

CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

Policy Session Worksheet

Presentation Date: 2/13/18 **Approximate Start Time:** 10:30 a.m. **Approximate Length:** 30 min

Presentation Title: Section 108 Loan Guarantee Program

Department: Health, Housing and Human Services (H3S)

Presenters: Rich Swift, H3S Director, Chuck Robbins, HCD Director

Other Invitees: Kevin Ko, Housing and Community Development Manager
Mark Sirois, Project Coordinator

WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?

1. Introduce the Board of Commissioners to the purpose and requirements of the U.S Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program. This would include a discussion of potential uses and applications of Section 108 funds.
2. Provide detail on the application process and discuss steps for submission of a 108 loan application.
3. Consider possible submission of a 108 Loan application.

EXECUTIVE SUMMARY (why and why now):

Section 108 of the Housing and Community Development Act of 1974 is the loan guarantee component of the Community Development Block Grant (CDBG) Program. The Section 108 Loan Guarantee Program (Section 108) provides communities with a source of financing for large economic development, housing rehabilitation, public facility, and physical development projects. The funds can be used by a designated public entity to undertake eligible projects, or, alternatively, can be loaned to a third party developer to undertake the projects.

HUD requires that current and future CDBG allocations be used as security for the loan. The primary goal is to award Section 108 funds to projects that have sufficient cash flow to repay the loan without any need for repayment from CDBG dollars.

The Housing and Community Development Division (HCD) can pursue, as directed, an application to HUD for Section 108 funds to create a loan pool that would be used to:

- Acquire property for affordable housing
- Rehabilitate publicly owned affordable housing projects
- Develop of public facilities such as health centers, service centers and foodbanks

The size of the loan pool is calculated as 5 times our CDBG annual allocation. For Clackamas County this would amount to just under \$10 million.

Examples of regional Section 108 projects include:

Community Development Loan Fund – Seattle, WA	\$10,000,000
Performing Arts and Conference Center – Federal Way, WA	\$ 3,030,000
Rockwood Multi-Service Center – Gresham, OR	\$ 1,373,000
NEDCO Building (housing-commercial) – Springfield, OR	\$ 450,000

Please see ATTACHMENT A for project summaries.

H3S believes that application to HUD for Section 108 funds creates opportunities to bring more resources for addressing the housing crisis for low income residents. The HCD would manage the loan fund.

A Section 108 application entails the following steps:

1. HCD staff will make changes to HCD Funding Policies to reference Section 108 Loans. This includes program guidelines and project eligibility standards;
2. HCD staff will need to develop underwriting guidelines to analyze proposed project loans to ensure financial collateral for each loan, sufficient revenue sources, repayment schedules and third party capacity;
3. HCD will develop an RFP to solicit projects.

A Section 108 application requires a Public Hearing in front of the BCC. The Board would also be required to approve all projects proposing to receive Section 108 funding.

The Board has taken no previous action on HUD Section 108 loan applications. The Board has approved CDBG and HOME Annual Action Plans and Consolidated Plans that are annual applications for CDBG, HOME and Emergency Solutions Grant (ESG) funding. These applications have included lists of housing and community development projects and recommended funding levels for each project.

FINANCIAL IMPLICATIONS (current year and ongoing):

Is this item in your current budget? YES NO

What is the cost? \$ There would be no cost to the County. The County (H3S) may borrow up to \$9,950,000.

What is the funding source? HUD Section 108 Loan Guarantee Program.

Project Loans will be funded by the Section 108 Program. Loan repayments, including principle, interest and fees will be made by the borrowing entity.

Each project loan would have a 20-year term with an initial interest rate that is variable based on the London Inter Bank Offered Rate (LIBOR currently at 1.7%) until the loan becomes permanent with a fixed interest rate based on U.S Treasury Yields (currently at 2.95%).

For comparison purposes the current U.S Prime lending Rate is 4.50% (Fed Prime Rate).

STRATEGIC PLAN ALIGNMENT:

- How does this item align with your Department's Strategic Business Plan goals?

Yes. The H3S Department's mission is *Promoting and assisting individuals, families, and communities, to be healthy, to be safe, and to thrive*. Section 108 loans for affordable housing and infrastructure projects would promote healthy, safe and thriving individuals, families and communities.

- How does this item align with the County's Performance Clackamas goals?

Constructing improvements and affordable housing projects helps to meet the County's strategic priorities to build strong infrastructure and ensure safe, healthy and secure communities.

LEGAL/POLICY REQUIREMENTS:

Section 108 follows the same regulatory and project eligibility requirements of the CDBG Program which can be found at

24 CFR 570, Subpart M, Loan Guarantees. Section 108 funded projects/activities must comply with all CDBG rules:

- At least 70% of funds directed to Low/Moderate Income (LMI) populations

Other Federal Requirements:

- Environmental review
- Davis Bacon (prevailing wages)
- Uniform Relocation Act
- Office of Management and Budget circulars, as applicable
- Fair housing/equal opportunity
- Lead Based Paint

PUBLIC/GOVERNMENTAL PARTICIPATION:

The Section 108 Loan application process requires public outreach per 24 CFR Section 507.704. H3S will be required to conduct public outreach in accordance with our Citizen Participation Plan, publish a proposed Section 108 Loan Program application for a 30-day comment period and gain formal approval from the Board before submitting the Section 108 Loan application to HUD.

Approval of the Section 108 loan by HUD would then require:

- H3S to bring individual project loan applications to the Board at a public meeting for discussion and approval.
- Submission of the approved projects applications to HUD for approval.

OPTIONS:

- Direct H3S staff to begin steps to prepare a Section 108 Loan application. These steps include:
 - Develop public outreach and participation process for the Section 108 Loan program.
 - Work with HUD staff to ensure application requirements are met.
 - Develop project application review process and underwriting criteria, including financial feasibility and risk analysis.
 - Identify potential Section 108 projects.

- Direct H3S staff to hold on application for the Section 108 Loans from HUD and take other steps related to the process.

RECOMMENDATION:

Respectfully recommends the Board direct staff to proceed with the Section 108 Loan public outreach process including a public hearing before the Board to gain formal approval of a Section 108 Loan application to HUD.

ATTACHMENTS:

ATTACHMENT A - Examples of Regional Section 108 Projects

SUBMITTED BY:

Division Director/Head Approval _____
Department Director/Head Approval _____
County Administrator Approval _____

For information on this issue or copies of attachments, please contact <u>Mark Sirois</u> @ 503-650-5664 _____
--

ATTACHMENT A - Examples of Regional Section 108 Projects

Economic and Community Development Loan Fund – Seattle, WA – \$10,000,000

The City will establish an Economic and Community Development Loan Fund to finance a variety of economic development projects within the City. The Loan Fund will further the City's goal of assisting mixed-use projects that provide catalytic opportunities for business growth, job creation, and affordable housing opportunities. The business borrowers will use the loan funds for acquisition of real property and/or machinery and equipment, site preparation activities, new commercial construction and tenant improvements, or for working capital.

National Objective: Each of the Loan Fund's loans to business borrowers will either meet the CDBG national objective of benefit to low- and moderate-income persons or activities which aid in the prevention or elimination of slums or blight.

Underwriting: The City's Office of Economic Development (OED) will manage the Loan Fund and will underwrite all loans, with assistance from its consultants at the National Development Council. Guaranteed Loan Features:

Term: The City will repay its Section 108 guaranteed loan over a 20-year term.

Repayment Source: The City will utilize repayments from its Business Borrowers to service the Section 108 debt.

Additional Security: The City will obtain collateral security on each loan made from the loan fund typically in forms of deeds of trust or real estate liens.

Performing Arts & Conference Center – Federal Way, WA – \$3,030,000

The City will fund the development of the Federal Way Performing Arts and Conference Center (PACC) with Section 108 assistance. Initially, the City had envisioned using the funds to finance a loan fund to assist with the PACC project and with the City's effort to promote the redevelopment of the Twin Lakes neighborhood's commercial district; however, the City has since amended its application, targeting all funds toward the construction of the PACC. The PACC will be located on a former site of a big-box store on 20th Avenue South near the City's Transit Center.

National Objective: The CDBG national objective to be met by the PACC project is benefit to low and moderate-income persons through job creation, as this public facility will create jobs in the abutting properties.

Term: The City will repay the Section 108 loan over a 20-year term with Year 1 being interest-only. Repayment Sources: For the potential PACC Project, the Borrower will rely on its CDBG funds to repay the Section 108 commitment.

Additional Security: The City will provide its full faith and credit guarantee to secure the Section 108 loan.

Rockwood Multi-Service Center – Gresham, OR – \$1,373,000

The City will lend the Section 108 guaranteed loan funds to Human Solutions, Inc., a non-profit Community Development Corporation, which will construct a facility to serve eight social service agencies. The facility will serve the Rockwood neighborhood of Gresham, which is characterized by a significant immigrant and low-income population. The facility will be approximately 75,500 square feet and will include a shared reception, meeting, dining, kitchen, and restroom areas. The facility will provide services to include, but are not limited to, homelessness prevention, rent and utility assistance, workforce training and employment services, Head Start classrooms, outpatient medical, and referral and mental health services.

National Objective: The CDBG national objective to be met by this project is benefit to low-and moderate-income persons on an area basis, where at least 51% of the residents are low-and moderate-income persons. According to the service area and census data map provided by the City, the project is located in a primarily residential area where at least 70% of the residents are low-to moderate- income persons. Guaranteed Loan Features:

Term: The City will repay the Section 108 guaranteed loan over a 20-year term, with interest-only payments during the first seven years of the loan. Repayment Source: The primary source of repayment will lease revenues.

Additional Security: The City will pledge its annual CDBG allocations and a lien on the real property on which the facility will be constructed.

NEDCO Mixed-Use Building – Springfield, OR – \$450,000

The City of Springfield will lend the proceeds of the Section 108 guaranteed loan to the Neighborhood Economic Development Corporation (NEDCO), through a subrecipient agreement, to acquire a historic, mixed-use building located on Main Street in downtown Springfield. Originally built in 1911 as a theater, the building currently consists of vacant ground floor space and four occupied affordable housing units on the second floor. NEDCO plans to lease the front half of the ground floor space to small, locally-owned businesses as commercial space. The rear portion of the ground floor will be used as classrooms and office space for NEDCO to conduct homeowner education, housing counseling, and financial literacy classes primarily for low- and moderate-income persons. The four residential units on the second floor will be maintained as permanent, affordable rental housing with the current tenants remaining in their units. The project will address several community objectives for the City, including maintaining affordable housing units and filling longstanding vacant storefront space in the downtown core. The variety of classes being taught by NEDCO is also expected to bring people downtown on weekends and in the evenings.

National Objective: The CDBG national objective met by this project is benefit to low-to moderate-income persons through providing housing, creating jobs, and providing services for a limited clientele. Guaranteed Loan Features:

Term: The City will repay the Section 108 loan over a 20-year term. Repayment Source: The source of repayment will be payments made by the developer from lease revenues.

Additional Security: The City will pledge a first lien position on the real property. In addition, the City will agree to allow HUD to use existing pledged grants to prepay (or defease) the Guaranteed Loan if HUD determines that the standard pledge of future CDBG funds is insufficient to assure payment of amounts due.