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Staff Report for a Resolution Authorizing the City Manager to Negotiate and Execute an Amendment to the Loan Agreement (Amended Loan) with DSFRC in an Amount not to Exceed \$1.5 million

SUMMARY AND RECOMMENDATION

Staff recommends that the City Council authorize the City Manager to negotiate and execute an amendment to the loan agreement (Amended Loan) with DSFRC to extend the repayment of all remaining principal and interest from an initial loan maturity date of July 31, 2016 to a date not to exceed October 31, 2016, subject to approval as to form by the City Attorney. The loan is currently \$1.5 million, with an interest rate that is not to exceed 4.5% per annum.

BACKGROUND

On June 16, 2014, the City Council approved a loan to DSFRC to fund the startup of a Federally Qualified Health Center (FQHC). \$1.5 million was transferred from the City to DSFRC on August 1, 2014. The loan requires DSFRC to repay the City all remaining principal and interest no later than July 31, 2016. DSFRC has made only monthly interest payments since the loan was funded. DSFRC initially requested that the loan repayment term be extended to December 31, 2017; the City Manager and DSFRC ultimately agreed upon October 31, 2016, which the City Manager recommends that the City Council consider and approve as the amended loan maturity date.

Throughout its 26 year history, DSFRC has responded to the needs of San Leandro’s most vulnerable families. By providing services that allow families to survive and flourish, DSFRC has become a key leader in guiding its client-families out of poverty and into productive lives. In 2014, DSFRC added a full service primary health care clinic to its service matrix that already includes child care, free acute medical care, mental health supportive services, family and domestic abuse counseling, and emergency food, clothing, utilities and housing assistance.

The Davis Street Primary Care Clinic (the PCC) provides medical services, especially to very low and low income households in the community. Its service delivery model integrates with its social services; for example, sick children, including those who are customers in DSFRC's child care facilities, have access to medical care at the PCC; patients seen in the PCC with uncontrolled diabetes can consult with nutrition counselors at the adjacent Food Bank and guided toward selecting healthier meal choices. The addition of the PCC, directly attached to a dedicated Family Resource Center, provides another community resource, especially for the most at need.

DISCUSSION

DSFRC seeks to amend the maturity of its current loan from the City of \$1.5 million to leverage other funds to cover operating costs for the next 18 months of operation of the PCC. The lag-time for initial reimbursement to new FQHC's has been averaging nationwide at 18 months, after which time, FQHC's are reimbursed on a quarterly basis. Due to delays in opening, the first significant reimbursement to the PCC is not expected until the end of 2016. As security for the Amended Loan, the City continues to hold a first deed of trust on 1190 Davis Street, which is used by DSFRC as a child care center. A May 2014 appraisal of 1190 Davis Street valued the land and real property at \$1.8 million.

As of June 30, 2015, it is the City's understanding that DSFRC had other long term debts totaling \$2.3 million. These other debts bear interest of 4.5% to 4.9%. One of these debts with Wells Fargo Bank (Bank) requires a debt service coverage ratio of 1.15 to 1. This covenant has not been met and the Bank has decided to take no action against DSFRC, according to Note 8 in its 2015 audit.

The City Manager recommends that the City Council authorize him to negotiate and execute an amendment to the term of the City's loan to DSFRC, subject to approval as to form by the City Attorney.