



DATE: July 12, 2006

TO: Honorable Mayor and City Councilmembers

FROM: Neighborhood Services Department

SUBJECT: ADOPTION OF A RESOLUTION APPROVING THE SUBMISSION OF AN APPLICATION TO THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT FOR A SECTION 108 LOAN GUARANTEE IN AN AMOUNT NOT TO EXCEED \$3,500,000 FOR CONSTRUCTION OF FIRE STATION NUMBER 7; AND APPROVAL TO AMEND THE FY 2006-07 ACTION PLAN OF THE 2005-2010 CONSOLIDATED PLAN TO ADD THIS ACTIVITY

SYNOPSIS

Staff recommends that the City Council approve submission of an application to the U.S. Department of Housing and Urban Development for a Section 108 loan guarantee in an amount not to exceed \$3,500,000 for construction of Fire Station Number 7; authorize the City Manager to negotiate specific loan terms and conditions; authorize the City Manager to sign and execute the required application forms and certifications; and approve amendment to the FY 2006-07 Action Plan of the 2005-2010 Consolidated Plan for Housing and Community Development to add this activity.

BACKGROUND

Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) program of the U.S. Department of Housing and Urban Development (HUD). The Section 108 Loan Guarantee Program provides CDBG entitlement communities, cities that receive CDBG funds, with a source of financing for economic development, public facilities, and large-scale capital improvement projects. Entitlement communities may apply for up to five times the amount of the agency's latest CDBG approved entitlement amount, less any outstanding principal balances of existing Section 108 loans. The City has used the Section 108 Loan Guarantee Program most recently for a \$1,500,000 loan for construction of the Libby Lake Community Center.

The 2005-2010 Consolidated Plan for Housing and Community Development adopted by the City Council on May 4, 2005, includes the following Community Development Objective:

#25 Construct or renovate public facilities that serve low- and moderate-income individuals, families and neighborhoods

Although the construction of facilities “for the general conduct of government” is not an eligible activity for Section 108 loan guarantees, the construction of fire stations and acquisition of fire apparatus that will serve low- and moderate-income areas of a city are eligible activities for Section 108 loan guarantees.

The City had previously applied for a Section 108 loan guarantee to acquire funds for development of the El Corazon Senior Center. HUD regulations for the CDBG program define seniors as persons 62 years of age and older, whereas the City’s senior programs serve persons 55 and over. This difference in definitions of “senior” meant that HUD questioned the eligibility of the senior center for a Section 108 loan. Denial of the application would reduce funding for the El Corazon Senior Center by \$3,500,000.

The City Council approved the allocation of funds for capital improvement projects (CIP) in FY 2006-2007 and FY 2007-2008. This allocation of CIP funds presumed a Section 108 loan guarantee in the amount of \$3,500,000 for the El Corazon Senior Center. The Council allocated \$8,000,000 from the General Fund for construction of Fire Station Number 7. The proposed application for a Section 108 loan for Fire Station Number 7 would allow the transfer of CIP funds to cover the shortfall in funding for the El Corazon Senior Center. A pass-through memo describing the proposed change in projects for a Section 108 loan guarantee application was distributed to the City Council on June 7, 2006.

ANALYSIS

The City is a CDBG entitlement jurisdiction and is an eligible applicant for a Section 108 loan guarantee. The City receives approximately \$2 million each year under the CDBG program, which by HUD regulations makes the City eligible to apply for up to \$10 million in Section 108 loans. The City currently owes approximately \$900,000 for the Libby Lake Community Center loan. The proposed new Fire Station No. 7 is a public facility that will serve a low- and moderate-income area of the City and is an eligible project for Section 108 financing. The City Council has previously approved General Fund financing in the amount of \$8,000,000 for construction of the station; acquisition of the Section 108 loan for the project would release \$3,500,000 needed for construction of the El Corazon Senior Center. The proposed El Corazon Senior Center is not an eligible project for the Section 108 Loan Guarantee Program. Approval by the City Council is necessary to apply for a Section 108 loan and to negotiate terms and conditions of repayment. Application for the loan guarantee will not delay construction of Fire Station Number 7.

FISCAL IMPACT

The City proposes to apply for \$3,500,000 under the Section 108 Loan Guarantee Program for construction of a new Fire Station Number 7. This would free up capital improvement project funds for the El Corazon Senior Center. Section 108 loan obligations are financed through underwritten public offerings. Permanent financing interest rates are pegged to yields on U.S. Treasury offerings of similar maturity to the

principal amount of the loan. The City currently has one loan through the Section 108 Loan Guarantee Program for the construction of the Libby Lake Community Center. The City uses \$257,800 of the annual CDBG allocation to repay this loan; the final payment on this loan is due August 1, 2009.

The maximum repayment period for a Section 108 loan is twenty years. The City proposes a twenty-year loan, which at 6.00 percent interest would require an annual payment of \$300,900 and a total loan cost of \$6,018,000. Advance payments on a Section 108 loan are possible after ten years.

Section 108 loans are not risk-free. Repayment of the loan will come from the annual allocation of CDBG funds to the City, but if the CDBG program is discontinued by the federal government, responsibility for payments would default to the General Fund. The principal security for the Section 108 Loan Guarantee Program is a pledge by the applicant of its current and future CDBG allocation. Additional security of up to 120 percent of the loan obligation may also be required to assure repayment of guaranteed obligations.

Use of future CDBG funds to pay off the new Section 108 loan will reduce by 15 to 25 percent the amount of CDBG funds available for allocation by the City Council to public services, neighborhood revitalization and capital improvement projects. Payments on this new Section 108 loan will have a particular impact through 2009-2010, the last year of the present Section 108 loan. The City of Oceanside receives approximately \$2,000,000 of CDBG funds each year; HUD anticipates that Congress will reduce the overall amount appropriated for the CDBG program by 8 to 10 percent for 2007-08 with further reductions likely in subsequent years.

Use of a Section 108 loan guarantee with repayment from CDBG funds in a construction project will trigger federal Davis-Bacon prevailing wage reporting requirements. The Section 108 loan guarantee will also require that the project meet National Environmental Protection Act (NEPA) requirements, as well as those of the California Environmental Quality Act (CEQA).

COMMISSION OR COMMITTEE REPORT

The recommendation to use a Section 108 loan guarantee to finance construction of Fire Station Number 7 was presented to the Police and Fire Commission on June 15, 2006. The Commission voted to recommend that the City Council approve submission of an application for a Section 108 loan guarantee for the project, conditional upon approval of the proposal by the Oceanside Fire Chief and City Attorney. Staff discussed the proposed change in projects for the Section 108 loan guarantee financing with the Senior Commission and explained that only funding sources would be changed with no delays on development of either Fire Station Number 7 or the El Corazon Senior Center.

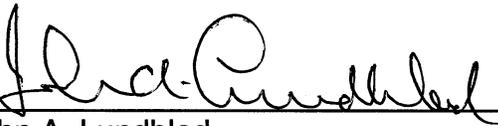
CITY ATTORNEY'S ANALYSIS

The City Council is authorized to hold a public hearing in this matter. Consideration of the matter should be based on the testimony and evidence presented at the hearing. After conducting the public hearing, the Council shall affirm, modify, or deny the project. The supporting document has been reviewed and approved as to form by the City Attorney.

RECOMMENDATION

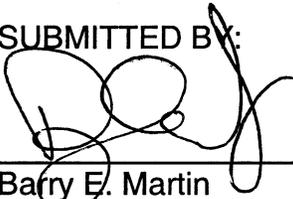
Staff recommends that the City Council approve submission of an application to the U.S. Department of Housing and Urban Development for a Section 108 loan guarantee not to exceed \$3,500,000 for construction of Fire Station Number 7; authorize the City Manager to negotiate specific loan terms and conditions; authorize the City Manager to sign and execute the required application forms and certifications; and approve amendment to the FY 2006-07 Action Plan of the 2005-2010 Consolidated Plan for Housing and Community Development to add this activity.

PREPARED BY:



John A. Lundblad
Management Analyst

SUBMITTED BY:



Barry E. Martin
Interim City Manager

REVIEWED BY:

Michelle Skaggs-Lawrence, Assistant to the City Manager



Margery M. Pierce, Director, Neighborhood Services



Nita McKay, Director, Financial Services



Rob Dunham, Interim Fire Chief



ATTACHMENTS

1. Resolution authorizing application for a Section 108 Loan Guarantee
2. Section 108 Loan Guarantee Program Fact Sheet
3. Council Pass-through Memo of June 7, 2006

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF OCEANSIDE APPROVING THE SUBMISSION OF AN APPLICATION TO THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT FOR A SECTION 108 LOAN GUARANTEE NOT TO EXCEED \$3,500,000 FOR CONSTRUCTION OF FIRE STATION NUMBER 7; AND AUTHORIZATION FOR THE CITY MANAGER TO NEGOTIATE TERMS AND CONDITIONS, AND TO SIGN AND EXECUTE REQUIRED APPLICATION FORMS AND CERTIFICATIONS

WHEREAS, the U.S. Department of Housing and Urban Development (HUD) provides Section 108 loan guarantees to Community Development Block Grant (CDBG) entitlement cities for development of public facilities that will serve low- and moderate-income individuals, families and neighborhoods;

WHEREAS, the City of Oceanside has determined that there is a need for a new facility to replace the present temporary Fire Station Number 7 co-located with the Fire Training Facility, in order to provide improved services to residents and businesses in a low- and moderate-income area of the City;

WHEREAS, the City of Oceanside desires to borrow funds under the HUD Section 108 Loan Guarantee Program to construct a new Fire Station Number 7, and will pledge future CDBG entitlement funds and/or other security to secure the loan guarantee; and

WHEREAS, the City of Oceanside is an eligible applicant for Section 108 loan guarantees, and the construction of a fire station serving a low- and moderate-income area is an eligible activity for Section 108 financing,

NOW, THEREFORE, the City Council of the City of Oceanside does resolve as follows:

SECTION 1. The submission of an application to the U.S. Department of Housing and Urban Development for a Section 108 loan guarantee for an amount not to exceed \$3,500,000 for construction of Fire Station Number 7 is approved.

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1 SECTION 2. The City Manager is authorized to negotiate specific terms and conditions
2 for the Section 108 loan guarantee, and to sign and execute required application forms and
3 certifications.

4 PASSED AND ADOPTED by the City Council of the City of Oceanside, California,
5 this _____ day of _____, 2006, by the following vote:

6
7 AYES:

8 NAYS:

9 ABSENT:

10 ABSTAIN:

11
12 _____
MAYOR OF THE CITY OF OCEANSIDE

13
14 APPROVED AS TO FORM:

15
16  _____, ASST.
CITY ATTORNEY

This page is located on the U.S. Department of Housing and Urban Development's Homes and Communities Web site at <http://www.hud.gov/offices/cpd/communitydevelopment/programs/108/index.cfm>.



Section 108 Loan Guarantee Program

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Introduction

Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) program. Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. This makes it one of the most potent and important public investment tools that HUD offers to local governments. It allows them to transform a small portion of their CDBG funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects that can renew entire neighborhoods. Such public investment is often needed to inspire private economic activity, providing the initial resources or simply the confidence that private firms and individuals may need to invest in distressed areas. Section 108 loans are not risk-free, however; local governments borrowing funds guaranteed by Section 108 must pledge their current and future CDBG allocations to cover the loan amount as security for the loan.

Loan commitments are often paired with Economic Development Initiative (EDI) or Brownfield Economic Development Initiative (BEDI) grants, which can be used to pay predevelopment costs of a Section 108-funded project. They can also be used as a loan loss reserve (in lieu of CDBG funds), to write-down interest rates, or to establish a debt service reserve.

Regulations governing the Section 108 program may be found at 24 CFR 570, Subpart M, "Loan Guarantees."

Eligible Applicants

Eligible applicants include the following public entities:

- metropolitan cities and urban counties (i.e. CDBG entitlement recipients);
- nonentitlement communities that are assisted in the submission of applications by States that administer the CDBG program; and
- nonentitlement communities eligible to receive CDBG funds under the HUD-Administered Small Cities CDBG program (Hawaii). The public entity may be the borrower or it may designate a public agency as the borrower.

Eligible Activities

Activities eligible for Section 108 financing include:

- economic development activities eligible under CDBG;
- acquisition of real property;
- rehabilitation of publicly owned real property;
- housing rehabilitation eligible under CDBG;
- construction, reconstruction, or installation of public facilities (including street, sidewalk, and other site improvements);
- related relocation, clearance, and site improvements;
- payment of interest on the guaranteed loan and issuance costs of public offerings;
- debt service reserves;
- public works and site improvements in colonias; and
- in limited circumstances, housing construction as part of community economic development, Housing Development Grant, or Nehemiah Housing Opportunity Grant programs.

For purposes of determining eligibility, the CDBG rules and requirements apply. As with the CDBG program, all projects and activities must either principally benefit low- and moderate-income persons, aid in the elimination or prevention of slums and blight, or meet urgent needs of the community.

Maximum Commitment Amount

Commitments are limited as follows:

1. Entitlement public entities. An entitlement public entity may apply for up to five times the public entity's latest approved CDBG entitlement amount, minus any outstanding Section 108 commitments and/or principal balances of Section 108 loans.
2. State assisted public entities. A nonentitlement public entity may apply for up to five times the latest approved CDBG amount received by its State, minus any outstanding Section 108 commitments and/or principal balances on Section 108 loans for which the State has pledged its CDBG funds as security.
3. Nonentitlement public entities eligible under the HUD administered Small Cities Program. For a public entity in Hawaii, the maximum commitment amount is five times the public entity's latest grant under 24 CFR 570, Subpart F, minus any outstanding Section 108 commitments and/or principal balances on Section 108 loans.

Loan Details

Security: The principal security for the loan guarantee is a pledge by the applicant public entity or the State (in the case of a nonentitlement public entity) of its current and future CDBG funds. Additional security will also be required to assure repayment of guaranteed obligations. The additional security requirements will be determined on a case-by-case basis, but could include assets financed by the guaranteed loan.

Repayment: The maximum repayment period for a Section 108 loan is twenty

years. HUD has the ability to structure the principal amortization to match the needs of the project and borrower. Each annual principal amount will have a separate interest rate associated with it.

Financing Source: Section 108 obligations are financed through underwritten public offerings. Financing between public offerings is provided through an interim lending facility established by HUD.

Interest Rates: Interest rates on interim borrowing are priced at the 3 month London Interbank Offered (LIBO) rate plus 20 basis points (0.2%). Permanent financing is pegged to yields on U.S. Treasury obligations of similar maturity to the principal amount. A small additional basis point spread, depending on maturity, will be added to the Treasury yield to determine the actual rate.

Default: To date, there has been no default under Section 108 resulting in a repayment by HUD. In the event of default requiring a payment, HUD would continue to make payments on the loan in accordance with its terms. The source of payments by HUD pursuant to its guarantee would almost always be pledged CDBG funds. However, HUD does have borrowing authority with the U.S. Treasury if the pledged funds are insufficient.

For More Information

- Case Studies
- Application Details
- Contact Information
- Field Office Directors

Content updated June 30, 2005

U.S. Department of Housing and Urban Development

451 7th Street, S.W., Washington, DC 20410

Telephone: (202) 708-1112 [Find the address of a HUD office near you](#)

Office of the City Manager

Memorandum

To: Honorable Mayor and City Councilmembers

Through: Barry Martin, Water Utilities Director 

From: Michelle Skaggs Lawrence, Assistant to the City Manager 
Margery Pierce, Director of Neighborhood Services

Date: June 7, 2006

Subject: El Corazon Senior Center

As Council may recall, on August 17, 2005, the Council approved an application in the amount of \$3.5 million for the Section 108 Loan Guarantee Program of the U. S. Department of Housing and Urban Development (HUD) to fund the El Corazon Senior Center. The loan would be repaid over twenty years from future Community Development Block Grant (CDBG) allocations to the City. The City most recently used this loan program to acquire \$1.5 million for construction of the Libby Lake Community Center.

Since CDBG funds will be used to repay the loan, the project must meet one of the CDBG National Objectives: 1) to serve a low- and moderate-income area (LMA) of the City or 2) serve a specific low- or moderate-income client (LMC) population. Staff proposed, since seniors are a "presumed benefit" group and are defined as a low-income population in HUD regulations, that the project would qualify. However, staff was just informed by HUD that HUD regulations define seniors as persons 62 years of age and older. As you know, the City's senior programs serve anyone 55 years of age and older. ***Because of this difference in age requirements, HUD informed the City that the Senior Center would not be eligible for the HUD 108 Loan Guarantee Program.*** This ruling was completely unexpected. Consequently, staff has regrouped to determine the best way to go forward and to "save" the HUD 108 Loan monies. Staff will be recommending to Council at its July 12 meeting that the City submit a new HUD 108 Loan application in the amount of \$3.5 million (same amount as for the Senior Center) to assist in funding Fire Station No. 7.

Loans acquired under the Section 108 Loan Guarantee Program can be used for fire stations and apparatus that serve a low- or moderate-income area of the City, Fire Station

No. 7 fits HUD's definition. This new station will serve an area of the City that is 54 percent low- or moderate-income households, thus satisfying the HUD requirement. The General Fund allocation for Fire Station No. 7 would be reduced by \$3.5 million and those funds would be shifted over to development of the El Corazon Senior Center. Staff will present this to the City Council in July and request approval to submit this alternate application to HUD. This change will simply shift 108 funding to the Fire Station No. 7 project from the El Corazon Senior Center and the corresponding \$3.5 million General Fund allotment will be transferred from the Fire Station No. 7 account to the El Corazon Senior Center project account. There will be no delay caused to either project due to this funding swap nor will this change affect the overall costs of the two projects.

Staff will also bring this item forward to both the Public Safety and Senior Commissions to explain the change in funding plans. Should you have any questions, please feel free to contact Margery Pierce or John Lundblad at extension 3393.

cc: Peter Weiss, Public Works Director
Megan Brady-Crooks, Administrative Analyst, Parks & Recreation