



Staff Report

File #: 23-0586

**REQUEST FOR CITY COUNCIL ACTION AND
CORONA HOUSING AUTHORITY ACTION**

DATE: 07/19/2023

TO: Honorable Mayor and City Council Members
Honorable Chairman and Board of Commissioners

FROM: Office of Economic Development

SUBJECT:

APPROVAL OF AMENDMENT NO. 3A TO DISPOSITION AND DEVELOPMENT AGREEMENT WITH LAB HOLDING, LLC (AUTHORITY SOUTH MALL PROPERTY - REST AREA, LLC) AND FIRST AMENDMENT TO PROMISSORY NOTE SECURED BY DEED OF TRUST (AUTHORITY SOUTH MALL PROPERTY)

EXECUTIVE SUMMARY:

This staff report asks the City Council to approve Amendment No. 3A to the Disposition and Development Agreement between the City, the Corona Housing Authority and Lab Holding LLC, as well as the First Amendment to the Promissory Note Secured by Deed of Trust pertaining to the South Mall Property, which will extend that due date for the balloon payment required under the promissory note to the earlier of June 1, 2024 or the date construction on the South Mall Property is complete. Lab Holding has reserved the necessary funds to pay off the promissory note as part of their construction funding for the project on the South Mall Property, but the lender will not release these funds until construction is complete. Construction of the project on the South Mall Property continues and is expected to be completed soon, but Lab Holding has requested an extension of the due date for the balloon payment because there is an unanticipated delay in securing the switchgear that is needed in order to provide a permanent source of electricity to the project.

RECOMMENDED ACTION:

That the City Council approve Amendment No. 3A to Disposition and Development Agreement with Lab Holding, LLC (Authority South Mall Property - Rest Area, LLC).

That the Corona Housing Authority:

- a. Approve Amendment No. 3A to Disposition and Development Agreement with Lab Holding,

LLC (Authority South Mall Property - Rest Area, LLC).

- b. Approve the First Amendment to Promissory Note Secured by Deed of Trust (Authority South Mall Property).

BACKGROUND & HISTORY:

On May 17, 2017, the City, the Corona Housing Authority ("Authority") and LAB Holding, LLC, ("LAB Holding") entered into a Disposition and Development Agreement ("DDA") to rehabilitate and develop a commercial and mixed-use project on the Corona Mall property. The parties subsequently entered into a Partial Assignment and Assumption of Disposition and Development Agreement dated August 20, 2019 whereby LAB Holding assigned to Rest Area, LLC (a subsidiary of LAB Holding) all of LAB Holding's rights, duties and obligations under the DDA to the extent they apply to the South Mall Property.

As contemplated in the DDA, the Authority financed LAB Holding's acquisition of the South Mall Property in the total amount of \$801,000, which is evidenced by that certain Promissory Note Secured by Deed of Trust (Authority South Mall Property) dated June 1, 2018 ("Promissory Note"). Pursuant to the terms of the Promissory Note, LAB Holding has made interest only payments in the amount of \$1,668.75 between June 1, 2021 and June 3, 2023. A final balloon payment in the amount of \$801,000, plus \$60,075 in interest that accrued between June 1, 2018 and June 1, 2021, was due on June 1, 2023.

LAB Holding has secured funding for the construction of the project on the South Mall Property and such funding includes a reservation of funds necessary to make the final balloon payment and accrued interest. However, according to LAB Holding, the lender will not release the funding until the project is complete.

While construction of the project on the South Mall Property is well underway, LAB Holding has experienced an unexpected delay in securing a switchgear that is necessary to provide a permanent source of electricity for the project. Final approval of the project cannot be obtained and certificates of occupancy cannot be issued until the switchgear is installed and all other work on the project has been completed.

ANALYSIS:

The attached First Amendment to the Promissory Note would extend the due date for the balloon payment and accrued interest to the earlier of June 1, 2024 or the date construction of the project on the South Mall Property is complete. During this extended period, LAB Holding will be required to continue making monthly interest only payments in the amount of \$1,668.75 until such time that the promissory note is paid off.

The DDA also includes language regarding the amount and timing for payment under the Promissory Note. For this reason, it is also necessary to amend the DDA. The attached Amendment No. 3A to the DDA would remove the specific terms pertaining to the amount and timing for payment under the Promissory Note and would, instead, refer to the Promissory Note that is attached to the DDA as an exhibit. Amendment No. 3A would also authorize the Parties to modify or amend the terms of the

Promissory Note without again amending the DDA. However, any modifications or amendments to the terms of the Promissory Note would require City Council approval.

FINANCIAL IMPACT:

There is no negative financial impact associated with the recommended action. Because LAB Holding will continue to make interest only payments of \$1,668.75 each month until the Promissory Note is repaid, these payments could result in an additional \$20,025 over the twelve month duration of the Promissory Note due date extension..

ENVIRONMENTAL ANALYSIS:

This action is exempt pursuant to Section 15061(b)(3) of the Guidelines for the California Environmental Quality Act (CEQA), which states that a project is exempt from CEQA if the activity is covered by the common sense exemption that CEQA applies only to projects that have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. This action simply extends the due date for payment under a promissory note, and there is no possibility that this action will have a significant effect on the environment. Therefore, no environmental analysis is required.

PREPARED BY: JESS GARCIA, ECONOMIC DEVELOPMENT ADMINISTRATOR

REVIEWED BY: JESSICA GONZALES, ECONOMIC DEVELOPMENT DIRECTOR

Attachments:

1. Exhibit 1 - Amendment No. 3A to DDA with Lab Holding (Redline)
2. Exhibit 2 - Amendment No. 3A to DDA with Lab Holding (Final)
3. Exhibit 3 - First Amendment to South Mall Promissory Note (Redline)
4. Exhibit 4 - First Amendment to South Mall Promissory Note (Final)