

**TERM SHEET AND SUMMARY OF FINANCING PLAN  
FOR THE HEERS REDEVELOPMENT PROJECT**

**Project Summary-Background Statement**

The redevelopment of the Heer's Department Store is the City's number one redevelopment priority. Successfully completing the redevelopment is crucial to the economic life of the City's central business district.

The historic former Heer's Department Store, located on the northwest corner of the historic Springfield Park Central Square, will be transformed into 63 residential apartment units and approximately 33,164 square feet of net rentable commercial space.

The Heer's Building will be renovated back to its 1950's design. A pool and deck will be atop the two-story portion of the complex. Other amenities will include indoor parking for every resident, a common study den, a fitness room, a security system for residents and guests, high-speed internet access, and cable television access.

The proposed financing for the project will include the use of federal and state historic preservation tax credits as additional sources of funds to an \$11.8 million FHA-insured loan under the HUD Section 220 multi-family substantial rehabilitation program (for which preliminary approval has been granted by HUD). The City has agreed to consider Tax Increment Financing and a Community Improvement District for this project.

The \$29 million renovation will include all new mechanical, electrical, plumbing and fire protection systems, new windows, and new elevators. Some of the residential units will include a private balcony or terrace. Interior finishes for every residential unit will be high-end.

The first-floor commercial spaces have both been pre-leased. The owners of Mike Shannon's Steaks and Seafood in downtown St. Louis have signed a lease to locate another Mike Shannon's Restaurant in 8,614 square feet of the first floor and mezzanine of The Heer's Building; additional space will also include a banquet space for special events. A bowling alley, bar and restaurant will complement Shannon's in the other first-floor and mezzanine commercial space.

Absorption for the sixty-three attractively priced residential apartment units with their desirable amenities should be accomplished in a reasonable marketing time. Assuming that a financing closing occurs during the first quarter of 2011, the renovation should be completed by April 30, 2012, with residents and commercial enterprises occupying the building immediately thereafter. The general contractor will be HBD Construction, St. Louis' most experienced historic renovation contractor, with 82% of the subcontractors from the Springfield area. This represents more than 40 area subcontracting businesses that will be directly employed by the project and in excess of 140 onsite local construction jobs.

**Sources of Funds:**

HUD Loan (FHA Section 220)	\$11,801,400
Federal Historic Tax Credit (First Installment and Bridge Loan)	5,167,603
State Historic Tax Credit Bridge Loan	4,928,608
City/MDFB Loan	3,000,000
Developer Contribution	<u>4,416,896</u>
Total	\$29,314,507

**Uses of Funds:****Pre-Construction Costs**

Property Acquisition	\$ 739,625
Purchased Work-in-Progress	2,500,000
Predevelopment and Holding Costs	561,543

**Direct Construction Costs**

Rehabilitation Costs	15,468,792
Roof Amenities – pool and deck (included above)	
Commercial Tenant Improvement Allowance	1,485,315
Architect Fee	402,959
Engineering	240,000
Construction Contingency	836,263
Builders Risk Insurance	150,000

**Indirect Construction Costs**

Development Fee	4,094,267
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**Financing Costs**

Construction Loan Interest – HUD	320,190
Capmark Financing Fee	177,021
HUD/FHA Examination Fee	35,404
HUD/FHA Inspection Fee	59,007
HUD/FHA MIP	118,014
Bridge Loan Fee	87,526
Bridge Loan Interest	551,337
TIF Fees and Expenses, including Legal	75,000
Title and Recording	35,000

**Other Costs**

HTC Fee	146,653
Environmental Assessment	7,500
Appraisal/Survey	15,000
Market Study	15,000
Historic Consultant	8,500
Taxes and Insurance	70,000
Project Management	225,000
Leasing Office	50,000
Legal Fees	175,000
Accounting and Cost Certification	100,000
Operating Deficit Reserve – HUD	132,653
Working Capital Reserve – HUD	236,028
Project Contingency	<u>195,000</u>
Total	\$29,314,507

### **HUD Loan**

Funding Source: U.S. Department of Housing and Urban Development (HUD) – Section 220

Principal Amount: \$11,801,400

Interest Rate: 6.35%

Loan Term: 40 years

Collateral: First mortgage on real estate

### **Federal Historic Tax Credit (First Equity Installment and Bridge Loan)**

Funding Source/Lender: Chevron USA, Inc. to make first installment of \$1,343,577 at closing; followed by a bridge loan made by Heartland Bank for the remainder (principal amount below).

Principal Amount: \$3,824,000

Interest Rate: 7.5%

Loan Term: Not to exceed 3 years.

Collateral: As described in the Commitment Letter from Heartland Bank.

### **State Historic Tax Credit Bridge Loan**

Funding Source/Lender: Commercial Bank to be determined

Principal Amount: \$4,928,608

Interest Rate: 7% (estimate)

Loan Term: The earlier of the issuance of the credits or 18 months

Collateral: Assignment of State Historic Tax Credit and MDFB Loan Bond Enhancement Tax Credits

To the extent permitted by the Federal Historic Tax Credit investor and the first mortgage (HUD) lender, an assignment of all membership interests (or stock or partnership interests as applicable) in the limited liability company owning the Project and any legal entity master leasing the project, assignment of property owner entity's right to receive capital contributions from master tenant entity, and personal guaranties of the members of the Developer.

Construction completion guaranties from all members, initially Kevin and Erin McGowan, and Thomas Michael Shannon (joint and several).

Any other collateral provided to the Federal Historic Tax Credit Bridge Lender, on a subordinate basis, in a manner acceptable to the Federal Historic Tax Credit Bridge Lender.

To the extent insufficient historic tax credits are issued due to the failure of the Developer to incur sufficient qualifying eligible costs, MDFB shall be entitled to a lien on the PILOTS, EATS and CIDS senior to the repayment of the City/MDFB Loan.

### **City/MDFB Loan**

Funds from this loan are expected to be provided from two sources. Because the collateral for the loans is the same we have combined the loan into a single loan.

Funding Source/Lender:

City Small Business Development Loan	\$2,000,000
MDFB Loan to City:	\$1,000,000

Principal Amount: \$3,000,000

Interest Rate: 5.0%. Capitalized interest shall be paid from sources other than the City Loan, shall be sized in an amount determined by the City and MDFB (based upon information provided by the county assessor). Such interest shall be deposited into a segregated account and the use of such moneys shall be restricted solely for the payment of capitalized interest.

Amortization As provided in the pro forma of the PILOTS/EATS and CID revenues.

Loan Term: 23 years (subject to early prepayment from all excess PILOTS/EATS and CIDS).

Prepayment and Loan Subordination: In the event the Developer shall refinance the HUD loan, the City Loan must be prepaid in an amount equal to \$1,000,000. The prepayment shall be used by the City to prepay the MDFB Loan to the City. The City will consider subordinating the remaining \$2,000,000 subject to acceptable terms and conditions.

In the event the Developer shall sell the Project for a purchase price in excess of the HUD Loan within three years following completion of the Project, the City Loan must be prepaid in an amount equal to the lesser of \$1,000,000 or the difference between the sale price and the then current balance of the HUD Loan or any loan replacing the HUD loan. The

prepayment shall be used by the City to prepay the MDFB Loan to the City.

Collateral:

Fixed PILOT Payment: The fixed payment alone must cover at least 70% of the annual debt service on the City loan. The county assessor must confirm prior to closing that the initial appraised value for property tax purposes shall be as set forth in the agreed upon pro forma.

EATS revenues: Assumptions must be acceptable to the City/Board  
CID revenues: Assumptions must be acceptable to the City/Board

To the extent permitted by the HUD mortgage lender, the amount of the fixed PILOT payment will be acknowledged in the first mortgage documents. The Developer must agree not to protest the appraised value of the Project. No cash flow will be distributed to the Developer if the City Loan is in default.

The \$1,000,000 loan by the MDFB to the City will be limited recourse, with repayment limited to TIF and CID revenues. In the event of a default on the loan, MDFB will be entitled to a priority claim on all TIF and CID revenues.

To the extent permitted by the Federal Historic Tax Credit investor, the first mortgage (HUD) lender and the State Historic Tax Credit bridge lender, an assignment of all membership interests (or stock or partnership interests as applicable) in the limited liability company owning the Project and any legal entity master leasing the project, assignment of property owner entity's right to receive capital contributions from master tenant entity, and personal guaranties of the members of the Developer.

Other:

General Contractor: HBD Construction, Inc.

Subcontractors: 82% based in Springfield and surrounding area

Construction jobs: 181 total (estimated payroll of \$8,220,000)

Permanent jobs: 60 (estimated payroll of \$1,675,000)

Performance Bond: Issued by Liberty Mutual Surety (rated A+).

Guaranty of Completion

of Construction: Kevin and Erin McGowan; and Thomas Michael Shannon (joint and several)

Majority Member: Michael Shannon must own at least 51% of the Project until completion of construction and the repayment of the MDFB Bridge Loan.

Priority of Disbursement: \$3,000,000 to be expended after project is 50% complete, subject to any HUD requirements related to disbursing.

Developer Fee/Reimbursement: Restricted such that no Developer Fee or Predevelopment and Holding Costs will be paid or reimbursed until State Historic Bridge Loan is paid off. After payment in full of the State Historic Tax Credit loan there will be no payment of the Developer Fee until PILOTS, EATS and CIDS provide a 1.10x coverage (excluding capitalized interest) of the payments on the City loan, provided, however, that such fee shall be paid and re-contributed to the extent necessary to comply with the Missouri Historic Preservation Tax Credit Program guidelines regarding payment of developer fees. Project Management fees shall be paid in equal monthly installments during the construction period.

Other conditions to funding  
City/MDFB Loan

Executed leases for 100% of the first floor retail for construction of the Mike Shannon's and the bowling alley as described in above Project Summary-Background Statement.

Construction contracts and the evidence of the availability of funds to complete construction of the tenant improvements required by the executed retail leases.

An acceptable market study showing adequate demand for the residential rental units.

Closing of the HUD Loan, Federal and State Historic Tax Credit Loans and issuance of a Notice to Proceed to the contractor.

Closing of all loans simultaneously.

Approval of the final sources and uses for the Project.

Evidence of the deposit of all sources stated in the final sources and uses.

#### **REQUEST OF THE CITY**

TIF: TIF Plan Approval (PILOTS and EATS)

Total PILOTS to be paid by contract = \$4,589,744  
Sales tax projections (EATS) will continue to be refined.

CID: Formation of new CID 1.0% Sales Tax

City Loan: \$2,000,000 to be combined with MDFB \$1.0 million for a total of \$3,000,000.

The \$3 million loan will be broken into a Series A loan secured by the PILOTS and a Series B loan secured by the EATS.

### **REQUEST OF MDFB**

MDFB Loan: \$1,000,000 loan to the City as described above.

Tax Credits as Collateral Program: \$4,900,000 loan from a community lender or consortium of community lenders secured by State Historic Tax Credits and furthered secured by MDFB loan/bond enhancement tax credits

MDFB will assist the City and Developer in securing a commitment from a community lender or a consortium of community lenders willing to make the Historic Tax Credits Bridge Loan on acceptable terms. MDFB shall have no liability to make the loan and does not assume such a loan can be obtained.

### **MISCELLANEOUS**

Deadlines: Any approval by MDFB or the City will expire if HUD approval is not received by December 1, 2010 or the HUD loan is not closed by March 31, 2011.

Development Agreement: The Development Agreement between the City and the Developer shall be amended to provide that all openings in the building, including roof openings, must be secured by November 1, 2010 and must be kept in a secured condition until such time as construction has commenced on the building rehabilitation.

Legal: The Developer will be responsible for paying all of the legal costs of the City and MDFB.

Administrative Fee: The Developer will be responsible for paying the City an administrative fee of \$6,500 per year and paying MDFB an administrative fee of \$3,500 per year.

Final Terms: This term sheet constitutes the indicative terms on which the City and MDFB are willing, based upon the facts and circumstances presented at the time of approval, to participate in the financing of the Project.

Schedule: Consideration for approval by the City is currently scheduled for August 23, 2010 and consideration of approval by MDFB is currently scheduled for September 21, 2010.