

STAFF REPORT

TO: Mayor and City Council Members DATE May 22, 2012

FROM: Lauren Bradley, Finance and Management Services Director
Jeff Staudinger, Community Development Director

VIA: Gary W. Jackson, City Manager

SUBJECT: Loan request from Eagle Market Streets Development Corporation for Eagle Market Place

Summary Statement: The consideration of a resolution authorizing the City Manager to execute a letter of intent to provide permanent financing in the amount of \$1 million to Mountain Housing Opportunities, Inc. ("the developer") for the project known as Eagle Market Place, and direction to the City Manager to pursue a HUD Section 108 loan to fund the developer's loan request.

Review: Staff has reviewed a request from Mountain Housing Opportunities, Inc. for permanent financing in the amount of \$1 million for the Eagle Market Place project. The development corporation is presenting its request to City Council along with information about how the loan proceeds would be used in the overall project on May 22, 2012. That request is outlined in more detail in separate documents provided by the developer.

The purpose of this staff report is to provide analysis on a recommended funding source for the requested loan should City Council wish to approve the request.

HUD Section 108 Loan Program

The HUD Section 108 Loan Program is an available finance resource for the Eagle Market Place project. **The Section 108 funds would be provided by HUD as a loan to the City.**

Section 108 allows eligible HUD CDBG grantees to borrow funds from future CDBG allocations to finance projects. A grantee may borrow up to five times their current year allocation. With an allocation this year of \$950,000, the City of Asheville has the authority to borrow up to a maximum of approximately \$4.75 million. The City has an existing loan of \$750,000, leaving about \$4 million in borrowing capacity. Although the City must apply for the funds, Section 108 is a non-competitive program.

The use and administration of these funds is tied to the regulations of the HUD Community Development Block Grant (CDBG) program. As with the CDBG program, all projects and activities must meet a HUD national objective: 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. The Eagle Market Place project purpose is eligible for a Section 108 loan because it is housing construction as part of community economic development, and 100% of the funds will benefit low and moderate income persons.

Section 108 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.

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

Other: Other CDBG rules would also apply, including federal environmental review processes, Davis-Bacon wage rates for construction labor and Section 3 standards to proactively market available jobs to residents of the area where the project is located. Because HUD HOME program funds are committed to the project, these rules are already in place, and new management costs would not be incurred because of them.

Completion of the Eagle Market Place project is an objective within the City's of Asheville's Strategic Operating Plan under the goal area "Job Growth and Community Development."

Pro:

- According to the developer, approval of the loan request would improve the project's ability to secure North Carolina Low Income Housing Tax Credits, which are essential to the project's pro forma.

Cons:

- CDBG funds can be used as a method of repayment, but there is no guarantee that the CDBG program will continue to be funded nationally.
- Commits future CDBG funds to loan repayment for Eagle Market Place instead of funding other eligible projects.
- Sufficient security will need to be pledged for the loan. Security is negotiated with HUD during the application process.

Fiscal Impact:

- (1) **Loan from the City to Developer:** The developer's proposed repayment schedule for the loan made by the City to the developer includes deferring payments for a period of 20 years at a 2% interest rate. The repayment schedule and interest rate do not parallel the repayment structure between the City and HUD for a Section 108 loan, therefore creating annual negative cash flows to the City's CDBG program. As a result, the City's overall annual discretionary CDBG funding will be reduced for other projects.
- (2) **Loan from HUD to the City:** 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. While interest-only payments for a period of time can be structured, the payments are not deferred, and principal

payments typically start in year 5. Based on current market conditions, staff would roughly estimate that annual debt service payments would be \$100,000. Annual repayments would be allocated from CDBG funds.

Recommendation: If City Council approves the loan request and the resolution as presented, staff recommends that City Council direct staff to pursue a HUD Section 108 loan as a funding source for the loan. .

Attachment:
(1) Resolution

RESOLUTION NO. _____

RESOLUTION AUTHORIZING THE CITY MANAGER TO EXECUTE A PERMANENT LENDER LETTER OF INTENT TO PROVIDE FINANCING TO MOUNTAIN HOUSING OPPORTUNITIES, INC.

WHEREAS, the Asheville City Council has adopted a strategic plan that includes an objective to complete the Eagle Market Street redevelopment project as part of its overall community development strategy; and

WHEREAS, the Eagle Market Streets Development Corporation has indicated that the project needs additional local funding to reduce its tax credit cost per unit to support its application for North Carolina State tax credits, without which the project is not viable; and

WHEREAS, the Eagle Market Streets Development Corporation has requested that the City issue a letter of intent to provide permanent financing in the amount not to exceed \$1,000,000 (one million dollars); and

WHEREAS, the requested loan shall have a term of at least 20 years at a fixed rate of interest of 2% or less, and will be deferred with no payments of principles or interest; and

WHEREAS, the City anticipates having a security interest in a third lien hold position in the project;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF ASHEVILLE THAT:

The City Manager is authorized to execute a permanent lender letter of intent for the purpose of representing to the North Carolina Housing Finance Agency the City's commitment to provide financing in the amount of \$1,000,000 to Mountain Housing Opportunities, Inc. for the Eagle Market Place project. The Manager is further directed to pursue a HUD Section 108 loan to fund the developer's request, which will be repaid through future Community Development Block Grant funds allocated to the City.

Read, approved and adopted this 22nd day of M ay, 2012.

City Clerk

Mayor

Approved as to form:

City Attorney