

**TO:** MAYOR AND CITY COUNCIL  
**FROM:** MO HANSEN  
**SUBJECT:** RECOMMENDATION AND BACKGROUND INFORMATION -- RESOLUTION 2015-21 AUTHORIZING A REVISED SUBORDINATION AGREEMENT BETWEEN THE CITY OF WATERLOO AND REDISCOVERED LLC, 575 W. MADISON STREET  
**DATE:** SEPTEMBER 16, 2015

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This memo offers background and a recommendation for Resolution 2015-21 relating to modifying the prior development incentive agreement granted to Rediscovered LLC (Jay Lang and Craig Ellsworth) at 575 West Madison Street.

**Recommendation:** Mayor Thompson, Attorney Fenner and I are wary of this development team relying on others' money rather than having "skin in the game." Craig Ellsworth's submittals in the meeting packet attempt to demonstrate "skin in the game." My recommendation is approval. Rediscovered LLC is using the banks money, in the form of a loan backed by the value of the building for additional building improvements. The building is partially leased to a software company which is a division of Trek. It also houses Rediscovered LLC's operations. This new loan will enable the developer to expend funds for interior build-out as lease opportunities are identified. The appraised value is sufficient to ensure the city is positioned properly in a default situation. This request was not unexpected and was mentioned at an initial stage.

**Q: What do they want?** Lang and Ellsworth are seeking to switch banks and to refinance and expand a loan for remodeling and renovations to the former printing plant corporate office. If this were merely a change of bank it would not have been considered a matter for legislative consideration. In addition to a bank change the private loan is being expanded from \$400,000 to \$750,000.

**Q: Why is the Council considering this resolution?** As part of the original incentive package a \$400,000 municipal loan guarantee was granted to Rediscovered LLC to take to its bank. Think of this as the City co-signing on a loan. It was a way to incentivize the project without putting cash into the project. Provisions were built into the agreement such that in a loan default situation, the property goes back to the bank and the bank keeps paying the taxes which in turn are the tax increment generated. The value of the property is the backstop to make the bank and the city whole in a default situation. Originally the City accepted a subordinated, or 2<sup>nd</sup> position of \$400,000 with the bank being in the first position. The value of the property being the backstop in a default situation.

Banks will not loan unless they have the 1<sup>st</sup> position in recouping loaned dollars in a default situation. Now Lang and Ellsworth are expanding the private loan with a new bank from \$400,000 to \$675,000. It is asking the City to move behind the bank's the first position for \$675,000 in building value rather than the first \$400,000 in building value.

**Q: Does the municipal commitment change?** The loan guarantee remains at \$400,000. They only ask that we subordinate our position for the first \$675,000 in building value, rather than the previous \$400,000 in building value.

**Q: How is the City protected?** The City has a mortgage which asks as a lien against the property to ensure that we get the full tax increment out of this project over time.

**Q: What is subordination?** Earlier mortgages or other liens are often subordinated by their holders to later ones in order to accomplish agreed-upon ends. An example is for the holder of a mortgage on undeveloped land to subordinate that mortgage to a later construction loan mortgage.  
Subordination (finance) - Wikipedia, the free encyclopedia