

**DRAFT CITY OF LANSING, MICHIGAN
SECTION 108 LOAN GUARANTEE
KNAPP'S BUILDING HISTORIC RENOVATION**

LOAN REQUEST

The City of Lansing is requesting \$5,395,400 in Section 108 Loan Guarantee funds to support a portion of the \$20,430,300 construction costs for the historic renovation and adaptive reuse of the Knapp's Building in downtown Lansing. Concurrently, the City is applying for a \$2,000,000 Brownfields Economic Development Initiative (BEDI) grant to assist with the project.

The project is located in a census tract that meets HUD low/moderate income requirements. Within the ½ mile radius of the project, the block group data show that the area had 33.6% poverty and 10.5% unemployment based on the 2000 Census. Attachment A is the summary data from the 2000 Census and Attachment B is a map showing the target area and location of the building at 300 South Washington Street.

The Section 108 requested amount is within the maximum loan amount of five times the City's Block Grant allocation of \$2,189,858 for the 2009-10 program year. The City has no outstanding Section 108 loans. The Section 108 funds will be repaid over 20 years with interest only for the first seven years due to the inclusion of New Market Tax Credits for the project.

PROJECT DESCRIPTION, NATIONAL OBJECTIVE, ELIGIBLE ACTIVITIES AND PUBLIC BENEFIT STANDARD

This National Historic Register building (no.83000851) was once Knapp's Department Store, a local but important retailer in the City. The retailer operated in the building from 1937 until it closed in 1980. The building was used for a period of time by the State, which carried out significant remodeling of the interior space. However, the State vacated the building in 2002.

The building was purchased by the Louis J. Eyde Limited Family Partnership and the George F. Eyde Limited Family Partnership, hereinafter referred to in this application as The Eyde Company (TEC). They purchased it in 1982 and utilized a portion of the building for their offices from 1983 to 1986. The building became vacant when the state vacated in 2002. TEC's vision was to bring the building back into productive use, but the deteriorating economy has prevented that from occurring, until now. TEC has done an extensive evaluation of the building and has had detailed discussions with the State Historic Preservation Office regarding their plan to convert the former department store into a mixed-use building. A study of how a series of programs, including the New Markets Tax Credit (NMTC), the Federal and State Historic Tax Credits (HTC) and other programs has resulted in an analysis showing how to fund the project. With indications of recovery and some resurgence in downtown Lansing, TEC has determined that renovating the building now will have it ready for occupancy as the economy recovers.

The Knapp's Building is a five story 175,000 square foot building with 124,128 net leasable area. The current development plans identify the first floor to be converted into 17,310 square feet of retail and office space. The mezzanine will have 14,840 square feet for office uses. The next three floors will house 68,745 square feet of office space. The fifth floor will be condominiumized from the other floors and will include approximately 19 market rate apartments totaling 23,233 square feet. No HUD funds will be used in the conversion of the space into apartments. The Lansing Economic Development Corporation (LEDC) will occupy 10,000 square feet of the first floor and mezzanine for an incubator, providing space and services to start up local business.

The project development costs and funding sources are include \$5.4 million in Section 108 loan, \$4.83 million in NMTCs, \$3.77 million in federal HTCs, \$3.59 million in Michigan HTCs, and \$1.8 million in Michigan Brownfield Tax Credits.

In addition \$2 million in BEDI grant funds will be used to pay the interest on the Section 108 loan through the NMTC mandated seven year interest only period. Depending on interest rates, some amount of the \$2 million can be used for eligible project costs.

National Objective: The proposed project is being implemented under the CDBG national objective 570.208 (a)(4) - *Activities benefiting low and moderate income persons – Job creation or retention activities.*

Eligible Activity: The proposed project is being implemented under the provisions of 24 CFR 570.203 “*Special Economic Development Activities*” and 24 CFR 570.703, “*Eligible Activities*” to assist the Knapp’s Building renovation that will provide jobs to low- and moderate income persons in a Community Development Block Grant (CDBG) eligible area.

Public Benefit Standard: At least 51% of the new employees at the project will meet low/moderate income requirements. The project meets the HUD benefit test by providing a projected 218 new jobs at \$33,945 per job (based on the requested HUD \$5.4 million Section 108 loan and \$2 million of BEDI grant), which is less than the \$35,000 cost per job threshold.

The jobs summary is provided below:

	SF	Jobs per 1,000 SF	Jobs
1st Floor			
Restaurants	10,000	4.0	40
Retail	3,725	2.0	7
Incubator	3,585	3.0	11
<i>Subtotal 1st Floor</i>	<i>17,310</i>		<i>58</i>
Mezzanine			
Office	8,425	1.5	13
Incubator	6,415	3.0	19
<i>Subtotal Mezzanine</i>	<i>14,840</i>		<i>32</i>
2nd Floor			
Office	14,915	1.5	22
TEC relocation	8,000	0.0	0
<i>Subtotal 2nd Floor</i>	<i>22,915</i>		<i>22</i>
3rd Floor			
Office	22,915	1.5	34
4th Floor			
Office	12,915	1.5	19
Call Center	10,000	5.0	50
<i>Subtotal 4th Floor</i>	<i>22,915</i>		<i>69</i>
5th Floor			
Apartments	23,233	0.1	2
Total	124,128		218

SOURCES OF PROJECT FUNDING

The sources and uses for the project (the HUD forms and a more useful summary) are provided as Attachment C to this application.

Sources		Uses	
Section 108	\$ 5,395,400	Exterior Repairs	\$ 2,170,000
NMTC	\$ 4,830,000	Interior Repairs	\$ 9,654,800
Federal HTD	\$ 3,772,012	Apartment Conversion	\$ 2,550,000
MTC (5%)	\$ 898,098	Office/Retail TI	\$ 5,055,500
MTC (15%)	\$ 2,694,294	Asbestos Abatement	\$ 500,000
MBTC	\$ 1,796,196	Contingency	\$ 500,000
Developer Contribution	\$ 1,500,000	Subtotal for Construction Uses	\$ 20,430,300
Deferred Fee	\$ 1,044,300		
		Predevelopment	\$ 1,500,000
Subtotal Development Sources	\$ 21,930,300	Subtotal Development Uses	\$ 21,930,300
		Building Value Contribution	\$ 2,700,000
Contributed Land	\$ 2,700,000		
		Total Development Uses	\$ 24,630,300
Total Sources for Development	\$ 24,630,300		
		Section 108 Interest Payments	\$ 2,000,000
BEDI	\$ 2,000,000	Total Uses	\$ 26,630,300
Total Sources (for all purposes)	\$ 26,630,300		

PROJECT STRUCTURE AND PARTICIPANTS

The City of Lansing will be the initial recipient of the Section 108 funds and will loan the funds to the developer, who will be responsible for the repayment.

The Louis J. Eyde Limited Family Partnership and the George F. Eyde Limited Family Partnership own the building, however referred to in this application as The Eyde Company (TEC). They plan to convert the building into the mixed-use development described earlier in this application. For over 50 years, TEC has developed a wide range of projects, both new construction and renovations. They currently own over four million square feet of total space, predominantly in Michigan. TEC's strength comes from the diversity of its holdings which include: office, call and data centers, retail, industrial, land developments, apartments, senior housing and residential. It is a full service company with in-house expertise in acquisition, development, sales and leasing, interior design, construction and property management. TEC is conservation oriented in its development philosophy and has always been environmentally

responsible in making improvements and using its many properties. The significant projects carried out by The Eyde Company in the last five years include:

- Somerset Park Apartments: 240 Unit Luxury Apartment Community located in Bath Township, Michigan (northeast of Lansing). This community of 240 units brings their current apartment holdings (all built by Eyde) to 1,048.
- Single Family Subdivisions – recently (within last 4 years) developed: Central Park Estates, an 81 lot residential community in Meridian Township (Okemos, Michigan) and Georgetown – 150 lot residential community in Meridian – first 2 phases (86 lots) are now complete.
- Hannah Technology & Research Center – during 2009 TEC completed the million dollar renovation to the common areas of the 150,000 square foot office building located at 4600 S. Hagadorn, East Lansing, Michigan. This building is the beacon for the entire 100 +/- acre Hannah development. The entire site was the subject of a major Mixed Use Overlay District approved by the Board of Trustees of Meridian Township last year. The site has now been approved for 1,108 dwelling units with additional commercial and office uses.

Over the past 5 years TEC has completed approximately 150,000 square feet of tenant space within their current office holdings – including medical, office / retail, and data centers

REPAYMENT SCHEDULE

The loan will be interest only for the first seven years, with level debt fully amortizing principal and interest over the remaining thirteen year term. The BEDI grant funds will pay the interest during the seven year period. The spreadsheet included as Attachment D shows the fixed repayment schedule based on current interim interest rate and the interest rates from the HUD Public Offering issued on June 4, 2008. No assumptions have been made to estimate more current rates for the purpose of the repayment schedule.

COLLATERAL

The City shall have a first mortgage on the property, or if a leveraged New Markets Tax Credit structure is utilized, the functional equivalent of a first mortgage (including but not limited to an assignment of 100% of the membership interests in the leveraged lender, and

pledge of assignments of rents or leases or other security interests the landlord holds in the Project), the terms of which will be mutually acceptable to the City and TEC.

TEC will require performance bond(s) from the general contractor of the project to assure project completion. TEC will also agree to contribute sufficient sums to complete the project in the event any expected funding sources are insufficient to complete construction.

A Memorandum of Understanding (MOU) was approved by the City of Lansing prior to the public hearing that approved submittal of the Section 108 loan and BEDI grant applications. The MOU is provided as Attachment E. The MOU identifies the lease terms between the LEDC and TEC for the 10,000 square foot business incubator. The MOU also spells out the performance schedule for the overall rehabilitation of the building. In addition, the MOU sets the schedule for TEC to relocate its office to the Knapp's Building. The MOU is provided with the application. At the time the Section 108 loan and the BEDI grant agreements come to the City for execution, a full Development Agreement related to all the activities is anticipated to be executed.

The MOU calls for the BEDI funds to be used to pay a seven-year interest only period. Whatever BEDI funds are identified as being available beyond those needed for the interest only period will be pledged as security for the Section 108 Loan as a City Reserve Account. Starting in the third year of the Section 108 loan, the developer will contribute, in equal installments over five years, annual amounts so that by the end of the seventh year the City Reserve Account will equal one year's debt service based on the fully amortizing Section 108 loan debt service for years 8 through 20. Other details of the security and the requirements for appraisals are spelled out in the MOU. If at the end of the seventh year, the appraisal shows the loan to value is less than 70%, any BEDI funds available beyond those in the City Reserve Account will be release

for eligible project costs. If the loan to value is more than 70% the developer must elect one of a series of actions spelled out in the MOU to satisfy the City’s security requirements.

PROJECT IMPLEMENTATION

The projected implementation schedule is as follows:

Activity	Start	Complete
Final historic submittals	Mar-10	Sep-10
Finalize all tax credits	May-10	Apr-11
Construction plans and specifications	Jun-10	Mar-11
Leasing of retail and office	Apr-10	Oct-14
Historic renovation of building (including asbestos abatement)	Apr-11	Oct-13
Retail and office tenant improvements	Jul-13	Oct-14
Lease apartments	Jul-13	Oct-13
Retail and office tenant hire employees	Oct-13	Oct-14

RELOCATION, DISPLACEMENT AND ACQUISITION COMPLIANCE

No relocation is required by the project as it is totally vacant and has been for many years. The property was purchased by the current owners in a private transaction, with the closing on the purchase occurring in 1982.

REIMBURSEMENT FOR PRE-DEVELOPMENT COSTS

As part of this Section 108 application, the City is also requesting authority, pursuant to 24 CFR 570.200 (h), to incur reimbursement for some pre-award costs as soon as the Request for Release of Funds has been approved and the City has been notified that the Section 108 has been approved.

CERTIFICATIONS AND CITIZEN PARTICIPATION

The City Council conducted a public hearing on May 10, 2010, on the Section 108 Application and the amendment to the City Annual Action Plan that includes the Section 108 projects. The City Council approved the amendment to the Action Plan and authorized the submittal of the Section 108 Loan Guarantee and BEDI Applications and adopted the resolution included as Attachment F. The required program certifications are included as part of the City Council Resolution. Attachment G is the Proof of Publication relating to the public hearings conducted on the Amendment to the Action Plan and on the Section 108 application.

CONTACT PERSONS

If you have any questions regarding this proposed Section 108 Loan Guarantee request, please contact:

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Attachment A Demographics for Target Area
Attachment B Target Area from Census Maps
Attachment C Sources and Uses Summary
Attachment D Section 108 Repayment Schedule
Attachment E Memorandum of Understanding
Attachment F City Council Resolution
Attachment E Proof of Public Hearing Notification