

DATE ISSUED: November 8, 2000

REPORT NO.

ATTENTION: Honorable Mayor and City Council
Docket of November 14, 2000

SUBJECT: HUD 108 Loan for Linda Vista Town Center

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 \$2.5 million for the Linda Vista Town Center 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 Manager be authorized to use future CDBG annual allocations of Districts 5 and 6 to repay the 108 loan?
4. 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 Linda Vista Town Center?

Manager's Recommendation

1. Authorize the City Manager or his designee to apply for a HUD Section 108 loan of \$2.5 million for the Linda Vista Town Center 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, if said loan is approved.
3. Authorize the use of future CDBG entitlements, specifically those allocated to Council Districts 5 and 6, to repay the loan, with equal amounts committed from each District.

4. 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: - The Linda Vista Planning Group, the Linda Vista Civic Association and an ad hoc committee of community leaders support the Town Center concept and are actively participating in the conceptualization process.

Fiscal Impact: Although the exact interest rate of the HUD loan will not be known until the date of the public offering, it is estimated that for a \$2.5 million loan, the repayment of principal and interest over 10 years would be approximately \$3.5 million dollars. An annual payment of approximately \$348,000 would be required. The Councilmembers representing Districts 5 and 6 are willing to commit future CDBG allocations for repayment of the loan, with each district paying one half the amount required. Neither Council District has other 108 loan commitments.

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 \$28.5 million; with the addition of this loan and three others that are in process, the City's debt would be approximately \$43 million. The City's HUD 108 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 principal 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 a \$2.5 million economic development loan for the Regional Transportation Center project in City Heights.

The 108 mechanism has been used more frequently by the City 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 are being 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. HUD is now reviewing the College Rolando Library 108 application, and applications for the Golden Hill Community Center and the Ocean Beach Library Expansion are in process.

The City is currently managing a 108 loan portfolio of 10 active loans. If all loans now in process, including this one, are approved and funded, the portfolio will increase to 15.

DISCUSSION

The proposed site of the Linda Vista Town Center at Comstock and Linda Vista Road is part of the Linda Vista Redevelopment Area. The property at the corner, a gas station, has been purchased by the Redevelopment Agency. The community has discussed several options regarding future use of the site and favors a town center that would include community meeting space and office space for non profit organizations and civic associations. However, the possibility of space for neighborhood serving retail is being discussed. The purchase of an adjacent site is also being considered.

Financing

A \$2.5 million HUD 108 loan will net about \$2.465 million after loan issuance costs are deducted by HUD. It is anticipated that the 108 funds will be used for design and construction; however, if the adjacent property is acquired for this project, they may be used for that purpose also. All are eligible 108 activities. Future CDBG funds of Council Districts 5 and 6 may be allocated to this project to supplement the 108 funds as necessary.

ALTERNATIVES

1. Do not proceed with this project
2. Direct the Manager to seek a source of funds other than a HUD 108 loan for this project

Respectfully submitted,

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

CUNNINGHAM/FISCHLE-FAULK/BC