

DATE ISSUED: July 25, 2001

REPORT NO. 01-149

ATTENTION: Honorable Mayor and City Council  
Docket of July 31, 2001

SUBJECT: HUD 108 Loan for Logan Heights Library

### 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 up to \$3,030,000 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 such funds, to expend such funds contingent on receipt of an Auditor's Certificate to do so, 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. Should the City Council authorize the City Manager to appropriate proceeds of up to \$3,030,000 from this HUD 108 loan to CIP #35-101.0, Logan Heights Library, if said loan is funded?
4. Should the City Manager be authorized to use District 8 CDBG annual allocations as the source of repayment of this HUD 108 loan?
5. Should the City Manager be authorized to amend the Community Development Block Grant (CDBG) 2002 Action Plan to reflect the use of HUD 108 loan funds for the Logan Heights Library?

#### Manager's Recommendation

1. Authorize the City Manager or his designee to apply for a HUD Section 108 loan of \$3,030,000 for the Logan Heights Library and to set forth the legal authority and certifications necessary for such an application.
2. Authorize the City Manager or his designee to accept such funds, to expend such funds contingent upon receipt of an Auditor's Certificate to do so, 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 \$3,030,000 from this HUD 108 loan to CIP #35-101.0, Logan Heights Library, if said loan is funded.
4. Authorize the use of District 8 CDBG funds as the source of repayment of the 108 loan.
5. Authorize the City Manager to amend the Community Development Block Grant (CDBG) 2002 Action Plan to reflect the use of HUD Section 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 \$3,030,000 loan, the repayment of principal and interest estimated over 20 years would be approximately \$5.6 million dollars. An annual payment of approximately \$282,000 would be required. The Councilmember representing District 8 is willing to commit CDBG funds for repayment of this loan, with repayments expected to commence no earlier than FY 2003. District 8 currently has Section 108 debt obligations of approximately \$742,000 per year for three projects, with an additional \$100,000 per year committed when the Logan Heights Family Health Center loan is funded. Assuming that the Golden Hill Community Center loan is approved and funded, an additional \$217,000 per year will be committed. However, one of the current loans (the Golden Hill Fire Station) will be paid in full in FY 2003. Therefore, the funding of the Logan Heights Library loan (in FY 03 or later) will result, for a number of years, in an annual obligation of approximately \$1.2 million which is approximately 63% of the most recent District 8 CDBG allocation.

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 \$95 million. Current Section 108 loan debt is approximately \$26.8 million; with the addition of this loan and the six others that are pending, the City's debt would be approximately \$44 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, several SEDC projects and the Regional Transportation Center project in City Heights have been supported with HUD 108 loans.

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 are also being used to help the City address the need for homeless services: the purchase of the Viet Nam Veterans Homeless Facility is being supported by a 108 loan, and an application was recently approved for the purchase of a downtown site for a Homeless Transitional Facility. A 108 loan for the College Heights Library has been approved and a 108 application for the Ocean Beach Library expansion is expected to be approved soon. In addition, the proposed renovation of the Logan Heights Family Health Center will utilize 108 funds and Council has authorized the Manager to apply to HUD for a loan for a community center projects in Golden Hill and Linda Vista.

In summary, the City is currently managing a 108 loan portfolio of 9 active loans. In addition, three loans have been approved by HUD but not yet funded; one loan application is being reviewed by HUD and two, including this one, are in process at the City.

## DISCUSSION

### **The Logan Heights Library**

The library which currently serves the Logan Heights and Barrio Logan neighborhood is inadequate by today's standards for neighborhood libraries. The 3,967 square foot library was built in 1927. The library has inadequate shelving, little space for computers, no on-site parking and no community meeting and seminar rooms. The facility is used by children, teens and adults for family literacy, computer literacy and Internet access and homework assistance. Because of the condition and structural limitations of the existing branch library, new construction on a different site is planned.

The Manager is currently assessing available city owned land in the Logan Heights community for the new library. When completed, the library will have 25,000 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. All of Logan Heights and the surrounding service area are eligible for CDBG funding and therefore for HUD 108 funds.

### **Financing**

Project costs for design and construction of the new library are estimated at \$8.3 million. The Manager is requesting authorization to apply to HUD for \$3,030,000 million to assist with these costs. [ Note: loan issuance costs of approximately \$30,000 will be deducted from the loan by HUD.] There is \$150,000 available in the CIP budget for this project. 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 the Manager will be able to identify funding from a number of sources that will be available in the future to ensure completion of this project.

Because of the time it takes for processing a HUD 108 application, the Manager is recommending that this application to HUD for design and construction financing proceed while other funds are being identified and sought. Assuming that the loan will be approved by HUD (6-8 months), the Manager will review project funding status before drawing down any loan funds.

## ALTERNATIVES

1. Do not approve the submission of an application for a HUD 108 loan for the Logan Heights Library
2. Do not apply for a HUD 108 loan until all project financing has been identified.

Respectfully submitted,

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Hank Cunningham, Director.....Approved: Bruce Herring  
Community and Economic Development..... Deputy City Manager

CUNNINGHAM/FISCHLE-FAULK/BC