

MEMORANDUM

To: Mayor Don Keil and Seguin City Council
Douglas G. Faseler, Seguin City Manager

Through: Rick Cortes, Seguin Assistant City Manager

From: Kyle Kramm, Main Street & CVB Director

Subject: Hugo Starcke Building – Low Interest Loan

Date: June 24, 2019

Downtown Loan Pool - History

In 2012, the Seguin City Council approved the creation of a downtown loan pool by allocating \$250,000 from the utility fund. The purpose of the loan pool was to encourage the rehabilitation of properties within the downtown historic district and provide another tool for the revitalization of downtown Seguin. In addition to the downtown district, the pool was also intended to address properties along North Austin Street between Kingsbury and the railroad.

Since its creation, one loan application has been received and it was approved with the loan being awarded to Jason Howell for \$150,000 for the construction of six second floor apartments at 101 South River Street. The apartments were completed in March of 2019 and are fully leased.

Hugo Starcke Application

Howell has made an application for a second loan in the amount of \$200,000 to rehab the Hugo Starcke building located at 1421 North Austin Street. The project when completed would create five commercial bays for retail, service or office.

Howell has already invested \$215,000 into the rehab completing façade repairs to the mortar, exterior electric upgrades, roof repairs and prep work for electric and plumbing. Howell estimates an additional \$350,000 needed to complete the project to include HVAC, plumbing, interior electrical, glass work, flooring, roofing, painting and light fixtures.

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If Council approves a loan to Howell for this project, the City would be the first lien holder. As the rate follows the ten-year US Treasury rate, the interest rate would be 2.09% resulting in \$33,158 in interest over the 15 years.

This project would also create five new City of Seguin utility customers. Estimated utility revenues to the City of Seguin would be a little over \$20,000 a year. Additional estimated revenues include over \$40,000 in property tax increases and over \$250,000 in sales tax revenue over the 15 years of the loan. Additional revenues will be collected from the building permit which can not be calculated at this time.

Based on these revenues, the City would look at a 450% return on its investments.

History of Jason Howell & City of Seguin Relationship

In 2010, the City of Seguin launched a housing incentive program. Part of the program included a grant of \$5000 per second floor dwelling unit created in downtown Seguin. After learning about the housing incentive, Jason Howell purchased several downtown properties to take advantage of the incentive which he used to construct three two-bedroom apartments above 211 East Court Street.

Since 2010, Howell has purchased and sold numerous properties throughout all of Seguin. Currently Howell owns over 25 properties in Seguin, with the majority of them being in downtown Seguin and its vicinity. Howell has performed numerous rehabilitations on his downtown properties and currently has one vacancy in downtown Seguin.

Large projects completed by Howell includes the slip cover removal at 106 – 110 East Court Street, complete rehabilitation of 113 North River Street after the Cranny moved out, construction of nine second story apartments, conversion of 107 North River from office to retail space and numerous HVAC, roofing and plumbing upgrades. The incentives Howell has received includes the housing incentive from 2010, a façade grant for the slip cover removal in 2014, the low interest loan for the six apartments and building permit fees waived for his downtown properties as are all permits in the historic district. See attached presentation for more information on his properties and some of his completed projects.

Recommendations

The industry standard is for the debt to asset value not to exceed 80%. For example, if the building is valued at \$100,000, the debt on the building should not exceed \$80,000. As Howell is requesting a \$200,000 loan, the value of the building should exceed \$250,000.

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Staff is recommending approval of the loan application and allowing City Manager Douglas Faseler to negotiate a loan agreement dependent on completion of an appraisal with a valuation of over \$250,000 and/or the cross collateralization of additional assets.

Additionally, there is a little over \$100,000 in the loan pool. The applicant is requesting \$200,000 to ensure completion of a higher quality product. Council approval would be needed to transfer another \$100,000 from the City of Seguin Utility Fund to the Downtown Loan Pool. Staff recommends approval of the budget amendment to come later.