

DATE ISSUED: February 4, 2004

REPORT NO. 04-024

ATTENTION: Honorable Mayor and City Council
Docket of February 9, 2004

SUBJECT: HUD 108 Loan for the San Diego Food Bank

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 \$245,000 for improvements to the San Diego Food Bank's new facility 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 related to the loan; and to execute and submit all documents related to the processing of such a loan?
3. Should the City Manager be authorized to use future CDBG entitlement grants to make loan repayments as follows?:
 - Up to \$5,000 per year for 10 years from District 1
 - Up to \$10,000 per year for 10 years from District 3
 - Up to \$5,000 per year for 10 years from District 7
 - Up to \$10,000 per year for 10 years from District 8
4. Should the 2004 CDBG Action Plan be amended to include the use of HUD 108 funds for the Food Bank project?
5. Should the City Manager be authorized to pledge the City's future annual CDBG entitlement grants as additional security for the repayment of this loan?

Manager's Recommendation

1. Authorize the City Manager to apply to the Department of Housing and Urban Development for a Section 108 loan of up to \$245,000 and to set forth the legal authority

and certifications necessary for such an application.

2. 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 related to the loan; and to execute and submit all documents related to the processing of such a loan.

3. Authorize the City Manager to use future CDBG entitlement grants to make loan repayments as follows:

Up to \$5,000 per year for 10 years from District 1

Up to \$10,000 per year for 10 years from District 3

Up to \$5,000 per year for 10 years from District 7

Up to \$10,000 per year for 10 years from District 8

4. Authorize the City Manager to amend the 2004 CDBG Action Plan to include the use of HUD 108 funds for the Food Bank project.

5. Authorize the City Manager to pledge the City=s future annual CDBG entitlement grants as additional security for the repayment of this loan.

Other Recommendations: - None

Fiscal Impact: Council members representing Districts 1, 3, 7, and 8 are willing to commit CDBG funds for repayment of this loan over 10 years, with repayments expected to commence in FY 2005. 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 \$245,000 loan, the repayment of principal and interest estimated over 10 years would be approximately \$300,000 dollars, requiring an annual payment of approximately \$30,000. This estimate assumes interest rates on the HUD notes similar to those experienced in this year=s public offering. In the event that interest rates are significantly higher when this loan is funded, the Manager will borrow less money to ensure that the \$30,000 annual commitment is sufficient to cover payments.

The City=s Section 108 borrowing limit, as established by the City Council earlier this year, is \$65.1 million. Our current Section 108 loan debt of \$33,030,000 will require payments of \$3,752,287 this fiscal year. There are approved loans totaling \$14.1 million which may be drawn down over the next several years. In addition, a \$280,000 loan for the Camp Hope project, which was recently authorized by Council, is in process. If the Food Bank loan, the approved loans and the pending loan were all funded this year, the City=s debt would be approximately \$47.7 million. The City=s debt is reduced each year by annual principal payments on existing loans and is increased by the addition of new loans; therefore the estimated potential debt 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 City to borrow 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. HUD requires an additional layer of security in the form of collateral, which is usually delivered by means of a trust deed on City property. 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 although most of our loans have been for public facilities such as the Urban Village Library Park, the Viet Nam Veterans Homeless Facility, the Central Police and the Cortez Hill Transitional Facility, etc.

In August 2003, the City paid off three loans and activated four previously approved loans by drawing down funds. The new loans are for three branch libraries (Ocean Beach, Logan Heights and College Heights/Rolando) and for public improvements in District 3. We are now managing a 108 loan portfolio with 11 active loans with debt totaling slightly over \$33 million.

DISCUSSION

The San Diego Food Bank is a program of the Neighborhood House Association, a long time provider of social services in San Diego. The Food Bank serves as a distribution center for USDA's Commodities Supplemental Food Program and Emergency Food Assistance Program in San Diego. It also provides storage space and serves as a distribution center for San Diego's Charity Food Program. Through this program, food products received from America's Second Harvest Program, partner food banks, food distribution companies, produce growers, community food drives and purchases with donated funds are distributed to local 501 (C) (3) organizations for subsequent distribution to their clients who are in need of food supplements.

The Neighborhood House Association has rented space for the Food Bank Program in various locations for the past 26 years. They have been displaced several times recently. Earlier this year, they had the opportunity to purchase a large (80,000) square foot warehouse facility to serve as the permanent home of the food bank. The new facility, located at 9850 Distribution Avenue in the Mira Mesa community, will accommodate a large refrigerator/freezer area that will, for the first time, allow the Food Bank to store and distribute perishable products. CDBG funds are available for this project but are not sufficient to complete it. HUD 108 funds are therefore being requested to complete the purchase and installation of the refrigerator and freezer systems. Because of the urgency of the need for perishable food storage, the Food Bank is planning to advance funds to complete the project and the HUD 108 funds will be used to reimburse them. This is allowable under HUD regulations as long as the project itself is eligible; HUD's preliminary review has indicated no eligibility issues. The Food Bank is aware, however, that if the City Council does not authorize the Manager to apply for the loan or if HUD declines to fund the loan the City has no obligation to reimburse the Food Bank.

Collateral: HUD always requires the pledge of future CDBG funds as security for the loan. They will also require additional collateral which in this case will be provided by a lien on the Food Bank property. Because a first trust deed lien already exists, we will have to offer HUD a second lien position in the property. There is more than enough value in the property to meet

HUD's expected requirements. The Neighborhood House Association Board has already authorized the issuance of such a lien and, contingent on HUD's acceptance of this arrangement, Neighborhood House will be responsible for delivering all the required collateral documents to City staff for transmittal to HUD.

ALTERNATIVES

1. Do not approve the submission of an application for a HUD 108 loan for improvements to the San Diego Food Bank

Respectfully submitted,

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APPROVED: Bruce Herring, Deputy City Manager

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