

Mayor and Council Communication

DATE: 10/19/21

M&C FILE NUMBER: M&C 21-0813

LOG NAME: 1919LOANFORGIVENESSTOFWHFC

SUBJECT

(CD 5) Authorize Forgiveness of a 2003 Loan to the Fort Worth Housing Finance Corporation in the Amount of \$615,000.00 for the Benefit of the Villas of Eastwood Terrace Senior Apartment Complex and Find that Forgiving the Loan Serves a Public Purpose and that Adequate Controls are in Place

RECOMMENDATION:

It is recommended that the City Council:

1. Authorize the forgiveness of a 2003 loan in the amount of \$615,000.00 to Fort Worth Housing Finance Corporation for the benefit of the Villas of Eastwood Terrace Senior Apartment Complex; and
2. Find that forgiving the loan serves a public purpose and that adequate controls are in place.

DISCUSSION:

In April of 2003, the Fort Worth Housing Finance Corporation (FWHFC) was working with its single asset entity, Villas of Eastwood Terrace LLC (VET), for which the FWHFC was the sole member, on the development and construction of a senior apartment complex in the southeast sector of the City of Fort Worth located at 4700 East Berry Street. As the project neared completion, a financing gap of \$615,000.00 was identified. On April 9, 2003, the City Council authorized a non-interest bearing financial assistance agreement for \$615,000.00 with FWHFC to fill in the gap, which in turn loaned the funds to the VET (the gap loans) (M&C C-19047).

The funding used to provide the gap loans were initially a combination of Community Development Block Grant (CDBG) Program Income and Rental Rehabilitation Program Income (RRPI). However, in October 10, 2006, in response to new CDBG program guidance issued by the U.S. Department of Housing and Urban Development (HUD), the City Council authorized \$315,000.00 from RRPI to replace the previously authorized allocation of \$315,000.00 from CDBG Program Income.

In 2013, after operating the project for a few years, the FWHFC negotiated the sale of the project to the Housing Authority of the City of Fort Worth, doing business as Fort Worth Housing Solutions (FWHS), whereby FWHS assumed the outstanding debts and liabilities against the property. Per the terms of a Preliminary Approval of Transfer of Physical Assets, dated May 31, 2013, and submitted by HUD, Villas of Eastwood Terrace, LLC was prohibited from taking on the gap loan or any other subordinate loan, which meant that the gap loans could not be secured against the project. The understanding among the parties at the time was that (1) FWHS would refinance the loan when the market allowed for such a refinance to occur and (2) if sufficient funds were realized from that refinance, the gap loans would be fully repaid.

In selling the project to FWHS, the FWHFC retained the subsurface minerals. Sale of the property also achieved a number of other important ends, including providing assurance that the project would continue to provide senior housing and be maintained and operated in a first-class manner and alleviating on-going operating costs that were being paid by FWHFC.

In 2015, the accounts of all component units were separated from the City's accounts. In the same year, Deloitte & Touche LLP conducted its first audit of FWHFC. After reviewing all the related documents of the loan and the related M&Cs, the auditors, along with the City and FWHFC management, recommended to book the loan as a receivable in the City's books and a payable in the FWHFC's books along with a receivable from Villas of Eastwood Terrace, LLC.

FWHS refinanced the loan in 2017, but the refinance did not produce sufficient funds to repay the gap loans. Because the sale of the project to FWHS represented a net positive to FWHFC and a public benefit in the form of continued access to quality senior housing in the community and because there was no enforceability mechanism for the debt, it was anticipated that FWHFC would request the City to forgive the \$615,000.00 loan. In turn, the FWHFC could formally forgive its gap loan so that the financial records of both the City and the FWHFC would no longer reflect accounts receivable and accounts payable for this transaction.

Staff now recommends that the City forgive the gap loan so that the FWHFC Board can take formal action for its gap loan to also be forgiven. Approval of this M&C will also find that formal elimination of an accounts payable from the FWHFC to the City will serve a public purpose by making the funds available amount for the FWHFC to dedicate towards achieving its mission and the vital public purpose of providing decent, safe and affordable housing to residents of the City and find that adequate controls are in place through the limited scope of the FWHFC's mission to ensure the public purpose is carried out.

A Form 1295 is not required because: This M&C does not request approval of a contract with a business entity.

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies upon approval of the above recommendations, appropriate accounts will be adjusted to reflect the loan forgiveness.

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