Request for City Council Committee Action
From the Finance Department

Date: May 18, 2009
To: Ways & Means/Budget Committee
Referral to:

Subject **Green Institute Loan Settlement**

Recommendations

1. Approve Finance Department recommendation accepting settlement of $3,364,912.18 from the Green Institute as full payment on the outstanding Section 108 HUD Loan and Delinquency Loan related to the Eco-Enterprise Center and fulfillment of any outstanding obligations under a forgivable loan of state general fund grant proceeds.
2. Approve a net appropriation increase in the self supporting debt service fund 05260 1100100 851101 of $2,786,000 to allow for prepayment of $2,920,000 to HUD for the Section 108 Loan.
3. Approve a revenue budget increase in 05260 1100100 375501 of $3,364,912.18 for the settlement proceeds from the sale of the Eco-Enterprise Center.

Previous Directives

12/2/08 Green Institute Loan Status – Community Development Committee with referral to Ways & Means/Budget Committee
11/14/05 Green Institute Loan Update
3/27/06 Green Institute Section 108 HUD Loan Update
11/27/06 Green Institute Loan Update – forwarded to the Community Development Committee
4/17/07 Green Institute Loan Update – Delinquency Loan approval
8/21/07 Green Institute Section 108 and Delinquency Loan Update
10/07/08 Green Institute Section 108 and Delinquency Loan Update

Prepared or Submitted by: Michael Abeln
Director, Capital & Debt Management
673-3496

Approved by: Patrick Born, City Finance Officer _____

Steven Bosacker, City Coordinator _____

Presenters in Committee: Michael Abeln, Director, Capital & Debt Management and Patrick Born, City Finance Officer

Financial Impact (Check those that apply)

_X_ No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)
___ Action requires an appropriation increase to the Capital Budget
_X__ Action requires an appropriation increase to the Operating Budget
___ Action provides increased revenue for appropriation increase
___ Action requires use of contingency or reserves
__ Other financial impact (Explain):
___Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (use any categories that apply)

__Neighborhood Notification
__City Goals
__Comprehensive Plan
__Zoning Code
__Other
__Not applicable

Background/Supporting Information

This letter is an update to the December 2, 2008 letter regarding the status of City loans to the Green Institute and potential sale of the Eco-Enterprise Center.

The City has two amortizing loans with the Green Institute. Below is the current financial status of each loan as of 5/1/09:

Section 108 HUD Loan – The original loan amount was $3,500,000 and the current outstanding principal balance with HUD is $2,920,000. The Green Institute's current loan balance outstanding with the City related to this loan including payments missed in 2008 and 2009 through 5/1/09 is $3,180,085.36. This figure excludes estimated accrued interest of $5,422.39 through 6/1/09 on the missed payments made by the City on behalf of the Green Institute.

Delinquency Loan – This loan was executed on May 1, 2007 for $216,188.66 and represented an accumulation of missed principal and interest payments on the Section 108 loan at that point in time. Timely payments were made on this loan through 6/1/08 at which time the outstanding balance of the loan was $184,826.82. From 7/1/08 to present, the Green Institute made one additional payment of $2,374.04 on this loan. From 7/1/08 to 6/1/09 with interest accruing at the 7.5% loan rate, the City would have accrued a net additional interest balance of $11,884.11.

The Green Institute has found a buyer for the facility who is ready to close on the sale of the facility on June 1st.

Through negotiations with the Executive Director of the Green Institute and their representation, the Finance Department has agreed to present the City Council with an offer of $3,364,912.18 as full settlement of these two outstanding loans. This settlement covers the entirety of the outstanding loan balances and all principal and interest payments made by the City on behalf of the Green Institute. This proposed agreement does forgive the estimated accrued interest charges of $17,306.50 described above.

The Finance Department recommends approval of this agreement and the appropriation and revenue budget adjustments described above.

In addition to the loans described above, there are two other issues that will remain outstanding with the Green Institute upon closing on the sale of the Eco-Enterprise Center. The first issue is related to a $1,500,000 State Grant that was part of the financing of the Eco Enterprise Center. The primary covenants of this forgivable loan have been met during the term of the Green Institute owning and operating the Eco-Enterprise Center. The building must be operated as an eco-enterprise center until July 1, 2009 to complete satisfaction of the last $300,000 of loan forgiveness. Since the building is currently being operated in compliance with the loan terms and is fully leased to continue with this compliance, we believe that to facilitate the sale of the building and repayment of the above two loans, a mortgage satisfaction can be delivered when the sale of the building closes at the end of May with little to no risk that the building will cease being operated as an eco-enterprise center prior to July 1, 2009.

The second item outstanding with the Green Institute is related to an outstanding City contract whereby the Green Institute served as a sales agent for the City in distributing rain barrels to City residents. At this time, the City is owed approximately $69,000 on this contract. Collection of this balance will be pursued through future arrangements with the Green Institute after closing the sale of the Eco-Enterprise Center.