



Legislation Text

File #: O-325-23, **Version:** 3

Section 108 Loan Guarantee Application - Swayne Field
Department of Housing and Community Development
Director Rosalyn Clemens (x3647)

Approving a Section 108 Loan Guarantee Application for the amount not to exceed \$616,000 from Swayne Field Shopping Center, Inc. for renovations and improvements to the Swayne Field Shopping Center located at 3054 Monroe Street, Toledo, Ohio; authorizing the submission of the Application 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 Application (“Application”) from Swayne Field, Inc. for renovations and improvements to the Swayne Field Shopping Center; and, authority to the Mayor and Department of Housing and Community Development for submission of the Application 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, like Swayne Field, 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 the Swayne Field Shopping Center; facilitate the creation of jobs and training opportunities in Toledo; 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 Application (“Application”) for the amount not to exceed \$616,000 from Swayne Field, Inc. for renovations and improvements to the Swayne Field Shopping Center has been underwriting in accordance with Section 108 loan underwriting guidelines for operating businesses and income producing projects, including review of: current leases, “as rehabilitated” appraisal, property conditions assessment, balance sheets, income statements, and credit reports of owner of Swayne Field, Inc. and anchor tenant Starr Beauty Supply, Inc.

SECTION 2. That the owners, Swayne Field Shopping Center, Inc. will contribute \$200,000 in equity to the transaction and pay all outstanding water bills at closing on the Section 108 Loan.

SECTION 3. That the estimated interest rate on the proposed Section 108 loan to Swayne Field Inc. is 4.95% with a term of 20 years requiring annual debt service of approximately \$49,220.

SECTION 4. That the “as rehabilitated” appraisal value of Swayne Field Shopping Center is \$2.7 million; and net operating income with 57% occupancy is \$218,179.

SECTION 5. That the loan to real estate value (LTV) is 23% and debt coverage ratio is approximately 5.8, exceeding the HUD required underwriting standard of 80% LTV and 1.20 (DCR) respectively, for income producing projects.

SECTION 6. That additional collateral for the Section 108 loan to Swayne Field, Inc. will be a City first mortgage on the Swayne Field Shopping Center and a corporate guarantee by anchor tenant Starr Beauty

Supply, Inc.; and assignment of rents as/if required by HUD.

SECTION 7. That the Swayne Field renovation project will meet HUD national objective of principally benefit low- and moderate-income persons through job creation; and supports workforce development and investment in the Englewood Neighborhood Revitalization Strategy Area.

SECTION 8. That the Section 108 Loan Guarantee Application (“Application”) for the amount not to exceed \$616,000 from Swayne Field Shopping Center, Inc. for renovations and improvements to the Swayne Field Shopping Center is hereby approved.

SECTION 9. 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 application for the amount not to exceed \$616,000 from Swayne Field, Inc., for renovations and improvements to the Swayne Field Shopping Center.

SECTION 10. 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 Swayne Field Inc. Section 108 Loan Application.

SECTION 11. 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 the Swayne Field Shopping Center, 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, project income and otherwise, as appropriate, as security for such notes.

SECTION 12. 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 Swayne Field Inc, Section 108 Loan Application.

Vote on emergency clause: yeas 11, nays 0.

Passed: July 18, 2023, as an emergency measure: yeas 11, nays 0.

Attest:

Gerald E. Dendinger
Clerk of Council

Matt Cherry
President of Council

Approved:

July 18, 2023
Wade Kapszukiewicz
Mayor