



Legislation Text

File #: O-324-23, **Version:** 2

Section 108 Loan Guarantee Applications - Community and Senior Centers Improvements
Department of Housing and Community Development
Director Rosalyn Clemens (x3647)

Approving Section 108 Loan Guarantee Applications for the amount not to exceed \$4.5 million from the City of Toledo for renovations and improvements to Community and Senior Centers; authorizing the submission of the Applications to U.S. Department of Housing and Urban Development (HUD) for Eligibility Determination and final approval of a HUD Section 108 loan guarantee; and declaring an emergency.

SUMMARY & BACKGROUND:

This legislation provides approval of a Section 108 Loan Guarantee Applications (“Applications”) from the City of Toledo for renovations and improvements to the Believe Center, located at 1 Aurora Gonzalez Drive, the Chester J. Zablocki Community Center located at 3014 Lagrange Street, the East Toledo Senior located at 1001 White Street, and the East Toledo Family Center located at 1020 Varland Avenue; and, authority to the Mayor and Department of Housing and Community Development for submission of the Applications to the U.S. Department of Housing and Urban Development (HUD) for Eligibility Determination and final approval of a HUD Section 108 Loan guarantee.

The Section 108 Loan Guarantee Program (“Section 108 Loan”) allows Community Development Block Grant (CDBG) entitlement communities to leverage up to five times the annual CDBG allocation to fund economic development, public facilities, acquisition of real property and housing rehabilitation projects, by pledging future CDBG allocations for a HUD guaranteed loan. Entitlement communities can borrow Section 108 Loan funds for a project undertaken by the community (Level 1 Transaction); or, entitlement communities can borrow Section 108 Loan funds and lend funds to a borrower for an eligible income producing project (Level 2 Transaction). When HUD approves an application for a Section 108 loan guarantee, loan documents including a promissory note, are executed by the community and borrower. The Section 108 Loan is made by investors who purchase the HUD guaranteed promissory note or debt obligation, with the full “faith and credit” of the government, enabling financing at interest rates much lower than what is available conventionally. The Section 108 Loan program is typically used to spur economic development in disinvested areas and jump-start neighborhood revitalization.

Although entitlement communities pledge CDBG funds as collateral for Section 108 Loans, they do not necessarily use CDBG grant funds to pay off the loans. In the case of income producing projects, revenue from the project is used to pay off the loan and additional collateral is provided by a real estate lien, assignment of rents, or personal or corporate guarantees by the applicant. Income producing projects must demonstrate the ability to pay off the loan by meeting HUD underwriting standards, including debt coverage ratio and loan to value of real estate. In the case of a public facilities projects, like community centers or infrastructure, CDBG can be used to pay off the loan and additional collateral from a non-tax revenue source must be pledged in the unlikely event that CDBG is not available to provide debt service on the Section 108 Loan.

Section 108 loans can be repaid over periods of up to 20 years. Section 108 loans are financed initially through an interim variable rate based on the three-month Treasury Action Bill rate. Periodically, HUD releases public offerings for permanent financing of Section 108 loans once a sufficient aggregate amount in loan guarantees has been awarded. Interest rates on loans funded by a public offering are fixed and based on U.S. Treasury borrowing rates. Projects funded with Section 108 loans must principally benefit low-moderate income persons through job creation, area benefit, or affordable housing.

Pursuant to Ordinance 619-21, the City of Toledo submitted an application to HUD to establish a \$37 million Section 108 Loan Pool. In March 2022 the City of Toledo received HUD approval for the \$37 million Section 108 Loan Pool. The Section 108 Loan Pool is available to the city for public facilities projects and owners of income producing properties to provide a ready source of long-term reasonably priced financing. Section 108 funded projects must also meet cross cutting federal requirements including Davis-Bacon labor standards and environmental reviews.

The establishment of a Section 108 Loan Pool is a specific Year 1 Implementation Action of Toledo Together, A Guiding Vision & 10-Year Action Plan for Housing (Comprehensive Housing Strategy) unanimously adopted by the Toledo City Council. The establishment of a Section 108 Loan Pool supports the Comprehensive Housing Strategy goal of diversifying local funding sources to finance economic development and public facilities needs of Toledo.

The financial impact of this Ordinance is the provision of capital for substantial renovations and improvements to community and senior centers and advance equitable development projects in an underserved neighborhood.

NOW, THEREFORE, Be it ordained by the Council of the City of Toledo:

SECTION 1. That the Section 108 Loan Guarantee Applications (“Applications”) for the amount not to exceed \$4.5 million will be used for renovations and improvements to community and senior centers identified in Schedule A.

SECTION 2. That the proposed Section 108 loan for renovations and improvements to the East Toledo Senior Center, the Chester J. Zablocki Community Center and the Believe Center is estimated to be \$2 million with an estimated 4.72% interest rate, with a term of 20 years, requiring annual debt service of approximately \$156,697.00.

SECTION 3. That the proposed Section 108 loan for renovations and improvements to the East Toledo Family Center is estimated to be \$2.5 million, with an estimated 4.72%, with a term of 20 years, requiring annual debt service of approximately \$195,872.00.

SECTION 4. That the annual debt service on proposed Section 108 loans for community and senior centers renovations and improvements will be paid by annual CDBG entitlement allocations in the amount not to exceed \$352,569.00, equivalent to approximately 4.8% of the City of Toledo average annual CDBG entitlement grant.

SECTION 5. That the City of Toledo intends to pledge certain nontax revenues of the City in the amount not to exceed \$352,569.00 for additional collateral for annual debt service on the Section 108 loans for community and senior center renovations and improvements, in the unlikely event that an annual CDBG entitlement grant is not received.

SECTION 6. That the community and senior center renovations and improvements project will meet HUD national objective of principally benefit low- and moderate-income persons through area benefit.

SECTION 7. That the Section 108 Loan Guarantee Applications (“Applications”) for the amount not to exceed \$4.5 million from the City of Toledo for renovations and improvements to community and senior centers is hereby approved.

SECTION 8. That the Mayor is authorized to submit to U.S. Department of Housing and Urban Development (HUD) for Eligibility Determination and final approval of a Section 108 Loan guarantee for the amount not to exceed \$4.5 from the City of Toledo for renovations and improvements to community and senior centers identified in Schedule A.

SECTION 9. That the Mayor and the Director of Housing and Community Development are authorized to enter into the necessary contracts or agreements pursuant to the HUD Section 108 Loan Program regulations, directives and guidelines, as applicable and pertinent to the City of Toledo Section 108 Loan Applications for renovations and improvements to community and senior centers identified in Schedule A.

SECTION 10. That the Mayor, Director of Finance, Director of Law, Director of Housing and Community Development and other City officials, as appropriate, each are authorized to work with HUD to provide for loan guarantee assistance with respect to the renovations and improvements to community and senior centers identified in Schedule A, through the future issuance of special limited obligation revenue notes to evidence the loan and provide for the pledge of present and future CDBG entitlement grants and other nontax revenues, as appropriate, as security for such notes.

SECTION 11. That this Ordinance is declared an emergency measure and shall take effect and be in force from and after its passage. The reason for the emergency lies in the fact that the same is necessary for the immediate preservation of the public peace, health, safety and property and for the further reason that this Ordinance must be immediately effective in order to timely begin the process for HUD approval of the City of Toledo Section 108 Loan Applications for renovations and improvements to community and senior centers identified in Schedule A.

Vote on emergency clause: yeas 10, nays 0.

Passed: June 27, 2023, as an emergency measure: yeas 10, nays 0.

Attest:

Gerald E. Dendinger
Clerk of Council

Matt Cherry
President of Council

Approved:

June 27, 2023
Wade Kapszukiewicz
Mayor