

Memo



To: Jon Walker, City Administrator
From: Adam Causey, Economic Development
Date: March 7, 2017
Re: DDA property acquisitions & debt service – UPDATED

The purpose of this memorandum is to update the economic development millage implications, debt service payments, and lease revenues from the properties acquired by the Downtown Development Authority (DDA).

SUMMARY

The annual debt service payments for all properties now owned by the DDA is approximately \$450,000 or \$37,500 per month. If there were no lease revenue from those properties, the City could expect to expend that much annually to avoid default. Current leases generate approximately \$280,000 in rental income, and each property's income is combined into one per the terms of the December 2016 consolidated bond issuance.

The state imposes a 3-mil annual millage cap for economic development funding. To be conservative, I will include all cash disbursements and debt support in that calculation.

BACKGROUND

In 2015, the DDA acquired 2135 American Industrial Way (the "Tables & Chairs" warehouse). In October 2016, the DDA closed on two more properties: 5442 Peachtree Road ("Voyles") and 2124/2138 American Industrial Way ("Chatham"). In December 2016, the DDA closed on a multi-parcel assemblage bound by Peachtree Road, Broad Street, Irvindale Way, and Ingersoll Rand Drive ("Kaufman/Sobel").

All properties are now being financed by the DDA through a revenue bond issuance with Piedmont Bank. That bond is backed by an intergovernmental agreement (IGA) between the City and the DDA, which secures the debt with the City's taxing power. The bond issuance covering all of the properties is \$12M. The term of the current debt with Piedmont Bank is a 36-month interest-only loan at 3.75%, with a maturity date of 12/1/2019.

Below is a list of the properties involved along with tenant info (if any) and rental income information.

Address: **2135 American Industrial Way – “Tables & Chairs”**
Status: Acquired
Tenant: Tables & Chairs
Monthly rental income: \$8875.00

Address: **5442 Peachtree Road – “Voyles”**
Status: Acquired
Tenants: Ed Voyles Automotive; Vintage Pizzeria; The Mad Stitchers
Monthly rental income: \$4950 total: (\$3500 Ed Voyles, \$950 Vintage, \$500 Mad Stitchers)

Address: **2124 & 2138 American Industrial Way – “Chatham”**
Status: Acquired
Tenant: Chamblee Dunwoody Collision Center
Monthly rental income: \$9970.00

Address: **5520 Peachtree Road – “Kaufman/Sobel”**
Status: Acquired
Tenant: None
Monthly rental income: \$0.00

There is an annual 3-mill property tax limit of economic development support the City can provide to municipal development authorities by state

statute (O.C.G.A. 48-5-350). In 2017, 3 mills in Chamblee are worth approximately \$3,600,000. Support to the DDA includes the pledged backing of debt service related to the DDA's acquisitions, per the approved IGA. The total annual debt service for the above properties is approximately \$450,000. That means the City would still have the ability to provide additional annual support of approximately \$3,156,000, though of course the City reserves the right to appropriate as little of that as is necessary or desired.

That \$450,000 figure represents a scenario where the City budgets to cover all annual debt service in preparation for a worst case scenario. In practice, the City would only expend funds to cover shortfalls from property rental income. The Tables & Chairs building has cash flowed positively since acquisition in 2015 and the City has yet to budget or expend any funds to cover its annual debt service. Likewise, the Chatham property has an existing lease that exceeds the expected monthly debt service. The Voyles property currently does not include enough rent to cover the total monthly debt. Likewise, the Kaufman/Sobel property has no active tenants and thus a monthly deficit. The amount of annual support budgeted for all three properties above will depend on how stable the City views the various lease revenues.

See the table below for a summary of debt service and rental income:

<u>Property</u>	<u>Loan Amount</u>	<u>Monthly Income</u>	<u>Monthly Debt Service</u>	<u>Monthly Difference</u>	<u>Annual Income</u>	<u>Annual Debt Service</u>	<u>Annual Difference</u>
2135 American Industrial Way		\$8,755.00			\$105,060.00		
5442 Peachtree Road		\$4,950.00			\$59,400.00		
2124 American Industrial Way		\$9,970.00			\$119,640.00		
5520 Peachtree Road		\$0.00			\$0.00		
Total	\$12,000,000.00	\$23,675.00	\$37,500.00	-\$13,825.00	\$284,100.00	\$450,000.00	-\$165,900.00

Depending on the prospects for selling, releasing, or redeveloping some or all of these properties, the entire annual difference may not need to be expended. However, per the terms of the in force IGA, that total should be budgeted. It is recommended that quarterly draws be made to the DDA to cover the debt service not paid by the leases.

Thank you,

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