

DATE ISSUED: January 8, 2003

REPORT NO. 03-004

ATTENTION: Honorable Mayor and City Council
Docket of January 14, 2003

SUBJECT: HUD 108 Loan for District 3 Public Improvements

SUMMARY

Issues -

1. Should the City Council authorize the City Manager to apply to the Department of Housing and Urban Development (HUD) for a Section 108 loan in the amount of \$3,707,000 for public improvements in Council District 3; 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 contingent upon receipt of an Auditor's Certificate verifying availability of funds; and to execute and submit all documents related to the processing of such a loan?
3. Should the City Council authorize the addition of the following projects to the Fiscal Year (FY) 2003 Capital Improvements Program?
 - Ray Street Improvements – CIP Project Number 39-084.0
 - Azalea Park Neighborhood Identification - CIP Project Number 39-086.0
 - Shirley Ann Place Sidewalks - CIP Project Number 39-089.0
 - Council District 3 Mid-block Streetlights - CIP Project Number 61.202.0
4. Should the City Council authorize the City Manager to appropriate proceeds of up to \$3,707,000 from the HUD 108 loan to the following CIP accounts, contingent upon receipt of funds?

Neighborhood Revitalization Projects

- Adams Avenue Infrastructure - CIP Project Number 39-205.0
- El Cajon Boulevard Medians - CIP Project Number 39-201.0
- Ray Street Improvements - CIP Project Number 39-084.0
- North Park Main Street Streetscapes - CIP Project Number 39-207.0
- Euclid Avenue Revitalization Action Plan - CIP Project Number 52-699.0
- Azalea Park Neighborhood Identification - CIP Project Number 39-086.0
- Shirley Ann Place Sidewalks - CIP Project Number 39-089.0

Infrastructure Projects

Council District 3 Sidewalk Program - CIP Project Number 52-336.0
Council District 3 Streetlight Conversion - CIP Project Number 61-201.0
Council District 3 Mid-block Streetlights - CIP Project Number 61.202.0

5. Should the City Council authorize the budget adjustments to the FY 2003 Capital Improvements Program Budget in accordance with Exhibit A.
6. Should the City Council authorize the City Manager to use Council District 3 Community Development Block Grant (CDBG) annual allocations as the source of repayment of the HUD 108 loan?
7. Should the City Council authorize the City Manager to amend the CDBG 2003 Action Plan to reflect the use of HUD 108 loan funds for the following projects?

Neighborhood Revitalization Projects

Adams Avenue Infrastructure
El Cajon Boulevard Medians
Ray Street Improvements
North Park Main Street Streetscapes
Euclid Avenue Revitalization Action Plan
Azalea Park Neighborhood Identification
Shirley Ann Place Sidewalks

Infrastructure Projects

Council District 3 Sidewalk Program
Council District 3 Streetlight Conversion
Council District 3 Mid-block Streetlights

8. Should the City Council authorize the City Manager to pledge the City's annual CDBG entitlement grants as additional security for the repayment of the loan and to encumber the Mid City Police Station property (4310 Landis Street) as collateral for the HUD Section 108 loan?

Manager's Recommendation -

1. Authorize the City Manager to apply to the Department of Housing and Urban Development (HUD) for a Section 108 loan in the amount of \$3,707,000 for public improvements in Council District 3; and to set forth the legal authority and certifications necessary for such an application.
2. Authorize the City Manager to accept and expend such funds contingent upon receipt of an Auditor's Certificate verifying availability of funds; and to execute and submit all documents related to the processing of such a loan.
3. Authorize the City Manager to add the following projects to the FY 2003 Capital Improvements Program.
Ray Street Improvements – CIP Project Number 39-084.0
Azalea Park Neighborhood Identification - CIP Project Number 39-086.0
Shirley Ann Place Sidewalks - CIP Project Number 39-089.0
Council District 3 Mid-block Streetlights - CIP Project Number 61.202.0
4. Authorize the City Manager to appropriate proceeds of up to \$3,707,000 from this HUD 108 loan to the following CIP accounts, contingent upon receipt of funds:

Neighborhood Revitalization Projects

Adams Avenue Infrastructure - CIP Project Number 39-205.0
El Cajon Boulevard Medians - CIP Project Number 39-201.0
Ray Street Improvements - CIP Project Number 39-084.0

North Park Main Street Streetscapes - CIP Project Number 39-207.0
Euclid Avenue Revitalization Action Plan - CIP Project Number 52-699.0
Azalea Park Neighborhood Identification - CIP Project Number 39-086.0
Shirley Ann Place Sidewalks - CIP Project Number 39-089.0

Infrastructure Projects

Council District 3 Sidewalk Program - CIP Project Number 52-336.0
Council District 3 Streetlight Conversion - CIP Project Number 61-201.0
Council District 3 Mid-block Streetlights - CIP Project Number 61.202.0

5. Authorize the City Manager to make the budget adjustments to the FY 2003 Capital Improvements Program Budget in accordance with Exhibit A.
6. Authorize the City Manager to use Council District 3 CDBG annual allocations as the source of repayment of the HUD 108 loan?
7. Authorize the City Manager to amend the CDBG 2003 Action Plan to reflect the use of HUD 108 loan funds for the following projects:

Neighborhood Revitalization Projects

Adams Avenue Infrastructure
El Cajon Boulevard Medians
Ray Street Improvements
North Park Main Street Streetscapes
Euclid Avenue Revitalization Action Plan
Azalea Park Neighborhood Identification
Shirley Ann Place Sidewalks

Infrastructure Projects

Council District 3 Sidewalk Program
Council District 3 Streetlight Conversion
Council District 3 Mid-block Streetlights

8. Authorize the City Manager to pledge the City's annual CDBG entitlement grants as additional security for the repayment of the loan and to encumber the Mid City Police Station property (4310 Landis Street) as collateral for the HUD Section 108 loan.

Other Recommendations - None

Fiscal Impact - 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 \$25,925,000; with the addition of this loan and 5 other pending loans, the City's debt would be approximately \$42.3 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 as of the date of this report only.

The exact interest rate on this proposed HUD loan will not be known until the date of the public offering. However, staff estimates that for a \$3,707,000 loan, the repayment of principal and interest estimated over 12 years would be approximately \$5,122,000. An annual payment of approximately \$427,000 would be required over the 12-year life of the loan. The Councilmember representing District 3 is willing to commit CDBG funds for repayment of this loan over 12 years, with repayments expected to commence in FY 2004.

In FY 2003, Council District 3 has 108 debt obligations of approximately \$543,000 for the Mid City Police Station and the Urban Village Library Park projects. Repayment of this proposed loan, beginning in FY 2004, would increase the Council District obligations in that year to \$950,000. However, the Police Station loan will be repaid early in FY 2004, which will decrease the Council District debt service to approximately \$687,000. In FY 2007 the Urban Village loan will be repaid. Therefore, after FY 2007 the Council District would be committed only to the repayment of this loan. Council District 3 current year (FY03) CDBG allocation is approximately \$1.9 million.

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 from HUD. 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. HUD requires that the City's annual CDBG entitlement be pledged as security and requires an additional layer of security in the form of collateral, which is usually delivered by means of a trust deed on City property.

The City of San Diego has used this mechanism as a financing source for both economic development and public facility projects mainly for the latter. Projects such as the Mid City Police Station, the Urban Village Library Park, the Viet Nam Veterans Homeless Facility, the Golden Hill Fire Station and the Cortez Hill Transitional Facility have been developed with Section 108 funds. Community and Economic Development staff are currently managing a portfolio of 10 active loans. In addition, four loans have been approved but not yet funded and one loan request is being reviewed by HUD. There are two additional projects for which 108 financing is being discussed.

DISCUSSION

The \$3.7 million loan will be used for ten public works projects in two categories (Neighborhood Revitalization Projects and Infrastructure Projects). An estimated \$30,000 will be needed for loan issuance costs; the remaining \$3,677,000 will be allocated as follows:

Neighborhood Revitalization Projects: Adams Avenue Infrastructure - The project was designed to retain and attract businesses for the provision of services to local residents. The project purpose is to provide public improvements along Adams Avenue from West Mountain View Drive to 35th Street to enhance and revitalize "The Avenue" commercial district. Improvements will include sidewalk, parkway, curb, and gutter replacement as well as theme street trees, ground covers, automatic irrigation and enhanced paving. *Other Funding Sources:* There is currently \$122,800 available, which includes the following: TransNet CMR \$44,500 and CDBG FY1996 allocation \$78,300. *Special Conditions:* If the overall project funding is sufficient, pedestrian lighting will be added in the parkways

next to the sidewalks. *Additional Note:* None. *Section 108 Loan Request:* \$705,000.

El Cajon Boulevard Medians - The project was designed to enhance and revitalize “The Boulevard” commercial district in a key low/moderate income community in San Diego located just west of the I-805 freeway with a CDBG grant of \$100,000 in FY1996. Project purpose is to provide median landscaping on seven blocks of El Cajon Boulevard between Texas and 30th Street. Improvements will include theme street trees, ground covers, automatic irrigation and enhanced paving. *Other Funding Sources:* There is currently \$288,000 available, which includes the following: General Funds \$88,000; TransNet \$50,000; and a CDBG FY2001 allocation of \$150,000. *Special Conditions:* If funding is sufficient, pedestrian theme lighting and street trees will be added in the parkways next to the sidewalks. *Additional Note:* None. *Section 108 Loan Request:* \$862,000.

Ray Street Improvement - This project is on one block of Ray Street from University Avenue to North Park Way in the North Park Community. Project purpose is to enhance and revitalize “Ray Street” in a low/moderate income community in San Diego located just west of the I-805 freeway. Improvements will include sidewalk, curb, gutter replacement, trees and enhanced paving, and possible signage. This street has become very popular since the inception of Ray at Night, an event to showcase the art galleries along the street. *Other Funding Sources:* None. *Special Conditions:* If funding is sufficient, pedestrian theme lighting and street trees will be added in the parkways next to the sidewalks. *Additional Note:* The Ray Street Committee will recommend the first phase of priorities, because all elements of the project cannot be completed with the \$100,000. *Section 108 Loan Request:* \$100,000.

North Park Main Street Streetscapes - This project provides for streetscape improvements on University Avenue between Idaho and Granada in North Park. The purpose of the project is to enhance and revitalize “North Park” commercial district in a low/moderate income community in San Diego located just west of the I-805 freeway. Improvements will include theme street trees, landscaping, automatic irrigation, enhanced paving and curb, gutter, sidewalk replacement. *Other Funding Sources:* There is currently \$70,000 available, which includes the following: CDBG FY2002 allocation of \$14,000, and SANDAG allocation of \$56,000. *Special Conditions:* None. *Section 108 Loan Request:* \$450,000.

Euclid Avenue Revitalization Action Plan - This project provides for the construction of new sidewalk, curb, and gutter improvements along the Westside of Euclid Avenue from Dwight Street to Myrtle Avenue in the City Heights Community. Project purpose is to improve residents’ pedestrians’ accessibility and improve the infrastructure within the community to enhance safety. *Other Funding Sources:* There is currently \$156,000 available from CDBG allocations. *Special Conditions:* None. *Additional Note:* None. *Section 108 Loan Request:* \$150,000.

Azalea Park Neighborhood Identification - This project is the second phase of the community revitalization effort called the Poplar Street Enhancement Plan as outlined in the Azalea Park- Hollywood Park RAP. The specific location is Poplar Street from Fairmount Avenue to Violet Street. During the first phase, the community residents concluded that Azalea Park should develop a unique theme to foster an image as a distinct residential area apart from just being known as an area within City Heights. Project purpose is the creation of a comprehensive Master Plan that includes transit, vehicular, bicycle, and, pedestrian improvements for the Poplar Street corridor, in the Azalea Park community product of the Poplar Street Enhancement Plan. The Master Plan would result in a report that includes recommendations on street design, enhanced infrastructure improvements including pedestrian curb extensions, street trees, and other public amenities. *Other Funding Sources:* There is currently \$72,380 of funding available for this project. *Special Conditions:* None. *Additional Note:* After improvements have been identified as part of the Master Planning process, residual funding will be used to construct infrastructure improvements for the design and partial construction of a landscaped artery along Poplar Street. *Section 108 Loan Request:* \$40,000.

Shirley Ann Place Sidewalks and Lighting - The Shirley Ann Place Historical District Pedestrian-Oriented Street Lighting and Improvements project provides for installation of four pedestrian-oriented streetlights, construction of pop-outs and reconstruction of sidewalks within the Shirley Ann Place Historical District in the University Heights Community. Project purpose is to act upon the recommendations made by the Shirley Ann Place Historic Designation and Revitalization Committee, which identified the need for lighting improvements, community identifying landmarks and pedestrian safety. The comprehensive program that was developed by Shirley Ann Place residents and City staff relate to improving the character and visual quality of the street. *Other Funding Sources:* There is currently \$18,000 of funding available for this project. *Special Conditions:* None. *Additional Note:* None. *Section 108 Loan Request:* \$20,000.

Infrastructure Projects:

Council District 3 Sidewalk Program - Project purpose is the reconstruction and replacement of sidewalks in the public right of way throughout Council District 3 within CDBG eligible communities. This project is necessary to prevent the deterioration of the public walkways and provide for improved pedestrian access throughout the Council District low/moderate income areas. *Other Funding Sources:* There is currently \$187,000 of funding for this project, which includes the following: CDBG allocation \$90,000 and TransNet \$97,000. *Special Conditions:* None. *Additional Note:* The funds will allow for a higher level of service for residents in the CDBG eligible areas to supplement already existing city-wide programs for general sidewalk repairs, tree related repairs and the City's cost sharing program. *Section 108 Loan Request:* \$850,000.

Council District 3 Streetlight Conversion - This project provides for the conversion of streetlight fixtures from low-pressure sodium lights (LPS) to high-pressure sodium lights (HPS). Project purpose is to comply with the City policy to expand the use of “white light” broad-spectrum lamps throughout the City of San Diego. The City policy is in conformance with the City’s Progress Guide and General Plan. The project will be implemented throughout all CDBG eligible areas in Council District 3. *Other Funding Sources:* There is currently \$70,000 from TransNet funds dedicated to this project. *Special Conditions:* None. *Additional Note:* None. *Section 108 Loan Request:* \$100,000.

Mid-Block Streetlight Installation - This project provides for installing city-owned safety street lights where needed. Additional street lights are being provided in order to increase the level of lighting for vehicles and pedestrians on public streets. This project provides for installation on all streets in CDBG eligible census tracts where the crime rate is 1.5 times greater than the city -wide average for two or more consecutive years. Installations will also be made in areas with underground utilities that do not have sufficient streetlights to satisfy current minimum city lighting. *Other Funding Sources:* There is currently \$92,600 of funding for this project, which includes the following: TransNet \$66,100 and CDBG allocation of \$26,500. *Special Conditions:* None. *Additional Note:* None. *Section 108 Loan Request:* \$400,000.

Financing:

A summary of project funding is listed in Exhibit B of this report.

Collateral: Public improvements cannot be used as collateral. In considering other options regarding collateral, the Manager has concluded that the Mid City Police Station should be offered as the collateral. This is consistent with the Manager’s proposed guidelines in that the police station was financed in part with 108 funds (about \$6.2 million was borrowed via two loans for that project) and is located in the same Council district as the proposed project. There is sufficient value in the property to meet the \$4.6 collateral requirement. Note: this property was not collateralized for the previous loans because when they were funded, HUD’s collateral requirements did not apply to loans that were financed for 10 or fewer years, and the police station loans met that criterion.

ALTERNATIVES

1. Do not approve the submission of an application for a HUD 108 loan for Council District 3 public improvement projects.
2. Approve the submission of an application for some, but not all, of the proposed projects identified within this report.
3. Identify another property to use as collateral for this loan.

Respectfully submitted,

Hank Cunningham, Director
Community & Economic Development

Approved: Bruce Herring
Deputy City Manager

CUNNINGHAM/FISCHLE-FAULK/EL

Attachments: Exhibit A - FY 2003 Capital Improvement Budget Project Adjustments
Exhibit B – Summary of Project Funding

Exhibit A – FY 2003 Capital Improvement Budget Project Adjustments

Adams Avenue Infrastructure CIP 39-205.0 FY 2003 Budget: \$705,000 Increase: \$0	El Cajon Boulevard Medians CIP 39-201.0 FY 2003 Budget: \$862,000 (as increased by a current year fund swap with TransNet Funds in CIP 39-213.0, Hillcrest Streetscape Improvements) Increase: \$0	Ray Street Improvements CIP 39-084.0 FY 2003 Budget: \$0 Increase: \$100,000
North Park Main Street Streetscapes CIP 39-207.0 FY 2003 Budget: \$450,000 Increase: \$0	Euclid Avenue Revitalization Action Plan - CIP 52-699.0 FY 2003 Budget: \$0 Increase: \$150,000	Azalea Park Neighborhood Identification CIP 39-086.0 FY 2003 Budget: \$0 Increase: \$40,000
Shirley Ann Place Sidewalks CIP 39-089.0 FY 2003 Budget: \$0 Increase: \$20,000	Council District 3 Sidewalk Program CIP 52-336.0 FY 2003 Budget: \$0 Increase: \$850,000	Council District 3 Streetlight Conversion CIP 61-201.0 FY 2003 Budget: \$200,000 (shown as CDBG) Increase: \$0
Council District 3 Mid-block Streetlights CIP 61-202.0 FY 2003 Budget: \$0 Increase: \$400,000	Historic Talmadge Gate Restoration CIP 39-010.0 FY 2003 Budget: \$53,050 Increase: (\$53,050) (remove HUD 108 allocation from this project)	

Exhibit B – Summary of Project Funding

Project Name	CIP Number	HUD 108 Loan Request	Other Funding Sources	Combined Total
Adams Avenue Infrastructure	39-205.0	\$705,000	\$122,800	\$827,800
El Cajon Boulevard Medians	39-201.0	\$862,000	\$288,000	\$1,150,000
Ray Street Improvements	39-084.0	\$100,000	\$0	\$100,000
North Park Main Street Streetscapes	39-207.0	\$450,000	\$70,000	\$520,000
Euclid Avenue Revitalization Action Plan	52-699.0	\$150,000	\$156,000	\$306,000
Azalea Park Neighborhood Identification	39-086.0	\$40,000	\$72,380	\$112,380

Shirley Ann Place Sidewalks	39-089.0	\$20,000	\$18,000	\$38,000
CD 3 Sidewalk Program	52-336.0	\$850,000	\$187,000	\$1,037,000
CD 3 Streetlight Conversion	61-201.0	\$100,000	\$70,000	\$170,000
Mid-Block Streetlight Installation	61-202.0	\$400,000	\$92,600	\$492,600
Loan Fee	N/A	\$30,000	\$0	\$30,000
Total		\$3,707,000	\$1,076,780	\$4,783,780