

Section 108 Loan Guarantee Program Project Summaries - Fiscal Year 2019

In the fiscal year 2019, the U.S. Department of Housing and Urban Development (HUD) approved **\$63,146,000** in Section 108 Guaranteed Loan commitments for a variety of community and economic development projects throughout the United States. The loan guarantee amounts ranged from \$650,000 for an affordable housing development in High Point, North Carolina, to a \$23 million re-issuance for a city-wide loan pool in Indianapolis, Indiana.

The Section 108 Loan Guarantee Program provides states and local governments access to low-interest financing for a variety of projects, including: affordable housing developments, public infrastructure improvements and facilities and financing for commercial/industrial development. Generally, the costs of these projects exceed available local government resources, including HUD funds available through the [Community Development Block Grant \(CDBG\)](#) program. In all cases, however, these projects are well suited to the financing assistance available through the Section 108 Loan Guarantee Program.

The Section 108 Loan Guarantee assisted projects approved in FY 2019 are described in the summaries provided below. These assisted projects are grouped into (4) four categories: *Economic Development*, *Public Facilities and Improvements*, *Housing Development Projects* and *Mixed-use Development*.

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Economic Development Projects

Economic Development Loan Pool – Covington, KY

Section 108 Loan Guarantee - \$3,970,000

The City continues its previously issued commitment from 2013 to fund the Economic Development Loan Pool. The purpose of the Loan Pool is to make micro- and small-business loans and fund public real property rehabilitation, primarily in the City's Neighborhood Revitalization Strategy Area. The projects will be located primarily in Covington's Neighborhood Revitalization Strategy Area in the downtown area, but the City may also fund projects in other low- and moderate-income areas of the city.

National Objective: The Community Development Block Grant (CDBG) program national objective to be met by the eligible activities is benefit to low- and moderate-income (LMI) persons on an area basis. Since the business are expected to primarily be in an NRSA, the jobs created will be treated as benefiting an area where at least 51 percent of the residents are LMI persons. This treatment permits the City to carry out job creating activities without requiring income documentation.

Guaranteed Loan Features:

Term: The City is requesting a 10-year loan term with level principal repayments.

Repayment Source: The City will use revenue from the City's loan to the business.

Additional Security: The Section 108 guaranteed loan will be secured by the City's pledge of its interest in its loan to the assisted business.

For Additional Information: <https://www.covingtonky.gov/news/2019/09/09/covingtons-grass-roots-economic-growth>

BUILT in Cook Loan Fund – Cook County, IL

Section 108 Loan Guarantee – \$21,500,000

The County continues its previously issued commitment from 2013. The Borrower established the BUILT (Broadening Urban Investment to Leverage Transportation) in Cook Loan Fund, which the County will use Section 108 loans to continue funding four types of sustainable development located in suburban Cook County: (1) transit-oriented development, which is generally mixed-use development within one half-mile of passenger rail service; (2) cargo-oriented development, which aggregates logistics providers and related facilities and manufacturers near freight rail lines; (3) mixed-use hospitality and service sector developments, located near transit lines; and (4) business development loans for start-ups and/or expansions of existing businesses.

National Objective: The Community Development Block Grant (CDBG) program national objective to be met by the eligible activities is benefit to low- and moderate-income (LMI) persons through job

creation. At least 51% of the jobs created will be made available or held by persons with LMI income status.

Guaranteed Loan Features:

Term: The County is requesting a 20-year loan repayment term, with principal payments beginning in year one.

Repayment Source: Repayments will be primarily from the third-party borrowers or from the County’s CDBG revenues to repay financing for public improvements that support economic development projects.

Additional Security: The County will pledge its interest in its third-party loans which will be secured by a first or second lien on real property, personal guarantees, equipment, accounts receivable, and/or inventory. For any non-third-party project financing, the County will pledge other appropriate real property or revenues.

For More Information: <https://www.cookcountyil.gov/service/economic-development-division>

Housing Development Projects

Avondale Trace Affordable Housing Project – High Point, NC Section 108 Loan Guarantee – \$650,000

The City of High Point will use the \$650,000 in guaranteed loan funds for acquisition and site improvement for Avondale Trace, an affordable housing community that will target families with incomes between 40 and 60 percent of area median income in order to help meet the high demand that exists for affordable housing in the High Point area. After acquiring and improving the site, the City will convey the improved property to Wynnefield Properties, a for-profit affordable housing developer, who will arrange for construction of the housing development with non-Section 108 financing. Wynnefield Properties is an experienced affordable housing developer and has previously developed three similar projects in the city. Furthermore, the North Carolina Housing Finance Agency approved a Low-Income Housing Tax Credit (LIHTC) allocation award to the Project in August 2018. The above-described model for development is the same model the City has used for three prior Section 108 financed affordable housing projects in recent years.

The project community will consist of 72 units within 4 three-story buildings, which will include 12 one-bedroom, 36 two-bedroom, and 24 three-bedroom units. This project represents the City’s fourth affordable housing development in recent years utilizing Section 108 guaranteed loan funds. This development will assist in implementing the City’s plan to address the impediments to affordable locally and result in new housing adjacent to key community corridors that provide low-income households with additional opportunities to improve their quality of life through better access to quality educational, retail, and employment opportunities.

National Objective. The Community Development Block Grant (CDBG) program national objective to be met by this project is benefit to low- and moderate-income (LMI) persons by providing permanent residential structures, which will be primarily occupied by LMI households.

Guaranteed Loan Features:

Term: The City is requesting a 20-year loan term with payments of approximately \$20,000 in principal each year with a balloon payment in Year 20; however, the Developer intends to refinance the outstanding debt on the property before the final maturity.

Repayment Source: The City will use net operating income from the Project and will supplement payment as needed from its General Funds for debt service payments.

Additional Security: During the first phase of the project, the City will pledge a first lien mortgage in favor of the Secretary on the Project site, including site improvements, as additional loan security for repayment. After the transfer of the property to the developer, the City will pledge its interest in the Developer's Note for purchase of the improved project site, secured by a second priority lien on real property and improvements, including any and all rights, titles, and interests of the Developer to any leases covering the real property.

For Additional Information: <https://hpenews.com/news/3010/city-to-get-more-affordable-housing/>

Public Facility and Improvement Projects

Dr. Joe Lee Smith Community Center project – Cocoa, FL Section 108 Loan Guarantee – \$894,000

The City of Cocoa will use \$894,000 in loan guarantee assistance to finance a new 16,000 square-foot community center, with an estimated total development cost of \$4.52 million. The Center will be in in the city's Diamond Square Community Redevelopment Area, one of its three designated Opportunity Zones. The Center will be dedicated to serving the needs of lower-income area residents through recreational activities, various services, and healthcare programs. Furthermore, the City has partnered with the following entities to provide needed services to the residents at the Center: Cocoa Police Athletic League, the Alliance for Neighborhood Restoration, Inc., Brevard County Action Team, Brevard Health Alliance, Career Source Brevard and the Central Adult Community Education Center. These partners will provide services such as rental and housing resources, including grants to pay for utility bills; burial and cremation assistance; self-sufficiency programs; financial literacy, budgeting, and asset development; and employment and job training programs.

National Objective. This project will meet the Community Development Block Grant (CDBG) program national objective of benefit to LMI persons on an area basis, where at least 51 percent of the residents are LMI persons. The population of the census tract to be served by this project is 78.4 percent LMI persons.

Guaranteed Loan Features:

Term: The City is requesting a 20-year loan term with payments of at least \$44,000 in principal each year, except for the first year, which will be interest-only.

Repayment Source: The City will use its annual CDBG allocation to repay the loan.

Additional Security: The City will set-up a debt service reserve funded with the maximum annual estimated debt service due on the loan during its loan term. Moreover, if its annual CDBG funds are not sufficient to repay its loan, the City will agree to include funds in its annual budget each fiscal year in order to fund its debt service payments with non-ad valorem revenues.

For Additional Information: <https://www.cocoacommunityfirst.org/projects>

Recreational Facility Project – Texarkana, AR
Section 108 Loan Guarantee – \$885,000

The City of Texarkana will use Section 108 guaranteed loan funds to rehabilitate a former Boys and Girls Club facility into a recreational center. The facility will provide recreational space and facilitate community programs and events for area residents, while also seeking to generate economic development through sports tourism. The 12,245-square foot facility will provide the community with indoor sports facilities (a basketball/multi-purpose gym and fitness/activity room), a play area for younger children, a computer lab, a tutoring room, and meeting areas. The building is in the City’s Ward 2, a low- and moderate-income area that the City is trying to revitalize through public investment. The project is immediately adjacent to the one designated Opportunity Zone in the city, which is also in Ward 2, and will serve residents living in that area.

National Objective: The Community Development Block Grant (CDBG) program national objective to be met by the eligible activity is benefit to low- and moderate-income (LMI) persons on an area basis, where at least 51 percent of the residents are LMI and the area is primarily residential. The City has identified the service area as 71.41% LMI.

Guaranteed Loan Features:

Term: The City is requesting a 20-year repayment term.

Repayment Source: The repayment source will be revenue produced by the center as well as the City's annual CDBG allocation.

Additional Security: The City will pledge a first lien on the project property. The City anticipates that the property will be worth at least \$1.3 million after improvements.

For Additional Information: <https://www.arklatexhomepage.com/news/local-news/vacant-recreation-center-on-road-to-renovations/>

Pasco Market Redevelopment Project– Pasco, WA

Section 108 Loan Guarantee – \$3,781,000

The City will use \$3,781,000 in guaranteed loan funds to rehabilitate the City’s Farmers Market and the connected Peanuts Park in downtown Pasco, completing a top priority in the City’s capital improvement plan. The restoration and expansion of the Pasco Farmers Market will allow for increased flexibility and use by the community, as well as provide economic benefits to surrounding area businesses. It will also leverage the City’s investment in the Pasco Specialty Kitchen, a state-of-the-art certified commercial kitchen for local entrepreneurs located across the street. Similarly, the Peanuts Park restoration will update the park to modern standards, creating a more open and inviting public space.

The city-owned site is already considered an asset to the community, serving families in east and central Pasco. The park is currently used for community events and festivals as well as a long-standing farmers market. The Pasco Farmers Market is an institution in the area that sells fresh produce and local goods and accepts Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Program payments. The Section 108 project will greatly enhance the user experience of the space, opening it up to serve more of the community.

National Objective: The City’s project will meet the Community Development Block Grant (CDBG) program national objective of benefit to low- and moderate-income (LMI) persons through area benefit. The proposed Project’s service area will be central and eastern Pasco, which is primarily residential and is 63.89 percent LMI.

Guaranteed Loan Features:

Term: The City is requesting a 20-year repayment term.

Repayment Source: The City will use Community Development Block Grant funds to pay the debt service on the Project.

Additional Security: The City will pledge a lien on real property collateral. The collateral will be a first position lien on a portion of 2400 acres of real property that is characterized as crop circles that serve as the City’s urban growth boundary.

Mixed Use Projects

Community and Economic Development Project – Indianapolis, IN

Section 108 Loan Guarantee - \$23,175,000

The City of Indianapolis continues a commitment issued in 2012. The purpose of the project was to fund economic development and housing rehabilitation projects, public facility rehabilitation and

construction for the benefit of low-moderate income (LMI) persons. The City's primary uses of the Section 108 guaranteed loan funds include: acquisition for improved or unimproved real property; clearance, demolition and remediation; site preparation including construction and reconstruction; special economic development activities, community economic development projects; public facilities rehabilitation; and housing rehabilitation. The City will primarily target activity located within its Neighborhood Revitalization Strategy Area (NRSA).

National Objective: The City's project will meet the Community Development Block Grant (CDBG) program national objective s of benefit to low- and moderate-income (LMI) persons through Job creation or retention activities where at least 51% of the jobs will be held by or made available to low- and moderate-income persons, area benefit activities where at least 51% of the residents are LMI persons and housing activities through the improvement of permanent residence structures which will be occupied by low and moderate income where at least 51% of the units must be occupied by low- and moderate-income persons. The project will also undertake activities which aid in the prevention or elimination of slums or blight on an area or spot basis.

Guaranteed Loan Features:

Term: The City is requesting a 20-year repayment term.

Repayment Source: The primary source of repayment will be project revenues from third party borrowers. Where applicable, the Borrower may pledge Tax Increment Financing (TIF) revenues as a source of repayment for non-revenue generating projects.

Additional Security: The Borrower will pledge its interest in its third-party loans which will be secured by a first or second lien on real property, personal guarantees, equipment, accounts receivable, and/or inventory.

For any non-third-party project financing, the Borrower will pledge other appropriate real property or revenues, including TIF revenue.

Loan Pool Project – Newark, NJ

Section 108 Loan Guarantee - \$8,291,000

The City of Newark continues a commitment issued in 2013. The purpose of the project is to help spur revitalization efforts in downtown areas which include facilitating a “Living Downtown” program with expanded housing, retail education, office and hospitality options. The loan pool will target projects consistent with the Master Plan Re-examination Report. The City's primary uses guaranteed loan funds will include acquisition of real property, economic development activities and housing.

For the “Living Downtown” concept, Section 108 assisted projects will be targeted to seven downtown areas and corridors identified as crucial to the City's future growth. Five of the seven target areas consist entirely of census tracts with poverty rates that exceed 30 percent; the City expects that

transactions in those areas that create jobs will be able to qualify for presumptive benefit to low- and moderate-income (LMI) persons.

For transactions in other areas using the national objective of creating low-moderate income jobs which do not satisfy the requirements for presumptive benefit, the loan agreement with the third-party borrower will specify a minimum number of jobs and indicate that at least of 51% of the new jobs must be held by LMI persons. The target areas are generally in redevelopment areas with significant slum/blight conditions.

National Objective: The financed eligible activities will meet a Community Development Block Grant (CDBG) program national objective for assisting low- and moderate-income persons through the creation or retention of jobs that primarily benefit LMI persons and housing activities where the permanent residence structure will be occupied by LMI households. Also, certain eligible activities will meet the CDBG national objective criteria for the elimination of slums or blight on an area basis.

Guaranteed Loan Features:

Term: The City is requesting a 20-year repayment term.

Repayment Source: The primary source of repayment will be project revenues from third party borrowers

Additional Security: The City will pledge its interest in the loan pool's third-party loans which will be secured by (i) a lien on real property; (ii) security interests in machinery and equipment, accounts receivable, and inventory; (iii) personal/corporate guaranties; and (iv) other appropriate revenue sources or any combination thereof.

In addition, the City has agreed to allow HUD to use existing pledged grants to prepay (or defease) the Guaranteed Loan if HUD determines that the standard pledge of future CDBG funds is insufficient to assure payment of amounts due.