THE CITY OF SAN DIEGO

Redevelopment Agency's Report

DATE ISSUED: November 28, 2007 REPORT NO.: RA-07-35

ATTENTION: Chair and Members of the Redevelopment Agency
Docket of December 4, 2007

SUBJECT: Second Rehabilitation Grant Agreement with the NTC Foundation

REFERENCE: Report No. RA-03-12 dated April 30, 2003; Report No. 05-34 dated November 9, 2005

REQUESTED ACTION: That the Redevelopment Agency authorize the Executive Director, or his designee, 1) to execute the Second Rehabilitation Grant Agreement between the Agency and the NTC Foundation for the rehabilitation of certain historic buildings within the Naval Training Center Civic, Arts and Cultural Center; and 2) to appropriate and expend $6,000,000 from the NTC Non-Housing Line of Credit to reimburse the NTC Foundation for actual costs of rehabilitation.

STAFF RECOMMENDATION: Approve the requested actions.

SUMMARY: The NTC Foundation ("Foundation") was established pursuant to the Naval Training Center Disposition and Development Agreement (the "DDA") approved in June 2000 between the Agency and McMillin-NTC, LLC. According to the terms of the DDA, the Foundation is responsible for rehabilitating and managing the 26 buildings that make up the Civic, Arts and Cultural Center ("CACC") in the Naval Training Center Historic Core. In January 2004, the Agency entered into a Rehabilitation Grant Agreement ("Grant Agreement") with the Foundation which provided the Foundation with a grant of $5.85 million in HUD 108 loan proceeds for the rehabilitation of four of the six historic buildings that made up Phase 1 of the Foundation's development plan. The HUD 108 loan is repaid by the Agency with NTC tax increment revenue over a twenty year period; annual payments are approximately $505,000.

The Grant Agreement included a provision for approval of additional funding assistance not to exceed $6.0 million for costs relating to the rehabilitation of additional buildings in the CACC. According to the Grant Agreement, the consideration of additional assistance would be dependent upon the availability of funding, the completion of the rehabilitation and subleasing of the buildings funded by the $5.85 million grant, and the ability of the Foundation to provide matching funds.

The Foundation has fulfilled all the obligations of the Grant Agreement including completion of the rehabilitation of the four buildings and the leasing of all of them except Building 200, which was intended to be, and is, used by the Foundation as office/meeting space and as a visitor's center. Through its capital campaign, the Foundation has raised more than $7.5 million in grants and donations and over $12.6 million in New Market- and Historic Tax Credits.

The New Market Tax Credits program is administered by the U.S. Department of the Treasury to stimulate increased investment and economic growth in older communities. In return for investing in projects in these communities, corporate investors in need of tax deductions may claim a credit against Federal income taxes totaling 39% of the investment allocated over seven years. The Historic Tax Credits program is administered by the National Park Service in partnership with the Internal Revenue Service. In exchange for investing in an eligible historic rehabilitation project, tax credits equal to 20% of the rehabilitation costs can be transferred to a corporate investor.

Second Rehabilitation Grant Agreement

The proposed Second Rehabilitation Grant Agreement ("Second Grant Agreement," Attachment 1) provides for the Agency to grant to the Foundation an additional amount not to exceed $6.0 million for a portion of the Foundation's Phase 2 development costs. Of the proposed $6.0 million grant, $1.35 million will be used by the Foundation for pre-development costs, which include certain soft costs to prepare drawings, to determine existing conditions, and to prepare construction documents and contracts prior to the award of construction contracts. As with the original Grant Agreement, funds will be provided as reimbursement for actual costs incurred according to the Disbursement Agreement, Attachment No. 9 to the Second Grant Agreement.

<u>Provisions Related to Tax Credits</u>
As indicated above, a component of the Foundation's capital campaign includes raising equity through the syndication of New Markets Tax Credits and Historic Tax Credits. The syndication of tax credits to third-party corporate investors is the most common method of using tax credits. Syndicated tax credit transactions require the creation of a legal entity between the tax credit investor and, in this case, NTC Foundation. In 2005, in order for the Foundation, a non-profit tax-exempt organization, to participate in the tax credits programs, it created a wholly-owned for-profit subsidiary of the Foundation named NTC Liberty Station, Inc. The proposed Second Grant Agreement authorizes the Foundation to assign the Second Grant Agreement to NTC Liberty Station, Inc. for tax credit transactions and authorizes the Agency Executive Director to execute, on behalf of the Agency, all appropriate documents to effectuate the assignment. The Second Grant Agreement also provides Agency approval for the Foundation to use the Agency Grant Funds as equity, or to use a building rehabilitated with Agency Grant Funds as collateral, for a tax credit transaction. The Agency's execution of assignment and subordination documents is subject to the Agency's receipt and approval of all financing documents for any proposed transaction and the Foundation not being in default of any of the terms of

the Second Grant Agreement. In November 2005, the Agency approved such assignment and subordination for the buildings in the Foundation's Phase I development.

Provisions for a Third Grant Agreement

The Second Grant Agreement includes a provision allowing the Foundation to request further funding from the Agency up to $6.0 million for the rehabilitation of additional buildings in the CACC. With approval of the Second Grant Agreement, the Agency agrees to consider further funding following completion of the rehabilitation and subleasing of buildings funded by the Second Grant Agreement. The provision is not a guarantee of Agency approval; it is only an agreement that the Agency will consider providing a third grant of funds. As with the second grant, the consideration of a third grant is subject to the availability of NTC Project Area funds, the completion of rehabilitation and subleasing of the buildings funded by the Second Grant.

FISCAL CONSIDERATIONS: There is no fiscal impact to the City's General Fund from this action. Funds not to exceed $6.0 million will be drawn from the NTC Non-housing Line of Credit ("LOC"), approved in June 2007, as needed for reimbursement to the Foundation for actual costs incurred. Interest on the LOC through fiscal year 2009 is estimated to be approximately $202,000. As of October 24, 2007, the Foundation has raised over $20 million through its capital campaign. In addition to its continuing efforts to solicit donations and grants, the Foundation will use additional New Market and Historic Tax Credits for its Phase 2 development.

COMMUNITY PARTICIPATION & PUBLIC OUTREACH EFFORTS: On October 18, 2007 the Peninsula Community Planning Board was informed of this action. No vote was taken; no objections were raised.

KEY STAKEHOLDERS: The NTC Foundation is a 501(c)(3) non-profit organization governed by an eleven-member Board of Directors.

Respectfully submitted,

Janice L. Weinrick Deputy Executive Director, Redevelopment Agency	William Anderson Assistant Executive Director, Redevelopment Agency

Attachment: 1. Second Rehabilitation Grant Agreement