladium Redbird, Ltd.

Palladium Redbird GP, LLC is the general partner, a formed entity with members affiliated with Palladium Redbird (City of Dallas Housing Finance Corporation will be admitted as the sole member of the GP)

Palladium Redbird and DHFC will serve as co-Developer.

Thomas Huth, President of Palladium Redbird

City of Dallas Housing Finance Corporation

MAP

Attached