

MEMORANDUM

To: Business, Workforce and Sustainability Committee
From: Office of Economic Development
Date: January 3, 2012
Re: TAXI Drive City Loan Modification

TAXI Background

The TAXI development sits on the abandoned former Yellow Cab site, purchased by Mickey Zeppelin in 2001. Mr. Zeppelin embarked on transforming the 20 acre site into a modern mixed use community appealing to new economy –creative and high tech professionals. The TAXI development includes:

- 5 completed buildings of 175,000 SF, 100% occupied
- 60+ businesses & 400 jobs
- Waiting list for space at TAXI, including expanding businesses already located at TAXI
- Extensive recognition:
 - Vice President's Biden's office as a model project ,
 - 4 AIA Design award for the TAXI FREIGHT project alone

City Financing

As an important catalyst of neighborhood revitalization and economic development in a historically distressed area, OED has awarded TAXI:

- \$450,000 in Community Development Block Grant loans (CDBG) for TAXI Phase II
- Two CDBG-R (stimulus fund) loans totaling \$450,000 for TAXI Freight

After a 3 year nationally competitive process, the City received an award of \$8mil from HUD (\$6mil Section 108 funds and \$2mil in Brownfield Economic Development Initiative (BEDI) funds) specifically to develop the latest phase of TAXI - TAXI Drive. The Section 108 loan is intended for hard and soft construction costs. The BEDI loan is for hard construction costs, and debt service reserve.

Repayment of BEDI loan proceeds will be forgiven upon the full repayment of the \$6 million Section 108 loan.

TAXI Drive Challenges

OED is proposing an amendment to an existing development agreement, which will alter the scope of the contract for the \$6mil Section 108 loan and \$2mil BEDI grant. This modification is due to several factors:

- FDIC receivership of TAXI's primary lender (Bank of Choice)
- Economic downturn post 2008 and a change in credit markets and additional requirements for equity and preleasing
- Urgency of timing to complete project within expedited timeframe to take advantage of BEDI and 108 funding - set to expire on 9/30/12

TAXI Drive' Benefits

- Project will immediately create 200 construction jobs (subject to Davis Bacon Wages)
- 150 long term tech and creative jobs in Denver
- 30-40% tenant LOIs on the DRIVE project
- Unique building concept in the market: moderate pricing, focused on small and medium - sized tenants

TAXI III/Drive Contract Amendments (City Council Action)

In light of the risk of Denver losing the HUD award, OED is requesting City Council to amend the original contract as follows:

- Modify the existing project from 95,000 SF to a smaller scale project encompassing 38,000 SF, using the remaining available Section 108 and BEDI funds
- Fund a higher percentage share of the project increasing its participation from 41% to 79%
 - No new monies are committed and the City strengthens its collateral position

OED also seeks approval to modify Taxi's existing payment schedule to align with revised project completion as follows:

- Principal payments of \$100,000 shall begin October 1, 2013 and shall be due and payable quarterly on January 1, 2014, April 1, 2014, and July 1, 2014
- Quarterly \$100,000 principal payments shall continue on the months specified above
- Beginning April 1, 2025, quarterly principal payments shall increase to \$150,000 and shall be due and payable quarterly as reflected above
- The loan shall mature August 1, 2028

The specific project and budget changes are illustrated in the attached budget table.

If these modifications are not made, Denver will forgo the remaining balance of the \$8M HUD award and those funds will be recaptured by HUD.

HUD 108 Amendments (City Council Action)

The responsibility to repay the Section 108 funds lie with the City, however, the HUD award was approved based on the merits of the original TAXI III proposal. Consequently, amendments to the City's contract with TAXI trigger the same corresponding amendments listed above between HUD and the City.

Why approve the modifications?

OED recommends approval of the TAXI loan modification based on the following reasons:

- Zeppelin has a solid record of loan repayment to the City.
- The TAXI development has a demonstrated history of success in terms of job creation and a history of hiring within the local community with an emphasis on local minority contractors.

- TAXI is recognized for its catalytic impact on the surrounding RiNo Neighborhood and leveraging further private and public investment, including its role in attracting GoCo funding for the RiNo Art Bridge and Arkin's Park.
- Evidence suggests excess demand for space in the TAXI development. The development is currently 100% occupied and in February of 2011, TAXI's three most recent buildings including the 30,000 TAXI Freight, were fully leased upon completion. Over the past 3 months, TAXI has had to turn away at least 10 separate deals based on lack of availability of space.
- The TAXI development has provided value to the City, offering an anchor destination to a transitional neighborhood and generating greater tax revenue for the City. Annual property taxes on the site are \$350,000 annually, compared to \$35,000 before the TAXI development.

Given these facts, OED believes in the continued success of TAXI and welcomes the direct and indirect economic development benefits generated by the development's build out.