

CITY OF LOS ANGELES

CALIFORNIA

**ECONOMIC AND WORKFORCE
DEVELOPMENT DEPARTMENT**

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Council File: 13-1090
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Ad Hoc on Comprehensive Job Creation Plan
Los Angeles City Council
c/o Maria Espinoza
City Clerk
Room 395, City Hall

UPDATED COMMITTEE TRANSMITTAL: RECOMMENDATIONS FOR \$69 MILLION IN SECTION 108 AUTHORITY FOR SMALL BUSINESS LOANS, MAJOR PROJECTS AND SPECIAL PROJECTS

RECOMMENDATIONS

The General Manager of Economic and Workforce Development Department (EWDD) or designee, respectfully requests that the City Council and Mayor:

1. FIND that the Section 108 program, as outlined in this report meets the National Objective and Public Benefit requirements of the Housing and Community Development Act and are necessary and appropriate to accomplish the City's economic development objectives;
2. APPROVE the proposed structure and guidelines for the City's Section 108 program as outlined in this report;
3. AUTHORIZE the General Manager of EWDD, to negotiate and execute Section 108 contracts with the U.S. Department of Housing and Urban Development (HUD), subject to the approval of the City Attorney as to form and legality, as follows:
 - a. Apply for a reservation to increase funds for the existing Small Business Loan Program by \$10.4 Million; and

- b. Establish a reservation in the amount of \$41.4 million for the Section 108 Major Projects Fund to be carried out according to the terms and guidelines described in this report.
4. AUTHORIZE the General Manager of EWDD to implement the Section 108 program as outlined in this report, subject to HUD approval, including but not limited to the following actions:
 - a. Accept loan applications for Small Business, Major Projects and Special Projects; and
 - b. Negotiate and execute loan agreements and related contract documents with qualified borrowers and grantees based on the criteria in the guidelines established through this transmittal with borrowers, subject to the approval of the City Attorney as to form and legality.
5. AUTHORIZE the General Manager of EWDD to procure, negotiate and execute contracts for third-party services needed to implement the Section 108 program and manage the loan portfolio including, but not limited to credit reports, market data, title reports, appraisals and loan servicing utilizing Miscellaneous and Program Income from Fund 43F of EWDD's Section 108 program, subject to the approval of City Attorney as to form and legality;
6. AUTHORIZE the General Manager of EWDD, or designee, to prepare Controller Instructions and/or make technical adjustments that may be required and are consistent with this action, subject to the approval of the CAO, and instruct the Controller to implement these instructions; and
7. INSTRUCT the General Manager, EWDD to report annually at the time of Consolidated Plan consideration to the City Council on the status of the Section 108 portfolio including, but not limited to:
 - a. Description and status of loans funded;
 - b. Applications received and their status;
 - c. Repayment and default rates for the Section 108 portfolio;
 - d. Average application processing and review time;
 - e. Section 108 authority remaining for each fund (Small Business Loan Fund, Major Projects Fund, Special Projects Fund);
 - f. Geographic distribution of Section 108 activities; and
 - g. Program performance according to the metrics described in this report (estimated revenue generation, jobs created and WorkSource hiring).

FISCAL IMPACT STATEMENT

The recommendations in this report have no impact to the General Fund.

SUMMARY

The information and recommendations contained in this transmittal are provided in response to a request from the Ad Hoc Committee on Comprehensive Job Creation Plan relative to EWDD's recommendations for a Comprehensive Economic Development Plan (C.F. 13-1090). This report proposes guidelines and financing terms to allow the Economic and Workforce Development Department to allocate \$69 million in Section 108 funding by:

- Continuing the Small Business Loan program: (15%; \$10.4 million);
- Implementing a new Major Project Loan program: (60%; \$41.4 million); and
- Funding other special projects: (25%; \$17.25 million).

Approval of the proposed funding guidelines and priorities for Section 108 loans will significantly reduce the timeline for funding Major Projects loans and ensure that City Section 108 loans are adequately secured and reliably repaid. EWDD's analysis of the existing Section 108 loan portfolio has identified a number of key weaknesses, discussed in more detail below, which have led to significant delay or default in 30% of outstanding loans, amounting to \$42 million. These weaknesses are addressed in the proposed Major Project Fund criteria and financial underwriting terms.

EWDD's existing Small Business Loan Program is funded with a reservation of Section 108 borrowing authority (reservation) that was approved by the local U.S. Department of Housing and Urban Development (HUD) office and HUD Headquarters. HUD's approval for this reservation included approval of a set of guidelines and underwriting standards. As a result, each loan made according to the Small Business Loan reservation can be approved by the local office without requiring subsequent submission to Headquarters, reducing the approval time from 4 months to 4 weeks.

If the recommendations and guidelines in this report are approved, EWDD will apply to the Department of Housing and Urban Development (HUD) for reservations to add additional funds for the existing Small Business Loan program and establish a new Major Projects Fund for loans greater than \$500,000. Once HUD approves these reservations, loans can be made for Major Projects according to the approved guidelines in much less time. The terms for the Small Business Loan Fund and the Major Projects Fund are provided as Attachments 1 and 2, respectively.

In addition, the metrics proposed for the Section 108 program are the same metrics described in the EWDD's forming Ordinance: increased City revenue, job creation and hiring persons trained in City WorkSource Centers. As proposed, the Section 108 loan program administered by EWDD will play a vital role in attracting new businesses, growing local businesses, investing in neighborhoods to attract development, and directly investing in development projects.

BACKGROUND

The Section 108 loan program was established when the Community Development Block Grant (CDBG) program was created in 1974 to replace previous urban renewal grants at the US Department of Housing and Urban Development (HUD). Under Section 108, CDBG grantees can borrow up to five times their latest annual CDBG allocation minus any outstanding Section 108 loan commitments or outstanding balances. With the assistance of HUD Technical Assistance providers, EWDD has determined that based on the City's 2015 CDBG allocation and outstanding principal on EWDD's existing Section 108 portfolio, the City's remaining Section 108 borrowing capacity is approximately \$69 million.

Section 108 loan proceeds can be used to fund CDBG eligible activities, including, but not limited to the following:

- Special Economic Development Activities;
- Acquisition of real property;
- Rehabilitation of publicly owned real property;
- Construction, reconstruction, or installation of public facilities (including street, sidewalk, and other site improvements);
- Related relocation, clearance, and site improvements; and
- Payment of interest on the guaranteed loan and issuance costs of public offerings.

These activities can be implemented for several different types of projects, including, but not limited to: construction of shopping centers, industrial parks, office buildings, and funding business incubators.

It is important to note that because the City's Section 108 borrowing capacity is based on annual CDBG entitlement allocations, the borrowing capacity will decrease if the CDBG allocations continue to decrease as they have in recent years. For reference, the City's 2015 CDBG entitlement amount was approximately \$50 million; \$15 million less than the 2011 amount. Additionally, Section 108 loans are guaranteed by the CDBG line of credit, meaning that if the City fails to make timely payments to HUD, HUD will automatically recover the required payments from the City's CDBG allocation. Further, once the City reaches its Section 108 borrowing capacity, the only way new projects can be funded is if outstanding Section 108 loans are reliably repaid. As such, in order to protect valuable CDBG funds for other public services and facilities and neighborhood improvement activities, projects being considered for Section 108 must be carefully evaluated for feasibility and ability to repay.

DISCUSSION

Current Section 108 Portfolio

The City's current Section 108 portfolio includes 31 loans totaling approximately \$241 million. These loans include the \$5.7 million reservation for the existing Small Business Loan Program, which has funded loans for 12 businesses in the amount of \$3 million, and another 30 major project loans (loans more than \$500,000) totaling \$235 million. The major projects loans were funded on a case-by-case basis, rather than according to a cohesive strategy or Council and Mayor-approved criteria. As a result, almost 30% of the loans in the portfolio (amounting to approximately \$42 million in Section 108 funds) are either failing to repay or significantly behind on the performance schedules outlined in their loan contracts. EWDD's analysis of these loans found that the majority have one or more of the following issues:

- Eight out of nine of these loans were for property acquisition, with long repayment terms and no construction financing commitment at the time the loans were funded;
- City funds were often spent before the developer had secured the balance of project financing; and
- Section 108 and other City funds compose(d) more than 80% of the total value of the project, and in some cases were the only source of loan funds, with little or no developer equity investment.

By contrast, our analysis also found that when the City has funded construction of shovel-ready projects, thousands of jobs have been created and goods and services have been successfully brought to low and moderate-income communities across the City.

In addition to examining the City's own past practices, EWDD also reviewed best practices in other cities, including Boston, MA. While other cities' programs are by design responding to their specific economic development challenges, the proposed guidelines and underwriting terms presented in this report apply best practices components of these programs that have made them successful in other cities. For example, Boston administers the majority of their Section 108 borrowing authority under reservations, and requires minimum borrower equity investment, as proposed in this report.

Currently, for the Small Business Loan program, EWDD received HUD approval for program guidelines and underwriting standards for a reservation of Section 108 funds (C.F. 08-2106). As a result, each small business loan funded according to those guidelines must only be reviewed by the HUD local office, a process which typically takes no more than four weeks. We propose to duplicate this time saving reservation process with the Section 108 major projects loans. Currently EWDD must apply for each

new Major Project loan individually to HUD, requiring review at both the local office and HUD Headquarters in Washington, DC, a process that can take 3-5 months per loan.

Proposed Section 108 Program Guidelines

Based on lessons learned from the current Section 108 portfolio, and best practices research, EWDD proposes new guidelines for the Section 108 program to streamline and strengthen the loan process and ensure qualified projects and businesses are effectively reviewed and efficiently funded. These guidelines have the following four components:

1. Small Business Loan Fund
2. Major Projects Fund
3. Special Projects Fund
4. Allocation formula for Section 108 borrowing authority between the three funds.

Guidelines for each fund, including eligibility criteria and underwriting standards, are presented below. Fund guidelines are designed to prioritize gap financing, rather than funding large allocations to a small number of projects. This revised process will allow EWDD to maximize funding leveraged and fund more total projects, thereby creating as many jobs and as much economic benefit to the City as possible. Establishing strong evaluation and lending standards and guidelines for major projects will strengthen the City's loan portfolio and ensure that scarce public funding is provided to projects that will be completed and repaid on schedule, enabling EWDD to make new loans within the City's Section 108 borrowing authority.

The Section 108 Program's success will be measured according to City revenue generation and job goals established for EWDD when the Department was formed in 2012. These metrics are more clearly outlined below.

1. Small Business Loan Fund

This reservation will add \$10 million to EWDD's existing Small Business Loan program, which provides capital to small businesses for a wide variety of activities. Small Business loans range from \$50,000-\$500,000. The terms for this program are provided in Attachment 1 and summarized below.

Small Business Loan Fund Proposed Financing Terms

Range of funding amounts: \$50,000-\$500,000¹.

Eligible Uses: Property acquisition, predevelopment costs, renovation, equipment purchases, construction, working capital and inventory.

¹ Current Small Business Loan guidelines fund projects up to \$450,000. This change will ensure EWDD loan products cover a full range of funding.

Must provide one of the following public benefits: create or retain one job for every \$35,000 borrowed, 51% of jobs for low to moderate income individuals or provide goods and services in an area occupied by 51% low to moderate income households.

Maximum Amortization Period: Up to 10 years

Maximum Loan Term: Property acquisition: 5 years; All other loans: 7 years

Equity/Collateral Requirements: Minimum Equity of 20% for all uses except real estate acquisition. For real estate acquisition, minimum equity of 25%.

Interest Rate: HUD Cost of Funds + 2.5%

Loan Fee: Will be based on the HUD's Credit Subsidy Cost set by HUD on an annual basis. Credit Subsidy Cost for 2016 is 2.58%. Fee may be paid by applicant or from approved loan proceeds.

If the program is oversubscribed, EWDD will prioritize applications based on the following non-financial factors not typically considered by conventional lenders:

- Public benefits expected to be produced by the business (jobs targeted to low- and moderate-income persons, services missing in low- and moderate-income communities);
- Businesses serving economically distressed areas, where EWDD financing could mitigate distress, such as:
 - Unemployment 150% of the City unemployment rate (20% of Census tracts meet this criteria in the City of Los Angeles)
 - Median Household Income less than 80% of Citywide Median Household Income (HUD definition of moderate income – 60% of households in the City of Los Angeles meet this criteria)
- Neighborhood based businesses expanding and adding new jobs to continue serving their communities in an expanded capacity.
- Legacy businesses (owner-operated businesses that have been in the same location for more than 10 years) in danger of displacement from neighborhoods experiencing rapid economic change (rising commercial rents, changing customer base, etc.).
- Businesses in communities where demand for the service they provide exceeds the supply of that service, causing customers to spend outside the community for those services.
- Businesses in growth industry sectors targeted by the BusinessSource Centers (C.F. 10-1901):

- Green/Clean Technology
- Biotech
- High Tech
- Education
- Healthcare
- Hospitality/Tourism/Entertainment
- International Trade & Logistics
- Manufacturing and Advanced Manufacturing
- Professional & Financial Services
- Construction

2. Major Projects Fund

Major Projects are large-scale real estate development projects that either add square footage (including new development) or significantly rehabilitate an existing commercial project. Such projects could include industrial parks, hotels, office buildings, mixed-use projects, and large shopping centers. In response to lessons learned from past loans, EWDD proposes to prioritize construction and rehabilitation uses over acquisition or pre-development. When the City does provide acquisition or pre-development financing, higher equity requirements will apply, as well as shorter performance timelines with specific milestones, and a higher standard for subordination to ensure the City investments are secured.

In addition to meeting all HUD eligibility and national objective requirements, Major Projects must meet one of the following criteria, consistent with City goals for economic development.

- **Revenue Generation** – achieved through an increase in property taxes through new development or significant rehabilitation that triggers a property tax reassessment, an increase in transient occupancy tax through the addition of new hotel rooms, or an increase in Sales Tax revenue through the addition of new commercial developments with significant retail components. Based on our current portfolio, EWDD estimates that every Section 108 dollar invested in projects in this category will generate three dollars in new tax revenue.
- **Investment in Targeted Communities** – defined by being designated as a Community Revitalization Investment Area (CRIA), a transit oriented district, Jobs and Economic Development Initiative (JEDI) zone, on a “Great Street” corridor, or in a community with 1.5 times that the unemployment rate of the City and an average AMI that is 80% of the Citywide AMI (approximately 15% of census tracts in the City meet this criteria). NOTE: The CRIAs and JEDIs are currently under discussion at the Council Committee level, pending final guidelines approval.
- **WorkSource Hiring Commitment** – Borrower agrees to fill 51% of jobs created through referrals from City WorkSource Centers.

In addition to these requirements, projects will be required to meet program financing terms in order to be considered for funding from the Major Projects Fund Section 108

reservation. EWDD's proposed terms for this reservation are provided as Attachment 2 and summarized below:

Major Projects Fund Proposed Financing Terms

Range of funding amounts: \$500,000 to \$30 million

Eligible Uses: property acquisition, predevelopment costs, renovation, equipment purchases, construction, and development of business incubators.

Must provide a HUD-specified public benefit : create or retain one job for every \$35,000 borrowed, 51% of jobs for low to moderate income individuals or provide goods and services in an area occupied by 51% low to moderate income households.

Must meet at least one of the Major Projects Fund criteria: Revenue Generation, or Investment in Targeted Communities, or WorkSource Hiring Commitment

Maximum term: Acquisition loans - Five years with an option to extend assuming project meets negotiated milestones. All other loans - No longer than 20 years, depending on individual project characteristics (activity, collateral, use of funds, etc.)

Equity/Collateral Requirements: Acquisition or pre-development loans: 25% equity with a first deed of trust, all other loans: 20% equity, no greater than combined 80% loan to value.

Interest Rate: Acquisition: HUD Cost of Funds + 4-6%, depending on loan term. All other loans: HUD Cost of funds + 2.5-4.5%.

Loan Fee: Will be based on the HUD's Credit Subsidy Cost set by HUD on an annual basis. Credit Subsidy Cost for 2016 is set at 2.58%. Fee may be paid by applicant or from approved loan proceeds.

3. Special Projects Fund

While the Small Business Loan Fund and the Major Development Fund terms and guidelines will be specifically defined in Section 108 reservations approved by HUD, EWDD recognizes the need for program flexibility. As such, we recommend leaving 25% of the available borrowing capacity unreserved for projects that may not meet the above criteria. It should be noted that these loans will take longer to fund because they will each need to be sent to HUD Headquarters for approval. These types of projects could include incubator funding, larger loans for small business, etc. While these projects will not be required to meet the program criteria for the Major Projects Fund, they will be required to meet the same financial underwriting terms (see Attachment 2), to ensure funded projects are feasible.

4. **Allocation and Guidelines**

The available authority of \$69 million should be allocated across various types of projects to ensure the portfolio reflects a comprehensive economic development strategy that is not overly sensitive to economic conditions. We recommend distributing the authority between the three funds according to the percentages below so that as loans are repaid and new Section 108 authority becomes available, the funding can be distributed according to these percentages. The City repays approximately \$7 million to HUD annually on the existing Section 108 portfolio.

The recommended percentages are provided as follows:

Use	Percentage	Amount
Small Business Loan Fund	15%	\$10.4 million
Major Projects Fund	60%	\$41.4 million
Special Projects	25%	\$17.25 million

If authorized, EWDD will apply to HUD for Section 108 reservations for the Small Business Loan Fund and for the Major Projects Fund according to the program guidelines and terms outlined in this report. Once HUD approves these reservations, EWDD will only need to obtain approval from the local HUD Field Office for loan disbursements according to these guidelines and terms, rather than applying to HUD Headquarters for each individual loan as a separate, stand-alone Section 108 allocation, reducing HUD approval time from four months to four weeks.

Section 108 Program Metrics

Projects funded using the \$69 million in Section 108 authority in accordance with the proposed guidelines outlined in this report are expected to provide the following benefits to the City of Los Angeles:

- 2000 new permanent jobs in the City of Los Angeles
- \$3 million in new sales tax revenue for every new \$1 million dollars invested in retail projects (present value over the life of the project)
- \$800,000 in new tax revenue annually for every 100 hotel rooms added
- \$150,000 annually for every \$1 million dollars on increase in property tax

Implementation Timing and Performance Reporting

Upon approval, EWDD will prepare and submit applications to HUD for reservations to add funding to the Small Business Loan Fund and establish the Major Projects Fund. It is expected that HUD will approve these applications by July 2016. In the meantime, Small Business Loan Fund applications will continue to be accepted and EWDD will begin accepting and reviewing applications for Major Projects Fund projects in anticipation of HUD approval in order to expedite program implementation. As such, we

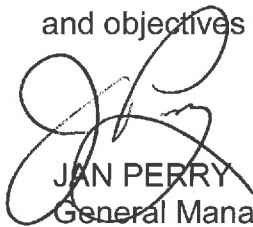
estimate the first Major Project loan will be executed and funds disbursed by August 2016.

EWDD will report to the Mayor and Council twice annually on the status of the Section 108 loan portfolio, including, but not limited to:

- Description and status of loans funded;
- Applications received and their status;
- Repayment and default rates for the Section 108 portfolio;
- Average application processing and review time;
- Section 108 authority remaining for each fund (Small Business Loan Fund, Major Projects Fund, Special Projects Fund);
- Geographic distribution of Section 108 activities; and
- Program performance according to the metrics described in this report (estimated revenue generation, jobs created and WorkSource hiring).

CONCLUSION

The proposed guidelines and terms presented in this report are designed to streamline the Section 108 application and funding process, address performance issues with EWDD's current Section 108 loan portfolio, and meet the economic development goals and objectives set by the Mayor and City Council for the EWDD.



JAN PERRY
General Manager

JP:SH:MB

Attachment 1: Section 108 Small Business Loan Fund Term Sheet
Attachment 2: Section 108 Major Projects Fund Term Sheet

ATTACHMENT 1 – SECTION 108 SMALL BUSINESS LOAN FUND TERM SHEET

<p>Purpose: To provide for “Expanded economic opportunities. Includes job creation and retention; establishment, stabilization and expansion of small businesses (including microbusinesses or microenterprises); ..and access to capital and credit for development activities that promote the long-term economic and social viability of the community.” (CFR Title 24 Part 91.1 and in accordance with applicable sections of Part 570.203).</p>	
<p>Borrower Eligibility and Loan Types:</p>	<p>The Program offers loans to Small Businesses and Microenterprises operating within the City of Los Angeles whose needs are financially underserved by the private banking industry.</p> <p>Loans offered under the Program are generally secured term loans. Loans may be disbursed in one or multiple draws over a predefined time limit.</p>
<p>Loan Amounts:</p>	<p>The amount of business loans for each applicant may range from \$50,000 to \$500,000.</p>
<p>Eligibility: Use of Funds and National Objective Requirements</p>	<p>Eligible uses of funds include land acquisition, operations/start-up, working capital, off-site improvements, lease subsidy, equipment purchase and rehabilitation or construction.</p> <p>Ineligible uses include dividends, distributions, pirating jobs, funding of severance payments or any other ineligible uses in the HUD CDBG regulations.</p> <p>Loan purposes must be made for CDBG eligible purposes and meet HUD National Objective and public benefit requirements.</p>
<p>Maximum Loan Term:</p>	<p>Property acquisition: 5 years All other loans: 7 years</p>
<p>Maximum Amortization:</p>	<p>Up to 10 years</p>
<p>Interest Rate:</p>	<p>HUD Cost of Funds + 2.5%</p> <p>Subject to availability, Borrowers that agree to pay via ACH (Automated Clearing House, a.k.a. “Autopay”) will receive a 0.50% interest rate reduction.</p> <p>In the event of a default of any terms of the Loan Agreement, the loan would accrue interest at a default rate to be established in each loan contract. Currently, this interest rate is 10%.</p>

**ATTACHMENT 1 – SECTION 108 SMALL BUSINESS LOAN FUND TERM SHEET
(CONTINUED)**

Application and other fees:	\$250.00 non-refundable application fee (includes up to two credit reports). The applicant is responsible to pay for any additional credit report(s) a nonrefundable fee of \$52.00 for each credit report needed for each Borrower and individuals guarantying the loan.
Loan Fee:	<p>Will be based on the HUD's Credit Subsidy Cost set by HUD on an annual basis.</p> <p>Per Federal Register / Vol. 80, No. 212 / Tuesday, November 3, 2015, the Credit Subsidy Cost for 2016 is 2.58%. Fee may be paid by applicant or from approved loan proceeds.</p>
Collateral:	<p>On a best efforts basis, EWDD supports each loan it makes with collateral. Collateral may include business assets such as cash, accounts receivable, inventory, equipment, intellectual property and/or real property.</p> <p>If the loan purpose includes purchasing real property, a deed of trust (with acceptable title insurance) is taken. All real property is required to be appraised and assessed for environmental risk. Maximum advance rates on collateral are established during underwriting.</p>
Subordination:	On a case-by-case basis the City's loan and collateral may be subordinated to other loans subject to approval conditions. Such conditions may include a maximum Combined Loan to Value Ratio of 80% or other applicable cash flow measure.
Guaranty:	All loans are to be guaranteed by owners of 25% or more of the business (Guarantors). Each guarantor provides a Guaranty.
Source of Origination:	Loan applications will be made available to potential borrowers upon request from EWDD or at LA BusinessSource Centers. Complete loan applications may be submitted to EWDD or through LA BusinessSource Centers. EWDD staff will work with LA BusinessSource Centers to ensure that they are able to accurately assess applications for completeness before forwarding to EWDD for evaluation.

**ATTACHMENT 1 – SECTION 108 SMALL BUSINESS LOAN FUND TERM SHEET
(CONTINUED)**

Underwriting and Approval Process:	
Cash Flow/ Repayment Underwriting Requirements:	A key requirement of all loans made under this program is that Borrowers are required to exhibit sufficient supportable cash flow to achieve a minimum Debt Service Coverage Ratio of 1.10 <u>and</u> a minimum Global coverage Ratio of 1.10.
Credit Advisory Group:	<p>Provided EWDD underwrites an application and recommends it for approval, the Credit Advisory Memo is submitted for approval by the Credit Advisory Group consisting of well-qualified financial industry credit professionals, selected by EWDD. The Credit Advisory Group evaluates the recommendation and provides valuable industry input on loan structure and other loan-related issues.</p> <p>Applicants not recommended for approval will receive an Adverse Action Memo, detailing the problems with their application such that it will be clear to the applicant how an application can be improved for re-application.</p>
Loan Committee Approval:	Each Credit Approval Memo and each Adverse Action Memo will be submitted for action to a Loan Committee consisting of the General Manager of EWDD, and designated Assistant General Manager(s) of EWDD. The Loan Committee acts as the final approval authority and as a review panel for declined transactions.
HUD Approval:	Each loan must be approved by the HUD Local Office.
Late Fee:	If payment is not received by the end of 10th business day from the Debt Service Payment Due Date, a 10% Late Fee will be assessed on the outstanding overdue debt service payment amount.
Prepayment Penalty:	None
Exceptions:	The above serves to indicate the terms and conditions applicable to most of the loans under this Program. Exceptions can be considered. Exceptions are to be clearly identified and justified in the Credit Advisory Memorandum and approved by the Loan Committee.

ATTACHMENT 2 – SECTION 108 MAJOR PROJECTS FUND TERM SHEET

<p>Purpose: To facilitate and gap-finance larger commercial and industrial real estate projects. The major goal of this program is to expand economic opportunities by providing jobs and maintaining or increasing the availability of goods and services for low- and moderate-income residents of the City.</p>	
<p>Loan Amounts:</p>	<p>The amount of loans for each applicant may range from \$500,000 to \$30,000,000.</p>
<p>Eligibility: Use Funds and National Objective Requirements</p>	<p>Eligible uses include, but are not limited to, property acquisition, predevelopment, construction, renovation, fixtures/equipment.</p> <p>Project must: Benefit low or moderate income persons by:</p> <ul style="list-style-type: none"> • Creating or retaining one permanent full-time equivalent job for every \$35,000 financing assistance received, 51% of jobs created must be held by or made available to low and moderate-income people; <u>or</u> • Benefit low and moderate-income areas by providing goods and services, no more than \$350 invested for each low and moderate-income person in the project service area; <u>or</u> • Eliminate or prevent slums and blight in an area which meets the definition of a slum, blighted, deteriorated area under State or local law; <u>or</u> • Meets urgent community needs arising from conditions that pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs.
<p>Major Projects Fund criteria:</p>	<p>Project must:</p> <ul style="list-style-type: none"> • Generate new tax revenue for the City, <u>or</u> • Be located in a City Targeted Community, <u>or</u> • Commit to fill 51% of new jobs with clients from City WorkSource Centers

**ATTACHMENT 2 – SECTION 108 MAJOR PROJECTS FUND TERM SHEET
(CONTINUED)**

Maximum Loan Term:	Acquisition loans: Five years with an option to extend assuming project meets negotiated milestones. All other loans: No longer than 20 years, depending on individual project characteristics (activity, collateral, use of funds, etc.)
Maximum Amortization:	The maximum amortization allowed under this program is 25 years.
Interest Rate:	Acquisition: HUD Cost of Funds + 4-6%, depending on loan term. All other loans: HUD Cost of funds + 2.5-4.5%.
Application and other fees:	None
Loan Fees:	Will be based on the HUD's Credit Subsidy Cost set by HUD on an annual basis. Per Federal Register / Vol. 80, No. 212 / Tuesday, November 3, 2015, the Credit Subsidy Cost for 2016 will be set at 2.58%. Fee will be paid by applicant or from approved loan proceeds.
Collateral:	Acquisition or pre-development loans: 25% equity with a first deed of trust All other loans: 20% equity, no greater than combined 80% loan to value
Subordination:	On a case-by-case basis the City's loan and collateral may be subordinated to other loans subject to approval conditions. Such conditions may include a maximum Combined Loan to Value Ratio of 80%.
Guaranty:	All loans are to be guaranteed by owners of 25% or more of the business (Guarantors). Each guarantor provides a Guaranty.
Underwriting and Approval Process:	
Cash Flow/Repayment Underwriting Requirements:	The ratio of Net Operating Income from the Project to total debt service of shall not be less than 1.10

**ATTACHMENT 2 – SECTION 108 MAJOR PROJECTS FUND TERM SHEET
(CONTINUED)**

Credit Advisory Group:	<p>Provided EWDD underwrites an application and recommends it for approval, the Credit Advisory Memo is submitted for approval by the Credit Advisory Group consisting of well-qualified financial industry credit professionals, selected by EWDD. The Credit Advisory Group evaluates the recommendation and provides valuable industry input on loan structure and other loan-related issues.</p> <p>Applicants not recommended for approval will receive an Adverse Action Memo, detailing the problems with their application such that it will be clear to the applicant how an application can be improved for re-application.</p>
Loan Committee Approval:	<p>Each Credit Approval Memo and each Adverse Action Memo will be submitted for action to a Loan Committee consisting of the General Manager of EWDD, and designated Assistant General Manager(s) of EWDD. The Loan Committee acts as the final approval authority and as a review panel for declined transactions.</p>
HUD Approval:	<p>Each loan must be approved by the HUD Local Office.</p>
Late Fee:	<p>If payment is not received by the end of 10th business day from the Debt Service Payment Due Date, a 10% Late Fee will be assessed on the outstanding overdue debt service payment amount.</p>
Prepayment Penalty:	<p>None.</p>
Exceptions:	<p>The above serves to indicate the terms and conditions applicable to most of the loans under this Program. Exceptions can be considered. Exceptions are to be clearly identified and justified in the Credit Approval Memo and approved by the Loan Committee.</p>