

DATE ISSUED: September 27, 2000

REPORT NO. 00-191

ATTENTION: Honorable Mayor and City Council
Docket of October 2, 2000

SUBJECT: HUD 108 Loan for Ocean Beach Library Expansion

SUMMARY

Issues:

1. Should the City Council authorize the City Manager to apply to the Department of Housing and Urban Development for a Section 108 loan of \$2,000,000 and to set forth the legal authority and certifications necessary for such an application?
2. Should the City Council authorize the City Manager to accept and expend such funds, conduct all negotiations, and execute and submit all documents related to the processing of such a loan, if said loan is approved?
3. Should the City Council authorize the City Manager to appropriate proceeds of up to \$2 million from this proposed HUD 108 loan to CIP #35-100.0, Ocean Beach Library, if said loan is funded?
4. Should the City Manager be authorized to use District 2 CDBG annual allocations as the source of repayment of the HUD 108 loan?
5. Should the City Manager be authorized to amend the Community Development Block Grant (CDBG) 2001 Action Plan to reflect the use of HUD 108 loan funds for the Ocean Beach Library Expansion?

Manager's Recommendation

1. Authorize the City Manager or his designee to apply for a HUD Section 108 loan of \$2,000,000 for the Ocean Beach Library Expansion and to set forth the legal authority and certifications necessary for such an application.
2. Authorize the City Manager or his designee to accept and expend such funds, to conduct all negotiations, and to execute and submit all documents related to the processing of such a loan.
3. Authorize the City Manager to appropriate proceeds of up to \$2 million from this proposed HUD 108 loan to CIP #35-100.0, Ocean Beach Library, if said loan is funded.
4. Authorize the use of District 2 CDBG funds as the source of repayment of the 108 loan.
5. Authorize the City Manager to amend the Community Development Block Grant (CDBG) 2001 Action Plan to reflect the use of HUD 108 loan funds for this project.

Other Recommendations: - None

Fiscal Impact: Although the exact interest rate on the HUD loan will not be known until the date of the public offering, it can be estimated that for a \$2,000,000 loan, the repayment of principal and interest estimated over 15 years would be approximately \$3.35 million dollars. An annual

payment of approximately \$223,069 would be required. The Councilmember representing District 2 is willing to commit CDBG funds for repayment of this loan, with repayments expected to commence in FY 2002. District 2 currently has 108 debt obligations of approximately \$101,000 per year for the Viet Nam Veteran's Homeless Facility. The funding of this loan will result in an annual obligation of approximately \$324,000, which is about 27% of the district's expected annual CDBG funds.

The City's Section 108 borrowing capacity, which is set by HUD at 5 times the amount of the City's current CDBG allocation, is approximately \$90 million. Current Section 108 loan debt is approximately \$26 million; with the addition of this loan and three others that are in process, the City's debt would be approximately \$36.6 million. This debt is reduced each year by annual principal payments on existing loans and is increased by the addition of new loans; therefore the current figure reflects actual and anticipated debt at this point in time only.

BACKGROUND

The HUD Section 108 Loan Guarantee program, which is part of the Community Development Block Grant program, is one of the major public investment tools offered to local governments. It allows cities to transform relatively small portions of their CDBG funds into federally guaranteed loans large enough to stimulate and/or pay for major physical and economic revitalization projects. The mechanism allows the borrowing of significant amounts at a favorable interest rate because of the federal government's guarantee, with the pledge of current and future CDBG allocations as security and/or as the source of repayment. Although economic development projects are a high priority, HUD also allows the use of 108 funds for public facilities.

The City of San Diego has used this mechanism as a financing source for both types of projects. Economic development efforts such as the Barrio Logan Mercado and several SEDC projects have been supported with 108 funds in the past, and the City recently received HUD approval of a \$2.5 million economic development loan for the Regional Transportation Center project in City Heights.

The 108 mechanism has been used more frequently to support public facilities and some neighborhood facilities. HUD 108 loans have been used to support the Urban Village Library/Park and to build several police and fire stations. 108 funds will be used to help purchase the Viet Nam Veterans Homeless Facility and thus will aid the City in meeting its obligations related to the Naval Training Center Reuse Plan. The City recently requested a 108 loan for a library in the College-Rolando neighborhood and Council recently authorized the Manager to apply to HUD for a loan for a community center/mixed use project in Golden Hill. The City is currently managing a 108 loan portfolio of 9 active loans. In addition, two loans have been approved but not yet funded; one loan request is being reviewed by HUD and the previously mentioned Golden Hill loan application is being prepared for submission.

DISCUSSION

The Ocean Beach Library

The library which currently serves the Ocean Beach neighborhood is inadequate by today's standards for neighborhood libraries. It was opened in 1927 when the population to be served was much smaller and the need for computer and internet capability did not exist. The library has inadequate shelving, little space for computers, insufficient parking and no community meeting and seminar rooms. The library, however, is well used and is an established landmark in this beach community.

The proposed project will consist mainly of new construction but, at the request of the community, will include the preservation and restoration of the original 1927 portion of the library. Adjacent property is needed for some of the expansion and additional parking. When completed, the library will have almost 15,000 square feet of space and will include an expanded children's area, enhanced study and reading space, a community meeting room, up to date computer facilities and significantly increased shelving and parking. The project is located in a CDBG eligible census tract and, according to library statistics regarding clientele, serves primarily low and moderate income persons from the immediately adjacent area.

Financing

Total project costs for the expansion and renovation of the library are estimated at \$6.5 million. CDBG funds totaling \$30,000 have previously been allocated for this project and Development Impact Fees of \$36,500 will be allocated this fiscal year. The Manager is requesting authorization to apply to HUD for \$2 million to acquire two adjacent properties needed for the expansion and to help with design costs. Acquisition costs are estimated at \$1.6 million. Loan issuance costs of approximately \$20,000 will be deducted from the \$2 million loan by HUD. The source of the remaining money needed for design, construction and furnishings, fixtures and equipment has not yet been identified. However, it is anticipated that this project will be eligible for State funding under the recently approved Proposition 14, and the Manager plans to submit an application to the State for such funds when guidelines become available. Because of the current opportunity to purchase adjacent property for the expansion and because of the length of time it takes for processing a HUD 108 application, the Manager is recommending that this application to HUD for acquisition funds proceed while other funds for design and construction are being identified and sought. Once the loan is approved by HUD, in 8 to 10 months, the Manager and library staff will review project funding status. Councilmember Wear has indicated his willingness to commit future CDBG allocations to pay back the loan with interest over 15 years.

ALTERNATIVES

1. Do not approve the submission of an application for a HUD 108 loan for the Ocean Beach Library Expansion.
2. Designate another source of funding for purchase of the adjacent property.
3. Do not apply for a HUD 108 loan until all project financing has been identified.

Respectfully submitted,

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Hank Cunningham Approved: George Loveland
Director Assistant City Manager
Economic Development & Community Services

CUNNINGHAM/FISCHLE-FAULK/BC