

## AGENDA



Thursday, July 24, 2008

**Neighborhood Housing and Community Development  
RECOMMENDATION FOR COUNCIL ACTION**
**Item No. 41**

**Subject:** Approve a resolution authorizing the city manager and other city officers to negotiate and execute all documents necessary to execute a Housing and Urban Development loan in an amount not to exceed \$3,000,000 under Section 108 of the Housing and Community Development Act of 1974 to finance the continuation and expansion of the Neighborhood Commercial Management Program.

**Amount and Source of Funding:** \$3,000,000 in loan funds guaranteed by HUD's Section 108 Loan Guarantee Assistance program. The first year approximate debt service in the amount of \$156,000 will be included in the proposed Fiscal Year 2008-2009 Neighborhood Housing and Community Development Department (NHCD) budget.

**For More Information:** Margaret Shaw, Director, Neighborhood Housing and Community Development, 974-3184

**Boards and Commission Action:** Recommended by the Community Development Commission (CDC).

**Prior Council Action:** Public hearings were conducted. Authorization for application for funding of \$3 million from HUD was received on August 4, 2005 and July 28, 2005.

Neighborhood Housing and Community Development (NHCD) is asking for Council authorization to complete a transaction with the U.S. Department of Housing & Urban Development (HUD) for additional Section 108 Loan Guarantee Assistance loan funds (Section 108 loan funds) in an amount not to exceed \$3,000,000 so that NHCD can continue and expand the Neighborhood Commercial Management Program (NCMP).

Using the first Section 108 loan funds of \$2 million, NCMP has approved more than \$1.6 million in small business loans and has created more than 130 jobs. Businesses have been able to use the loan funds to obtain approximately \$6 in additional loans and funding for each \$1 they receive in Section 108 Loan funds. With the additional \$3 million in new Section 108 loan funds, the City will be able to provide more loans, create and retain jobs for low and moderate-income persons, and leverage up to \$18,000,000 in private and other public financing for Austin businesses.

Under the Section 108 Loan Guarantee Assistance program, the City must (1) demonstrate repayment ability for the proposed debt service; (2) pledge future annual Community Development Block Grant (CDBG) entitlement funds received from HUD; and (3) pledge sufficient collateral obtained from prior federally funded projects to cover the debt at 125 percent of the final loan value.

To meet HUD's requirements, NHCD recommends the following:

- 1) The City will pledge future CDBG entitlement funds to guarantee repayment of the debt. If HUD does not receive debt service payments from the City by the stated dates, HUD may withdraw debt service payments from the City's CDBG line of credit.
- 2) The City will pledge the NCMP portfolio and if required, real property previously financed with federal funds as security for this debt.

NHCD will not know the actual amount of debt service payments until the City closes on the final loan documents. The figures below are estimates of the annual debt service using forecasts of yields ranging from 4.12% to 5.2% for U.S. Treasury obligations of similar maturity to the principle amount. In year one, interest only will be due. In the remaining 14 years both and principle and interest will be due.

	4.12%	4.83%	5.2%	
Interest Paymts Yr 1	\$123,600	\$144,900	\$156,000	
Average Annual Debt Service		\$292,566	\$306,056	\$313,086
15-Year Obligation		\$4,219,520	\$4,429,680	\$4,539,200

The City has requested an advance of the \$3,000,000. The note for the bonds will be a Variable/Fixed Rate Note with terms described in Exhibit A to the Resolution. The City does not pledge its full faith and credit against such notes; no City taxes or other funds are pledged to repay this obligation beyond the federal funds and federally funded properties specified above.