



Legislation Text

File #: 23-1532, **Version:** 1

STRATEGIC PRIORITY: Economic Development
AGENDA DATE: June 14, 2023
COUNCIL DISTRICT(S): 2
DEPARTMENT: Office of Economic Development
EXECUTIVE: Majed Al-Ghafry

SUBJECT

Authorize the City Manager or his or her designee to **(1)** execute a Forbearance and Loan Modification Agreement, approved as to form by the City Attorney, with TEOF Hotel LP, a Texas limited partnership (Borrower) and Lawrence E. Hamilton, III, as trustee of the Lawrence E. Hamilton Living Trust (Guarantor) related to City's loan of Section 108 funds for rehabilitation of a blighted and vacant hotel structure known as the Hotel Project; **(2)** execute an Amended and Restated Promissory Note with Borrower, approved as to form by the City Attorney; **(3)** execute a Guaranty Agreement with Guarantor, approved as to form by the City Attorney; **(4)** amend the existing Section 108 loan agreement between the City and the U.S. Department of Housing and Urban Development for the Hotel Project (B-12-MC-48-0009) to incorporate a new Collateral Assignment Agreement, each approved as to form by the City Attorney; **(5)** execute any other documents deemed necessary by HUD or the City Attorney's Office and that the execution of all such and aforementioned loan documents shall be contingent on HUD's final approval of terms; and **(6)** deposit \$1,732,047.00 into CDBG Program Income Fund as the City receives repayments from TEOF Hotel LP according to the proposed amended amortization schedule to repay the CARES Act Funds used by the City to make principal and interest payments to HUD between January 1, 2021 and August 1, 2022 - Financing: No cost consideration to the City (see Fiscal Information)

BACKGROUND

Under the Section 108 guaranteed loan program, the U.S. Department of Housing and Urban Development (HUD) provides communities with access to financing for large-scale community or economic development projects. The grantee pledges current and future CDBG funds as collateral for the guaranteed loan. On January 14, 2015, the City Council by Resolution No. 15-0147, approved an \$11 million, 13-year Section 108 loan agreement with the U.S. Department of Housing and Urban Development (HUD) for the rehabilitation of a blighted and vacant hotel structure termed the "Hotel Project". Concurrently, the City approved lending \$11 million in Section 108 loan funds received from HUD to TEOF Hotel LP, a for-profit entity, to rehabilitate the former Plaza Hotel at 1011 South Akard Street into a new, 12-floor, 237-room hotel which currently operates as the Lorenzo Hotel. The Hotel

Project also had to meet the Community Development Block Grant (CDBG) National Objective of benefitting low-to-moderate income persons and other public benefit standards set forth in HUD regulations, including the creation of an estimated 220 permanent full-time equivalent jobs.

In FY 2018-19, administration of the City's outstanding Section 108 loan agreements, including the Hotel Project, was transferred from the Housing Department to the Office of Economic Development (OED). Both loans were initially setup to have a matching amortization schedule. Principal and interest payments made by TEOF Hotel LP with cash flow from the project would provide the City with funds to make payments on its Section 108 Loan from HUD. However, if the project's cash flow fell short or if the project otherwise failed, any applicable loan payments would be made from the City's future CDBG allocation of entitlement funds.

In the spring of 2020, TEOF Hotel LP communicated to the City that, due to the impact that COVID-19 had on the hotel industry, it would be unable to make a loan principal payment of \$504,000.00 and interest payment of \$141,306.35. The City needed these funds to make a corresponding principal and interest payment on its loan to HUD due on August 1, 2020.

To avoid a loan default with HUD which would have jeopardized the City's future allocation of CDBG funds, on June 24, 2020, the City Council authorized an additional promissory note with HUD by Resolution No. 20-1036. The additional note amortized the outstanding \$504,000.00 principal payment into seven, equal payments of \$72,000.00 to be added to remaining principal payments plus variable interest on deferral note that would be due quarterly over remaining loan term. The \$141,306.35 interest payment, however, was unable to be deferred. In order to make the interest payment as scheduled, the City used funds from an upcoming payment due to TEOF Hotel LP under another agreement which allowed the City to offset any amounts due and payable to the City. The City is holding the balance of these offset funds in a debt service reserve fund to service the quarterly variable interest due on deferral note.

As the COVID-19 pandemic continued to unfold, TEOF Hotel LP continued to experience financial challenges. On November 11, 2020 by Resolution No. 20-1845, the City Council authorized the use of up to \$1,800,000.00 in CARES Act funds as interim loan financing. A total of \$1,732,047.00 in CARES Act funds was used to make principal and interest payments due to HUD between January 1, 2021 and August 1, 2022.

The City has had ongoing discussions with TEOF Hotel LP to negotiate a loan workout that reflects new liquidity and security requirements and a revised amortization schedule. The City has also been in communication with HUD's Loan Management Team to ensure that the City's proposed loan workout with TEOF Hotel LP is agreeable to HUD. After many months of review, the City's proposed loan workout documents were approved by HUD in May 2023, but final approval is still pending from HUD on the proposed new collateral coverage assignment.

This agenda item requests City Council's approval to authorize a Forbearance and Loan Modification Agreement with TEOF Hotel LP, a Texas limited partnership (Borrower) and Lawrence E. Hamilton, III, as trustee of the Lawrence E. Hamilton Living Trust (Guarantor) as well as approval to execute an Amended and Restated Promissory Note with Borrower.

The total amortized payment amount is \$2,470,644.50 and shown in **Exhibit A**, which includes \$1,559,000.00 in overdue principal and \$911,644.50 in overdue interest payments. TEOF Hotel LP made a \$53,304.70 catch-up interest payment in December 2022 as well as regularly scheduled interest payment for February 1, 2023 leaving a default interest amount of \$858,339.80. will be amortized over remaining principal and interest payments that total \$9,114,316.50, for combined remaining payment total of \$11,531,656.30 between August 1, 2023 and August 1, 2027. The borrower's current outstanding loan balance is \$10,430,339.80 (see Table 1 below).

\$ 8,013,000.00	Principal over remaining term
\$ 1,559,000.00	Default principal
\$ 9,572,000.00	Total principal
\$ 858,339.80	Default interest
\$10,430,339.80	Borrower's Outstanding balance
\$ 1,101,316.50	Interest over remaining term
\$11,531,656.30	Total Through Maturity

Table 1: Remaining Loan Funds to Be Repaid by TEOF Hotel LP to City through Maturity

On the revised repayment schedule (**Exhibit B**), loan payments from TEOF Hotel are due to the City 90 days before the City's payment to HUD is due. The revised repayment schedule provides a way for TEOF Hotel LP to make the City whole for entire balance of funds loaned to TEOF Hotel LP plus interest which combined, total \$14,667,040.22 through loan's maturity on August 1, 2027 as shown on **Exhibit C** and summarized in Table 2 below.

\$ 2,958,426.22	Paid by Borrower through 8/1/2020
\$ 123,653.00	Paid by Borrower 12/9/22 for 2/1/2023 interest payment
\$ 53,304.70	Paid by Borrower 12/9/22 for default interest catch up
\$11,531,656.30	Remaining payments through maturity
\$14,667,040.22	Total

Table 2: Reconciliation of Funds Already Paid and Future Funds To Be Paid by Borrower Through Maturity

The Forbearance and First Loan Modification agreement also contains language affirming City's right to request repayment from TEOF Hotel LP for any deferral note carrying costs in excess of reserve funds held by the City due to HUD.

Council's approval is also requested to execute a Guarantee Agreement with Lawrence E. Hamilton, III, as trustee of the Lawrence E. Hamilton Living Trust. The Guarantee Agreement obligates the trust to maintain at least \$5 million in liquid assets (such amount which may be reduced to \$4 million in liquid assets if the hotel is converted to a Marriott or Hilton flagged hotel) and \$25 million in net worth which should cover the potential for a default on TEOF's note with City and pursuit of the trust's

assets in the event a bank foreclosure or sale of hotel proceeds is insufficient to repay the City's outstanding liability with HUD.

This agenda item also requests City Council approval to amend the City's Section 108 Hotel Project loan agreement with HUD to assign new collateral coverage provided through the Guarantee Agreement to HUD. Execution of all loan workout documents is contingent on HUD's final approval of a new collateral assignment agreement.

Finally, the agenda item requests Council approval to repay \$1,732,047.00 in CARES Act Funds used by the City to make principal and interest payments to HUD between January 1, 2021 and August 1, 2022, as funds are received from TEOF Hotel LP.

PRIOR ACTION/REVIEW (COUNCIL, BOARDS, COMMISSIONS)

On January 14, 2015, the City Council authorized the acceptance of \$11,000,000.00 in Section 108 Loan Funds from HUD; a loan agreement with HUD (Section 108 Hotel Project Loan B-12-MC-48-0009) for the rehabilitation of a vacant commercial building known as the Hotel Project and to provide an \$11,000,000.00 development loan to TEOF Hotel LP for various costs associated with the Hotel Project using Section 108 Loan Funds by Resolution No. 15-0147.

On December 9, 2015, the City Council authorized an amendment to the loan agreement between TEOF Hotel LP and the City to provide for loan refinancing by Resolution No. 15-2214.

On June 24, 2020, the City Council authorized the City to enter into a \$504,000.00 deferral note agreement with HUD related to City's Section 108 Hotel Project loan with HUD by Resolution No. 20-1036.

On November 11, 2020, the City Council authorized the use of up to \$1,800,000.00 in CARES Act funds to make interim payments of interest and principal on Section 108 Hotel Project loan agreement (B-12-MC-48-0009) between the City and HUD by Resolution No. 20-1845.

[The Economic Development Committee was briefed by memorandum regarding this matter on June 6, 2023. <https://cityofdallas.legistar.com/View.ashx?M=F&ID=12060881&GUID=FBAC7DA0-5135-49FC-A782-1DC0679555A8>](https://cityofdallas.legistar.com/View.ashx?M=F&ID=12060881&GUID=FBAC7DA0-5135-49FC-A782-1DC0679555A8)

FISCAL INFORMATION

No cost consideration to the City. As loan repayment funds are received from TEOF Hotel LP, the City will deposit \$1,732,047.00 to CDBG Program Income Fund. The City used CARES Act to make principal and interest payments to HUD between January 2021 and July 2022 as authorized by Resolution No. 20-1845. The CARES Act grant is closed so repayments will be made into the CDBG Program Income Fund.

OWNER

TEOF Hotel LP

Hamilton Properties Corporation
311 South Harwood St.
Dallas, Texas 75201

Lawrence E. Hamilton, Chief Executive Officer