

DATE ISSUED: September 29, 2004

REPORT NO. 04-208

ATTENTION: Honorable Mayor and City Council  
Docket of October 4, 2004

SUBJECT: Golden Hill Community Center Project – HUD 108 Loan and CDBG  
Funds

### SUMMARY

#### Issues:

1. Should the City Council authorize the City Manager to apply to the Department of Housing and Urban Development for a HUD Section 108 loan of \$2,600,000 for the Golden Hill Community Center Project, an increase of \$570,000 over the loan amount that was authorized by the Council on July 17, 2000?
2. Should the City Council authorize the City Manager to set forth the legal authority and certifications necessary for such an application and to execute and submit all documents related to the processing and funding of such a loan?
3. 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 execution of an agreement by and between the City and the Golden Hill Community Development Corporation?
4. Should the City Council authorize the City Manager to use Council District 8's Community Development Block Grant (CDBG) annual allocations to make repayments over 20 years?
5. Should the City Council authorize the City Manager to pledge and encumber the City's future annual CDBG entitlement grants and to encumber the property proposed to be acquired and owned by the City then subsequently leased to the Golden Hill Community Development Corporation (CDC) for the proposed project as additional collateral if so required by HUD?
6. Should the City Council authorize the City Manager to amend the 2005 CDBG Action Plan to include the intended use of HUD 108 assistance for the Golden Hill Community Center Project?

### Manager's Recommendations:

1. Authorize the City Manager to apply for a HUD Section 108 loan of \$2,600,000 for the Golden Hill Community Center Project, an increase of \$570,000 over the amount that was authorized by the Council on July 17, 2000.
2. Authorize the City Manager to set forth the legal authority and certifications necessary for such an application and to execute and submit all documents related to the processing and funding of such a loan.
3. Authorize the City Manager to accept and expend such funds, contingent upon receipt of an Auditor's Certificate verifying availability of the funds and execution of an agreement by and between the City and the Golden Hill Community Development Corporation.
4. Authorize the City Manager to use Council District 8's future CDBG entitlement grants to make loan repayments over 20 years.
5. Authorize the City Manager to pledge and encumber the City's future annual CDBG entitlement grants and to encumber the property proposed to be acquired and owned by the City then subsequently leased to the Golden Hill Community Development Corporation (CDC) for the proposed project as additional collateral if so required by HUD.
6. Authorize the City Manger to amend the 2005 CDBG Action Plan to include the intended use of HUD 108 funds for the Golden Hill Community Center Project

### Fiscal Impact

Although the interest rates on the HUD notes will not be established until the date of the public offering, it is estimated that payments ranging between \$216,000 and \$225,000 per year would be required for a 20 year, \$2.6 million loan. Total repayments, with interest, would be approximately \$4.3 - \$4.5 million. These estimates are based on an assumption of an average interest rate of between 5.5% and 6%. The amount needed for annual payments would be allocated by the Manager each year from Council District 8's future annual CDBG allocations beginning no sooner than FY 06.

### BACKGROUND

#### **HUD 108 PROGRAM**

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, and pledge of current and future CDBG allocations as security. CDBG funds may also be used directly for repayment. HUD also requires an additional layer of security in the form of collateral, which is usually delivered by means of a lien on real estate, but may include other options such as pledges of project revenue, tax increment or other City revenue, liens on fixtures and equipment, etc. HUD has recently begun requiring a more formal encumbrance of future CDBG funds to further ensure

repayment in the event that Congress terminates the CDBG program at the federal level before all loans are repaid.

**City's 108 Portfolio:** The City's portfolio includes 14 active loans and current debt of \$42.9 million. Attachment 1 provides more detail about the City's portfolio and pending loans.

## **GOLDEN HILL COMMUNITY CENTER PROJECT**

In February 2000, the City acquired a former gas station at 811 25<sup>th</sup> Street with \$375,000 of CDBG funds to be used as the project site for the community center. In July 2000, the Council approved the Manager's recommendation to authorize application for a \$2,030,000 loan to be repaid by the City using District 8's future CDBG allocations. The HUD108 loan and bank financing were to be the sources for building the project, which was originally envisioned to cost as much as \$5 million. Since that time, the design of the project has evolved due to escalating cost projections. The original project called for 9 residential units (5 affordable), retail space, a parking garage and a 6,000 square foot community center.

In July 2004, the CDC identified an opportunity to purchase on the open market a church property on 835 25<sup>th</sup> street, which is adjacent to the gas station property originally acquired for the center. This property includes an 11,800 square foot historical church, a separate building, and a 6,000 foot lot for parking. This site better suits the needs of the community center, and the CDC is actively seeking to acquire the property. The CDC is to arrange a fair market value appraisal of the property and conduct its due diligence. In order to obtain the necessary bridge financing, a commercial bank requires a resolution from the City Council authorizing the application of a HUD 108 Loan. The \$2.6 million 108 loan, which is subject to approval by HUD, would be used to repay the commercial loan.

If the CDC successfully acquires the church property, the Real Estate Assets Department will be requested to sell the gas station property, which has an estimated value of approximately \$1.3 million. These funds will be restored to the CDBG Program and will be available to Council District 8 for any CDBG eligible purpose, as the property was purchased with Council District 8 discretionary CDBG. The requests to designate the property for sale and authorization to proceed with the sales process will be brought to the City Council in a separate action. Prior to this, State Government Code requires the City provide certain government agencies the opportunity to acquire the property for public use purposes. If no public need is identified through this process, City property designated for sale is generally offered by public auction.

## DISCUSSION

### **Project Description**

The proposed project will provide a community hub for the densely populated Golden Hill neighborhood. Specific plans include the following:

- A 3,700 square foot community center with a large assembly/theater space for community meetings, and community-oriented social, recreational and cultural activities.
- Program space for youth, seniors and educational purposes.
- A resource library and reading room for youth and adult illiteracy.
- A computer technology center.

- 4,800 square feet of office space for the Golden Hill CDC and other community service organizations.
- 3,300 square feet of space for job training/creation programs.

The leased office space will generate income, which would be used to repay a commercial loan, maintain the property and operate both the CDC and the community center.

**Project Financing**

Since a HUD 108 loan for this project was discussed by the City Council in 2000, development costs for the original project escalated by \$2.5 million requiring an alternative project approach. The CDC has responded by re-adjusting the project criteria from new development to acquisition of an existing facility. The CDC has therefore requested that the City support a loan amount of \$2.6 million, \$570,000 more than previously approved.

Total development costs are estimated to be \$4.98 million. Approximately 31% (\$1.54 million) is allocated for the community center, about 41% (\$2.04 million) for community organization office space (including CDC offices) and 28% (\$1.39) for job training and job creation uses.

Additionally, the CDC will request the City council to authorize the sale of the parcel located at 811 – 25<sup>th</sup> Street for sale and allocate use of the land sale proceeds toward rehabilitation of the existing proposed site.

Use of funds committed by the City for acquisition and rehabilitation of property for the Golden Hill Community Center will be contingent upon completion of a lien, encumbering use of the property for an agreed upon period.

A summary of the estimated financing plan is as follows:

Acquisition	\$2,578,500
Construction/rehab	1,380,580
Off-site parking	50,000
Fixtures & Furnishings	126,000
Consultant Fees	156,850
Permits, fees, taxes, Insurance	53,750
Project Administration	106,878
Contingency	30,000
Financing Costs	328,065
Relocation Costs	*
<b>TOTAL</b>	<b>\$4,980,998</b>

\* Cost of relocation not yet determined.

**COLLATERAL**

HUD will require collateral valued at approximately \$3.25 million to secure this loan (in addition to a pledge and encumbrance of future CDBG revenue). Since it is expected that the private lender will require a first position lien on the land and improvements as its collateral, HUD will be offered a second position lien by the CDC via the City. The value of the land and

improvements should be sufficient to meet the collateral requirements of both lenders. However, HUD's acceptance of a second position is subject to negotiation. The use of this property as collateral for the HUD loan would be consistent with the guidelines approved by Council on January 14<sup>th</sup>, 2003 regarding collateral for HUD 108 loans.

SUMMARY

The City Manager is recommending that the Golden Hill Community Center Project be given City support in the form of a \$2,600,000 HUD 108 loan and that the City Council authorize application to HUD for this loan. The CDC will be in a better position to secure private financing with a HUD loan commitment in place.

The success of the project is contingent on the CDC's ability to obtain other financing and its ability to generate enough revenue to repay the private lender, to staff and operate the community center, and to properly maintain the facility. The Golden Hill Community Development Corporation has a strong record of operating community development programs.

ALTERNATIVES:

1. Do not increase the loan amount (\$2,030,000) that was approved in July of 2001.

Respectfully Submitted,

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Ernie Linares  
Deputy Director, Community Services

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Hank Cunningham  
Community & Economic Development  
Director

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APPROVED: Bruce Herring  
Deputy City Manager

Cunningham/EL/BC

ATTACHMENT 1 – SAN DIEGO’S HUD 108 PORTFOLIO  
July 1, 2004

CURRENT DEBT (14 loans*)	\$44,917,000
AUGUST 2004 PRINCIPAL PAYMENTS	\$ 2,059,000
<b>'05 HUD 108 DEBT (as of August 1, 2004)</b>	<b>\$42,858,000</b>
LOANS APPROVED BY HUD BUT NOT YET FUNDED (2)	\$ 1,101,000
LOANS BEING REVIEWED BY HUD (3)	\$ 1,154,000
AMOUNT OF PROPOSED GH COMMUNITY CENTER LOAN	\$ 2,600,000
OTHER POTENTIAL LOANS (2)	\$ 512,000
<b>PENDING POTENTIAL LOANS</b>	<b>\$ 5,367,000</b>
TOTAL POTENTIAL DEBT**	\$48,225,000
HUD 108 CAP for FY 05***	\$63,700,000

\* Includes three loans funded on June 30, 2004: Camp Hope, NTC Promenade and Logan Heights Library (second drawdown)

\*\* If all potential loans are funded before August 1, 2005

\*\*\* Established by City Council in January 2003: 3.5 times the annual CDBG Entitlement Grant