

City of Garden Grove

INTER-DEPARTMENT MEMORANDUM

**Garden Grove City Council
AND
Garden Grove Agency for Community Development**

To: Matthew Fertal
Dept: City Manager/Director
Subject: AUTHORIZATION TO SELL NOTE—
REFINANCING OF EXISTING
OBLIGATION—KATELLA COTTAGES
(KATELLA-GILBERT) BRANDYWINE
DEVELOPMENT CORPORATION

From: Chet Yoshizaki
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Dept: Economic Development
Date: October 23, 2007

OBJECTIVE

The purpose of this memorandum is for the Garden Grove Agency for Community Development (Agency) and City Council to consider authorizing the sale of a promissory note, as contemplated by a Disposition and Development Agreement (DDA) between the Agency and Pacific Cities Real Estate Group Inc., on May 11, 2004. The DDA was subsequently assigned to Katella Cottages LLC (Brandywine, Developer) on October 13, 2004. The DDA was originally approved to eliminate blighting conditions and replace with a 42-unit single-family residential development on a 4.59-acre site located on the south side of Katella Avenue, just west of Gilbert Street. This development is complete, with the last unit being sold in April 2007.

BACKGROUND/DISCUSSION

The DDA was structured as follows:

1. The Developer advanced all of the acquisition costs. Originally, the total site costs were estimated at \$8.78 million, including acquisition and relocation. Once the properties were purchased and the land cleared, the property was sold back to the Developer.
2. The Developer agreed to purchase the site from the Agency for \$6.7 million.
3. Agency agreed to repay the Developer's residual advance, (the difference between the site acquisition costs less the Developer's purchase price); this amount will come from the revenues generated from the project over twenty (20) years. The Developer receives a promissory note for the

repayment amount payable from amounts equal to eighty (80) percent of the tax increment revenues ("Site Tax Increment") generated by the project.

4. The Developer's acquisition costs exceeded the estimated cost and exceeded the purchase price by \$4.6 million. This occurred due to unexpected relocation and goodwill related claims.
5. Section 201.3 of the DDA requires the Agency to make good faith efforts toward refinancing a portion of the note via a tax-exempt refunding note. The source of repayment is limited to the site tax increment and all issuance costs will be paid from the proceeds of the Refunding Note. The principal amount of the developer note will be reduced by the principal amount of the Refunded Note.

As part of a private placement, or sale, of the Refunded Note, it will be discounted according to a yield rate estimated at 6.25%, and based on a not-to-exceed amount of \$2.6 million. The Developer expects to net approximately \$2.3 million through such a sale, less issuance costs.

COMMUNITY VISION IMPLEMENTATION

- Improving the City's economic base through development of tax-generating uses where appropriate.

The benefits in pursuing this project included the replacement of an aging and underutilized commercial site as called for in the Agency's Five Year Implementation Plan. Social and economic benefits also accrue to the neighboring residential properties that were affected by the former public alley behind the site and the almost continuous code enforcement problems including the accumulation of trash and debris.

FINANCIAL IMPACT

The financial impact to the Agency is limited to the obligation of and amount equal to 20 years of tax increment as required under the provisions of the DDA.

RECOMMENDATION

Staff recommends that the Garden Grove Agency for Community Development and the City Council take the following actions:

City Council Action:

- Adopt the attached City Council Resolution approving the execution by the Garden Grove Agency for Community Development of a Note Purchase Agreement and Promissory Note in an aggregate amount not to exceed \$2.6 million to refinance an existing promissory note of the Agency, and approving certain actions in connection therewith;

Agency Actions:

- Adopt the attached Garden Grove Agency for Community Development Resolution authorizing the execution by the Garden Grove Agency for Community Development of a Note Purchase Agreement and Promissory Note in an aggregate amount not to exceed \$2.6 million to refinance an existing promissory note of the Agency, and approving certain actions in connection therewith;
- Authorize the Agency Director and Secretary to execute all documents, including minor amendments, necessary to implement the Agreement.

In adopting these resolutions, the City and Agency will also approve the following:

- Note Purchase Agreement and 2007 Note;
- Implementation Agreement and Revised Developer Note.

CHET YOSHIKAWA
Economic Development Director

By: Greg Brown
Senior Project Manager

Attachment 1 – Agency Resolution
Attachment 2 – City Resolution
Attachment 3 – Note Purchase Agreement
Attachment 4 – 2007 Note
Attachment 5 – Implementation Agreement