



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



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September 14, 1987

Budget & Finance Committee of
the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Amendment to Guidelines for Direct Commercial Loan
Program

SUMMARY

The attached report is submitted to you for review and recommendation prior to consideration by the Redevelopment Agency of the City of Sacramento.

RECOMMENDATION

The staff recommends approval of the attached resolution amending the program guidelines.

Respectfully submitted,

William H. Edgar

WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COMMITTEE:

Jack R. Crist

JACK R. CRIST
Deputy City Manager

Attachment



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



September 4, 1987

Redevelopment Agency of the
City of Sacramento
Sacramento, California 95814

Honorable Members in Session:

SUBJECT: Amendment to Guidelines for Direct Commercial Loan
Program

SUMMARY

This report proposes changes to the Agency's CDBG-funded Direct Commercial Loan Program which essentially eliminates new construction as an eligible activity under the program.

BACKGROUND

The Redevelopment Agency makes available three financing programs in designated neighborhood commercial target areas in the City and County of Sacramento (see map, Attachment 1): 1) the Commercial Facade Improvement Program; 2) the Commercial Rehabilitation Loan Program; and, 3) the Direct Commercial Loan Program.

The Commercial Facade Improvement Program provides grants for 50% of the costs up to \$5,000 per storefront (\$7,500 when roof work is involved) for exterior improvements (i.e., awnings, paint, signage, landscaping, etc.). The Commercial Rehabilitation Loan Program provides below market interest rate financing at 6% interest for up to a 15 year term for loans up to \$200,000. Loan funds can be used for eligible rehabilitation activities such as electrical work, plumbing work, structural items, roofs and code-related items. The role of the Agency in this program is to either provide a principal reduction to the borrower or interest subsidy to the private lender to reduce the monthly payments paid to the private lending institution to a 6% effective interest rate for the borrower. The Direct Commercial Loan Program provides assistance under four categories:

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(1) loans to owner-occupants of new construction projects; (2) loans to owner-occupants for acquisition/rehabilitation; (3) loans to owner-occupants for disapproved applicants of the 6% rehabilitation loans; and, (4) loans to developers of new construction projects. In addition, a streamlined application process is available to owners undertaking rehabilitation work up to \$10,000. The loan standards which pertain to these categories follow:

a) Owner-Occupants for New Construction, Acquisition/Rehabilitation and Rehabilitation

The maximum loan amount is \$200,000. The interest rate for all is 7.5%; however, depending upon the individual circumstances of the business, a portion of the interest may be deferred until the end of the loan term or delayed for some period of time. A direct loan is provided for 100% of the eligible project costs, up to \$50,000. For loans over this amount, a matching ratio of 1 to 1 public to private funds is required. A 10% cash injection is required by the applicant for new construction and acquisition/rehabilitation projects.

The maximum loan term for property owners is 15 years. The maximum loan term for tenants cannot exceed the remaining lease period, minus six months.

Eligible activities include: new construction, land acquisition, acquisition of an existing structure by an owner-occupant which requires at least 20% of the project costs for rehabilitation, fixed equipment and soft costs.

b) Developers -- New Construction

The maximum loan amount is \$200,000 with a maximum ten year term and maximum 20 year amortization. All loans are for 7.5% interest. A 3 to 1 leverage ratio of private to public funds is required. In other words, only 25% of the project costs can be publicly-funded under this program. Eligible activities include: construction costs, land acquisition, fixed equipment and soft costs.

c) Owners -- Store Interior Rehabilitation Under \$10,000

For small rehabilitation projects, a streamlined application process is available for the Direct Loan Program. This work only includes rehabilitation to the interior.

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No changes are proposed to the Commercial Facade Improvement Program or the Commercial Rehabilitation Program; however, in order to comply with Department of Housing and Urban Development (HUD) requirements on economic development projects for Community Development Block Grant (CDBG) projects, changes are recommended for the Direct Commercial Loan Program.

Department of Housing and Urban Development Requirements

HUD has notified the Agency that in order to fund new construction and acquisition projects, it is not possible to use standard interest rates, terms and leverage requirements for all projects. For example, our programs provide loans with standard 15 year terms, at 7.5% interest, \$200,000 maximum loan amount with direct funds up to \$50,000 and 1 to 1 matching requirements over this amount. Instead, the funding of these projects require individually tailored financing structures based upon a thorough underwriting analysis of the project. A "necessary and appropriate" determination must be made for each loan which supports the amount, term, and interest rate appropriate for the project. (Note: it is not necessary to make this determination on commercial rehabilitation projects; this requirement only applies to new construction and acquisition commercial projects for for-profit businesses.) The imposition of this requirement is unfortunate, as staff has found it extremely helpful in marketing our loan programs to be able to definitively identify the terms and rates of our commercial loans. A great deal of confusion and misunderstandings exist when the business person cannot receive a firm understanding of the loan structure prior to his/her involvement in our program. In addition, our experience has shown that leveraging of funds is not possible under the smaller size loans (under \$50,000) as local private lending institutions aren't interested in financing the smaller loans. Our loan terms and structures were designed and have evolved over the last five years to take into consideration these local realities.

It must be pointed out, however, that the "necessary and appropriate" requirements are not a subjective assessment by local HUD staff. These are firm directives from the national level which must be met in order to continue loan packaging for these uses. Consequently, if we are to continue offering the new construction and acquisition financing with CDBG funds, our programs would need to be amended to provide individually negotiated rates, terms and amounts for each loan. Given that federal cutbacks in the CDBG program have necessitated only a \$200,000 year set-aside for the Economic Development Program for City and County CDBG funding, it appears more appropriate to eliminate loans for new construction and acquisition activities;

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and instead concentrate on the loans for rehabilitation activities in our commercial districts. Utilizing the services of the Greater Sacramento Certified Development Corporation, the Agency will attempt to serve the new construction and acquisition needs in CDBG funded areas by packaging these loans under the Small Business Administration (SBA) 7a and 504 loan programs.

ENVIRONMENTAL REVIEW

Under Section 15378(b)(3) of the CEQA regulations, general policy and procedural making activities are "not a project" by definition and are exempt from CEQA requirements.

POLICY IMPLICATIONS -- COUNTY

The revised guidelines are proposed to enable the Agency's economic development program to meet the HUD CDBG requirements and yet to incorporate the practical realities of our local needs and funding levels. Consequently, it is recommended that the Agency implement a policy where our limited resources are channeled strictly into rehabilitation activities.

POLICY IMPLICATIONS -- CITY

Although generally staff supports a position where program requirements are consistent throughout all Agency funded areas, staff recommends that we eliminate new construction and acquisition loans only in the CDBG funded areas. However, recognizing the contributions new infill development serves, staff recommends we continue to address these local objectives by funding new construction activities in the tax increment funded areas (e.g., Del Paso Heights and Oak Park) and by supporting the CDC in others.

FINANCIAL DATA

No financial changes are requested as a result of these actions.

VOTE AND RECOMMENDATION OF COMMISSION

At its special meeting of September 14, 1987 the Sacramento Housing and Redevelopment Commission adopted a motion recommending adoption of the attached resolution. The votes were as follows:

AYES:

NOES:

ABSENT:

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RECOMMENDATION

Staff recommends adoption of the attached resolution which authorizes the Agency to make the appropriate changes to the Direct Commercial Loan Program as noted in this report.

Respectfully submitted,

William H. Edgar

WILLIAM H. EDGAR
Executive Director

Contact Person: Thomas V. Lee
440-1355

TRANSMITTAL TO COUNCIL

WALTER J. SLIPE
City Manager

SML:cmc

1991J

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF

REVISION OF DIRECT COMMERCIAL LOAN PROGRAM

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1: The revisions to the Direct Commercial Loan Program as stated in the attached staff report are hereby approved and the Executive Director is authorized to take such options as are necessary to implement said revisions.

Section 2: This resolution will take effect immediately.

CHAIR

ATTEST:

SECRETARY

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9/3/87