

Legislation Text

File #: 20-597, **Version:** 1

A RESOLUTION OF THE CITY COMMISSION OF THE CITY OF POMPANO BEACH, FLORIDA, APPROVING AND RATIFYING THE CITY MANAGER'S APPROVAL OF A SUBORDINATION AGREEMENT AMONG CITY NATIONAL BANK OF FLORIDA, THE CITY OF POMPANO BEACH AND POMPANO BEACH COMMUNITY REDEVELOPMENT AGENCY; PROVIDING AN EFFECTIVE DATE.

(Fiscal Impact: N/A)

(Staff Contact: Miriam Carrillo)

Summary Explanation/Background:

Pinnacle Village is the result of a community partnership between the City, CRA, HUD and Pinnacle which involved the replacement of a severely dilapidated subsidized housing complex called Holiday Lakes with new, affordable and energy efficient townhomes (the "Project"). It is one of South Florida's most successful affordable housing redevelopment ventures to date and was a featured element of Pompano Beach's successful designation as an All-America City® in 2005.

As Pinnacle Village is now in its 15th year of operations, the original tax-exempt bonds (secured by a first mortgage on the property) which were the primary vehicle for financing the Project can be refinanced. The HUD Up-Front Grant of \$5 million to the City which the City agreed to allocate for demolition of the former apartment complex, with the remaining \$4,715,983 to be used for Project development, is in a subordinate mortgage position to the first mortgage debt as a 32-year loan.

At the time of construction loan closing, Pinnacle specifically requested the Up Front Grant be structured as a loan to avoid creating a taxable partnership income event that would adversely affect the equity investment of the Housing Tax Credits. Upon HUD's agreement that the Up Front Grant could be converted to a loan and any loan payments to the City be returned to HUD as set forth in its letter dated January 14, 2004, the City subsequently agreed to subordinate their interest to the primary mortgage debt for the Project and made a 32 year, 0% interest mortgage loan to Pinnacle for the remaining \$4,715,983 in Up Front Grant funds that matures in June 2036.

Since the bonds will be paid in full next month, Pinnacle's refinancing requires the City to execute a new Subordination Agreement to replace the prior one. Pinnacle will use the refinancing proceeds to repay the prior first mortgage as well as HUD for its required equity participation stake and also continue its ongoing capital investment in the Project. The new first mortgage lender, City National Bank of Florida, has agreed to the new Subordination Agreement as presented to the City.

In connection with the refinancing, Pinnacle is governed by the terms of the original Riders attached to HUD's Warranty Deed for the subject property to the City which eventually transferred to Pinnacle and included certain requirements for affordability, redevelopment and HUD's ability to recoup its investment through equity participation in the event of a sale or refinancing. Pinnacle and HUD have agreed upon a new Amendment to and Restatement of Deed Riders to be recorded at closing of the refinancing which will strengthen the affordability provisions, release covenants which have been satisfied, and prescribe Pinnacle's payment to HUD pursuant to the equity participation clause. HUD has asked the City execute an acknowledgement to the Rider to memorialize HUD's entitlement to any future loan repayments made by Pinnacle to the City or to forgive the loan at the City's discretion.

Origin of request for this action: Office of Housing and Urban Improvement
Fiscal impact and source of funding: N/A