

REPORT TO THE CITY COUNCIL



DATE: March 3, 2020

TITLE: Resolution to Forgive the \$15,126,594 Loan Originally to the Desert Hot Springs Investment Fund, LLC to Finance the Construction of the City's Health and Wellness Center

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RECOMMENDATION

Adopt a resolution of the City Council forgiving the \$15,126,594 Loan from the City of Desert Hot Springs originally to the Desert Hot Springs Investment Fund, LLC to finance the construction of the Health and Wellness Center.

BACKGROUND

The City previously pursued the construction of the Desert Hot Springs Health and Wellness Center (Center) utilizing, in part, capital raised through the federal new markets tax credit program under Section 45D of the Internal Revenue Code. As part of the execution of the financing, the City entered into an Investment Put Fund and Call Agreement on July 12, 2012 with USB NMTC Fund 2012-1, LLC (USB Fund). The USB Fund had a 100% membership interest in the \$15,126,594 loan to the Desert Hot Springs Investment Fund, LLC (Investment Fund). The agreement grants to the USB Fund the right to sell its interest in the loan to the City of Desert Hot Springs for the purchase price of \$1,000. On June 18, 2019, City Council adopted a resolution to begin the process of exiting the New Market Tax Credit Financing and approved the Membership Interest Purchase Agreement. On July 16, 2019, the New Market Tax Credit Financing was dissolved and the Membership Interest Purchase Agreement was exercised, giving the City 100% membership interest in the outstanding debt to the Desert Hot Springs Investment Fund, LLC. In October 2019, the City dissolved the Desert Hot Springs Investment Fund, LLC and as the City holds 100% interest in the Investment Fund, the City became the borrower to the loan that it is holding with respect to the Center.

DISCUSSION

The loan was executed as part of the financing that enabled the City and other participating stakeholders to construct and equip the Center. When the put under the Option Agreement was exercised and consummated, the City controlled the debt associated to the Center. The Investment Fund was responsible for the loan and when the City dissolved the Investment Fund, it became responsible for the loan through its ownership of the Investment Fund. Consummating the exercise of the put under the Option Agreement and dissolving the Investment Fund was consistent with the City's expectation as to how the financing of the Center was to mature. As the City owns the property and the Center and now holds the outstanding debt, the next step is to forgive the loan associated with the Center. This step gives the City significant flexibility in planning for the future of the Health and Wellness Center.

FISCAL IMPACT

With the City holding the debt and forgiveness of the loan, the annual interest payments will no longer continue which were offset by rental income fees

EXHIBIT(S)

- 1) Resolution Forgiving the \$15,126,964 Loan Financing the Desert Hot Springs Health and Wellness Center