

CITY OF PASCO

APPLICATION FOR LOAN GUARANTEE

FROM

**U.S. DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT**

FOR AN

ECONOMIC AND COMMUNITY DEVELOPMENT LOAN FUND

IN THE AMOUNT OF \$3,352,180

December 2017

ECONOMIC DEVELOPMENT LOAN FUND
PASCO, WASHINGTON

Project Description

The purpose of this Section 108 application is to assist with economic and community development activities in the City of Pasco. The guaranteed loan funds will be used to create a loan pool targeted to projects that will have positive economic and community development benefits within East Pasco's neighborhood business district. Individual projects will be evaluated by City of Pasco's staff, as well as by consultant experts in financial underwriting..

The City has identified two projects that will likely make use of this fund. The first of these, the Pasco Plaza Mercado (Market Plaza), is located on 4th Avenue between Lewis and Columbia Streets. The project includes renovation of the Pasco Farmers Market Pavilion, as well as Peanuts Park. The Pasco Farmers Market celebrates its 30th Anniversary in 2018, and is a community resource and gathering place for a lower income, predominately minority community. The second project is the replacement of deteriorated sidewalks and installation of pedestrian amenities that connect the Market Plaza to the surrounding neighborhoods. The Section 108 loans for both of these projects will be debt serviced with CDBG funds.

Section 108 Submission Requirements

A. Community Development Objectives

The Section 108 loan fund will result in lending for economic and community development in Pasco. This activity will further the City of Pasco's Economic Development Goals as listed in the City's Consolidated Plan, all of which are applicable.

Policies

B. Description of how the Proposal meets one of the Criteria in 24 CFR 570.200(a)(2) - National Objectives.

Section 570.200(a)(2) lists the National Objectives that must be met by all Community Development Block Grants and therefore Section 108 projects. This section requires that all funded activities meet one of three national objectives. These objectives are: 1) benefit to low and moderate income families; 2) aid in the prevention or elimination of slums or blight; and 3) meeting other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available. Section 570.208 defines the criteria under which an activity may meet the requirements of Section 570.200(a)(2). Each project funded through the Section 108 loan fund will meet one of the National Objectives listed in Section 570.200(a)(2) as detailed in Section 570.208.

The City of Pasco's Section 108 loan fund will create jobs for low and moderate income persons, provide services to low income areas, provide infrastructure to create housing opportunities for low income individuals, and/or eliminate conditions of blight as defined in Section 570.208.

C. Community Development Block Grant Eligibility

In addition to furthering National Objectives, all Section 108 loans must also meet the eligibility requirements of the Community Development Block Grant program. All activities funded through the City of Pasco's Section 108 loan fund will meet the program eligibility requirements as set forth in Sections 570.201, .202, .203, or .204.

The two projects currently identified meet the eligibility requirements of Section 570.201(c). Under 570.201(c), the City can undertake public facilities and improvements through: "Acquisition, construction, reconstruction, rehabilitation or installation of public facilities and improvements, except as provided in Section 570.207(a)."

Section 570.207(a) excludes "buildings or portions thereof, used for the general conduct of government, general governmental expenses and political activities." None of the projects to be assisted with Section 108 proceeds will include buildings used for the general conduct of government, general governmental expenses, nor for political activity.

If the City identifies activities under Section 570.203, it will insure that those activities additional comply with Section 570.209

Section 570.209 Guidelines

Guidelines and Objectives for Evaluating Project Costs and Financial Requirements.

All activities eligible under Section 570.203 must meet the requirements of Section 570.209. This section outlines guidelines for ensuring that a proposed project carries out an economic development objective in an appropriate manner. These guidelines under 570.209(a) are not mandatory but serve as a framework for financially underwriting economic development projects.

In evaluating proposed projects eligible under Section 570.203 and to be funded from the Section 108 Economic and Community Development Loan Fund, the City of Pasco will use the following criteria.

Project Management

The City of Pasco, Department of Community and Economic Development (DCED) will administer the fund. DCED will underwrite all loans. Should a project to assist a for profit business emerge as a candidate for loan funding, the city will use an experienced consultant to advise on project feasibility.

Underwriting Standards for City of Pasco Section 108 Loan Fund

1. National Objective

All loans shall meet a national objective as specified in 24 CFR 570.208. No loan shall be approved without verification of compliance with the national objective requirements, specified in 24 CFR 570.208, by the Washington State Office of the United States Department of Housing and Urban Development.

2. **Eligibility**

In addition to meeting one of the program's National Objectives, all projects assisted through the loan fund must fall within one of the eligible activities listed in 570.703.

3. **Guidelines for evaluating and selecting economic development projects**

For all activities eligible under 570.703(i), economic development activities, the project will be required to meet the guidelines listed under 570.209: Guidelines for evaluating and selecting economic development projects. No loan shall be approved without verification of compliance with the public benefit standards as specified in 24 CFR 570.209(b) by the Washington State Office of the United States Department of Housing and Urban Development.

4. **Financial Underwriting**

In loan underwriting the City shall adhere to the following criteria.

a. **Real Estate Loans**

Real Estate Loans shall be evaluated based on:

Ability to Repay

Collateral

Development Team Capacity and Experience

Developer Commitment

Character of the Developer

Ability to Repay:

Projects to be funded will have at least a 1.1 projected debt coverage ratio. If the project includes more than a small percentage of its rental income from start-up or financially weak tenants then a higher debt coverage ratio shall be required.

Collateral:

Projects to be funded should have a loan to value ratio of not greater than 80 percent. This value must be supported by an appraisal prior to funding. If greater than an 80 percent loan to value ratio is proposed, outside collateral sufficient to provide an 80 percent loan to value shall be required. In certain cases outside guarantees may suffice for additional collateral.

Development Team Capacity and Experience:

Projects funded shall have a development team that has both the capacity and experience to complete the project as demonstrated by past projects and financial strength.

Developer Commitment:

Developer commitment can take many forms. While each project is

likely to be different, the forms of developer commitment that can be expected include: adequate equity, guarantees of completion, guarantees to fund shortfalls or guarantees of minimum cashflow.

Character:

Projects to be funded should have developers with good credit histories, demonstrated integrity, and quality references.

b. Business Loans

Business Loans shall be evaluated based on:

Ability to Repay

Collateral

Guarantees Financial

Strength

Management Experience

Character of the Principals

Ability to Repay:

All businesses funded with the program shall have existing cash flow (profits after tax, plus depreciation, plus excess officers income, plus rent savings if applicable) sufficient to repay the loan. Projections must be supported by strong evidence that they will materialize.

Collateral:

All business loans must be supported by collateral. Real Estate must be supported by an appraisal and will be generally accepted up to 80 percent of its value. Machinery and equipment, depending on its nature, will be accepted from 40 percent to 60 percent of its fair market value. Accounts receivable and inventory will normally be used to secure operating debt and will generally not be taken as collateral. Outside collateral, such as personal residences, shall be valued up to 80 percent of their fair market value net of existing debt.

Guarantees:

All principals with 20 percent or more or a controlling interest, if less than 20 percent, shall provide personal guarantees.

Financial Strength:

Three years of financial statements on the business, plus a personal financial statement on all principals of the business shall be analyzed to determine if the company is well run and has the ability to manage its accounts and pay its obligations.

Management Experience:

The management must have experience in the business or in a similar business, be able to demonstrate an ability to manage, and have the depth in management to withstand unforeseen transitions.

Character of the Principals:

The personal financial statements and credit history of the principals must demonstrate honesty and trustworthiness.

D. Eligibility under 24 CFR 570.703

Each of the projects to be assisted with Section 108 guaranteed loan funds and Economic Development Incentive grant funds must meet one of the eligibility requirements listed in 24 CFR 570.703. The initial two projects detailed in this application are eligible under 570.703(1): Acquisition, construction, reconstruction, rehabilitation, or installation of public facilities (except for buildings for the general conduct of government), public streets, sidewalks and other site improvements and public utilities. Other projects to be funded under the program may also qualify under 570.703(a)(b)(c)(d)(e)(f)(h)&(l).

c. Substitution of CDBG funds for Private Sources

City staff assisted by consultants will review all projects to ensure that each loan minimizes the use of CDBG funds. It is in the City of Pasco's self interest to insure that there is no substitution of CDBG funding for non-federal funding. Given the limited availability of federal funds, the city staff will work diligently to maximize the use of private, non-federal funding in all projects.

All projects will be reviewed to ensure that private sources of financing have been maximized and that the rate of return on equity is reasonable and within general standards.

E. A Description of the Pledge of CDBG Guarantee

The City of Pasco understands that if the participants in this Section 108 loan fund fail to make timely payments and the City of Pasco therefore fails to make a required payment on its notes, HUD will deduct that payment from the City of Pasco's CDBG Letter of Credit. In accepting this loan guarantee, the City of Pasco has pledged its CDBG funds and all other applicable grants as security for the guarantee. (Please refer to Attachment A - Certifications.)

Schedule for Repayment of the Loan

In requesting approval of this loan guarantee fund the City of Pasco is requesting a commitment for a 20-year term. The principal repayment term will be determined for each loan at time of closing.

F. **Certifications**

The City of Pasco will comply with all certification required under 570.704.

HUD-424-M Funding Matrix

The applicant must provide the funding matrix shown below, listing each program or program component for which HUD funding is being requested and submit this information with the application for federal financial assistance.

Grant Program	HUD Share	Matching Funds	Other HUD Funds	Other Federal Share	State Share	Local/Tribal Share	Other Funds	Program Income	Total
Section 108 Economic Development Loan Fund City of Pasco. A	\$3,352,180								\$3,352,180
Grand Totals	\$3,352,180								\$3,352,180