

City of Garden Grove

INTER-DEPARTMENT MEMORANDUM

Garden Grove Agency for Community Development

To:	Matthew Fertal	From:	Chet Yoshizaki
Dept:	Director	Dept:	Economic Development
Subject:	UNION BANK LOAN AGREEMENT	Date:	May 13, 2008

OBJECTIVE

The purpose of this report is to request approval of a bank loan agreement between the Garden Grove Agency for Community Development (Agency) and Union Bank of California, N.A. (Union Bank).

BACKGROUND

At the direction of the Agency, a loan agreement with Union Bank has been negotiated. The loan proceeds will be used to complete the purchase of real property for the Brookhurst Triangle and other Harbor Boulevard properties.

On March 27, 2007 the Agency approved a Purchase and Sale Agreement for an approximately three-acre parcel of improved real property, which is currently being used for the operation of the Garden Grove Hyundai automobile dealership, located at 10071 and 10081 Garden Grove Boulevard owned by Debbie K. Lee And Dai R. Lee (Sellers). The total purchase price for the Property is Thirteen Million Dollars (\$13,000,000). An initial deposit of Two Million Dollars (\$2,000,000) has been paid as well as One Million Dollars (\$1,000,000) for relocation and goodwill interest. The balance due to Seller is the sum of Eleven Million Dollars (\$11,000,000).

On August 28, 2007 the Agency approved a Purchase and Sale Agreement between the Agency and Jo Ann Traasdahl, approximately 3.22 acres of improved real property, which is currently being used for the operation of certain retail businesses, located on the northwest corner of Garden Grove Boulevard and Brookhurst Street in the City of Garden Grove. On August 28, 2008 the Agency will increase the deposit to the sum of One Million Dollars (\$1,000,000). The total purchase price for the property is Eleven Million Nine Hundred Thirty-Five Thousand Seven Hundred Twenty-Five Dollars (\$11,935,725). The initial deposit of Two

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Million Dollars (\$2,000,000) was paid at the opening of escrow. In February 2009 the remaining balance of Eight Million Nine Hundred Thirty-Five Thousand Seven hundred Twenty-Five Dollars (\$8,935,725) is due.

- Various parcels along the east side of Harbor Boulevard, north of the International West plan are currently under negotiations.

On March 25, 2008, the Agency entered into a Negotiating Agreement (NA) with JPI California Development Services, L.P. (JPI) for the development of the 13.9 acres of real property in the City of Garden Grove, known as the "Brookhurst Triangle," which is bounded on the south by Garden Grove Boulevard, on the west by Brookhurst Way, and on the northeast by Brookhurst Street (the "Site"). JPI is proposing a medium density mixed-use project with 650 to 750 high-end residential rental and ownership units in both podium and wrap style development, as well as 20,000 to 50,000 square feet of commercial space on the 13.9-acre site. Upon approval of a Disposition and Development Agreement (DDA), the proceeds of the sale to JPI will be used to pay off the loan.

DISCUSSION

The General terms and conditions of the Union Bank Loan are as follows:

- Loan Term: 12-year Loan, structured as follows: three years (36 months) capitalized interest (the Initial Loan period), followed by one (1) year of interest only and eight (8) years of principal and interest amortization to fully amortize the loan at maturity (the Extended Loan period.)
- Loan Amount: not to exceed \$32 Million
- Interest: Initial Loan Period (3 years) – 4.22%
Extended Loan Period (9 years) - Libor + 75 Basis Points
NOTE: Loan may not be pre-paid during the Initial Loan Period.
The Loan may be prepaid on any payment date without penalty during the Extended Loan period.
- Origination Fee: None.
- Legal Fees And Other Out Of Pocket Expenses: The fees are estimated as follows: Bank Legal Counsel - \$15,000.00

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FINANCIAL IMPACT

- The interest on the loan would be capitalized for three years (the initial loan period) and thus, the Agency will not be required to budget or make any debt service payments during this period. The Agency plans to payoff the loan balance during this period with the proceeds of the land sale to JPI (Developer) upon approval of the related Disposition and Development Agreement (DDA). However, if necessary, the loan would be amortized over 9 years beginning in FY2011-12. Alternatively, the Agency would issue cheaper tax increment bonds and use the proceeds to payoff the bank loan.
- Agency Financial Advisor fees are \$20,000.
- Agency Special Counsel fees not to exceed \$5,000.
- Union Bank legal fees not to exceed \$15,000.
- Upon Project completion, the Brookhurst Triangle project could generate residual land value of up to \$35 Million Dollars and estimated annual tax increment of \$2.5 Million Dollars.

COMMUNITY VISION IMPLEMENTATION

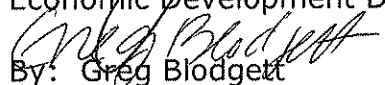
- Improve the aesthetics of the community and eliminate blighting influences.
- Improve the City's economic base through the development of tax-generating uses where appropriate.

RECOMMENDATION

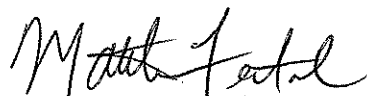
It is recommended that the Garden Grove Agency for Community Development take the following action:

- Approve the attached Union Bank Commitment Letter, and
- Authorize the Agency Director or his designee and Agency Secretary to execute all documents related to the loan.


CHET YOSHIZAKI
Economic Development Director


By: Greg Blodgett
Senior Project Manager

Recommended for Approval


Matthew Ferial
Director

Attachment: Union Bank Commitment Letter