

**CITY of BRIDGEPORT
ECONOMIC and COMMUNITY DEVELOPMENT and ENVIRONMENT COMMITTEE
of the CITY COUNCIL**

TUESDAY, JUNE 1, 2010

CITY COUNCIL CHAMBERS

6:00 P.M.

ATTENDANCE: Council members: dePara; Co-chair, Curwen; Co-chair, Brantley, Martinez, T. McCarthy(sat in to make a quorum), Lyons(arrived late)

OTHER COUNCIL MEMBERS: Holloway

STAFF: Ed Lavernoich; OPED, Alanna Kabel, Deputy CAO

74-09 Section 108 Seaview Plaza Project: Proposed Substantial Amendment to the City's Consolidated Plan for Housing and Community Development.

Co-chair dePara called the meeting to order at 6:10 pm.

Co-chair dePara asked who was present at the meeting to explain the details of the item.

Ms. Kabel stated that the request was to apply to HUD for a Section 108 loan for the Seaview Plaza Development. She explained that Section 108 allows municipalities like Bridgeport to leverage community development grant funds to urbanize neighborhood programs. HUD requires that they submit an amended 5-year consolidated plan and it also allows comments from the Citizens Action Committee within 30-days, which there were none. The Citizens Action Committee held a hearing and ECDE held a meeting last week. The matter will then go before the city council for approval. It will be submitted to Hartford and onto HUD in Washington where they will solicit more detailed

questions about the project. She noted that approval is expected by year end from HUD, because they have to ascertain that the project meets CDBG guidelines and the related requirements. She mentioned that it is estimated the project will create between 300 and 400 jobs.

She went on to explain that Section 108 allows the developer to borrow up to 80% of the project cost, noting there are many layers of financing associated with the project. The Section 108 loan is in essence considered a second mortgage on the property, but if the plan fails, the second mortgage acts as security. The city will borrow \$4.5 million and it will be well below the allocation for the CDBG award.

Mr. Lavernoich relayed highlights of the project. He noted that there were some extraordinary site issues related to the DOP and the DEP that make the site difficult to develop. He explained that Mr. Conover is the lead developer, noting that he has done thirteen million square feet of development in the last twenty-five years and he has never had a material default on any development. The project will be difficult to accomplish and with the costs and financing involved, they are looking at a \$31 million project. Due to the economic climate, the developer can only come up with \$20 to \$21 million to construct the project through conventional sources. They thought they could come up with the full \$25 to \$26 million for a commercial development. And using Brownfields other sources, they will come up with the additional funding to develop the site. They have an agreement that is 98% done and he expected that the Bridgeport Port Authority will complete that agreement some time during June. He explained that when the CT Development Authority sign the development agreement, they will have up to a four month due diligence term to address any issues. In the future, they will come back to request rerouting of the funds to pay for any other extraordinary costs on the site. So they will see the project again in the future with a more precise budget and refined numbers that will probably be during the fall of 2010.

Mr. Lavernoich further relayed that at the end of the due diligence period, an agreement between the developer, Port Authority and the city will be executed to put together financing. And then they will obtain authority from the jurisdiction to break ground in the fall.

Council member Brantley expressed a concern about the impact of contaminants in the area. Mr. Lavernoich said the contaminants are largely inert, which means it won't flow

anywhere and should stay right there. He noted that the concern is for the people working on the site that will be exposed during construction. However, they will take measures to contain any exposure, so there is no risk to the public.

Co-chair Curwen asked for a breakdown of the current debt service of CDBG money. Ms. Kabel took a moment to retrieve the information. She explained that they won't see repayment of the Section 108 loan as part of CDBG going forward. The developer is expected to repay the loan out of the project, so they won't see it unless the developer defaults. Mr. Lavernoich elaborated that this was a first time income generating project under Section 108, however, they have a second mortgage on the project and they will have collateral.

Ms. Kabel explained the way the previous Section 108 was scheduled. Wherein, CDBG was always expected to repay the loan, but for this project, OPED would get a second mortgage and corporate guarantees from the developer. In all, two stop gags will be in place - *Ms. Kabel submitted the amortization documents, per Co-chair Curwen's question regarding debt service.*

Co-chair Curwen clarified for the record that he is pro-development in Bridgeport and anywhere downtown or close to downtown. However, he had some reservations about the project, such as; considering the economy today vs. two to three years ago. He stated that although he didn't have any interest in CDBG funds for his district, he was there to support the constituents of the community, but the thought there was a risk factor involved. He questioned why there weren't any written guarantees for the committee's review. Co-chair dePara responded that he thought the information would come during the second phase of the project. Mr. Lavernoich said they wouldn't have any guarantees until they are actually execute the loan agreement. He suggested that a proviso be added to the amendment to read that: **“The developer shall submit guarantees”**.

Co-chair Curwen further questioned that there still wasn't an agreement in place. Ms. Kabel said that as far as HUD approving the Section 108 loan, it needs to be submitted to Hartford to determine if it is an eligible CDBG project. Then there is a 30-day waiting period, then the matter gets forwarded to Washington where the particulars will be worked out. So the actual agreement won't happen until September 2010, which is really a timing issue.

Mr. Lavernoich agreed with Ms. Kabel. He stated that they could add that a second mortgage be required on the property, in the amount of assistance provided and conditioned upon corporate guarantees. He clarified that the agreement won't be executed until the city attorney has reviewed it.

Co-chair Curwen reiterated that it wasn't a complete documentary without a structured repayment, guarantees or Brownfields component.

Mr. Lavernoich explained that they were in essence setting up conditions for the Mayor's approval. However, he said if there is a concern of losing block grant capacity, then there is a tool to assure that collateral is in place and reclaiming lost dollars, although improbable, would be the prudent thing to do.

Co-chair Curwen asked if they would require bonding for the project. Mr. Lavernoich said it wasn't a public project, it's taking place on private property.

Co-chair Curwen stressed that he had no interest in CDBG block grant money, because it doesn't affect his district. He commented that he wouldn't support the request this evening, because the information wasn't in writing as it should be and also as a cautionary measure, since the district representatives weren't in attendance tonight. He felt it was best to do due diligence and have a thorough document before final approval.

Mr. Lavernoich said that once they felt all the resources were in place, there was no reason that they couldn't come back for approval of the agreement. He meant that they could approve the authorization tonight and return for approval of the agreement. Co-chair Curwen said he wouldn't have a problem with that.

Council member Holloway expressed that he has seen what block grants have done, going from a certain amount to a lessor amount and not having enough to give to an agency. He explained that the process is equivalent to a loan, but every year, block grant will take a percentage off the top. He clarified for the record that he wasn't against the project at all, but he was concerned about his fellow council members saying he got what he wanted, but now this project will shorten up money on the overall block grant for other programs. He emphasized that block grant money is for the City of Bridgeport and development is not included in that.

Mr. Lavernoich stated that the developer is the borrower of the money and he has the obligation to pay back the money. If there is a deficiency, the city can go after the developer based on the personal guarantees and they have two default recourses. He repeated there would be an extraordinary cost on the Brownfields side, but the developer can't construct and draw down money unless it's pre-leased; which means there will be leases from tenants who are obligated to pay the developer.

Council member Holloway responded in that case, there were many services and businesses to consider that don't want to be caught short next year. He pointed out that if the item was approved tonight, although he approved of the development, if they don't pay back the money, every social agency in the community will be short changed. He stressed that he wanted to see the project happen, but if the developer doesn't perform to the highest standards, the community will lose.

Mr. Lavernoich explained the recourse of what would happen if the developer defaulted. He said that in the remote chance that he does, they will have used \$4.5 million of block grant money to create several hundred jobs in the community.

Council member Brantley said she understood Council members Curwen and Holloway comments. She concurred with the suggestion that they request the agreement first, that way the community is not in jeopardy.

There were some members of the public present at the meeting who requested to address the committee. Council member polled the committee to ask their will to allow the public to speak. It was agreed to allow members of the public to voice their concerns to the committee.

The following members of the public addressed the committee:

- Keith Williams, VP East End NRZ said he understood the ducks were all in place. He commented that the formality will be to submit the agreement. He said they were there tonight for authorization only and once the agreement is in place, he felt the committee would then have the opportunity to approve or dispute the final agreement for sign off. Overall, he felt there were sufficient back up measures in place in case of a default. Mr. Lavernoich commented that if the project performs the way it is expected to, it will be a win all for everyone.

- Lillian Wade, President East End NRZ recapped what she thought she heard. In that they were going two different ways. She noted that Section 108 is a secured loan and there is a second mortgage to secure it.

Mr. Lavernoich clarified once again that the money is borrowed by the developer and he has the mortgage. If it isn't paid back, the city will have the right to foreclose and the means to make up the difference if they see a financial loss. However, given who the developer is and his track record, there is a remote chance they will default.

Ms. Wade expressed that they had to look at the big picture and perceive the project as being successful and not a failure that will benefit the entire city and the east end as well. She added that the project will promote tax revenue and jobs. She said that although she understood Co-chair Curwen's points, she understood that staff was only asking for authorization tonight.

Mr. Lavernoich clarified that they were looking for a little more than authorization, they also require the authorization to go ahead for HUD.

Council member Holloway questioned where this will leave block grant money in 2011. Mr. Lavernoich said if it becomes a matter of \$150k per year, they would have the opportunity to go through foreclosure and the corporate guarantees.

Ms. Kabel said he was hoping that as a result of the repayments, it will generate approximately \$70k to allocate each year, over the course of the first seven years.

- Debbie Simms, East End NRZ expressed that she was angry and insulted from what she heard tonight. She stressed it was a good deal and fair, however, she was insulted by the comment that programs on the east end might not get funded, because most don't anyway. She didn't feel this statement should have been made. She further expressed that they finally have a deal that would work for them on the east end. She thought they should move forward. She further commented that Co-chair Curwen threw in a stumbling block by requesting the agreement first and she didn't think this was fair.

Council member Martinez expressed that whenever there is a need in the community, there is the potential to take advantage of people in the community. She said she was

100% for the project, however, they need to be cautious about following through to assure the project is successful. Overall, she said she was in support of the project.

Council member Brantley said she thought it was important that the public attending tonight, understood what was being said tonight. She requested that the agreement be made part of the resolution to avoid any delay when the item goes before the full city council. She expressed her support due to the fact that the area needs shopping services etc.

Mr. Lavernoich stated that he would like to get the item passed with an amendment tonight.

**** COUNCIL MEMBER BRANTLEY MOVED TO AMEND THE RESOLUTION TO
READ: BE it Further RESOLVED THAT THE FINAL LOAN AGREEMENT
WITH THE DEVELOPER WILL REQUIRE FULL CITY COUNCIL APPROVAL
** COUNCIL EMBER MARTINEZ SECONDED
** MOTION PASSED UNANIMOUSLY**

- Mr. Kevin Grimes, of NDC stated that all the comments were really in the same spirit and recognized in CDBG as a precious resource to cover community development priorities in the city, in accordance with the Citizens Action Committee. However, it's an entitlement fund and a great find for the city. The advantage is that it can be used to leverage larger scaled development projects and a source of capital for longer term projects. He further relayed that a block grant is recognized as a repayment source, which is income from the developer. If the project isn't materialized, there are back ups. He clarified that the borrower is the City of Bridgeport. The crucial point is to protect the asset with a second mortgage and collateral. It's also key to fine tune the project at which point, they could then provide a final loan agreement.

Council member Holloway recalled \$7 million to do a street scape project on East Main for sidewalks, lights and facade. The next year when the agency came in for block grant money, they were told they already borrowed. So if the developer is going to be responsible for whatever is borrowed, then he would be in agreement, because this lessens liability to the city. He further questioned what happens to the social agencies that need funds for their crucial services. Ms. Kabel stated that Section 108 repayment

will be for the same projects allocated for the last three years. The likelihood of the block grant ever actually being the source for repayment of the loan is highly unlikely. So they will not see any impact on future CDBG funds.

Co-chair dePara commented that there were strong pro and con concerns expressed tonight. He said he understood this was due to past issues with the repayment of money that cut into CDBG allocation funding. He expressed that as a result of the dialogue, this won't hold the project back, but it will add an additional safeguard. He thought the amendment would sufficiently address the concern. He noted that both Council members Curwen and Holloway offered some valid comments and questions in the essence of safeguarding the city.

**** COUNCIL MEMBER CURWEN MOVED TO APPROVE THE DOCUMENT AS AMENDED**

**** COUNCIL MEMBER BRANTLEY SECONDED**

**** MOTION PASSED UNANIMOUSLY**

***Consent calendar**

**It was noted that the amendment language will be submitted to the city clerk's office.*

ADJOURNMENT

**** COUNCIL MEMBER BRANTLEY MOVED TO ADJOURN**

**** COUNCIL MEMBER MARTINEZ SECONDED**

**** MOTION PASSED UNANIMOUSLY**

The meeting was adjourned at 7:13 pm.

Respectfully submitted,
Diane Graham
Telesco Secretarial Services