

DATE ISSUED: November 16, 2000

REPORT NO. 00-245 Revised

ATTENTION: Honorable Mayor and City Council
Docket of November 21, 2000 (Revised)

SUBJECT: HUD 108 Loan for Purchase of Days Inn Motel

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 \$3,500,000 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 Manager be authorized to use future Winter Shelter Program allocations to repay the 108 loan with the understanding that City-wide CDBG funds would be used if annual allocations to the Winter Shelter Program are not sufficient?
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 purchase of property for a homeless facility?

Manager's Recommendation

1. Authorize the City Manager or his designee to apply for a HUD Section 108 loan of \$3,500,000 for the purchase of the Days Inn Motel to serve as a homeless facility 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 Winter Shelter Program funds to repay the 108 loan with the understanding that City-wide CDBG funds will be pledged as the ultimate source of repayment of the 108 loan.

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: - At the October 11, 2000 meeting of the Land Use and Housing Committee, the Committee approved the concept of applying for a HUD 108 loan of \$3.5 million to be used for the purchase of the Days Inn Motel and its subsequent use as a permanent homeless shelter.

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 \$3,500,000 loan, the repayment of principal and interest over 20 years would be approximately \$6.5 million dollars. An annual payment of approximately \$326,000 would be required. It is anticipated that annual allocations for the Winter Shelter Program, which come from a variety of sources and have traditionally been over \$700,000, will be used to make the annual payments on the 108 loan. However, should those allocations not be sufficient and should other funding sources not be found, the annual repayment would be made from the City-wide portion of the City's annual CDBG entitlement.

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 \$40.1 million. This 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. 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 loans for a community center/mixed use project in Golden Hill as well as for the expansion of the Ocean Beach Library.

The City is currently managing a 108 loan portfolio of 10 active loans. In addition, one loan has been approved but not yet funded; two loan applications are being processed by HUD and the previously mentioned Golden Hill loan application is being prepared for submission.

DISCUSSION

The City has funded the operation of several seasonal homeless shelters for the past few years. Earlier this year, the Manager was asked by the Land Use and Housing Committee to pursue several options for provision of a permanent facility for homeless families which would operate year round. Several options were analyzed, including a lease/purchase option with Sprung Structures, Inc., a proposal from the San Diego Rescue Mission, a proposal from St. Vincent de Paul, the possibility of purchasing Bay View Center, and the possibility of purchasing the Days Inn Motel on 9th Avenue in the northeastern portion of downtown. Two other properties were identified as potential sites.

At its October 11th, 2000 meeting, the Land Use and Housing Committee concurred with the Manager's recommendation to pursue the purchase of the Days Inn property utilizing HUD Section 108 financing, with the understanding that a bridge loan or advance of funds would be necessary due to the amount of time needed for processing a HUD 108 loan (9 - 12 months). Actions related to the bridge loan and purchase of the property are docketed as companion items to this request for authorization to apply for HUD 108 funds.

Financing

The purchase of the Days Inn is estimated to cost \$3,700,000. Approximately \$500,000 would be needed for rehabilitation of the property. A HUD loan of \$3.5 million, which would net about \$3,470,000 after loan issuance costs are deducted, and additional available funds will cover the purchase and related costs. A \$500,000 contribution from the Housing Commission would cover rehabilitation costs to make the property available as a permanent year round shelter. The proposed bridge loan from CCDC and from the North Park project of the City's Redevelopment Agency will allow the purchase to proceed this year while the 108 loan application is being reviewed and processed.

ALTERNATIVES

1. Do not acquire the Days Inn Motel
2. Direct the Manager to seek a source of funds other than a HUD 108 loan for the purchase of the Days Inn.

Respectfully submitted,

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

CUNNINGHAM/FISCHLE-FAULK/BC