CITY OF OKLAHOMA CITY
OKLAHOMA

Community Development Block Grant Section 108 Loan Guarantee Application

Project

First National Center Hotel

Submitted
To

U.S. Department of Housing and Urban Development

June 11, 2021

Table of Contents

SECTION I (All Applications)

The City of Oklahoma City (City or The City) requests an $11,000,000 Section 108 Loan Guarantee from the U.S. Department of Housing and Urban Development (HUD), not including the HUD fee. With the fee applied to principal and paid off on an amortized schedule, the total 108 request is estimated at $11,237,000 (see section I. B. I below). The project, site and location for use of the funds is the First National Building renovation in downtown Oklahoma City, 120 N Robinson Avenue. Citizens shall be affected by the positive economic impact the project will have for the city, and the creation of a minimum of 220 permanent, full time equivalent jobs. The funding is proposed as a loan collateralized by property assets and repaid with interest. Citizens may inquire with the Oklahoma City Planning Department for additional information at (405) 297-1639.

A. DISCUSSION OF PROPOSED ACTIVITIES IN THE CITY'S CONSOLIDATED PLAN

In April 2019 The City included the First National Center Hotel (FNCH) project in an amendment to it's 2018-19 Consolidated Fourth Action Year Plan. HUD approved the amendment on April 30, 2019. The purpose was to allow FNCH, as a potential third-party borrower of Section 108 loan funds, eligibility for reimbursement of certain pre-award costs, such as architectural, engineering, legal fees, and other eligible expenses under applicable regulatory conditions described in the Amendment. Notice was properly given and a public hearing duly held to provide citizens information on the matter and opportunity to comment.

The City held a second public hearing regarding the project on June 8, 2021. Notice of this hearing was provided on May 3, 2021 in the legal section of the Daily Oklahoman to afford citizens at least 30 days advance notice of the City's intention to submit a formal Section 108 loan application to HUD and to amend The City's FY 2020-2021 Consolidated Action Plan to formally include the FNCH project in the City's economic development program plan and allocate $11,000,000 in loan funds to the project, and to provide opportunity for citizen input and comment. The notice described the eligible activity, the CDBG National Objective to be met, the amount and purpose of guaranteed loan funds expected to be used. The notice was published concurrent with the draft application, containing a link to the web page where the application is located on The City's website, and describing how and where citizens may comment and/or obtain additional information.

Within this application citizens are properly informed of the following:

- Project address and detailed project description.
- The project location is a high poverty census tract in a area of The City designated both as an Opportunity Zone and as a Neighborhood Revitalization Strategy Area for purposes of federal investment and local priority development.
- The proposed activity is eligible under special economic development provisions of the federal regulations governing the Section 108 Loan Guarantee Program at 24 CFR 570.
- The project is in keeping with the goals of the City of Oklahoma City' Consolidated Plan, which includes expanding economic opportunities principally for low- and moderate-income persons and families.
- The National Objective of the project is creation of low- and moderate-income jobs. The requisite public benefit to be achieved for the funding level provided is a minimum of 220 full time equivalent (FTE) positions.

- Other local objectives of the project are to restore the historic First National Tower to productive use as a 4-star hotel, and spur economic development in the downtown area.
- Section 108 Loan proceeds shall be limited to purchase of fixtures, furnishings, and equipment for the hotel as well as non-construction related soft costs as enumerated in section IV of this application.
- Revenue from the hotel project shall be the source of the Section 108 Loan repayment.

B. REQUESTED AMOUNT OF SECTION 108 ASSISTANCE

I. LOAN REQUEST AND FINANCING FEE

a. The City's evaluation of the hotel project, considering historical 108 funded hotel job performance and past HUD guidance, has determined that use of the standard one (1) FTE per hotel key justifies a funding amount of $7,300,000. However, to meet the financial needs of the project, and based on the developer's job projections, The City is applying to HUD for a Section 108 Loan in the amount of $11,000,000.

b. HUD's financing fee for 108 commitments awarded during the FY 2021 year is 2.15% of the principal loan amount.

c. Should a 108 loan for the hotel project be approved by HUD in FY 2021 at the $11,000,000 principal level, the financing fee would be $236,500.

d. The fee shall be added to the principal amount of the loan at the third-party borrower's request and repaid on an amortized schedule as defined herein.

e. The final loan amount per HUD must be established in increments of $1,000. Thus, the final principal loan request inclusive of HUD's financing fee is **$11,237,000**.

II. APPLICANT BORROWING CAPACITY

The City's Section 108 borrowing capacity is $16,626,900 according to the most recently consulted publication by HUD in March 2021. The FNCH loan request represents 66% of The City's Section 108 borrowing capacity.

C. CERTIFICATIONS: The City is classified as an Entitlement Public Entity. Applicable Certifications to accompany a HUD Section 108 Loan Guarantee Program request are included as Exhibit A to this application.

SECTION II (PROJECT SPECIFIC APPLICATIONS)

I. PROJECT INFORMATION

A. PROGRAM DESCRIPTION

i. Project Name: FNC Hotel, or otherwise, hereafter, Hotel or FNCH.

ii. Project Site: 120 N Robinson Ave, Oklahoma City, OK 73102. Aerial of site is provided as Exhibit B to this application.

iii. Project Area: Census Tract 1091. The location is a high poverty census tract, with poverty rate of 58.5%. The site is located in a qualified Opportunity Zone and is considered an economically distressed community in need of eligible assistance.

iv. Project Owner/Developer: NE CS FNC Hotel LLC, an Oklahoma Limited Liability company, 95% owned by NE CS First National, LP, a Delaware Limited Partnership.

v. Project Scope: Complete remodel of the basement through the first eight (8) floors of the FNC tower building, estimated at 231,330 square feet per a September 2020 appraisal by Isaacs & Associates, which references the "Condominium Unit Exhibit" by local engineering company, ADG.

vi. Project Estimated Cost: $137,394,731.

vii. Hotel Project Financing Summary: See section IV of this application.

viii. Overall Project Plan

Restoration of the iconic First National Center (FNC) has been ongoing for several years. The current Owner/Developer made an informal inquiry to The City about the possibility of a Section 108 Loan in 2017 when the building was being purchased. The delay in submitting a formal 108 Loan request has been due to a variety of challenges including the project's ability to secure formal commitments on the balance of project financing and other delays such as the Coronavirus pandemic.

Now that all sources other than 108 financing are in place, the Owner/Developer is seeking $11 million in 108 loan guarantee assistance to help cover a financial gap resulting from increased project costs and less-than-anticipated secured bank financing.

Formerly known as the First National Bank Building, the FNC tower was constructed in 1931-32. The building was expanded in 1956-57 to include a 14-story office building, and expanded again between the years of 1972-1977, bringing the FNC complex to its pre-rehabilitation configuration of approximately 980,000 rentable square feet. Along with a dedicated garage, the complex covers nearly half of a downtown city block.

The original tower, which sits on the northwest corner of the block, sometimes referred to as the West Tower, rises 446 feet tall to the roof and 493 feet to the spire. It was once the tallest building in Oklahoma City and currently stands as the third tallest building in the city and the sixth tallest in the state. It is said to have architectural resemblance to the Empire State Building, a fact that may have preserved it from the short-sighted razing of many of Oklahoma City's early 20th century landmark buildings in the 1970's and 1980's. Ownership of the FNC complex changed several times during the quarter century from 1985 to 2010 until the troubled endeavor entered bankruptcy proceedings. The FNC went into receivership in 2015 and was completely vacated in 2016. It was purchased by its current owner in 2017 and placed on the National Register of Historic Places in March 2018.

Current Project

The Owner/Developer's parent company purchased the FNC complex with intention to redevelop under three (3) separate ownership entities and in three (3) distinct phases or components as here described:

- Garage: A parking garage and retail and commercial space to be located on the site of the FNC office building which was built in 1957 and 1972 (the Garage component, or the Garage). This was recently completed.
- Hotel: A 146 room 4-star hotel with ground floor retail and fine dining, a 2nd level grand lobby with café and bars, and basement-level speakeasy in what was once the bank vault (the Hotel component, or the Hotel). The Hotel flag will be Marriot Autograph Collection franchise. The Hotel operator will be Coury Hospitality. The Food and Beverage operator will be Apicii out of New York City. This project is estimated to be complete by early 2022. The Section 108 loan shall be limited to the hotel aspect of the overall project.
- Residences: High rise luxury rental with approximately 200 units in the upper floors nine (9) through 32 of the tower (the Residential component, or Residential Units).

B. ESTIMATED TIMELINE

i. Hotel Construction Schedule: Complete by year end 2021.

ii. HUD Guaranteed Financing: Ideally closing on or prior to end of September 2021.

iii. Environmental review: The Part 58 review process was complete in April 2021.

iv. Hotel estimated placed-in-service date: Early 2022.

v. Hotel operations stabilized by 2025.

II. FORM OF 108 ASSISTANCE

- The Section 108 Loan: This application represents a third-party request by a special purpose entity. Under this type of loan structure, The City borrows Section 108 funds from HUD and relends to the Owner/Developer.
- Term: FNCH agrees to interim financing for an approximate term of five and a half (5.5) years to coincide with the end term of its senior construction loan in April 2027. Provisions allow for an option to extend through November 2029 and an alternative option to extend to the maximum 20-year 108 Loan period under specific conditions which shall include, but may not be limited to achievement of the required number of FTEs, a successful repayment history, improved collateral positioning, etc.
- Due to the possibility of a 20-year third-party loan, The City is requesting a 20-year loan term from HUD.
- Interest-only Period: Under The City's Section 108 lending criteria, the third-party borrower shall begin repaying principal to The City approximately 12 months prior to The City's obligation

to begin repaying principal to HUD. This is necessary for The City to build up sufficient reserves to fully meet its principal payment obligations to HUD. For example, should The City receive approval for a four (4) year interest-only period, FNCH shall receive a three (3) year interest-only period. The City requests a four (4) year interest-only period.

- HUD Rate: FNCH has requested a variable interest rate, which per recent notice from HUD is tied to the U.S. Treasury three-month auction rate (underwritten at .05%) plus 35 basis points (.35%).
- City Rate Premium: Because of the extended risk of a potential 20-year loan term on a floating rate, The City, in accordance with its standard 108 loan terms, would impose upon the third-party borrower an additional 130 basis points (1.3%).
- Combined Rate: Given the HUD rate requirement as underwritten and The City's premium, the third-party borrower may initially expect a combined rate of plus or minus 170 (1.7%) basis points.
- Amortization: The City assumes a 20-year amortization.
- Collateral for the Section 108 loan guarantee:
    - A second position lien on the real property asset / or leasehold mortgage.
    - A first lien position on the first $6.5 million of FFE, or at whatever level of 108 proceeds is used to purchase FFE (currently proposed by FNCH).
    - A personal guarantee from FNCH principal, Charlie Nicholas, for any HUD-required repayment for lack of job creation.
    - Any other collateral required by HUD including a pledge of CDBG grant funds.
- New Market Tax Credits are not involved in this undertaking.
- No known sources of financing for the FNCH project are tax exempt.

III. INFORMATION ON ORGANIZATIONAL ARRANGEMENTS

- The City, a municipal corporation, shall act as the primary borrower entity. The City is a CDBG Entitlement Community and a previous, successful Section 108 Loan borrower.
- Third-party borrower organizational structure:
    - Hotel Owner: NE CS FNC Hotel LLC, project Owner/Developer (hereafter used synonymously with FNCH), receives most of the financing for the development capital stack, including the senior construction loan, a TIF loan, the Section 108 third-party loan and State Historic Tax Credits. This entity is comprised of or otherwise is in partnership with the following corporate entities for purposes of the FNCH project:
    - Parent Company: NE CS First National, LP: The managing member of the partnership, owning ninety-five percent (95%) of the interests in the Hotel Ownership and one hundred percent (100%) of the FNC Hotel MT Manager. The LP acts as the principal

developer entity for all three-phases of the broader First National Center project (i.e. Garage, Hotel, Residences).

- Hotel Manager: FNC Hotel MT Manager: Managing member of FNC Hotel Master Tenant LLC with a 1% ownership interest that flips to 95% following the 5-year Historic Tax Credits compliance period.

- FNC Hotel Master Tenant LLC: Leases the Hotel from Owner/Developer, FNCH, under a Master Lease, and subleases back to FNCH for hotel operations under an Operating Sublease. This entity is 99% owned for the first five (5) years of the project by the investor of Federal Historic Tax Credit (FHTC) Equity and 1% owned by the FNC Hotel MT Manager. At the end of the 5-year recapture period, the entity will be 95% owned by the FNC Hotel MT Manager and 5% owned by the FHTC Investor.

- A diagram of the above organizational arrangement is provided as Exhibit C to this Agreement

- Third-party borrower experience and capacity:

  - Principals/Primary contacts of the Parent Company include:

    a. Charlie Nicholas, General Partner (GP) of NE Multifamily Development LLC. The GP is a Limited Partner in the Parent Company through Nicholas Multifamily Holdings No.2 LP. Mr. Nicholas, principal of NE Construction of Dallas, has also been active in Oklahoma City real estate with projects totaling more than $200 million completed or under development. His real estate career dates back more than 30 years and includes development and construction of more than 20,000 multifamily units. His holdings also include convenience stores and manufacturing operations.

    b. Gary Brooks, Limited Partner of the Parent Company, and principal of Cornerstone Development, a developer of numerous multifamily rental properties in Oklahoma, and frequent user of HUD 221(D) financing. Brooks has extensive experience in the real estate development industry, including acquisition, financing, design, construction and property management.

  - Other members of the development team include:

    a. ADG: Architect and Civil Engineer, OKC;

    b. Walter P. Moore, Structural Engineer, Dallas;

    c. Jordan & Skala, Mechanical, Electrical, Plumbing Engineer, Dallas;

    d. Merriman Anderson Architects, historic consultants.

  - Members of the management/operations team include:

    a. Hotel Operations
       - FNCH entered into a certain Hotel Management Agreement with Ambassador Hotel Collection, LLC (d/b/a Coury Hospitality) on August 3, 2018

- Coury Hospitality has over 30 years of experience in the management and operation of hotels, and operates hotels in Oklahoma City and Tulsa including Marriott Autograph Collection hotels in other locations.
- The FNCH shall be a Marriot Autograph Collection franchise.

b. Food and Beverage Operations
- FNCH entered into a certain Food and Beverage Management Agreement with National OKC F&B Management, LLC, Delaware limited liability company, on November 6, 2020.
- The organization behind the F&B Management LLC is APICII out of New York City. APICII promotes itself as a "bespoke" hospitality management and concept development company. APICII has developed and operates a collection of restaurants, bars, event spaces, private clubs and co-working venues throughout North America.

IV. FINANCIAL AND UNDERWRITING SUMMARY

A. Sources and Uses Statement

i. Total Project Development:

a. FNC Hotel Project Sources:

		Notes
Section 108 Loan (fee included)	$ 11,237,000	includes financing fee
Bridge for Historic Tax Credits	$ 22,726,329	net of interest holdback
HTC Upfront State/Fed	$ 4,661,204	
TIF Loan	$ 21,665,000	net of interest holdback
TIF Credit/Rebate	$ 450,000	
Bank Loan (TFCU)	$ 45,000,000	
Developer Equity	$ 31,892,198	
Total	$ 137,631,731	

b. FNC Hotel Project Uses:

Property Acquisition	$ 7,853,645
Financing Fees	$ 2,585,947
Architect & Engineer Fees	$ 5,549,697
Legal Fees	$ 3,541,543
Consulting Fees	$ 2,368,299
Other	$ 2,271,462
Construction Costs	$ 99,674,597
Furniture, fixtures and equipment	$ 6,500,000
Marketing & pre-opening	$ 375,000
Development Fee & Costs	$ 3,632,428
Interest Carry & Fees	$ 3,279,113
Total	$ 137,631,731

ii. Specific Uses of Section 108 funds: Section 108 Loan proceeds are budgeted to cover non-construction-related soft costs and fixtures, furnishings, and equipment (FFE). A categorical uses budget specific to 108 is provided in the chart below:

Section 108 Use Cost Categories

Furniture, fixtures and equipment	$ 6,500,000
Architectural and engineering fees	$ 1,646,000
Consulting and design fees	$ 879,000
Legal/Accounting fees	$ 600,000
Development fees & costs	$ 1,000,000
Marketing & pre-opening	$ 375,000
108 Financing Fee	$ 237,000
Total	$ 11,237,000

B. Information on other committed sources of project financing:

i. Bridge loan for Historic Tax Credits

a. A bridge loan for $25,110,039 was effectuated between FNCH and lender/investor, Stonehenge Capital affiliate, SBC 1, LLC, on November 6, 2020.

b. The initial maturity date is December 15, 2021 with an option for two extensions culminating on June 30, 2023.

c. The interest rate is 5.95% per annum.

d. An interest reserve holdback is required leaving a balance to project of $22,726,329.

e. Source of repayment is state and federal historic tax credits (HTC) and prepaid rents related thereto as described in the collateral section below.

f. Collateral includes a collateral assignment and lien on the following:
   - the equity contributions tied to the Oklahoma state historic tax credits
   - the prepaid rent payments tied to the Federal historic tax credits (FHTC) to be made by the Master Tenant (FNC Hotel Master Tenant, LLC) to Borrower/Developer upon receipt of the equity contributions by the FHTC Investor (Stonehenge REV IV, LLC) to the Master Tenant. These equity contributions and prepaid rent payments are contemplated to be used to fully payoff this FHTC/SHTC bridge loan.

ii. HTC Upfront State/Fed

a. Upfront HTC contribution by Stonehenge Capital affiliate, Stonehenge REV IV, LLC, to American Eagle Title Insurance Company (the “Title Agent”), on behalf of FNC Hotel Master Tenant LLC, an Oklahoma limited liability company (the “Hotel Master Tenant”), in the aggregate amount of $4,651,204.00 to fund a portion of the closing costs and certain other professional fees.

b. Upfront HTC contribution by First National STCI, LLC, a Delaware limited liability company (the “State Investor”) on behalf of the Hotel Landlord in the amount of

$10,000.00 which shall be deemed: (i) a capital contribution by the State Investor to the Hotel Landlord in the amount of $10,000.00 and used to fund a portion of the Closing Costs.

iii. TIF Loan:

a. A TIF loan for $24,550,000 effectuated between FNCH and The Oklahoma City Economic Development Trust (OCEDT) on November 6, 2020.

b. $2,885,000 of the loan amount was set aside in a loan reserve account and is not shown above as part of the capital stack.

c. $21,665,000 of the loan amount is dedicated for hotel rehabilitation. This net amount is shown as part of the FNC Hotel Project Sources above.

d. The TIF loan maturity date is October 1, 2034.

e. Interest Rate: The OCEDT borrowed the funds from JPMorgan Bank at an interest rate initially set at 2.48% (default rate) and passes this along. A premium of 0.75% is added to the downstream default rate in years 1 through 5 of the term, and of 1.00% for years 6 through payment in full of the Loan.

f. Source of repayment is City sales tax levied at 2.0% from FNC Tower operations sales (not construction) estimated over a five year period, State sales tax allowed by the Oklahoma Tourism Development Act estimated over a 10 year period, and ad valorem tax increment generated from the Hotel and Residential components of the tower located within the increment district estimated over a 14 year period.

g. TIF Lender has a first and exclusive priority security interest and lien on the TIF Loan Separate Collateral; collateral documents include:
   - Loan Account Pledge Agreement for Loan Disbursement Account;
   - Loan Disbursement Account Bank Account Control Agreement;
   - Loan Account Pledge Agreement for Loan Reserve Account;
   - Loan Reserve Account Bank Account Control Agreement;
   - Deed of Declaration of Covenants.

iv. TIF Credit: $450,000 in funds made available to the project from the TIF repayment account from a previous loan for the garage aspect of the overall project. Per the Economic Development Agreement for the TIF tower loan, the credit is to be used to fund the interest reserve requirement of $2,885,000. As such, the $450,000 is considered a separate source for the project.

v. Bank Loan (TFCU): Primary construction loan provided by Tinker Federal Credit Union, a federal credit union located in Edmond Oklahoma.

a. The loan closed on November 6, 2020.

b. Interest rate float:
   - The established up and down limits are not less than 5.0% per annum nor more than 18.0% per annum.

- The float is established as the Wall Street Journal Prime Rate plus one half percent (.50%), adjusted quarterly beginning January 1, 2021. Interest shall be computed on the basis of a 360-day year.
- TFCU may use a closely approximating rate in the case the WSJ prime rate is no longer published.

c. The term conditions are as follows:[1]
   - Interest only until November 2023 with principal and interest payments due thereafter on a 30-year amortization.
   - Term end date on November 2027 with an option to extend until November 2029.
   - FNCH models the initial loan term end as April 2027 with a refinance and a takeout of all other financing, including the Section 108 loan.

d. Source of repayment:
   - Interest from hotel operation revenue;
   - Principal from proceeds conversion to permanent loan.

e. Collateral includes:
   - Leasehold interest in the Hotel Property, specifically, per the loan agreement, a leasehold interest in the Ballroom under the Ballroom Related Party Lease, and all of the FNCH's Leases and rents (including specifically room rents from the Hotel Property, if any), together with all proceeds, products and increases thereof;
   - All right, title and interest of Borrower in and to: all furniture, fixtures, equipment and proceeds, products, increases, parts and accessories thereof; in conversations with FNCH stated that a purchase money lien is typically a first lien and that the funds from the HUD 108 loan will in fact be the source of purchase money for the FF&E; however, TFCU confirmed in conversation with FNCH that TCFU contemplates the City would have a first lien on the FF&E and would consider such confirming evidence of that as the City might propose when we get to the documentation process.

f. The loan is further secured by a Mortgage Guarantee executed by Gary Brooks, Brooks First National holding, LLC an Oklahoma Limited Liability company, Charlie Nicolas, and Nicholas Multifamily Holdings No 2, LP, a Delaware limited partnership.

g. TFCU collateral documents include:
   - TFCU Mortgage;
   - Assignment of Leases and Rents;
   - Collateral Assignment of Agreements, Plans and Specifications, Collateral Assignment of Hotel Management Agreement and Subordination of Management Fees;

[1] In conversation with FNCH, they have stated they are unsure at this time what they will do regarding a refinance. In case they do not wish to pay the 108 loan off until the maximum 20-year timeframe allowed by HUD, they would want to have the term of the 108 loan underwritten for a 20-year period.

- Collateral Assignment of Food and Beverage Management Agreement and Subordination of Management Fees;
- Collateral Assignment of Development Management Agreement and Subordination of Management Fees, all as may be modified, amended, restated or replaced from time to time.

vi. Developer Equity: $31,892,198 presently invested in the project.

C. Information on estimated revenue and operating expenses: Property Appraisal including appraiser's adjusted proforma and FNCH Developer Proforma available upon request and with direct permission from appraiser and FNCH.

D. The repayment source for the 108 loan is revenue from the hotel and its food/beverage operations.

E. The City requests a 20-year (240-month) repayment period for the HUD Section 108 loan with a possibility of an early payoff. The intent is to remain in interim financing throughout the term. The amortization shall be 20 years.

F. Proposed Section 108 principal-only repayment schedule (includes fee):

Principal Due Date	Amount
August 1, 2021	$0
August 1, 2022	$0
August 1, 2023	$0
August 1, 2024	$0
August 1, 2025	$617,000
August 1, 2026	$627,000
August 1, 2027	$638,000
August 1, 2028	$649,000
August 1, 2029	$660,000
August 1, 2030	$672,000
August 1, 2031	$683,000
August 1, 2032	$695,000
August 1, 2033	$707,000
August 1, 2034	$719,000
August 1, 2035	$731,000
August 1, 2036	$744,000
August 1, 2037	$756,000
August 1, 2038	$769,000
August 1, 2039	$782,000
August 1, 2040	$788,000
Total	$11,237,000

V. INFORMATION ON PROGRAM REQUIREMENTS

A. Eligible Section 108 activity categories:

i. The project shall be funded as an eligible economic development activity under 24 CFR Part 570.703(i)(1), which references eligibility under §570.203.

ii. The eligible special economic development activities under §570.203(b) include loan assistance to carry out an economic development project, excluding those described as ineligible in §570.207(a) and with guidelines for selection at §570.209.

a. This project shall involve no displacement of existing businesses or jobs.

b. The eligible activity shall be the purchase of FFE for the project and non-construction-related soft costs.

c. Limitations on the FFE cost categories include the following:
- Marketing costs shall be limited to:
  - Advertising solely for the recruitment of personnel required for the hotel or its related retail or restaurant components. The term advertising costs is defined in 2 CFR Part 200.421(b).
  - Program outreach and other specific purposes necessary to meet the requirements of the Federal award.
  - Unallowable marketing costs include marketing for any products or services of the hotel, its related retail, restaurant or ancillary components, per 2 CFR Part 200.467.
  - The cost of alcoholic beverages under marketing or any other category is unallowable. See 2 CFR Part 200.423.
- FFE: A detailed list of FFE items to be purchased with 108 loan funds shall be provided, reviewed and approved prior to execution of the third-party loan agreement. This list shall include the item description, per unit cost, number of units to be purchased, total cost per item category, vendor name, and backup documentation including vendor invoices and sale logs.
  - Carpet is unallowable as an FFE expense.
  - Drapery is unallowable as an FFE expense.
  - Where FFE involves installation, the cost is allowable only when the installation work is =<13% of the respective FFE contract cost.

B. National Objective to be achieved:

i. Benefit to low-and moderate-income persons through job creation.

ii. For the funding level provided, FNCH is required to create a minimum of 220 permanent, FTE service sector jobs.

a. These jobs are counted annually and do not accrue, aggregate, or compound from one year to the next. In other words, each year the project shall be required to report on the number of FTEs produced in that year until the total of 220 FTEs is achieved.

b. The project shall have until April 2027 to achieve the required number of FTE jobs.

iii. Under the job creation National Objective criteria at 24 CFR Part 570.208(a)(4)(iv), jobs created by the project activity are presumed to be low- or moderate-income for the following reasons:

a. The Census Tract (CT) where the project and the job creation activity is located has a poverty rate greater than 20% as determined by the most recently available census information; and

b. The CT is located in the Central Business District, with an individual poverty rate greater than 30%; and

c. The CT evidences pervasive poverty and general distress by the following standards:
   - All block groups in the CT have a poverty rate of at least 20%; and
   - The activity being undertaken is located in a Block Group (BG) with a poverty rate of at least 20%.

iv. The presumption allows all jobs created to be counted a low/moderate-income jobs.

C. Public Benefit Standard:

i. The FNCH Project is located in CT 1091, which contains a single BG.

ii. The most current American Community Survey Census data (2019 five-year estimates) lists the poverty rate for all persons in the CT/BG as 58.5%.

iii. Section 108 loan funds would provide assistance to a business operating within a CT that has at least 20% of its residents who are in poverty.

iv. For the reasons above, the activity may be excluded from the regulatory aggregate standard at 24 CFR Part 570.209(b)(2)(v)(F), and otherwise subject to the individual standard at §570.209(b)(3)(i)(A), which allows up to $50,000 of assistance for each permanent, FTE job created by the project.

v. The level of The City's Section 108 loan request requires the project to generate a minimum of 220 FTEs (220 x $50,000 = $11,000,000) to meet the public benefit standard.

D. Supporting documentation for the National Objective/Public Benefit: Roster of jobs for both the hotel and food and beverage aspects of the operation are attached as Exhibit D.

E. Project Underwriting Report: In accordance with regulations at 24 CFR Part 570.209, The City performed an underwriting analysis of the third-party loan following HUD's Section 108 Underwriting Guidelines published in 2017. The initial underwriting was completed in May 2018. An updated underwriting was performed based on the more current information available/provided by FNHC. The updated underwriting report is attached as Exhibit E.

Exhibit A
HUD-Required Certifications

The Section 108 Loan Guarantee Program is authorized by Section 108 of the Housing and Community Development Act of 1974, as amended, 42 USC §5308. The program's authorizing statute and governing regulations at 24 CFR part 570, subpart M, and in particular 24 CFR 570.704(b), require applications for loan guarantee assistance submitted by Entitlement Entities to be accompanied by certain certifications, which are included on the following pages of this Exhibit A in the same form and substance as published by the U.S. Department of Housing and Urban Development.

ENTITLEMENT PUBLIC ENTITY CERTIFICATIONS

In accordance with the applicable statutes and the regulations governing Section 108 application submission requirements, the undersigned certifies, on behalf of the entitlement public entity and to the best of his or herknowledge and belief, that:

1. It possesses the legal authority to make the pledge of grants required under 24 CFR 570.705(b)(2);

2. It has made efforts to obtain financing for activities described in the application without the use of the loan guarantee, it will maintain documentation of such efforts for the term of the loan guarantee, and itcannot complete such financing consistent with the timely execution of the program plans without suchguarantee;

3. It possesses the legal authority to submit the application for assistance under 24 CFR Part 570, Subpart Mand to use the guaranteed loan funds in accordance with the requirements of Subpart M;

4. Its governing body has duly adopted or passed as an official act a resolution, motion or similar officialaction:

   (a) Authorizing the person identified as the official representative of the public entity to submit the application and amendments thereto and all understandings and assurances contained therein, and directing and authorizing the person identified as the official representative of the public entity to actin connection with the application to provide such additional information as may be required; and

   (b) Authorizing such official representative to execute such documents as may be required in order to implement the application and issue debt obligations pursuant thereto (provided that the authorization required by this paragraph may be given by the local governing body after submissionof the application but prior to execution of the contract required by §570.705(b));

5. Before the submission of its application to HUD, it has:

   (a) furnished citizens with information required by 24 CFR 570.704(a)(2)(i);

   (b) held at least one public hearing to obtain the views of citizens on community development andhousing needs;

   (c) prepared its application in accordance with the citizen participation requirements and made theapplication available to the public;

6. It is following a detailed citizen participation plan that meets the requirements described in 570.704(a)(2);

7. It will affirmatively further fair housing, and the guaranteed loan funds will be administered in compliancewith:

(a) Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.); and

(b) The Fair Housing Act (42 U.S.C. 3601-3619);

8. In the aggregate, at least 70 percent of all CDBG funds, as defined at §570.3, to be expended during theone, two, or three consecutive years specified by the public entity for its CDBG program will be for
activities which benefit low- and moderate-income persons, as described in criteria at §570.208(a);

9. It will comply with the requirements governing displacement, relocation, real property acquisition, andthe replacement of low- and moderate-income housing described in §570.606;

10. It will comply with the requirements of 24 CFR 570.200(c)(2) with regard to the use of special assessmentsto recover the capital costs of activities assisted with guaranteed loan funds;

11. (Where applicable, the public entity may also include the following additional certification.) It lacks sufficient resources from funds provided under this subpart or program income to allow it to comply with the provisions of 24 CFR 570.200(c)(2), and it must therefore assess properties owned and occupied by moderate income persons, to recover the non-guaranteed loan funded portion of the capitalcost without paying such assessments in their behalf from guaranteed loan funds;

12. It will comply with the other provisions of title I of the Housing and Community Development Act of 1974as amended (42 U.S.C. 5301 et seq.) and with other applicable laws.

The City of Oklahoma City

____

(Entitlement Public Entity)

______________________________________ ________________________

(Signature of Authorized Official) (Date)

David Holt, Mayor

____

(Typed Name and Title of Authorized Official)

SECTION 108 LOAN GUARANTEE PROGRAM

Certification Regarding Lobbying

Certification for Contracts, Grants, Loans, and Cooperative Agreements

The undersigned certifies, to the best of his or her knowledge and belief, that:

(1) No Federal appropriated funds have been paid or will be paid, by or on behalf of the undersigned, to any person for influencing or attempting to influence an officer or employee of an agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with the awarding of anyFederal contract, the making of any Federal grant, the making of any Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any Federal contract, grant, loan, or cooperative agreement.

(2) If any funds other than Federal appropriated funds have been paid or will be paid to any person for influencingor attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee ofCongress, or an employee of a Member of Congress in connection with this Federal contract, grant, loan, or cooperative agreement, the undersigned shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions.

(3) The undersigned shall require that the language of this certification be included in the award documents for allsubawards at all tiers (including subcontracts, subgrants, and contracts under grants, loans, and cooperative agreements) and that all subrecipients shall certify and disclose accordingly.

This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transactionimposed by section 1352, title 31, U.S. Code. Any person who fails to file the required certification shall be subjectto a civil penalty of not less than $10,000 and not more than $100,000 for each such failure.

The City of Oklahoma City
____
(Entitlement Public Entity)

____
(Signature of Authorized Official)

David Holt, Mayor
____
(Typed Name and Title of Authorized Official)

____________________________________(Date)

SECTION 108 LOAN GUARANTEE PROGRAM

Statement for Loan Guarantees and Loan Insurance

The undersigned states, to the best of his or her knowledge and belief, that:

If any funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Memberof Congress in connection with this commitment providing for the United States to insure or guarantee a loan, theundersigned shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions.

Submission of this statement is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required statement shall be subject to a civil penalty of not less than $10,000 and not more than $100,000 for each such failure.

The City of Oklahoma City
(Entitlement Public Entity)

____
(Signature of Authorized Official)

David Holt, Mayor
(Typed Name and Title of Authorized Official)

____(Date)

Exhibit B

Aerial of Site

(Subject Site Highlighted Yellow. Larger FNC Project Site Outlined Red)

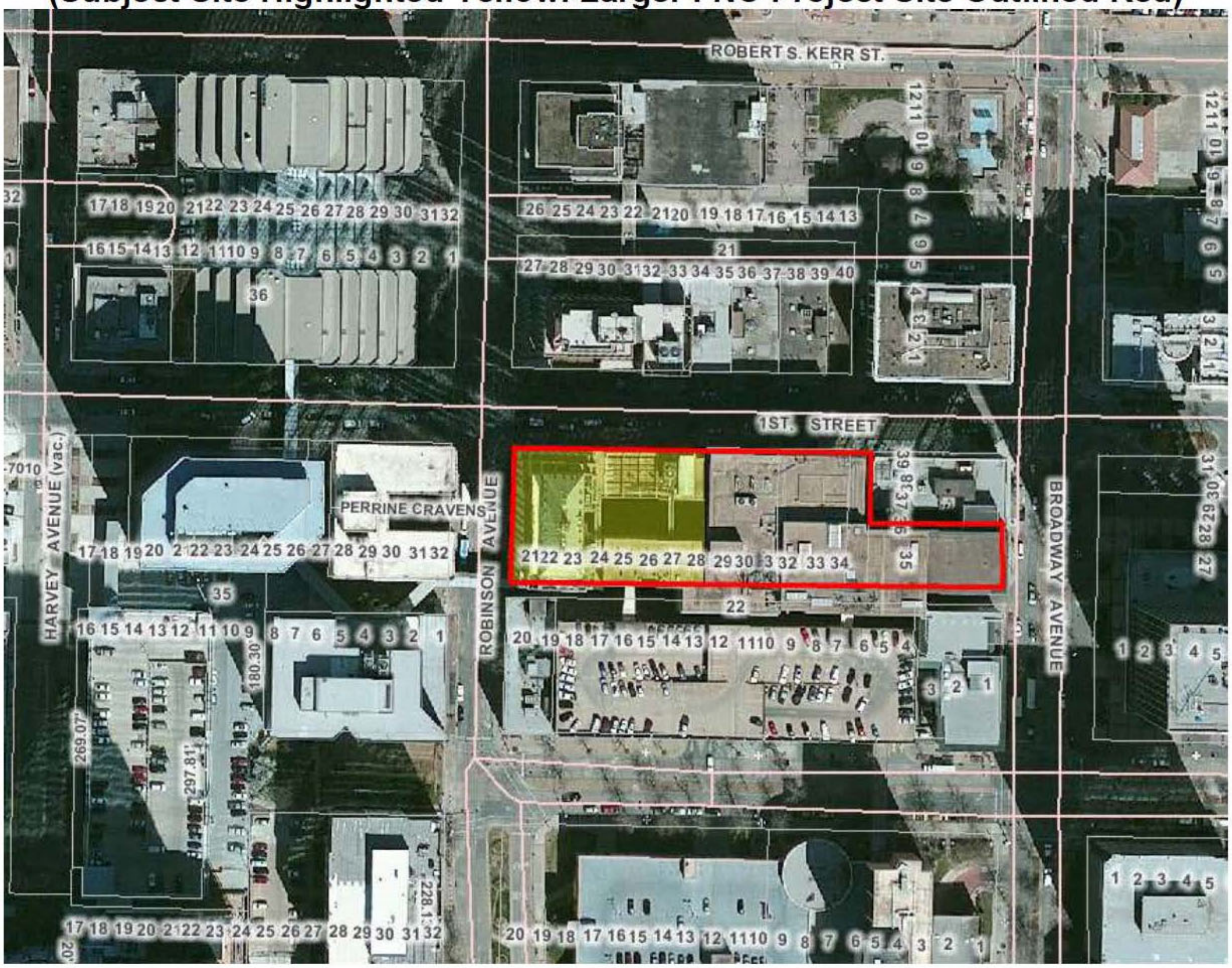

Exhibit C

First National Center - Hotel
Organizational Diagram
September 30, 2020

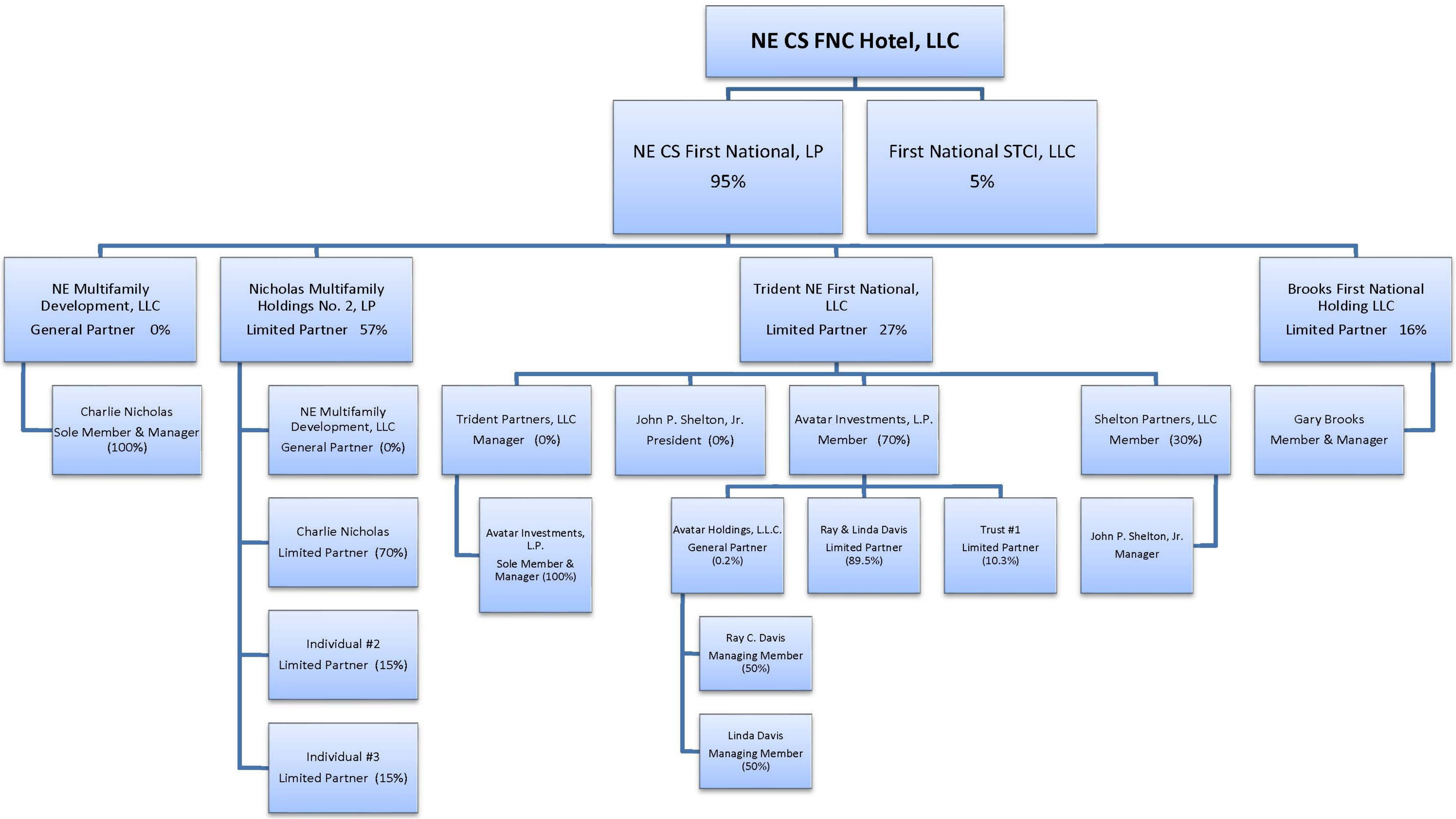

Exhibit D
Roster of Jobs Proposed by FNCH

The following pages represent the roster of Full Time Equivalent (FTE) jobs proposed and provided by the First National Center Hotel (FNCH). FNCH rounded up fractional numbers, while The City's standard rounds down in accordance with prior HUD guidance. The roster of FTEs includes a hotel count of 75 (actually 74.5, which The City rounds down to 74), and a food and beverage (F&B) count of 57 for the proposed steak house and 146 for the balance of F&B hotel-related operations. The total proposed is 277, which is higher than the loan size request at 220.

Evidentiary documentation provided by FNCH to support the claim for the level of jobs proposed is described in section 4.3 of the underwriting report included as Exhibit E here below.

First National Center Hotel

Oklahoma City, OK

Hotel Jobs Estimate

HOUSEKEEPING	FTE	Pay Rate	Scale	Hours	Total	Benefits	Benefits Total	Position Total	Grand Total
Executive Housekeeper	1	$ 55,000.00	Annual	1	$ 55,000.00	33.60%	$ 18,480.00	$ 73,480.00	$ 73,480.00
Housekeeping Supervisor	2	$ 15.00	Hourly	2080	$ 31,200.00	33.60%	$ 10,483.20	$ 41,683.20	$ 83,366.40
Housekeeper	12	$ 11.00	Hourly	2080	$ 22,880.00	33.60%	$ 7,687.68	$ 30,567.68	$ 366,812.16
Houseman	3.5	$ 11.00	Hourly	2080	$ 22,880.00	33.60%	$ 7,687.68	$ 30,567.68	$ 106,986.88
FRONT OFFICE									
Front Office Manager	1	$ 50,000.00	Annual	1	$ 50,000.00	33.60%	$ 16,800.00	$ 66,800.00	$ 66,800.00
Front Office Supervisor	1	$ 16.00	Hourly	2080	$ 33,280.00	33.60%	$ 11,182.08	$ 44,462.08	$ 44,462.08
Front Desk Agent	12	$ 12.00	Hourly	2080	$ 24,960.00	33.60%	$ 8,386.56	$ 33,346.56	$ 400,158.72
PBX	0	$ 12.50			$ -	33.60%	$ -	$ -	
Doorman	4	$ 8.00	Hourly	2080	$ 16,640.00	33.60%	$ 5,591.04	$ 22,231.04	$ 88,924.16
Bellman	6	$ 8.00	Hourly	2080	$ 16,640.00	33.60%	$ 5,591.04	$ 22,231.04	$ 133,386.24
Valet	12	$ 8.00	Hourly	2080	$ 16,640.00	33.60%	$ 5,591.04	$ 22,231.04	$ 266,772.48
ENGINEERING									
Chief Engineer	1	$ 62,000.00	Annual	1	$ 62,000.00	27.80%	$ 17,236.00	$ 79,236.00	$ 79,236.00
Maintenance Tech	5	$ 17.00	Hourly	2080	$ 35,360.00	27.80%	$ 9,830.08	$ 45,190.08	$ 225,950.40
SALES & MARKETING									
Director of Sales	1	$ 95,000.00	Annual	1	$ 95,000.00	21.80%	$ 20,710.00	$ 115,710.00	$ 115,710.00
Corporate Sales Manager	2	$ 55,000.00	Annual	1	$ 50,000.00	21.80%	$ 10,900.00	$ 60,900.00	$ 121,800.00
Sales Coordinator	2	$ 36,000.00	Annual	1	$ 36,000.00	21.80%	$ 7,848.00	$ 43,848.00	$ 87,696.00
Experience Curator	3	$ 45,000.00	Annual	1	$ 45,000.00	21.80%	$ 9,810.00	$ 54,810.00	$ 164,430.00
ADMINISTRATIVE & GENERAL									
General Manager	1	$ 154,000.00	Annual	1	$ 154,000.00	21.80%	$ 33,572.00	$ 187,572.00	$ 187,572.00
Night Auditor	3	$ 15.00	Hourly	2080	$ 31,200.00	21.80%	$ 6,801.60	$ 38,001.60	$ 114,004.80
Controller	1	$ 65,000.00	Annual	1	$ 65,000.00	21.80%	$ 14,170.00	$ 79,170.00	$ 79,170.00
HR Manager	1	$ 65,000.00	Annual	1	$ 65,000.00	21.80%	$ 14,170.00	$ 79,170.00	$ 79,170.00
TOTAL	**75**	**$ 682,133.50**			**$ 928,680.00**		**$ 242,528.00**	**$ 1,171,208.00**	**$ 2,885,888.32**

F&B STAFFING - STEAK

Payroll Assumptions

MANAGEMENT

Position	Pay Rate	#	Hourly Rate	Annualized	Hour/Salary	Hours Per Week	Total Wages	Total Hours
Director of F&B	125,000	-	60.10	-	Salary	40	-	-
Executive CHef	90,000	1	43.27	90,000	Salary	40	90,000	2,080
Restaurant Chef	75,000	-	36.06	-	Salary	40	-	-
Banquet Chef	75,000	-	36.06	-	Salary	40	-	-
Sous Chef	55,000	2	26.44	55,000	Salary	40	110,000	4,160
Pastry Chef	55,000	-	26.44	-	Salary	40	-	-
Restaurants GM	75,000	1	36.06	75,000	Salary	40	75,000	2,080
Floor Manager	55,000	2	26.44	55,000	Salary	40	110,000	4,160
Beverage Director	75,000	1	36.06	75,000	Salary	40	75,000	2,080
Marketing Director	65,000	-	31.25	-	Salary	40	-	-
Catering Sales Director	65,000	-	31.25	-	Salary	40	-	-
Catering Manager	55,000	-	26.44	-	Salary	40	-	-
HR Director	60,000	-	28.85	-	Salary	40	-	-
F&B Controller	60,000	-	28.85	-	Salary	40	-	-
Total Management		**7**					**460,000**	**14,560**

HOURLY KITCHEN

Position	Pay Rate	#	Hourly Rate	Annualized	Hour/Salary	Hours Per Week	Total Wages	Total Hours
Line 1	16.00	12.0	16.00	33,280	Hourly	40	399,360	24,960
Pastry	15.00	-	15.00	-	Hourly	40	-	-
Prep	15.00	5.0	15.00	31,200	Hourly	40	156,000	10,400
Dish	14.00	6.0	14.00	29,120	Hourly	40	174,720	12,480
Total Hourly Kitchen		23.0					**730,080**	**47,840**

FLOOR

Position	Pay Rate	#	Hourly Rate	Annualized	Hour/Salary	Hours Per Week	Total Wages	Total Hours
Dining Server	7.00	15.0	7.00	10,747	Hourly	30	161,200	23,029
Bus	7.00	2.0	7.00	10,920	Hourly	30	21,840	3,120
Host	15.00	4.0	15.00	23,400	Hourly	30	93,600	6,240
Runner	7.00	5.0	7.00	9,100	Hourly	25	45,500	6,500
Total Floor							**322,140**	**38,889**

BARS

Position	Pay Rate	#	Hourly Rate	Annualized	Hour/Salary	Hours Per Week	Total Wages	Total Hours
Bartender	7.00	6.0	7.00	10,920	Hourly	30	65,520	9,360
Cocktail	7.00	2.0	7.00	10,920	Hourly	30	21,840	3,120
Bar Back	7.00	2.0	7.00	14,560	Hourly	40	29,120	4,160
Total Bars							**116,480**	**16,640**

BANQUET

Position	Pay Rate	#	Hourly Rate	Annualized	Hour/Salary	Hours Per Week	Total Wages
Server	7.00	-	7.00	-	Hourly	25	-
Total Banquet							**-**

ROOM SERVICE

Position	Pay Rate	#	Hourly Rate	Annualized	Hour/Salary	Hours Per Week	Total Wages
Delivery	8.00	-	8.00	-	Hourly	30	-
Total Room Service							**-**

hourly	**59**	**Total Hours**	**117,929**
management	**7**	**FTE Calc**	**57**

TOTAL SALARIES & WAGES

	Cost Driver	Total	% of Total	%
Salaries & Wages		1,628,700	77.1 %	
Service Charges / Room Charges	584,000	(29,200)	(1.4)%	25.00 %
Bonus	460,000	46,000	2.2 %	9.00 %
Vacation Pay	1,628,700	65,148	3.1 %	3.85 %
Workers Comp	1,628,700	57,005	2.7 %	5.00 %
Health Benefits		141,200	6.7 %	
Payroll Taxes	1,628,700	203,588	9.6 %	13.00 %
Total Payroll Cost		**2,112,440**	**100.0 %**	

F&B STAFFING HOTEL F&B

Payroll Assumptions

MANAGEMENT								
Position	Pay Rate	#	Hourly Rate	Annualized	Hour/Salary	Hours Per Week	Total Wages	Total Hours
Director of F&B	125,000	1	60.10	125,000	Salary	40	125,000	2,080
Executive CHef	100,000	1	48.08	100,000	Salary	40	100,000	2,080
Restaurant Chef	75,000	1	36.06	75,000	Salary	40	75,000	2,080
Banquet Chef	75,000	1	36.06	75,000	Salary	40	75,000	2,080
Sous Chef	55,000	4	26.44	55,000	Salary	40	220,000	8,320
Pastry Chef	60,000	1	28.85	60,000	Salary	40	60,000	2,080
Restaurants GM	75,000	1	36.06	75,000	Salary	40	75,000	2,080
Floor Manager	55,000	5	26.44	55,000	Salary	40	275,000	10,400
Beverage Director	75,000	1	36.06	75,000	Salary	40	75,000	2,080
Marketing Director	65,000	1	31.25	65,000	Salary	40	65,000	2,080
Catering Sales Director	65,000	1	31.25	65,000	Salary	40	65,000	2,080
Catering Manager	55,000	2	26.44	55,000	Salary	40	110,000	4,160
HR Director	60,000	1	28.85	60,000	Salary	40	60,000	2,080
F&B Controller	60,000	1	28.85	60,000	Salary	40	60,000	2,080
Total Management		**22**					**1,440,000**	**45,760**

HOURLY KITCHEN								
Position	Pay Rate	#	Hourly Rate	Annualized	Hour/Salary	Hours Per Week	Total Wages	
Line 1	16.00	25.0	16.00	33,280	Hourly	40	832,000	52,000
Pastry	15.00	5.0	15.00	31,200	Hourly	40	156,000	10,400
Prep	15.00	8.0	15.00	31,200	Hourly	40	249,600	16,640
Dish	14.00	12.0	14.00	29,120	Hourly	40	349,440	24,960
Total Hourly Kitchen		50.0					**1,587,040**	**104,000**

FLOOR								
Position	Pay Rate	#	Hourly Rate	Annualized	Hour/Salary	Hours Per Week	Total Wages	
Dining Server	7.00	20.0	7.00	10,747	Hourly	30	214,933	30,705
Bus	7.00	8.0	7.00	10,920	Hourly	30	87,360	12,480
Host	15.00	8.0	15.00	23,400	Hourly	30	187,200	12,480
Runner	7.00	8.0	7.00	9,100	Hourly	25	72,800	10,400
Total Floor							**562,293**	**66,065**

BARS								
Position	Pay Rate	#	Hourly Rate	Annualized	Hour/Salary	Hours Per Week	Total Wages	
Bartender	7.00	12.0	7.00	10,920	Hourly	30	131,040	18,720
Cocktail	7.00	8.0	7.00	10,920	Hourly	30	87,360	12,480
Bar Back	7.00	4.0	7.00	14,560	Hourly	40	58,240	8,320
Total Bars							**276,640**	**39,520**

BANQUET								
Position	Pay Rate	#	Hourly Rate	Annualized	Hour/Salary	Hours Per Week	Total Wages	
Server	7.00	30.0	7.00	9,100	Hourly	25	273,000	39,000
Total Banquet							**273,000**	**39,000**

ROOM SERVICE								
Position	Pay Rate	#	Hourly Rate	Annualized	Hour/Salary	Hours Per Week	Total Wages	
Delivery	8.00	6.0	8.00	12,480	Hourly	30	74,880	9,360
Total Room Service							**74,880**	**9,360**

hourly	154
management	22

Total Hours	**303,705**
FTE Calc	**146**

TOTAL SALARIES & WAGES			
	Cost Driver	Total	% of Total
Salaries & Wages		4,213,853	78.2 %
Service Charges / Room Charges	4,000,000	(200,000)	(3.7)%
Bonus	1,440,000	144,000	2.7 %
Vacation Pay	4,213,853	168,554	3.1 %
Workers Comp	4,213,853	147,485	2.7 %
Health Benefits		387,200	7.2 %
Payroll Taxes	4,213,853	526,732	9.8 %
Total Payroll Cost		**5,387,824**	**100.0 %**

Exhibit E

First National Hotel Section 108 Loan Request
Updated Underwriting Analysis
City of Oklahoma City Planning Department
Community Development Division

May 2021

TABLE OF CONTENTS PAGES

Note: Developer's recently adjusted pro forma is included as an attachment to The City of Oklahoma City's Section 108 Loan Guarantee Application, which is a companion to this document.

This underwriting relies on a different version of the pro forma utilized by an appraisal performed in Sept 2020. That version is included in the appraisal and summarized by this underwriting, but not included due to the proprietary nature of the appraisal.

A site aerial is included as Exhibit B to the Section 108 Funding Application, a companion document.

INTRODUCTION

Restoration of the iconic First National Center has been ongoing for several years. The developer originally requested Section 108 loan assistance four (4) years ago (in June 2017) to help convert the lower portion of the former bank tower into a full-service, 4-star hotel. The rehabilitation involves a major remodel and refurbishing of the basement vault, main level retail corridor, second floor great hall, and floors three (3) through eight (8) to accommodate 146 lodging rooms supported by a mixture of restaurants, cafés, bars, and 12,000 sq. ft. of ground floor retail.

One reason for the delay in processing the 108 request to the US Department of Housing and Urban Development (HUD) is that the project did not have full financing until recently. Now it does, and the current Section 108 Loan Guarantee request is $11 million to cover a financial gap related to high project costs and less-than-anticipated bank financing.

This is a third-party loan request by a special purpose entity. Under this type of loan structure, The City of Oklahoma City (“The City,” or “City”) borrows Section 108 funds from HUD and relends to the developer.

The Section 108 Loan Program is governed by regulations at 24 CFR Part 570, which require the primary borrower (here, The City) to perform an underwriting analysis of the downstream (third-party) loan in accordance with §570.209 of the regulations and with HUD Section 108 Underwriting Guidelines published in 2017. The initial underwriting was completed in May 2018. This updated underwriting report is based on the most current information available from the Developer and from Census Data.

The underwriting analysis was performed by City staff in the Planning Department, Community Development Division.

SUMMARY OF CONCLUSIONS

- The current estimated project cost is $137,234,422. This represents is an increase of about 60% since an initial 2016 Feasibility Study estimate, and an increase of 8% from the estimate used in The City’s 2018 underwriting of the project. This underwriting report is an update to the 2018 report.

- The most recent project appraisal performed in September 2020 by Isaacs & Associates for potential investor Prime Bank, estimates the stabilized project value at $79,780,000. The underwriting confirms the value estimate, which is considered net of any Tax Increment Financing (TIF) or related tax incentives.

- Public incentives, such as TIF, Historic Tax Credits (HTC), and State sales tax credits/rebates, represent 44% of the project cost and nearly 60% of the overall project debt. Most of the public debt sources are secured by payments generated by the incentives themselves.

- Equity contributions to the project represent approximately 23% of the development cost.

- Developer has requested an $11 million 108 loan to help cover a financial need representing 8% of the hotel development cost.

- The City's standard 108 loan size for a project of this type is $7.3 million based on the City's experience with previous 108 hotel projects and their documented ability to meet the required public benefit for the level of funds provided.

- At the 108 funding level requested, Developer has a substantial burden to create sufficient jobs to meet the public benefit requirement for the 108 loan size. See section 4.3 of this analysis for elaboration.

- Developer has submitted certain information as justification for the request. This is analyzed in section 4.3.6.

- Despite a deviation from The City's standard 108 loan sizing, and high relative risk, The City has determined the $11 million 108 loan request is appropriate with certain guarantees from the developer.

- Under a scenario where the project fails to create the required number of jobs for the funds provided, The City as the principal borrower may be required to repay with non-federal funds the difference between what was drawn and the regulatory amount allowed, or the loan amount in full. The City shall seek a developer guarantee to cover any difference.

- The hospitality market has been dramatically and negatively influenced by COVID-19. Although signs of recovery are evident, there remains two opposing consequences to the fallout of the pandemic:

  - Local economic and service sector recovery occurs at a level sufficient for the FNCH to generate revenue to cover all operational costs and debt service, including Section 108 debt repayment.
    - Under this optimistic scenario, some consider that project timing is optimal to ride a wave of recovery up to or beyond proposed demand levels.

  - Recovery in the service sector, and particularly hospitality, stalls such that hotel occupancy or average room rates and commensurate food and beverage sales are less than needed to generate base and incentive revenue levels commensurate to cover all operational needs and debt service obligations.
    - Under this pessimistic scenario, The City would be required to pay off the HUD debt.

1. <u>PROJECT DESCRIPTION</u>

1.1. **Project Name:** FNC Hotel, or otherwise, hereafter, Hotel.

1.2. **Project Site:** 120 N Robinson Ave, Oklahoma City, OK 73102. Aerial of site is provided as Exhibit B to the Section 108 Funding Application. Legal description provided upon request.

1.3. **Project Area:** Census Tract 1091.

1.4. **Project Developer:** Hereinafter Developer, or Borrower**:** NE CS FNC Hotel, LLC, an Oklahoma Limited Liability company, 100% owned by NE CS First National, LP, a Delaware Limited Partnership.

1.5. **Project History:** The First National Center (FNC) Tower, formerly known as the First National Bank Building, was constructed in 1931-32. The building was expanded in 1956-57 to include a 14-story office building, and expanded again between the years of 1972-1977, bringing the FNC complex to its current configuration of approximately 990,000 or rentable square feet. Along with a dedicated garage, the complex covers nearly half of a downtown city block in the heart of Oklahoma City's business district.

The original tower, which sits on the northwest corner of the block, is sometimes referred to as the West Tower. Rising 446 feet tall to the roof and 493 feet to the spire, it was once the tallest building in Oklahoma City and currently stands as the third tallest building in the City and the sixth tallest in the state. It is said to have architectural resemblance to the Empire State Building, a fact that may have preserved it from the dramatic razing of many of Oklahoma City's early 20th century landmark buildings in the 1970's and 1980's. Ownership of the FNC complex changed several times during the quarter century from 1985 to 2010 until the then troubled endeavor entered bankruptcy proceedings. The FNC went into receivership in 2015 and was completely vacated in 2016. It was purchased by its current owner in 2017 and placed on the National Register of Historic Places in March 2018.

1.6. **Project Scope:** Complete remodel of the basement through the first eight (8) floors of the tower building, estimated at 231,330 square feet per a Sept 2020 appraisal by Isaacs & Associates, which references the "Condominium Unit Exhibit" by local engineering company, ADG.

1.7. **Project Estimated Cost:** $137,150,650, per Developer's 11-30-2020 Section 108 application submission.

1.8. **Project Financing Summary:** See the Financial Analysis in section 7 of this report.

2. PROJECT FEASIBILITY AND READINESS

2.1. **Zoning, Permits and Licenses**:

2.1.1. Zoning is in place for the intended use(s): The existing DBD (Downtown Business District) designation allows for all forms of business activity, including mixed-uses in a single building.

2.1.2. Development regulations promote redevelopment and uses compatible with the commercial, cultural, historical and governmental significance of the area. Mixed use is encouraged as vital to enhancing existing structures and circulation patterns, and for preserving and restoring historic features.

2.1.3. All necessary permits and approvals have been advanced for Hotel redevelopment activities.

2.1.4. Licenses are required according to local code.

2.2. **Conformance with The City's Comprehensive Plan:**

2.2.1. Land Use Typology: Downtown is The City's most intense development area, envisioned as a regional center for commerce and tourism.

2.2.2. Development policies include the provision of parking in structured garages, the incorporation of commercial uses at street level, and facades, windows, and attractive signage and lighting to create pedestrian-scale interest.

2.2.3. The Project is located in a retail priority area the goals of which are to develop Downtown as a regional retail center and to strengthen retail uses through re-tenanting of vacant space.

2.3. **Utilities and City Services:** The property is fully served.

2.4. **Site control:** The site was purchased by Developer's parent company, NE CS First National, LP, in 2017. A recorded deed grants NE CS FNC Hotel, LLC a free and clear interest in Master Unit 1, aka the Hotel Master Unit, of the tower. The deed of ownership, granted to Developer on or about October 8, 2020, is recorded in Book 14512, Page 1445 of the records of the Oklahoma County Clerk.

2.4.1. The Developer' parent company purchased the complex with intention to redevelop in three (3) distinct and separate phases or components as here described:

- Garage: A parking garage and retail and commercial space to be located in the FNC office buildings built in 1957 and 1972 (the Garage component, or the Garage). This was completed in 2021.

- Hotel: A 146 room 4-star hotel with ground floor retail, a 2nd level grand lobby with café and bars, and basement-level fine dining in what was once the bank vault (the Hotel component, or the Hotel). The Hotel flag will be Marriot Autograph Collection. The Hotel operator will be Coury Hospitality. The food and beverage provider will be Apicii out of New York City. The 108 loan will be limited to this aspect of the overall endeavor.

- Residences: High rise luxury rental with 200 units in the upper 25 floors of the tower (the Residential component, or Residential Units).

2.4.2. The Hotel has a commercial condominium ownership structure within the tower.

2.4.3. Developer provided an FNC Master Condo Sequence Chart, dated 10/8/2020.

2.4.4. Developer has provided Title, Survey and Condo documents related to the Hotel as follows:

- FNC Hotel Loan Policy
- Alta Survey
- Special Warranty Deed
- National Master Condominium Declaration
- Hotel operating agreement
- Hotel organizational chart

2.5. **Environmental Review:**

2.5.1. A Part 58 Environmental Review was completed by the City in April 2021. The project is determined to be categorically excluded subject to §58.5, and converts to exempt per Section 58.34(a)(12).

2.5.2. A Phase 1 Environmental Site Assessment and cleanup plan has been provided to The City by Developer. Cleanup of known lead paint and asbestos is now complete.

2.6. **Title Insurance:** The Hotel's interest in the tower property must be pledged as collateral on the Section 108 loan. Should the 108 loan be effectuated, the policy must either include in the definition of the "insured" each successor in ownership of the indebtedness secured by a lien or be accompanied by an endorsement of the policy to the U.S. Department of Housing and Urban Development (HUD) Secretary.

- Staff will request appropriate title insurance documentation at the relevant time.

2.7. **Property Condition Assessment:** A structural analysis of the building was performed in February 2016 by ZFI Engineering as part of Developer's due diligence prior to acquisition. A set of preliminary recommendations for repair was provided.

2.7.1. Subsequent to the analysis, the tower experienced multiple interior fires and a notable incident where portions the tower's upper stone exterior fell to the street below.

2.7.2. Staff has requested that the Developer provide an updated property assessment report, which should address the incidents of fire and falling debris. To date the request has not been addressed.

3. <u>SECTION 108 LOAN REQUEST</u>

3.1. **Developer request:** $11,000,000. See loan sizing analysis in Section 4.3 below.

3.2. **Third Party Borrower**: NE CS FNC Hotel LLC (Hotel Owner/Developer).

3.3. **Other Financing Sources (Hotel):** State and Federal Historic Tax Credits, TIF, private equity, and a series of leverage, bridge, and construction loans. See section 7.1 below.

3.4. **Term:** The Developer initially requested interim financing for a term of 10 years with the ability to extend for up to an additional 10 years. The City has countered that the initial term end should coincide with the term end of the superior bank loan, which is set to expire in April 2027, setting the initial 108 term at approximately six years. Developer shall have opportunity to extend the initial 108 term under certain conditions, which may include a successful repayment history, achievement of the required public benefit, improved collateral positioning, rate change, principal buy down, etc.

3.5. **Rate:** Developer has requested a variable interest rate, which is expected to be tied to the U.S. Treasury three-month auction rate (underwritten at .05%) plus 35 basis points (.35%) as per the most recent notice from HUD. Because of the extended risk of a potential 20 year loan term on a floating rate, The City, in accordance with its standard 108 loan terms, would impose upon the third party borrower an additional 130 basis points (1.3%); the third party borrower may therefore expect an initial combined rate of 170 basis points (1.7%). The underwriting utilizes this rate as a benchmark, though any substantive rise in interest rates will affect this assumption and related economic performance.

3.6. **Amortization:** Developer's adjusted proforma assumes a 20-year amortization with a six (6) year term. Developer seeks the possibility of extending to a 20-year term. Interim financing is assumed for the term duration.

Note: Because Developer seeks a flexible term in interim financing, The City would request from HUD a variable rate loan with a maximum term of 20 years with a 20-year amortization. The City will also request a four (4) year interest only period and will provide the third-party borrower one year less of interest only than is approved for the City. Should Hud approve four (4) years interest only, the amortize principal repayment schedule would be for 16 years. See the proposed principal repayment schedule in The City's 108 loan application, section IV. Subsection F.

3.7. **Section 108 Credit Subsidy Fee:** As of this report, the 108 fee is set by HUD at 2.150% of the principal loan amount. Developer has verbally stated this fee will be financed as part of the loan and repaid with loan proceeds, however, the fee amount is not reflected in the Developer's financials or proforma.

3.8. **Repayment Frequency:**

3.8.1. The City must repay HUD principal on an annual basis and interest on a quarterly basis. Developer must repay The City on a monthly basis (principal and interest when due).

3.8.2. Developer shall begin repaying principal to The City approximately 12 months prior to The City's obligation to begin repaying principal to HUD. This is necessary for The City to build up sufficient reserves to fully meet its obligations to HUD when payments become due. For example, should The City receive approval for a four (4) year interest-only period, Developer shall receive a three (3) year interest-only period. HUD makes the final determination on when principal payments begin.

3.8.3. Developer's adjusted pro forma models a 36-month interest only period for the 108 with principal payments beginning in month 37. This assumes The City receives from HUD approval for a 48-month interest only period.

3.8.4. **Prepayment and final payment:** There is no prohibition or penalty for prepayment while in interim financing. Any final payment due shall be made by Developer to The City in full at the end of the loan term.

3.8.5. **Repayment Source:** The City's repayment source to HUD shall be the principal and interest payments from the Developer on its third-party 108 loan with The City, which is expected to be repaid from hotel/retail net operating income.

3.9. **Loan Security:**

3.9.1. Developer shall mortgage to The City its interest in the Hotel tower and related service, commercial or retail components of the Hotel project. The 108 mortgage shall subordinate in position only to a primary lender in first position, but shall not subordinate or otherwise be subject to terms or conditions imposed upon the project or Developer by any lender or creditor other than HUD (unless such terms or conditions are agreed to by The City and HUD in written form, i.e. an inter-creditor agreement). The 108 loan will not be subject to forbearance conditions of any other lender or financer.

3.9.2. The City in turn shall pledge to HUD and assign its interest in the Hotel real estate or interest thereto as well as any additional HUD-required security.

3.9.3. Developer shall pledge to The City and assign a security interest in the first $6.5 million of FFE purchased for the Hotel, or any amount of FFE actually purchased with 108 funds.

3.9.4. Developer shall provide a personal guarantee to cover any difference between the loan size provided and the actual loan size allowed based on the level of public benefit achieved. See loan sizing in section 4.3.2.

3.9.5. Developer (per HUD's discretion) may be required to provide the following additional security (this is not a limited or exclusive list):

- GC Performance Bond or letter of credit
- Construction Completion Guarantee
- Corporate and Personal Guarantees from Developer principals
- Mortgage on other real property assets

3.10. **Use of 108 Loan Proceeds:** Developer has requested to use loan proceeds for non-construction related expenses, including A&E, consulting and legal fees, FFE, finance charges, marketing and other non-construction soft costs. Certain eligibility rules may apply to various expense categories, pertinent examples of which are provided below:

3.10.1. Marketing costs shall be limited to:

- Advertising solely for the recruitment of personnel required for the hotel or its related retail or restaurant components. The term advertising costs is defined in 2 CFR Part 200.421(b).
- Program outreach and other specific purposes necessary to meet the requirements of the Federal award.
- Unallowable marketing costs include marketing for any products or services of the hotel, its related retail, restaurant or ancillary components, per 2 CFR Part 200.467.
- The Cost of alcoholic beverages under marketing or any other category is unallowable. See 2 CFR Part 200.423.

3.10.2. FFE: To be eligible, the Developer must provide a detailed list of FFE items to be purchased with 108 loan funds. This list shall include the item description, per unit cost, number of units to be purchased, total cost per item category, vendor name, and backup documentation including vendor invoices and sale logs.

- Carpet is unallowable as an FFE expense.
- Drapery is unallowable as an FFE expense.
- Where FFE involves installation, the cost is allowable only when the installation work is =<13% of the respective FFE contract cost.

3.10.3. Developer has suggested the possibility of a one-time lump sum draw as reimbursement for costs incurred prior to the eventual effective date of the 108 loan agreement. This is presently infeasible for the following reasons:

- Eligible 108 pre-award costs[1] are those incurred between the time The City includes the project or activity, activity costs and the nature and amount of pre award costs, in its Consolidated Annual Action Plan (Action Year Plan), or amendment to the annual Action Plan. The Action Year Plan that approved pre-award costs was FY 18-19.
- The payment for pre-award costs shall be made only during the next two (2) program years following the approval date of the Action Year Plan or Plan amendment which incorporates the project details. The two eligible program years eligible for pre-award cost reimbursement are FY 19-20 and FY 20-21. FY 20-21 expires on June 30, 2021. By the time of a 108 award, the eligible period for pre-award cost reimbursement shall have expired.

4. <u>PUBLIC BENEFIT ANALYSIS</u>

4.1. **Eligible Activity:** Special Economic Development per 24 CFR Part 570.203(b) with guidelines for selection at 24 CFR Part 570.209.

4.1.1. Project is located in Census Tract (CT) 1091, which contains one Block Group (BG).

4.1.2. The most current American Community Survey Census data (2019 five-year estimates) lists the poverty rate for all persons in the CT/BG as 58.5%.

4.1.3. Section 108 loan funds would provide assistance to a business operating within a CT that has at least 20% of its residents who are in poverty. For this reason, the activity may be excluded from the regulatory aggregate standard at 24 CFR Part 570.209(b)(2)(v)(F), and otherwise subject to the individual standard at § 570.209(b)(3)(i)(A), which allows up to $50,000 of assistance for each permanent, full-time equivalent (FTE) job created by the project.

---

[1] Note: The City included the FNC Hotel project, anticipating pre-award costs, in an amendment to its 2018-19 annual Consolidated Action Plan, any costs incurred by the FNC prior to the date of that amendment are ineligible for 108 reimbursement. Ref: 24 CFR Part 570.200(h)(1)(i). The allowance for pre-award cost reimbursement expires if an award of loan commitment is not provided to FNCH by June 30, 2021. See Section 3.10.3.

4.2. **National Objective:** Benefit to low-and moderate-income persons through job creation.

4.2.1. The Developer proposes the activity will create 277 permanent, FTE service sector jobs. This is an extraordinary assumption. The loan level requested requires 220 FTEs.

4.2.2. Under the job creation National Objective criteria at 24 CFR Part 570.208(a)(4)(iv), jobs created by the project activity are presumed to be low- or moderate-income for the following reasons:

- The CT where the project and the job creation activity is located has a poverty rate greater than 20% as determined by the most recently available census information; and,
- The CT is located in the CBD, but has an individual poverty rate greater than 30%; and
- The CT evidences pervasive poverty and general distress by the following standards:
    - All block groups in the CT have a poverty rate of at least 20%; and
    - The activity being undertaken is located in a BG with a poverty rate of at least 20%.

4.3. **Loan Sizing:**

4.3.1. Oklahoma City's Section 108 job creation standard for hotel projects is one (1) FTE job created per hotel room developed. The number of FTE jobs is a ratio of the total number of jobs or persons employed by the hotel and related F&B operations. The ratio units are FTE units or equivalent employees working full-time. For example, if a hotel/F&B has 175 employees and 100 of them work 40 hours per week (full time), 50 of them work 30 hours per week (part time), and 25 work 20 hours per week (half-time), then the hotel has 150 FTE jobs. The FTE computation adds all hours worked in a year by hotel employees and divides the number by 2080, which is the number of hours worked in year at a full-time standard of 40 hours per week.

4.3.2. The project is eligible for $50,000 per FTE Job created (Ref: Section 6.1.3 above).

4.3.3. The FNC hotel proposes to develop 146 rooms. The chart below shows the maximum 108 loan amount based on the City's job creation standard for hotel projects.

OKC 108 job creation standard for hotel projects			
146	=	$ 7,300,000.00	Max 108 Loan Amount
		$ 50,000.00	One FTE job for every $50,000 in 108 Financing

4.3.4. Developer has requested an exception to The City's 108 job standard for hotel projects; specifically, Developer has suggested in excess of 1.51 FTE jobs will be created per hotel room developed, or, at minimum, 220 FTE jobs. The justification provided by Developer is that the

FNC Hotel will be a full-service operation requiring high staffing levels. The chart below shows the maximum 108 loan amount based on the Developer's request.

FNC Hotel Developer job creation request for 108 Financing			
220	=	$ 11,000,000.00	Requested 108 Loan Amount
		$ 50,000.00	One FTE job for every $50,000 in 108 Financing

4.3.5. The City standard for hotel projects of one (1) FTE per room is a commonly used assumption and consistent with what HUD has historically accepted without additional justification. For consideration of an alternative value, the Developer was required to submit justification, which would be accomplished by providing examples from other "like" hotels of room counts and FTE job counts (not just employee counts). "Like" here means other full-service upper-upscale hotels (such as other Marriot Autograph Collection Hotels or Coury Hospitality operated hotels) within the City, State, and/or region. Note that the proposed 108 loan is based on hotel service and administrative staff as well as staff related to hotel operations, which extends to food and beverage service of the restaurants, cafes and bars, etc. but does not include FTEs from any retail component.

4.3.6. The Developer submitted hotel job count justification, respectively on 2/12/2021 and 3/16/2021. Food and Beverage job estimates were likewise submitted on 2/12/2021 and 3/16/2021. A description and analysis of the job information is provided here below:

- Hotel Job Estimates:
  - Developer provided a .pdf file titled "Hotel Job Creation," ostensibly put together by hotel operator, Coury Hotels, on 2/12/2021. This version estimates 74 hotel FTEs. In conversations with Developer principal, Gary Brooks, this number (rounded down from a fraction) was deemed reasonable by City staff.
  - Developer submitted a revised hotel job estimate from Coury on 3/16/2021. This version, dated 1.22.21, estimates the hotel FTE count at 92.
  - The difference between 74 and 92 FTEs, (18) represents 37,440 annual hotel employee hours worked and amounts to approx. a half to ¾ million in annual payroll expenses.
  - The difference in the Coury hotel FTE estimates (which were submitted to City staff one month apart) raises concern about whether the hotel operator has a good handle on the actual number of FTEs that can be expected to be produced by the hotel operation.
  - Due to the difference in the Coury hotel FTE estimates (which were submitted to City staff one month apart) the underwriting analysis prefers to rely on the more conservative number from Coury, 74 FTEs.
  - Developer also provided on 3/16/2021 an excel file with a worksheet estimate of FTEs from a boutique hotel (Hotel Figueroa) located in Los Angeles. This documentation shows the actual FTEs for the hotel at 80 for calendar year 2019. Hotel Figueroa has 268 rooms. Thus, the FTE count for the hotel is .3 per room. At a comparable rate, FNCH FTEs would be 43.

- Food and Beverage (F&B) Job Estimates:
  - FNC through its F&B operator, Apicii, submitted an F&B FTE estimate on 2/12/2021 for 202 FTEs. City staff questioned these estimates and requested documentation of actual FTE counts from a like venue.
  - Based on this request, FNCH provided two years of actual F&B counts from a bar (Polo Bar) in NYC. A max count from the operation in 2019 was 126. A lower count in 2020 was 103.

- Hotel and F&B FTE Analysis
  - Staff is unclear whether there is a single hotel/FB operation of similar scale (or proportional) in the region or on either coast.
  - Staff has been tasked with combining FTE counts from a hotel in LA and a bar in NYC as if it were a single hotel/FB operation.
  - Using the comparable 2019 combined max FTEs from the east coast and west coast examples total 206. This level of job creation would garner the FNCH project a $10.3 million 108 loan.
  - Alternatively, using the more conservative Coury Hotel 74 FTE count combined with the Polo Bar F&B high estimate of 126, the total estimate for the FNCH project would be 200. This level would make the operation eligible for a $10 million 108 loan.
  - Alternatively, using the more conservative Coury Hotel 74 FTE count combined with the Polo Bar F&B low estimate of 103, the total FTE estimate for the FNCH project would be 177, which would make the operation eligible or an $8.85 million 108 loan.

5. <u>MARKET (FEASIBILITY) STUDY REVIEW</u>

5.1.1. HVS Consulting and Valuation, a global hospitality consulting and valuation firm, conducted a Feasibility Study (FS) on the Hotel component in August 2016 at the request of a potential local lender at that time. The assumptions and conclusion from that study are documented in The City's initial 2018 108 underwriting report, which is no longer valid due to significant budget and financing changes reflected in the updated underwriting report.

5.1.2. Developer did not perform an update to the 2018 feasibility study or perform a new market analysis. When asked about this, Developer stated that all information contained in a market study could be found in the most recent appraisal, dated September 2020.

5.1.3. The financial analysis conducted for this underwriting relies on the assumptions from that appraisal.

6. <u>PROPERTY APPRAISAL REVIEW</u>

6.1. The Hotel project was most recently appraised in September 2020 by Issacs & Associates, an Oklahoma Certified Real Estate Appraiser, for Prime Bank, a potential but not actual lender on the project.

6.2. Staff did not receive an appraisal from the actual Hotel lender, Tinker Federal Credit Union (TFCU). It is unclear whether TFCU performed its own appraisal for its $45,000,000 committed Hotel loan or chose to rely on the appraisal for Prime Bank.

6.3. The appraisal is not provided as an attachment to this analysis due to its proprietary nature, however, it is frequently cited and summarized herein.

6.4. **Appraisal Conclusions:**

6.4.1. It is noted that the assumptions used by the appraiser to evaluate the property were made in an unstable economy subject to uncertainties of the COVID-19 pandemic. Due to this imbalance, any estimate of value carries a high degree of risk.

6.4.2. Differences between the estimates and final form of the incentives, such as HTC, TIF and the State Tourism Act, will to an unknown degree affect the hotel's economic performance.

- The combination of annual TIF and Tourism Act incentive payment estimates seem sufficient to cover the City's TIF debt obligation through 2032.

6.4.3. This appraisal adopts the market perspective that by the anticipated stabilization year (2025) the virus threat will be contained and sufficiently mitigated, and any economic or financial effects of COVID-19 will be temporary.

6.4.4. The appraisal appropriately does not consider the public/tax incentives or related debt obligations in its stabilized value assessment. Three (3) opinions of value are provided:

- "As is" = $26,530,000
- "As Complete" = $70,150,000
- "As Stabilized" = $79,780,000

7. <u>FINANCIAL ANALYSIS</u>

7.1. **Sources and Uses:** The most current list of funding sources provided by Developer include:

Construction Bank Loan	$ 45,000,000.00	Primary Debt
Bridge loan for HTC	$ 22,726,329.00	net of interest holdback
HTC Upfront	$ 4,661,204.00	
TIF Loan	$ 21,665,000.00	net of interest holdback
TIF Credit/Rebate	$ 450,000.00	
Section 108	$ 11,237,000.00	108 Debt
Developer equity	$ 31,892,198.00	Equity
Total	$ 137,631,731.00	

7.1.1. Developer has contractual commitments for all above sources with exception of the Section 108 Loan. The terms and conditions for each source listed are outlined in The City's 108 Loan Application, section IV. B.

7.1.2. The most current project budget is provided as Attachment A. The difference between the total above and that of the attachment is the HUD Section 108 financing fee, which was not included in the Developer's budget version.

7.2. **Cost Reasonableness:**

7.2.1. Development Budget: Construction cost projections having risen by 60% since 2016. Cost escalation over the past few years is as follows:

- 2016 estimate = $85,766,000.00 (per the Feasibility Study)
- 2017 estimate = $105,270,988.81 (per a 2017 Appraisal)
- 2018 estimate = $127,234,000.00 (per a 2018 108 loan inquiry by Developer)
- 2020 estimate = $137,394,371.00 (per the 2020 appraisal and 2021 108 formal loan request)

7.2.2. Operating Revenue Estimates:

- Food and Beverage (F&B) Revenue: generated by the Hotel restaurants, lounges, coffee shops, snack bars, banquet rooms, and room service.
- Other Income: parking, vending, telephone, laundry, pay-per-services, and fees.
- Retail Revenue: The appraisal assumes nominal retail revenue.
- Incentive Revenue: Additional revenue for the project from certain tax incentives as allowed by State and local law and currently committed. These sources considered to be self-contained, meaning any debt or repayment obligation for use of the incentives shall be repaid (and appropriately collateralized) by the incentives.
- The appraisal considers the value of various tax incentives for the "As-Is" value but renders these incentives net for purposes of "Stabilized" value. This underwriting is focused on the Stabilized value and shares the appraisal net perspective.

7.2.3. Operating Expense Estimates:

- Operating expenses are estimated by the appraisal in comparable categories as a ratio of the respective revenue source.

7.2.4. Revenue and Expense Escalation:

- The appraisal agrees with Developer's assertion that expenses will escalate annually by 3.0%, but adjusts revenue expense escalation down to 3% from Developer's estimate of 4%. At these rates the economic outlook improves year over year.

7.2.5. Debt Assumptions:

- By the time stabilization occurs (estimated in operating year 4) any temporary interest-only payment arrangements between borrower and its creditors will have expired and all interest-bearing debt will be requiring principal and interest payments. The underwriting considers effect at this stage.

- Public incentive debt, particularly related to the TIF, is assumed to be repaid with proceeds generated by various committed tax incentives (i.e. for performance) and are therefore considered "self-contained" and outside NOI and debt coverage considerations. However, hotel and F&B sales performance directly affects the ability to satisfy TIF debt, which is expected to look to revenue outside the incentive structure if unsatisfied by that structure, essentially meaning the TIF debt likely will be paid from operating income / NOI prior to 108 debt payment.

- Operational revenue at the levels estimated by FNHC and supported by appraiser utilizing certain assumptions appears sufficient to cover the primary bank debt and secondary 108 debt. Again, this assumes TIF debt is sufficiently repaid by annual tax incentive / rebates. Note, the appraiser acknowledges that its assumptions, while rooted in prior year market comparables, are extraordinary given present market uncertainties.

7.2.6. Performance Assumptions: The underwriter utilized the appraisal occupancy and room rate data, which concludes:

- A stabilized occupancy rate estimate of 78% is supported by the local market. Further, the appraiser acknowledges that the only other local Marriot Autograph hotel in Oklahoma City maintained slightly higher than 80% in the normative market years of 2018 and 2019. The anomalous 2020 market year was not considered.

- The appraisal finds support for a stabilized average daily room rate of $270.33 with a RevPAR of $210.86. Note, the most current, and recently adjusted proforma submitted by the Developer, revises the stabilized daily room rate down to $240 and the RevPar to $195. The underwriting did not consider the affect of this downward adjustment on the project economics, preferring to rely on the third party appraisal.

7.2.7. Capture:

- The appraiser estimates an overall capture rate in the various demand segments, i.e. Commercial, Leisure, Meeting/Group, at 18.99% and an overall penetration rate of 1.1395.

- Appraiser defines "penetration rate" as, "Capture % divided by Pro Rata (Fair) Share. The subject is one of seven properties in its competitive market segment indicting a Pro Rata (Fair) Share of 1/6 = 16.67%. Penetration Rate = 18.99%/16.67% = 1.1395 (capture).

7.3. **Stabilization Year Financial Summary:** The chart below summarizes estimated Hotel revenue, operating expenses, debt, and Hotel valuation at the year of stabilization. In subsequent years during the initial hold period, it is expected that escalating revenues will improve the Hotel's overall financial performance despite also increasing expenses.

FNC Hotel Stabilization Year

Revenue (estimates from appraisal in round numbers)

Room Revenue	F&B Revenue	Other	Retail Income	Total
$ 11,236,000	$ 15,450,000	$ 460,000	$ 122,000	**$ 27,268,000**

Expenses (estimates from appraisal in round numbers)

Room Expenses	F&B Expenses	Operating	Rent/Fixed/Other	Total
$ 2,360,000	$ 11,830,000	$ 5,130,000	$ 1,952,000	**$ 21,272,000**
			NOI*	**$ 5,996,000**

FNC Hotel Operating Tax Incentives (annual at stabilization)

Prop Tax Rebate	Sales Tax Rebate City	Sales Tax Rebate State	Other	Total
$ 800,000	$ 545,000	$ 1,227,000	$ 0	**$ 2,572,000**

Annual Tax Incentive Income / TIF Debt Offset (annual at stabilization)

Total Tax Incentive	TIF Debt Payment	**Net**
$ 2,572,000	$ 2,500,000	**$ 72,000**

FNC Hotel Debt Profile at Stabilization

	Start Principal	Rate	Amortization	Amort Payment
Primary Loan	$ 45,000,000	5.00%	30	$ 2,898,837
108 Loan	$ 11,237,000**	1.70%	16	$ 802,000
TIF Debt	$ 24,500,000***	3.23%	12	$ 2,465,551
Total	**$ 80,737,000**			**$ 6,166,388**

FNC Cash Flow

NOI	Debt Service (Less TIF Debt)	Cash Flow
$ 5,996,000	$ 3,700,837	**$ 2,295,163**

FNC Hotel Debt to Value at Stabilization

Debt to Income Ratio		Value Estimate	
NOI	$ 5,996,000	Cap rate	7.50%
DS	$ 3,700,837	NOI/Cap Rate	$ 79,946,667
DSCR	1.62	CLTV @ .9	$ 71,952,000

*NOI = Income minus Expenses.
**The 108 debt amount shown is the Developer's loan request including the HUD credit subsidy fee.
**Annual TIF debt is covered by tax incentive rebates/payments.

7.4. **Financial Analysis Conclusions:**

7.4.1. The above chart uses revenue and expense assumptions from the Sept 2020 appraisal. The pro forma provided to the appraiser by the Developer was the same as that provided to The City in its initial application request in Nov 2020. Since that time, however, the Developer has submitted to The City an adjusted pro forma, with lower expense and lower room revenue projections, which version is included in The City's application to HUD for a Section 108 Loan Guarantee.

7.4.2. Based on the analysis of the appraiser, and confirmed by this underwriting, the property tax and sales tax incentives appear to cover the TIF loan so long as sales/revenue projections are accurate. The appraisal provides local market comparables that seem to confirm the plausibility of the revenue assumptions.

7.4.3. This underwriting takes the perspective of the appraisal that a likely buyer wouldn't consider tax incentives in a valuation. Therefore, the estimated stabilized net operating income (NOI) and associated value projection are considered net of TIF financing and related tax incentives used to repay TIF debt.

7.4.4. Benefits of Historic Tax Credits are fully realized prior to the stabilization year and are therefore not considered in the chart analysis above.

7.4.5. The values estimate using a conservative cap rate of 7.5 matches the appraiser's estimate of stabilized value. The Developer has asserted in conversations that a more appropriate cap rate would be in the range of 6 to 6.5 resulting in a valuation of between 92 and 99 million.

7.4.6. The City's Section 108 underwriting guidelines allow for up to a 90% collective loan to value on the real property asset. Using a 7.5 cap rate, and without considering TIF debt, the project at stabilization is estimated to have a collective loan to value of approximately 71%.

7.4.7. Debt the Hotel will carry during the initial hold period appears to be manageable assuming the accuracy of revenue and incentive projections, so long as tax incentive debt is not repaid with NOI and so long as parked equity is only redeemed from cash flow after 3rd party debt (including 108) payments and all reserve payments are annually satisfied.

8. <u>BORROWER EXPERIENCE AND MANAGEMENT CAPACITY</u>

8.1. The Hotel shall be a franchise of the Marriot Autograph Collection brand of hotels.

8.2. The Hotel will be operated by Coury Hospitality, a local Oklahoma company with over 30 years experience in the hotel hospitality industry. Coury Hospitality currently operates Marriot Autograph brand hotels and restaurants in Oklahoma City, Tulsa, Kansas City, and Wichita.

8.3. The development team consists of:

- Charlie Nicholas, Limited Partner, principal of NE Construction of Dallas;

- Gary Brooks, Limited Partner, principal of Cornerstone Development of OKC;
- ADG, Architect and Civil Engineer, OKC;
- Walter P. Moore, Structural Engineer, Dallas;
- Jordan & Skala, Mechanical, Electrical, Plumbing Engineer, Dallas;
- Merriman Anderson Architects, historic consultants.

8.4. HUD's published 2017 underwriting guidelines require Developer principals, Gary Brooks and Charlie Nicholas and their respective organizations, to provide the following information for the most recent two years:

- Organizational and personal financial statements: Developer has stated this will be provided upon specific request of HUD.
- Organizational and personal (principals/guarantors) tax returns: Developer has stated this information will be provided upon specific request to HUD.

Attachment A

First National Center - Hotel
Oklahoma City, OK

NE Development
469.899.8000

Development Budget

9/10/2020

Description	Hotel		Total Budget	
	Budget	% of Total	Budget	% of Total
Property	**$8,000,000**	**5.83%**	**$8,000,000**	**5.83%**
Financing Costs	**$992,271**	**0.72%**	**$992,271**	**0.72%**
Closing Costs	$60,000	0.04%	$60,000	0.04%
Prime Bank Acquisition Loan Fee	$24,675	0.02%	$24,675	0.02%
TIF Loan Fee	$125,000	0.09%	$125,000	0.09%
Origination Fee	$225,000	0.16%	$225,000	0.16%
Title and Recording	$130,000	0.09%	$130,000	0.09%
Real Estate Taxes	$427,596	0.31%	$427,596	0.31%
Architect & Engineer	**$5,549,697**	**4.05%**	**$5,549,697**	**4.05%**
Legal	**$2,600,000**	**1.90%**	**$2,600,000**	**1.90%**
Consulting	**$2,187,096**	**1.59%**	**$2,187,096**	**1.59%**
Preservation Consulting	$304,257	0.22%	$304,257	0.22%
Novogradac	$130,000	0.09%	$130,000	0.09%
Construction Consulting	$161,533	0.12%	$161,533	0.12%
Environmental Consulting	$40,000	0.03%	$40,000	0.03%
Hotel Consulting	$987,000	0.72%	$987,000	0.72%
Restoration Consulting	$125,000	0.09%	$125,000	0.09%
External Affairs Consulting	$185,000	0.13%	$185,000	0.13%
Security Consulting	$16,200	0.01%	$16,200	0.01%
Project Consulting	$200,000	0.15%	$200,000	0.15%
Soils & Environmental	$38,106	0.03%	$38,106	0.03%
Other	**$2,461,864**	**1.80%**	**$2,461,864**	**1.80%**
ALTA Survey	$35,000	0.03%	$35,000	0.03%
Appraisal	$9,000	0.01%	$9,000	0.01%
Market Study	$46,453	0.03%	$46,453	0.03%
Insurance	$132,000	0.10%	$132,000	0.10%
Utilities	$350,000	0.26%	$350,000	0.26%
Permits and Fees	$386,269	0.28%	$386,269	0.28%
Site Security	$445,000	0.32%	$445,000	0.32%
Misc. Expenses	$456,000	0.33%	$456,000	0.33%
Soft Cost Contigency (5.00%)	$602,142	0.44%	$602,142	0.44%
Construction	**$99,674,597**	**72.68%**	**$99,674,597**	**72.68%**
General Construction	$90,232,093	65.79%	$90,232,093	65.79%
Hazardous Material Abatement	$863,190	0.63%	$863,190	0.63%
Demolition	$1,634,005	1.19%	$1,634,005	1.19%
Builder's Risk Insurance	$202,463	0.15%	$202,463	0.15%
Tenant Improvements	$426,600	0.31%	$426,600	0.31%
Contingency (7%)	$6,316,247	4.61%	$6,316,247	4.61%
FF&E	**$6,500,000**	**4.74%**	**$6,500,000**	**4.74%**
Marketing & Preopening	**$375,000**	**0.27%**	**$375,000**	**0.27%**
Development Fees & Costs	**$3,610,216**	**2.63%**	**$3,610,216**	**2.63%**
Development Fee: (3.00%)	$3,610,216	2.63%	$3,610,216	2.63%
Operating Deficit	**$5,200,000**	**3.79%**	**$5,200,000**	**3.79%**
Interest Carry & Fees	$5,200,000	3.79%	$5,200,000	3.79%
TOTAL PROJECT COST	**$137,150,740**	**100.00%**	**$137,150,740**	**100.00%**