

**CITY OF SAN ANTONIO
DEPARTMENT OF HOUSING & COMMUNITY DEVELOPMENT
INTERDEPARTMENTAL CORRESPONDENCE**

TO: Mayor and City Council

FROM: Andrew W. Cameron, Director, Housing & Community Development

THROUGH: Terry M. Brechtel, City Manager

COPIES: Milo Nitschke; Ramiro Cavazos; Trey Jacobson

SUBJECT: Section 108 Loan Program Policy

DATE: January 30, 2003

Summary and Recommendations

This ordinance approves the 108 Loan Guidelines for the City of San Antonio and authorizes the City Manager to accept and review applications for funding through said program and directs the City Manager to submit recommendations to the City Council.

Staff recommends approval.

Background Information

The HUD Section 108 Loan Guarantee Program is a financing tool for Economic Development Projects that requires the municipality to pledge its future CDBG Entitlement funds as security. San Antonio has approved three 108 Loans. Two loans were approved in 1984 and both defaulted in 1988 and the third was approved in 1998 and is current. Recent demands for municipal funding support coupled with a shortage of Economic Development project funding resources, led to the development of a policy to govern the distribution of the 108 resources. It also serves to protect future CDBG funds, which is a major component of the City's revitalization funding strategy.

Policy Analysis

Staff has developed a policy recommendation that divides the City's 108 funding strategy into two categories. The majority of our efforts would be to provide incentives for fully secured projects. The policy also allows for projects that are consistent with the City's revitalization strategy, and demonstrate financial potential but may not meet the typical financial structure required for economic development projects.

In addition, staff is recommending that a limit of 60% of the City's 108 funding capacity be available for project funding. This would guarantee the availability of CDBG Entitlement funding in the unlikely event that all projects fail. Currently, our 108 borrowing capacity is \$100 million which is five times our Entitlement, (currently \$20 million). Next year, our entitlement will be reduced to \$17.5 million and our 108 borrowing capacity will be reduced accordingly to \$87.5 million.

During the B-Session briefing on December 12, 2002, the City Council raised the following questions:

1—Should repayment of a defaulted 108 Loan be the responsibility of the City Council District in which the project is located?

Answer: Staff recommendation is to repay any default payments from the City-Wide CDBG program budget. This will decrease the total available funding to all districts by a pro-rated share of the loan payment, but it also provides for 108 program funding throughout the city. If repayment must come from the district, only districts that receive large CDBG allocations will have funding sufficient to support a 108 project.

2—What do other cities do with their 108 Loan program funds?

Answer: Most cities use their 108 program to support commercial or industrial developments that create permanent jobs, although, some funds have financed housing. The City of Fort Worth financed the construction of a commercial development in their Mercado Revitalization Project. In Alhambra, California, a Sears building was renovated as part of a shopping center development. The City of Wichita used the 108 program to finance the development of a plant for the Cessna Aircraft Company. The City of Baltimore used the 108 program to demolish substandard buildings in the inner-city and develop housing through both new construction and adoptive reuse. Dallas used 108 funds to increase the inventory of housing in the inner-city while at the same time, redeveloping an area that was in decline. Funds were made available to non-profits for new construction and for-profit developers were funded to renovate downtown buildings into dwelling units.

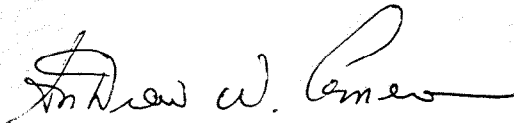
Fiscal Impact

If approved, this item will not impact any of the City's general fund revenues. The CDBG Entitlement funds will be used to secure timely payment of any loan made through this program.

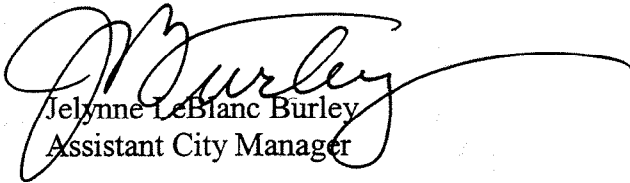
Coordination

The City Housing and Community Development Department, Economic Development Department and Finance Department developed the policy. The policy has been reviewed by the Housing and Neighborhood Action Team. The Urban Affairs Council Committee reviewed the policy on September 12, 2002, and directed staff to make this presentation to the City Council. The City Council reviewed this policy during a B-Session on December 12, 2002.

Signature



Andrew W. Cameron
Director
Housing & Community Development



Jelynn LeBlanc Burley
Assistant City Manager

Approved:



Terry M. Brechtel
City Manager

Proposed Section 108 **Loan Program Policy**

Presented by:

Andrew W. Cameron

January 30, 2003

What is the Section 108 Loan

Program?

- A loan guarantee provision authorized by the Housing and Community Development Act of 1974, as amended, whereby, HUD:
 - Guarantees financing for public entities (entitlement recipients such as: metropolitan cities & urban counties and non-entitlement communities.)
 - Principal security (towards repayment) is a pledge by the grantee of its current and future CDBG funds (in return for HUD's financial guarantee.)

What is the Section 108 Loan Program?

- This program is very appealing because issuance costs and borrowing rates are lower than conventional.
- The maximum loan repayment period is 20 years.
- Financing is underwritten through public offerings, with interim financing arranged by HUD.

What is the Section 108 Loan Program?

- 108 funds must be repaid, unlike other Block Grant programs funded by HUD:

- In the event of a default, loan payments are still due to HUD according to schedule.
- As security, public entities pledge their current or future CDBG entitlements. The City's CDBG entitlement will be decreased in an amount sufficient to cover the defaulted loan obligation.

Mechanisms For Using

Section 108

- Direct loan (short-term, mini-permanent, permanent, combination)
- Gap financing (when a developer finds a gap between sources and uses of funds)
- Bridge loan (prior to receipt of credits or other permanent commitments, or when funding is impossible or too hard to find)
- Credit Enhancement (stand by or letter of credit, to induce debt or equity contributions)

Public Benefit Standard

- The project must provide a certain level of public benefit, such as:
 - All projects and activities must benefit low-and moderate-income persons, or
 - Aid in the elimination or prevention of slums and blight, or
 - Meet other urgent community development needs

What rules apply to the

Section 108 Loan Program?

- The 108 Loan program is a component of the CDBG program, therefore all CDBG regulations and reporting requirements apply, such as:
 - Income guidelines
 - Environmental guidelines
 - Davis Bacon wage requirements
 - Church and State issues
 - Reporting requirements

What type of activities are eligible for the 108 Loan Program?

- HUD approved Section 108 activities fall within three broad parameters:
 - Housing Rehabilitation;
 - Economic Development; and
 - Infrastructure.

What eligible activities fall under the 108 Loan Program?

- HUD Eligible Section 108 activities include:
 - Acquisition of real property
 - Rehabilitation of publicly owned real property
 - Housing rehabilitation eligible under CDBG and related relocation, clearance and site improvements
- Payment of interest on the guaranteed loan and issuance costs of public offering

What eligible activities fall under the 108 Loan Program?

(continued)

- HUD Eligible Section 108 activities include:
 - Debt service reserves
 - Construction of housing by non-profit organizations
 - Clearance, demolition and removal (including movement) of buildings and improvements
 - Site preparation (including construction, reconstruction, or installation) of public and other site improvements, utilities, or facilities (not buildings)

Activities INELIGIBLE for the

108 Loan Program

- Activities Not Eligible for Section 108 Funding:
 - Certain recreational facilities such as stadiums or arenas and other facilities for sporting events or concerts
 - General purpose government facilities
 - New housing construction by for-profit developers
 - Facilities and costs for general budget administration

San Antonio 108 Loan Program

History

- The following is a list of the loans made through the San Antonio 108 Loan Program:

Term	Loan Date	Loan Amount	Project	Balance
20 Yrs.	August, 1984	\$ 475,000	Acomex, Inc.	\$ 103,428*
20 Yrs.	August, 1984	\$ 328,334	Alta Vista Joint Ventures	\$ 58,459*
20 Yrs.	July, 1998	\$25,000,000	G.K.D.C.	\$25,000,000
		\$25,806,334		\$25,274,887

* Loan Defaulted in 1988. Both groups filed bankruptcy under Chapter 7. Current balance is \$161,887. Final payment to HUD is due 10/04 (in the amount of \$44,887.)

San Antonio 108 Loan

Program

- San Antonio currently has a Section 108 borrowing capacity of \$100,000,000. (The 108 program allows any municipality to pledge up to 5 times their current CDBG entitlement.) This will be our borrowing capacity until October 1, 2003.
- Currently, San Antonio has almost 75% 108 lending capacity available for use (\$74,725,113).

San Antonio 108 Loan Program

- HUD is proposing a reduction to San Antonio's CDBG Allocation from \$20 Million to \$17.5 Million for FY2003-2004. This would result in a decrease in our borrowing capacity from \$100 Million to \$87.5 Million.
- If the staff recommendation of limiting our lending capacity to 60% of our borrowing capacity is approved, our lending capacity will be reduced from \$60 Million to \$52.5 Million.

Proposed San Antonio 108 Loan Program Policy

- *Purpose*
- Provide guidelines for San Antonio's Section 108 Loan Program.
- Develop a standard application and selection format for San Antonio's Section 108 Loan Program.

Proposed San Antonio 108 Loan Program Policy

- Projects can be funded from one of two categories:

Category I

- Fully secured projects - developers can provide two (or more) of the following:

- Letter of Credit for the full loan amount
- Pledge cash assets equal to loan amount
- Appraised collateral acceptable to the City with a first lien position
- Debt Coverage Ratio (DCR) of 1.5 or greater for combined loans (after project completion and after one full year of operation)
- Loan to Value Ratio (LTVR) of 1.5 or greater
- Priority of cash flow (debt paid first, even before operations)

Proposed San Antonio

108 Loan Program Policy

- **Category II**

- Feasible projects, which do not meet Category I criteria for financial security, provided that the applicant:

- Documents that the project cannot be completed without 108 loan funds (including at least one credit denial letter by a qualified lender.)
- Pro forma Documents that cash flow will be sufficient to service debt throughout the term of the note.
- Phase construction and flow of funds
- Priority of cash flow to service debt

Proposed San Antonio

108 Loan Program Policy

- The City of San Antonio will not commit more than 60% of its 108 loan capacity (\$60,000,000)
- The preferred allocation mix is 85% for Category I projects and 15% for Category II projects

<i>Type</i>	<i>% of Capacity</i>	<i>Maximum \$ of Loans</i>
Category I	85%	\$51,000,000
Category II	15%	\$ 9,000,000
Total	100%	\$60,000,000

<i>With Fund Reduction:</i>	
Category I	\$44,700,000
Category II	\$ 7,800,000
Total:	\$52,500,000

Proposed San Antonio

Basic Underwriting Requirements

- At no time will 108 funds provide more than 80% of the total project funding.
- Applicant must provide at least 10% of project funding from equity:
 - Cash
 - Real Property
 - Tax Credit Equity
 - Cash subordinated loans by owners

Proposed San Antonio 108 Loan Program Policy

- Every application will receive consistent treatment, no exceptions.
- Loan applications will not be considered unless fully completed and in the format requested.
- Applicant must provide security consistent with San Antonio's 108 Loan Program standards, no provisions for waivers of this requirement.

Proposed San Antonio 108 Loan Program Policy

- Applicant must document sufficient:
 - Financial ability; and
 - Experience (list similar projects which have been successfully completed)
- Project viability* will be a factor that will be considered when assessing and ranking the applications.

*Project Viability is the ability of the project to be completed and address the issues that are intended to be addressed.

Proposed San Antonio

108 Loan Program Policy

- Application Selection Process:
 - Applications will be assessed and ranked based on standard assessment criteria.
- Additional priority points will be assigned to projects located within the following areas:
 - Enterprise Community area - (Maximum Points)
 - NCR Area
 - CRAAG Target Area
- In case of overlap:
 - Projects will receive points for one target area only.

Proposed San Antonio 108 Loan Program Policy

- Applications will only be accepted Quarterly, during the months of December, March, June, and September.
- Applications will be submitted to the H&CD department.
- Applicant must submit a non-refundable application fee (cashier's check) in the amount of \$3,500 to cover expenses associated with the initial review.
- If additional review is required, involving financial advisors and/or outside legal counsel, such costs will be paid by the applicant.
- If the project is funded, application costs can be reimbursed from the 108 loan proceeds.

Proposed San Antonio 108 Loan Program Policy

- Project Information Required:
 - Detailed project description
 - Applicant's predevelopment and post development appraisal (at applicant's expense)
 - The project time line (all phases)
 - A pro-forma and a development budget (listing all sources and uses of funds)
 - Project ownership structure and investors
 - Description of collateral

Proposed San Antonio

108 Loan Program Policy

- Proposed Guidelines
- Project assessment will be based on:
 - Financial risk assessment
 - HUD required eligibility
 - Project location within “Council-Approved” priority target areas
 - Consistency with City policies and strategies
- Project selection will be by committee:
 - Comprised of City staff from the departments of HCD, EDD (Including SALDC Staff), Finance & Budget
- Project Defaults:
 - Default payments will be made from the City-Wide CDBG Budget Allocation.

Issues Raised During Review

- During the B-Session briefing on December 12, 2002, the City Council raised the following questions:
 - *Should repayment of defaulted 108 Loans be the responsibility of the City Council District in which the project is located?*
 - Answer: Staff recommends the repayment of any defaulted 108 Loan come from the City-Wide CDBG Program Budget. This results in making the entire city eligible for 108 project funding.

Issues Raised During Review –Cont.

What do other cities do with their 108 Loan Program Funds?

- Answer: Most cities use the 108 program to fund commercial or industrial projects that create jobs, although, some have financed housing.
- *Fort Worth:* Commercial development in their Mercado Revitalization Project.
- *Alhambra, California:* Renovated old Sears building as part of shopping center.
- *Wichita, Kansas:* Developed Plant for the Cessna Aircraft Company.

Issues Raised During Review –Cont.

- *Baltimore, Maryland:* Demolish sub-standard building and develop housing through both new construction and adoptive reuse.
- *Dallas, Texas:* Development of housing through new construction and adoptive reuse.

Summary

- The purpose of this policy is to:
 - Provide guidelines for San Antonio's Section 108 Loan Program.
 - Develop a standard application and selection format for San Antonio's Section 108 Loan Program.
- 108 Loan Guidelines are proposed to:
 - Provide a standard for receiving and reviewing 108 loan applications
 - Protect the City of San Antonio CDBG entitlements by limiting the amount of debt pledged by the City. (If an applicant defaults on their 108 loan, the CDBG funds will be reduced each year by an amount sufficient to make the loan payment, until the loan is paid in full.)

Summary

- **Applications are ready and will be made available through the Housing & Community Development Office.**
- **If approved, applications will be reviewed quarterly beginning March 2003.**

COORDINATION

- Finance Department
- Economic Development
- Housing & Community Development

Recommendation

- It is recommended that this policy be approved.