

Section 108 Loan Guarantee Program Project Summaries - Fiscal Year 2016

In the fiscal year 2016, the U.S. Department of Housing and Urban Development (HUD) approved **\$80,715,000** 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 \$694,000 for development of a library in Homestead, Florida to a \$20 million for a city-wide loan pool in Philadelphia, Pennsylvania.

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 commercial/industrial developments. 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 2016 are described in the summaries provided below. These assisted projects are grouped into three (3) categories: *Economic Development*, *Housing*, and *Public Facilities and Improvements*.

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Economic Development Projects

The Farragut Hotel – Knoxville, TN Section 108 Loan Guarantee – \$2,900,000

The City will use \$2.9 million in Section 108 guaranteed loan funds to assist in financing the redevelopment of the vacant, historic Farragut Hotel building. This 137,000 square foot building has been vacant for the past nine years and is the last vacant structure in the City’s locally designated empowerment zone to be redeveloped. The building will be redeveloped into a mixed-use structure with a functioning hotel and 900 square feet of storefront commercial space, helping to stimulate additional economic development in the downtown area.

National Objective: The CDBG national objective to be met by the eligible activity is benefit to low-and moderate-income persons through the creation of jobs to be held by or made available to a low- and moderate-income persons. It is expected that 61 jobs will be created by this project.

Guaranteed Loan Features:

Term: The City will repay its loan over a 20-year period with principal payments beginning in year four (4) and interest only payments in years one through three (1 – 3).

Repayment Source: The repayment source will be principal and interest payments from the developer on its loan with the City, which is to be repaid with hotel revenue.

Additional Security: The City pledges and will assign its interest in its third party loan secured by second lien position on the leasehold deed of trust on the Farragut Hotel building. In addition, the developer will provide a personal guarantee.

For Additional Information:

Old Farragut Hotel downtown being redeveloped as a Hyatt Place:

<http://archive.knoxnews.com/business/old-farragut-hotel-downtown-being-redeveloped-as-a-hyatt-place-2fab18d9-90de-4595-e053-0100007fd541-374535051.html>

City Wide Loan Pool – Philadelphia, PA Section 108 Loan Guarantee – \$20,000,000

The City will fund the tenth round of its City-wide Loan Pool, established in 1995, for a subrecipient, the Philadelphia Industrial Development Corporation ("PIDC"), to make loans to commercial and industrial borrowers and non-profit and community-based institutions. PIDC will focus its loan efforts on three areas: business expansion; targeted neighborhood commercial development; and community-based organization development.

National Objective: PIDC will evaluate all assisted projects to ensure that they will meet the criteria for benefit to low- and moderate-income persons by: assisting low- and moderate-income persons on

an area basis; assisting activities that benefit a limited clientele, at least 51 percent of whom are low- and moderate-income persons; assisting activities designed to create or retain permanent jobs, where at least 51 percent of jobs involve the employment of low- and moderate-income persons ; or addressing prevention or elimination of slums or blight.

Underwriting: PIDC performs a thorough assessment of all prospective borrowers through its established loan underwriting process and independent loan committee evaluation.

Guaranteed Loan Features:

Term: The City will repay the Section 108 guaranteed loan over a 20-year term.

Repayment Sources: Repayments will be made from revenue generated by projects carried out by third-party borrowers.

Additional Security: The City will pledge its interest in its third-party loans, which will be secured by liens on real property, equipment, or other assets, depending on the particular project or business.

For Additional Information:

PIDC Subordinate Term Loan:

<http://www.pidcphila.com/product/subordinate-term-loan>

Economic and Community Development Loan Fund – Norfolk, VA Section 108 Loan Guarantee – \$19,000,000

The City of Norfolk is requesting a \$19 million Section 108 loan guarantee to create an Economic and Community Development Loan Fund ("Loan Fund") to focus investment in 19 target geographic areas within the city.

The Loan Fund will provide loans to businesses and developers to promote real estate development. Targeted business clusters are healthcare\life sciences, defense\cyberspace, technology, manufacturing, policy associations, creative film, retail and renewable energy. It is anticipated that the average loan size in the Loan Fund will be approximately \$1.5 million with the loans ranging from \$500,000 to \$5 million. It is estimated that this project will create 500 full time equivalent jobs.

National Objective: The Community Development Block Grant (CDBG) national objective to be met is benefit to low- and moderate-income (LMI) persons through 1) the creation/retention of jobs where at least 51% of the jobs created or retained will be made available to or held by LMI persons; 2) on an area benefit basis; 3) on a limited clientele basis; or 4) through the improvement of permanent residential structures which will be occupied by LMI households. Additionally, activities may also be funded under the national objective of prevention or elimination of slums or blight.

Underwriting: The City's Department of Development (DoD) will conduct financial underwriting for new applications while the National Development Council (NDC) concurrently conducts regulatory

reviews on applications to ensure compliance with HUD requirements. The two teams, DoD and NDC, will reconvene after their individual, initial reviews and decide which projects to forward to the City's loan committee for the next level of review. The loan committee will consist of five community representatives from the financial, real estate and small business communities of Norfolk. The loan committee will make a recommendation to the City's Economic Development Authority (EDA) Board of Directors who will serve as the ultimate decision maker.

Guaranteed Loan Features:

Term: The City will repay the Section 108 loan over a 20-year term.

Repayment Sources: The City will use revenue generated by projects carried out by third-party borrowers to pay the debt service on the Section 108 loan.

Additional Security: The City will pledge its interest in third party loans as secured by liens on real property, new or used equipment, accounts receivable, inventory, and personal or corporate guarantees.

For Additional Information:

Large Scale Project Fund:

http://www.norfolkdevelopment.com/files/Section_108_Handout.pdf

Downtown Dining District Loan Fund – Springfield, MA

Section 108 Loan Guarantee – \$1,500,000

The City will use a Section 108 loan guarantee in the amount of \$1.5 million to establish a low-interest loan fund to target a dining district in downtown Springfield. The Dining District Loan Fund will help establish new full-service restaurants and job opportunities in the heart of downtown Springfield's business district.

National Objective: The CDBG national objective to be met by the eligible activity is benefit to low-and moderate-income persons through the creation of jobs to be held by or made available to a low- and moderate-income (LMI) persons, where at least 51 percent of these jobs will be offered to or held LMI persons.

Underwriting: Applicants will be vetted through an Investment Committee composed of members from DevelopSpringfield (a private non-profit), the Springfield Business Improvement District Boards of Directors, and key City employees. The Committee will report to the City's Office of Planning and Economic Development.

Guaranteed Loan Features:

Term: The City is requesting a 20-year term for principal repayment with principal payments beginning in Year two.

Repayment Sources: The City will use the revenue generated by assisted projects carried out by third-party business borrowers to pay the debt service on the Section 108 loan.

Additional Security: The City will pledge its interest in third party loans, secured by subordinate liens on real property and improvements as well as liens on machinery and equipment, accounts receivable, inventory and other items of personal property.

For Additional Information:

New Downtown Springfield Restaurants Plan Gets \$1.5 Million HUD Loans Boost:

http://www.masslive.com/news/index.ssf/2016/10/hud_allocates_15_million_in_fe.html

Community and Economic Development Loan Fund – St. Clair County, IL

Section 108 Loan Guarantee – \$15,000,000

The County is currently requesting \$15 million in Section 108 loan guaranteed loan funds to be used to create a loan pool targeted to projects that will have positive economic and community development benefits throughout the county.

National Objective: : The CDBG national objective to be met by the Section 108 guaranteed loans is benefit to low- and moderate-income (LMI) persons through either area benefit, where at least 51 percent of the residents are LMI persons or through the creation or retention of jobs, where at least 51 percent of the jobs will be held by LMI persons.

Underwriting: The St. Clair County Intergovernmental Grants Department (IGD) will manage the Loan fund. IGD will underwrite all loans with assistance provided by a consultant as needed and approved by the U.S. Department of Housing and Urban Development (HUD).

Guaranteed Loan Features:

Term: The County is requesting a 20-year repayment term with interest-only payments in Years 1 and 2.

Repayment Sources: The County will use revenue generated by projects carried out by third-party borrowers to pay the debt service on the Section 108 loan.

Additional Security: The City will pledge its interest in third party loans as secured by liens on real property and personal guarantees.

Housing Development Projects

Hartley Ridge Housing Project – High Point, NC Section 108 Loan Guarantee – \$694,000

The City proposes to use guaranteed loan funds for acquisition and improvement of a property in support of Hartley Ridge, an affordable multi-family housing development (hereafter the "Project") by Wynnefield Properties, a for-profit developer (hereafter the "Developer"). The housing units will support a high demand for affordable housing for low-income residents in the High Point area. The Project will be carried out in two phases. In Phase 1, the City will acquire and prepare the project site. In Phase 2, the City will sell the improved project site to a third party, the Developer.

National Objective. The Community Development Block Grant (CDBG) national objective to be met by the eligible activities is benefit to low- and moderate-income (LMI) persons by providing permanent residential structures, which will be occupied by LMI households. The Developer intends to market the units to families at 30%, 50%, and 60% of area median income

Guaranteed Loan Features:

Term: The City is requesting a 20-year loan term, with total annual debt service of approximately \$30,000 per year, including interest, with a balloon payment in Year 20.

Repayment Source: The City will use net operating income from Project proceeds and will supplement payment as needed from its General Funds to ensure it has adequate funds for debt service payments. The Developer intends to refinance the outstanding debt on the Project prior to the due date of the balloon payment in order to pay off the Section 108 guaranteed loan and any remaining debt under the bank loan. The City will also collect an origination fee from the Developer for the amount of \$25,000 and purchase a 10-year Treasury Bond as an additional source of repayment.

Additional Security: During Phase 1, 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. During Phase 2, the City will pledge its interest in the Developer's Note for purchase of the improved Project site, secured by a second lien on real property and improvements, including any and all rights, titles, and interests of the Developer to any leases covering the real property. This additional security will be collaterally assigned to HUD.

For Additional Information:

New Apartment Complex Planned in High Point:

http://www.greensboro.com/news/local_news/new-apartment-complex-planned-in-high-point/article_e36b1bd2-c77f-11e3-8436-0017a43b2370.html

Union Avenue Project – Memphis, TN

Section 108 Loan Guarantee – \$4,107,000

The City will provide Section 108 loan guarantee financing for the proposed redevelopment of two blighted parcels (encompassing two acres) in the Midtown/Overton Square Redevelopment Area in Midtown Memphis. The Developer will demolish, clear, and reconstruct the blighted building at 1835 Union Avenue into a mixed-use commercial and residential structure. The building will include 10,000 square feet of retail space on the first level and four additional stories of residential space above for a total of 66 units. The Developer will also rehabilitate a former hotel at 1837 Union Avenue into nine floors of 100 affordable rental housing units.

National Objective: The Community Development Block Grant (CDBG) national objective met by the eligible activities are to: (1) address slums or blight on a spot basis, and (2) assist activities designed to create or retain permanent jobs, where at least 51 percent of jobs involve the employment of low- and moderate-income persons. The project should create 67 full time permanent jobs.

Guaranteed Loan Features:

Term: The City is requesting a 20-year loan repayment term with interest-only payments during the first seven years of the project.

Repayment Sources: The City will make guaranteed loan repayments from the City’s General Fund or other sources during the first seven years, and beginning in the eighth year from residential and commercial rents collected by the Developer.

Additional Security: The City will assign its interest in its third party loan to the Developer, secured by in a second lien mortgage on the project site land, which includes the buildings and a parking garage.

For Additional Information:

Midtown Corner Sold for Mixed-Use Development:

<http://archive.commercialappeal.com/business/real-estate/372449692.html>

Public Facility and Improvement Projects

Fire Equipment Purchase – Fall River, MA

Section 108 Loan Guarantee – \$4,998,000

The City is requesting Section 108 guaranteed loan funds to finance replacement fire equipment. The City will own the assets after it purchases them. The City previously used a Section 108 guaranteed loan to purchase its existing fire equipment over 20 years ago, and that equipment now needs to be replaced.

National Objective: The Community Development Block Grant (CDBG) 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% of the residents of the area are LMI.

Guaranteed Loan Features:

Term: The City is requesting a 20-year repayment term with interest-only payments for the first year.

Repayment Source: The repayment source for this non-income producing activity will be the City's annual CDBG allocation.

Additional Security: The City will either pledge its annual tax revenue, specifically receipts and real estate taxes, or, alternatively, pledge its full faith and credit, as additional security for the loan.

For Additional Information:

Fall River Gets Green Light for \$4.9M in New Equipment:

<http://www.heraldnews.com/news/20160812/fall-river-fire-department-gets-green-light-for-49m-in-new-equipment>

Community Recreation and Wellness Center – Hammond, IN

Section 108 Loan Guarantee – \$8,651,000

The City proposes to use its Section 108 guaranteed loan proceeds to develop and construct a community and wellness center (the "Project") of approximately 85,000 square feet. This new center will offer access to recreational facilities and programming that are not currently offered by the City's existing community facilities.

National Objective: The Community Development Block Grant (CDBG) national objective to be met by this activity is benefit to low- and moderate-income (LMI) persons on an area benefit basis, where at least 51% of the residents of the area are LMI.

Guaranteed Loan Features:

Term: The City is requesting a twenty-year term with interest-only payments for the first five years.

Repayment Source: The City will use the revenue stream from the income generating activities, like the sponsorship donations, activity fees and any lease payments, to fund operations as well to repay its Section 108 guaranteed loan. Furthermore, the site for the Project is located within the Hammond Central Tax Increment Financing (TIF) District. This TIF district is currently generating approximately \$1.5 million in revenue each year, which is also available to pay debt service.

Additional Security: The City will provide collateral in the form of a first priority lien on real property and the assignment of all generated income from the project.

For Additional Information:

Hammond Gets Money for Woodmar Wellness Center:

http://www.nwitimes.com/news/local/lake/hammond/hammond-gets-money-for-woodmar-wellness-center/article_c2c2ca70-409c-5594-94a5-41513079e98d.html

Downtown Library (Cybrary) – Homestead, FL

Section 108 Loan Guarantee – \$3,865,000

The City proposes to use its Section 108 guaranteed loan proceeds to develop the “Cybrary,” a state-of-the-art library (the “Project”) of approximately 25,000 square feet in a two-story building. The City has decided to relocate and develop a new library because its current facility is considered obsolete and is located on a campus of vacant municipal buildings. In addition, the City stated that the Project will be a valuable community asset that will not only assist in the preparation of its residents for the workplace of the 21st century but also will help stimulate to the revitalization of the downtown area.

National Objective: The Community Development Block Grant (CDBG) national objective to be met by this activity is benefit to low- and moderate-income (LMI) persons on an area basis, where at least 51% of the residents of the area are LMI.

Guaranteed Loan Features:

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

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

Additional Security: The City will provide collateral in the form of the establishment of a Debt Service Reserve Account in the amount of the highest projected annual debt service payment due over the term of the loan. The account will have a separate account number and will be located within the City’s General Fund.