

DATE ISSUED: March 3, 2004

REPORT NO. 04-040

ATTENTION: Honorable Mayor and City Council
Docket of March 8, 2004

SUBJECT: HUD 108 Loan for the San Diego LGBT Community 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 up to \$159,000 for renovations to the LGBT Community 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 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 Council authorize the City Manager to use District 3's future CDBG funds to repay the loan at an estimated cost of \$20,000 per year?
4. Should the City Council authorize the City Manager 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 \$159,000 for renovations to the LGBT Community Center 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 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 District 3's future CDBG entitlement funds to repay the loan at an estimated cost of \$20,000 per year.

4. 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 District 3 has indicated a willingness to repay up to \$20,000 annually for 10 years for this loan. 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 a \$20,000 annual repayment is enough to finance a loan of approximately \$159,000. The estimated repayment of principal and interest over 10 years would be approximately \$200,000.

The City's Section 108 borrowing limit, as established by the City Council in 2003, is \$65.1 million. Our current Section 108 loan debt of \$33,030,000 will require payments of \$3.8 million this fiscal year. Our portfolio contains approved loans totaling \$14.1 million which may be drawn down over the next several years. In addition to this proposed loan, there are four loan applications totaling \$3.3 million in process. If all the approved loans, pending applications and this proposed loan were to be funded this year, the City's debt would be approximately \$49 million. The City's debt is reduced each August by annual principal payments and is increased by the addition of new loans throughout the year.

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 project related real estate, but HUD will consider other options such as pledges of revenue from the project, pledges of tax increment revenue, pledges of other City revenue, liens on fixtures and equipment, etc.

DISCUSSION

The San Diego LGBT (Lesbian, Gay, Bisexual, Transgender) Community Center, Inc. (doing business as The Center) was incorporated in 1973 to enhance and sustain the health and well-being of the lesbian, gay, bisexual, transgender and HIV communities. The Center is the nation's second oldest and third largest gay community center and one of the largest social service providers in San Diego. It offers 22 programs and provides services to over 12,000 persons each year. Specific services include mental health programs, domestic violence programs, support services for persons living with HIV/AIDS, arts and culture, youth programs such as the Hillcrest Youth Center, and a variety of social and educational programs.

In 1998, the Center purchased a three-level, 18,000 square foot facility located at 3909 Centre Street. The building required substantial renovations to make it usable as a community center

and for the provision of social services, including re-configuration of walls, upgrades to plumbing and electrical systems, and ADA compliance upgrades. Most of the renovations have been completed with CDBG funds that were allocated over the past several years and with privately raised funds. However, there were not enough funds to complete renovations necessary to make the basement usable for the provision of youth services as planned. In order to meet ADA compliance standards, a hydraulic lift is needed to provide access to handicapped clients and an ADA-accessible bathroom is also needed. Office build outs for program staff are also needed. The requested loan funds would be used for these improvements to the basement.

Collateral: HUD regulations require the pledge of future CDBG funds as security for the loan. They also require additional collateral which in this case will be provided by a lien on the LGBT Center and will not involve City property or additional pledges.

ALTERNATIVES

1. Do not approve the submission of an application for a HUD 108 loan for renovations to the LGBT Center.

Respectfully submitted,

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Hank Cunningham, Director
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APPROVED: Bruce Herring, Deputy City Manager

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