AGENDA ITEM NO. 69

# CITY OF SAN ANTONIO
# INTERDEPARTMENTAL MEMORANDUM
# ECONOMIC DEVELOPMENT DEPARTMENT

**TO:** Mayor and City Council

**FROM:** Ramiro A. Cavazos, Director, Economic Development Department

**THROUGH:** Terry M. Brechtel, City Manager

**COPIES:** J. Rolando Bono; Andrew Martin; Trey Jacobson; Ed Davis; Manuel Longoria Jr., Patricia Mayor; Lou Lendman; Andrew Cameron; Milo Nitschke

**SUBJECT:** Resolution to increase the Borrowing Authority for Greater Kelly Development Authority (GKDA)

**DATE:** December 18, 2003

## SUMMARY AND RECOMMENDATIONS:

This resolution amends Resolution 2000-44-41 (previous approved on December 14, 2000) by: (1) increasing the maximum amount that the Greater Kelly Development Authority (GKDA) can borrow from $65.9 million to $124.6 million; (2) expanding the authorized categories of debt instruments to include bonds approved by City Council and other debt instruments as approved by the GKDA Board of Directors, such as bank loans and institutional loans; and (3) clarifies Section III(E)(2) of the HUD Section 108 Commitment Letter and Loan Agreement between the City and GKDA to allow for the pledging of GKDA assets without City approval provided such assets are not already collateralized under any prior agreements with the City.

Staff recommends approval of this resolution.

## BACKGROUND INFORMATION:

On November 4, 1999, City Council established the GKDA as a political subdivision of the State under the authority of Chapter 378, Texas Local Government Code (the "Code"). GKDA is responsible for meeting its financial obligations from operational revenue and, therefore, requires the flexibility to plan and create a sound financial structure to accomplish its development plans for KellyUSA.

The Code also requires City Council to establish the maximum amount of money that the GKDA can borrow or issue in bonds. GKDA's ability to borrow, however, is also limited by the underwriting standards applied by lenders. On December 14, 2000, City Council established GKDA's maximum borrowing authority at $65.9 million in five specific debt instrument categories. These categories encompassed the existing GKDA debt instruments at the time of City Council action. To date, GKDA has utilized $41.2 million of the maximum borrowing capacity as summarized in the following table:

GKDA Borrowing Authority

| Debt Instrument Category | Borrowing Capacity | Capacity Utilized |
|---|---|---|
| HUD Section 108 Loan | $38,700,000 | $20,000,000 |
| Private Bank Loans for Construction | 10,000,000 | 6,500,000 |
| Revolving Bank Loan Line of Credit | 5,000,000 | 2,500,000 |
| Promissory Note to the Air Force | 5,200,000 | 5,200,000 |
| Bonds for a new Boeing Hangar | 7,000,000 | 7,000,000 |
| Total | $65,900,000 | $41,200,000 |

GKDA's largest existing loan is a HUD Section 108 Loan with the City. Under the Section 108 program, the City can borrow up to 60% ($52.5 million) in loans from the U.S. Department of Housing and Urban Development (HUD) against its annual Community Development Block Grant (CDBG) allotment of $87.5 million. On December 1, 1997, City Council authorized staff to apply for a $37.8 million Section 108 Loan to finance the renovation of aviation facilities at KellyUSA for Boeing. Following loan approval by HUD, the City executed a Commitment Letter and Loan Agreement with GKDA on July 27, 1998. This Agreement specifies the loan's collateral as follows: (1) Boeing lease payments assigned to the City; (2) the City's first-lien deed on Boeing leased facilities at a value-to-loan ratio of 2/1; and (3) a security interest in specialized personal property. City Council also approved the use of General Fund to replace any lost CDBG funds, if necessary, due to a default and insufficient collateral to pay off the loan. GKDA subsequently borrowed $20 million in HUD funds against the authorized amount of $37.8 million. The construction activity is complete and the payment on this 20-year Section 108 Loan is current with a remaining balance of $19,123,332.

GKDA is beginning implementation of "Phase II" development of KellyUSA to accommodate the demand for market-driven facilities and infrastructure. To respond to these projected development requirements from both new and existing tenants, GKDA has requested that City Council approve a new maximum borrowing limit of $124,600,000. This amount includes the $7 million in current outstanding bonds and $117,600,000 in borrowing capacity that can be exercised through a variety of potential debt instruments. These debt instruments could include HUD Section 108 Loans, bank loans, institutional loans, U.S. Department of Transportation Railroad Administration financing or any other debt instrument other than bonds that is approved by the GKDA Board of Directors. However, any new bond issues and new Section 108 debt if utilized, will still require separate City Council approval. GKDA's request represents an increase of $58.7 million in additional borrowing authority above the existing limit of $65.9 million.

GKDA has also requested clarification of a provision in the Section 108 Commitment Letter and Loan Agreement that specifies GKDA must obtain City approval before selling, conveying, disposing of, alienating, assigning, mortgaging, pledging, transferring or encumbering all or any part of the facilities at KellyUSA. Staff and GKDA believe the intent of this provision was to impose restrictions only on the Section 108 Loan collateralized assets and not on all of GKDA's assets at KellyUSA. This interpretation would be consistent with commercial loan practices. Furthermore, under the terms of the Agreement, the City is only able to recover any payment deficiency from the collateralized assets.

**POLICY ANALYSIS:**

According to Chapter 378, Texas Local Government Code, the City, as the governmental agency that established GKDA, must set the maximum amount GKDA can borrow or issue in bonds by resolution. Through this action, City Council will provide GKDA the ability and flexibility to secure the financial resources necessary to continue the successful redevelopment efforts at KellyUSA. This action also promotes the implementation of Strategy 3.2(1) in the City's Strategic Plan for Enhanced Economic Development that states, "Develop KellyUSA as an international, multi-modal investment grade business and industrial park." To date, GKDA has created over 5,300 new jobs with salaries averaging $38,000 per year, leased 84 percent of the 8.9 million square feet of marketable space, and secured 65 new tenants that provide a $2.5 billion annual economic impact.

**FISCAL IMPACT:**

There is no direct fiscal impact to the City associated with this resolution, since GKDA is solely liable for its own financial obligations as a political subdivision of the State. Furthermore, increasing GKDA's maximum borrowing authority does not impact the existing Section 108 Commitment Letter and Loan Agreement, since the collateral pledged to the City in that Agreement cannot be pledged by GKDA in any other debt transactions.

**COORDINATION:**

This item was coordinated with the City Attorney's Office, the Finance Department, the Housing and Community Development Department and GKDA.

**SUPPLEMENTARY COMMENTS:** None

Ramiro A. Cavazos, Director
Economic Development Department

J. Rolando Bono
Deputy City Manager

Approved:

Terry M. Brechtel
City Manager