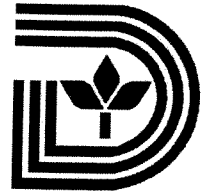


Memorandum



CITY OF DALLAS

DATE December 30, 2008

TO Members of the Economic Development Committee: Ron Natinsky (Chair), Tennell Atkins (Vice Chair), Jerry R. Allen, Dwaine Caraway, Sheffie Kadane, Linda Koop, Mitchell Rasansky and Steve Salazar

SUBJECT CDBG Section 108 Loan Application Requirements and Program Guidelines

On Monday, January 5, 2009, the Economic Development Committee will be briefed on CDBG Section 108 Loan Application Requirements and Program Guidelines. A copy of the briefing is attached

Please let me know if you have any questions.

A handwritten signature in black ink, appearing to read 'A.C. Gonzalez', written over a circular stamp or mark.

A.C. Gonzalez
Assistant City Manager

C: Mary K. Suhm, City Manager
Ryan S. Evans, First Assistant City Manager
Deborah Watkins, City Secretary
Tom P. Perkins, Jr., City Attorney
Craig Kinton, City Auditor
Judge C. Victor Lander, Judiciary
Ramon Miguez, P.E., Assistant City Manager
Jill Jordan, P.E., Assistant City Manager
Forest Turner, Interim Assistant City Manager
David Cook, Chief Financial Officer
Jeanne Chipperfield, Budget Director, Office of Financial Services
Karl Zavitkovsky, Director, Office of Economic Development
Hammond Perot, Assistant Director, Office of Economic Development
Lee McKinney, Assistant Director, Office of Economic Development
Helena Stevens Thompson, Assistant to the City Manager

CDBG Section 108 Loan Application Requirements and Program Guidelines

A Briefing to the Economic Development Committee

**Housing Department
January 5, 2009**



Purpose

To brief City Council regarding Community Development Block Grant Section 108 Loan Program application requirements and proposed Program Guidelines for City to apply for up to total \$75M in loans

Individual Project Applications

Funding for each project will be submitted to HUD as an individual Section 108 loan program application and will require separate hearings and council approval prior to submission to HUD

Section 108 Program Application Requirements

Presubmission Requirements

- Modify Citizen Participation Plan with a non-substantial amendment for Guaranteed Loan Fund public participation process
- Develop proposed application including:
 - Description of activities
 - Community development objectives
 - Federal national objective
 - Amount of funds
 - Location
 - Program income expected, if any
 - Description of pledge of grants
- Publish proposed application City-wide

Section 108 Program Application Requirements

Presubmission Requirements (cont.)

- Hold Neighborhood Public Hearing
 - Describe proposed activities
 - Hearing held in the area in which the funds will be used
 - Obtain views of citizens
 - Community development objectives
 - Housing needs
- Prepare final application
 - Consideration of public comments and views
 - Finalized description of activities

Section 108 Program Application Requirements

Presubmission Requirements (cont.)

- Hold City Council Public Hearing
 - Contents of final application
 - Summary of public comments
- Obtain City Council approval
 - Final application for each project
 - Schedule of repayment to HUD of the Section 108 loan

Section 108 Program Application Requirements

Submission Requirements

- Final application
- Schedule for repayment
- Certifications
 - Legal authority to pledge grants
 - Efforts made to obtain financing without Section 108 loan funds
 - Citizen participation requirements followed
 - Certifications required by HUD as with annual Consolidated Plan

Section 108 Program Application Requirements

HUD Review and Approval of Application

- Local Fort Worth office
 - Due diligence
 - Compliance
- HUD Washington D.C. headquarters
 - Acceptable financial risk
 - Availability of funds in the amount requested
 - Environmental review prior to release of funds

Summary of Section 108 Loan Program Guidelines

Program Purpose

- Keep momentum going in growth prone areas and stimulate investment in more challenged areas by providing a substitute for declining availability of capital funding while banks are not willing to loan as much against collateral, interest rates for available funding have increased and proceeds from sales of tax credits has declined
- Provide City with a source of financing for mixed-use, housing and economic development projects including large-scale physical development projects
- Use Section 108 funding to provide project gap financing or mezzanine debt necessary to move targeted development projects forward in today's financial market while minimizing the risk of needing future CDBG entitlement funds to make Section 108 loan payments

Summary of Section 108 Loan Program Guidelines

Program Description

■ Eligible activities

- Acquisition of improved or unimproved real property including acquisition for economic development purposes
- Clearance, demolition and removal of buildings and improvements on real property
- Site preparation, including construction, reconstruction or installation of public or other site improvements, utilities, or facilities in conjunction with acquisition for an economic development purpose

Summary of Section 108 Loan Program Guidelines

Program Description

- Eligible activities (cont.)
 - Commercial or industrial improvements by nonprofits including acquisition, construction, rehabilitation, reconstruction or installation of commercial or industrial buildings or structures
 - Grants, loans, loan guarantees, interest supplements, or technical assistance for commercial or industrial improvements
 - The cost of the commercial portion of a project to be assisted which includes new housing as part of a commercial structure (“mixed use” project)

Summary of Section 108 Loan Program Guidelines

Program Description

- Eligible activities (cont.)
 - Planning for economic development projects:
 - conducting market surveys to determine an appropriate type of business to attempt to attract to a particular area,
 - developing individual commercial or industrial project plans, and
 - identifying actions to implement project plans
 - Acquisition, construction, reconstruction, rehab or installation of public facilities, public streets, sidewalks and other site improvements and public utilities

Summary of Section 108 Loan Program Guidelines

Project Criteria

- Projects must sustain or increase the level of business activity in the area by expanding economic opportunities:
 - Job creation and retention
 - Improvement or construction of housing in conjunction with mixed-use projects
 - The provision of jobs to low-income persons in CDBG eligible areas
- Projects must substantiate that but for the funding sought, the proposed project would be substantially altered such that the economic returns to the city would be reduced or the project could not be developed

Summary of Section 108 Loan Program Guidelines

Project Criteria

- Minimum private investment of \$30 M
- Funds must be used as subordinate gap financing as a mezzanine refunding piece
- Total loan balance of the project, including first liens, cannot exceed 85% of the lower of total cost or appraised value of the completed stabilized project

Summary of Section 108 Loan Program Guidelines

Project Criteria

- 100% return of investment within 3 – 5 years of initial loan with exit strategy:
 - 18 to 24 month mini perm for lease up
 - 3 – 5 years for project stabilization
 - City's equity is recovered when senior loan is refinanced into permanent project loan
- Identify, structure, and recommend only projects where there will be no use of CDBG entitlement grant to make Section 108 loan repayments
- Projects can be mixed-use or housing
- Must include an affordability plan for housing investment, a relocation assistance plan, and must meet all HUD Section 108 requirements

General Use of Funds

- Insure that 50% of the funding be included for the Southern Sector projects
- Match Section 108 loan repayments to repayments from City's borrower(s)
- Annual repayment of Section 108 loans to be credit enhanced to eliminate risk of City making payments from annual CDBG allocations
 - An additional credit enhancement will be required to provide additional collateral support, as required, to insure that interest and/or principal can be repaid in the event that the refinancing is insufficient to repay both the first and second liens
 - If the first lien mortgage financing doesn't include an interest reserve during the period construction, redevelopment and lease up, additional credit support will be required

Next Steps

- January 2009 - develop proposed application for funding of first project
- January 28, 2009 - seek Council approval:
 - move forward with Section 108 loan application process for individual projects with total of Section 108 applications not to exceed \$75M
 - Section 108 loan program guidelines
- February 2009
 - publish proposed application
 - hold public hearing
 - prepare final application

Next Steps (cont.)

- March 2009 – seek City Council authority to hold public hearing
- April 2009 – Hold public hearing and submit final application for Section 108 funding to HUD