CITY OF NORWALK
REDEVELOPMENT AGENCY
REGULAR MEETING
SEPTEMBER 9, 2009

ATTENDANCE:	Emil Albanese, Acting Chairman, Commissioners Felix Serrano, Randy Napoletano, Lisa Cooper
AGENCY COUNSEL:	David W. Stergas, Esq.
STAFF:	Timothy T. Sheehan, Executive Director, John L. Burritt, Jr., Assistant Director, and John Slovak, NRA Comptroller
OTHERS:	Karen Meyers, Cummings & Lockwood

CALL TO ORDER

ROLL CALL

The meeting was called to order at 6:34 P.M by Acting Chairman Albanese.

I. APPROVAL OF MINUTES – July 15, 2009 Regular Meeting

** **MR. NAPOLETANO MOVED TO APPROVE THE MINUTES OF THE JULY 15 2009 ANNUAL MEETING.**
** **MS. COOPER SECONDED.**
** **THE MOTION PASSED UNANIMOUSLY.**

APPROVAL OF MINUTES – August 12, 2009

Mr. Sheehan noted a formatting typo on page one in that the line item for FINANCE should be I instead of II . In addition, he said Agency Counsel had requested that the Action Requested under II (A) be amended to read "… AND AUTHORIZE PAUL JONES, NORWALK REDEVELOPMENT AGENCY CHAIRMAN, **AND/OR EMIL ALBANESE, VICE CHAIR,** TO EXECUTE ALL DOCUMENTS TO IMPLEMENT THE NEGATIVE PLEDGE AGREEMENT."

** **MR. SERRANO MOVED TO APPROVE THE MINUTES OF THE AUGUST 12, 2009 REGULAR MEETING AS AMENDED.**
** **MR. NAPOLETANO SECONDED.**
** **THE MOTION PASSED UNANIMOUSLY.**

II. FINANCE - Operating Financial Statements – July 31, 2009
- Financial Statement Highlights for Year Ending June 30, 2009, including detailed Board Quarterly Combining Balance Sheets and Profits and Loss Statements for all Funds, and detailed Comparative Balance Sheets and Profit and Loss Statements for all Funds.

Mr. Slovak reported that total revenues for the month ending July 31, 2009 are $158,953, total expenditures are $158,263, and the net operating surplus is $690 compared with $835 surplus for the month ending July 31, 2008.

In response to a question by Mr. Albanese, Mr. Slovak said that the majority of the increase in the Miscellaneous line item was due to advertising. He noted that the auditor will be doing the audit tomorrow, September 10, 2009.

With regard to the Detailed Comparative and Combining Balance Sheets and Profit & Loss Statements for All Funds for the fiscal year ending 6/30/09, there was an Operating Profit in Fund 100 of $17,375.97 for the year that was transferred to Deferred Revenues to be used for operations in future years.

Mr. Sheehan explained that there was a small operating deficit last month, and there was some year end reclassification, as well as some cleanup items, which ultimately resulted in a small profit.

Mr. Slovak said a net amount of $322,585.81 was collected from the City for prior year's expenditures paid by the Redevelopment Agency that directly benefited the City. These cash payments reduced the accumulated Fund Balance deficit in Fund 500 by that amount and also paid back the $322,585 cash that was borrowed from Fund 100.

A total bad debt reserve of $4,080,426.69 was set up on the $6,720,598.44 sub-prime loan portfolio. Complying with established general accounting principles and the high degree of risk associated with sub-prime loans, a significant loan loss reserve should have been created by staff when these loans were placed on the Agency's books many years ago. That significant oversight resulted in the need for the Agency to take the current prior period adjustment. This adjustment will ensure that the Agency's audited statements accurately reflect the inherent quality of these loans and does not overstate their value going forward.

This reserve of $4,080,426.69 totals 100% of the deferred loans that have not paid any principal or interest over the years, and 50% of the amortizing loans. There was a total of $1,810,885.17 charged to the Fund Balance Prior Period Adjustment for loans originated many years ago to set up a bad debt reserve on Operating Fund 100.

In terms of the CDBG portfolio, there was a $1,695.898.78 bad debt reserve charged to Liability to CDBG on Revolving Loan Fund 200, and $573,642.74 charged to Liability to CDBG Non-Revolving Loan Fund 300. These bad debt reserves reflect the market value and market realities of sub-prime portfolios.

Mr. Sheehan said approximately six months ago when they had a discussion with the Commission about the Agency establishing a bad debt reserve, it was determined that it was in the Agency's best interest to be very conservative in looking at the worst case scenario and booking as much as they could to the bad debt reserve. There was some discussion about not putting the CDBG piece in, but it is important that those loans are recognized on the books and reported in their audits directly to HUD, and that they accurately reflect the quality of the loans that have been booked on their accounts. He said while it is a sizable number, he thinks it is reflective of the actual quality of the loans and is not a reflection on anyone in the Agency in terms of making the loans, because the intent is to assist disadvantaged individuals in getting the home ownership loans. The loans are basically deferred out for ten years with no payment. At the end of that ten year period the income of the individual who took out the loan is reassessed, and if the income has not come up they are deferred out for another ten years. He noted that if the loans are deferred for 20 years, the likelihood of getting repaid becomes de minimis.

Mr. Slovak said they are still showing the $6M of loans on the books, but now they are showing a $4M bad debt reserve. Certainly a loan that is not paying principal and interest cannot be considered an asset, and that is the reason for the 100% bad debt reserve on those accounts. Mr. Napoletano asked if there could be a reporting to the Commission on a quarterly basis to show what the performance of the loans is relative to the bad debt expense. Mr. Sheehan suggested they have their loan servicer put that in the Board package so the Commissioners can see on a monthly basis how the loans are performing.

Mr. Slovak noted that in Fund 100, $1,831,000 are amortizing loans, $895,000 are deferred loans, not paying any principal and interest. In Fund 200, $2,245,000 are amortizing, $573,000 are deferred, and Fund 300, $422,859 are amortizing, $352,000 are deferred.

Mr. Slovak said they had $18M of gross assets, they took a $4M bad debt reserve, so they now have $14M of gross assets. They had $11M net assets, which was reduced by $1,800,000 from Fund 100, so they now have $9,191,000 in net assets.

III. BUSINESS

A. AFFORDABLE HOUSING DEVELOPMENT

1. 310 Ely Avenue – Construction Loan

Mr. Burritt said the project consists of eight two-bedroom units ranging from approximately 1,275 to 1,300 square feet to be developed by Cutrone Properties. The units will be sold at a sales price of $239,900 per unit. The Agency's role is that of construction lender, providing 80% of the hard costs at negotiated terms of 8% interest with two points.

There were three open items from the last Agency meeting, the first of which was the appraisal, and he has included a letter from Barbara Pape of P.J. Pape, who did the appraisal on the project. The Agency had asked Ms. Pape at the time they commissioned the appraisal to do three things; (1) to appraise the land as vacant property; (2) to appraise the units as to their value upon completion; and (3) to establish a buy-back price, which at this time is a moot point because the Agency will have the units reappraised at such time if a buyback is required. The units were appraised between $240,000 for the lower level units up to $255,000 per unit, with a gross value for the completed project of $1,972,000. Mr. Burritt said these numbers are significant by virtue of the fact that the appraised value is greater than the affordable price at which they are offering the units, and the completed project value against the construction loan provides a fairly significant margin of equity.

The appraised value of the land is $430,000 which is slightly less than the $450,000 estimated, however the land is unencumbered. The Agency's loan will be secured by a first mortgage on the land and improvements. Mr. Burritt said, with the receipt of the appraisal, he thinks the numbers make sense in terms of the economic security of the Agency's contemplated loan.

A more complex issue is what would happen in the event the units do not sell, which was a concern of Commissioners at the August meeting. Staff has renegotiated the buyback provision with the developer. Instead of doing a predetermined price, the units would be reappraised at that time, and, secondly, the timeframe for exercise of the buyback option would be limited to between six and twelve months after issuance of the Certificate of Occupancy. The appraisal indicated that a typical market time for condominiums in the May through July sales was 150 days, so six months makes sense.

Mr. Burritt pointed out that it is not staff's intention to have the units on the market. The intention is to have buyers lined up at the time the Certificate of Occupancy is issued. He has included a letter from the Housing Development Fund in the package which outlines the resources that they propose to commit to the project for the purpose of end loan financing. In addition to the Agency's home ownership program, that being funding from the Department of Economic and Community Development, HDF is offering two additional resources; the SmartMove loan program, which can be up to 20% of the purchase price and amortizes over 20 years with a 3% interest rate, and their Workforce Loan Program, which is 0% non-amortizing and is payable in full at the end of 30 years, upon transfer of title or refinance. The loans will be made in amounts up to $15,000.

An income eligibility matrix was distributed at the last meeting, which established the target market with the Agency programs and the HDF programs, and the typical market they are aiming at is a three person household in the $70,000 a year range. He noted that there are not a lot of condominiums available to people making $70,000 a year.

Mr. Sheehan said there was a question that came up at the last meeting regarding the financial statements, and suggested they go into executive session for that discussion.

** **AT 7:00 P.M. MR. ALBENESE MOVED TO GO INTO EXECUTIVE SESSION TO REVIEW THE FINANCIAL STATEMENT OF THE DEVELOPER.**
** **MR. NAPOLETANO SECONDED.**
** **THE MOTION PASSED UNANIMOUSLY.**

(EXECUTIVE SESSION FROM 7:00 P.M. to 7:12 P.M.)

** **AT 7:12 P.M., MR. ALBANESE MOVED TO COME OUT OF EXECUTIVE SESSION.**
** **MR. NAPOLETANO SECONDED.**
** **THE MOTION PASSED UNANIMOUSLY**

The Commission came out of Executive Session at 7:12 P.M. and continued with the regular agenda for September 9, 2009.

** **MR. SERRANO MOVED FOR (1) APPROVAL OF A CONSTRUCTION LOAN IN AN AMOUNT NOT TO EXCEED $915,472.00 FROM NORTH WALKE HOUSING CORPORATION/NORWALK REDEVELOPMENT AGENCY TO CUTRONE PROPERTIES LLC FOR THE PURPOSE OF CONSTRUCTIO OF 8 2-BEDROOM AFFORDABLE HOUSING UNITS FOR SALE AT A MAXIMUM PURHCASE PRICE OF $239,900 A UNIT AT 310 ELY AVENUE, SOUTH NORWALK;**

(2) AUTHORIZE AGENCY COUNSEL TO PREPARE CONSTRUCTION LOAN DOCUMENTS BETWEEN NORTH

WALKE HOUSING CORPORATION/NORWALK REDEVELOPMENT AGENCY AND CUTRONE PROPERTIES, LLC FOR EXECUTION BY THE EXECUTIVE DIRECTOR TOGETHER WITH PERMANENT DEED RESTRICTIONS BASED ON INCOME ELIGIBILITY AND AFFORDABILITY GUIDELINES IN ACCORDANCE WITH CGS 8-30g FOR THIS PROJECT.

** **MR. NAPOLETANO SECONDED.**

** **THE MOTION PASSED UNANIMOUSLY.**

IV. OLD BUSINESS

1. 501 (c) 3 Non Profit

** **AT 7:15 P.M. MR. ALBENESE MOVED TO GO INTO EXECUTIVE SESSION REGARDING ARTICLE IV.**

** **MR. NAPOLETANO SECONDED.**

** **THE MOTION PASSED UNANIMOUSLY.**

(EXECUTIVE SESSION STARTING AT 7:15 P.M.)

V. NEW BUSINESS

ADJOURNMENT

Respectfully submitted,

Karen Pacchiana