

**DEPARTMENT OF  
COMMUNITY DEVELOPMENT**

**MEMORANDUM**

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**To:** Bremerton City Council  
**From:** Marie Vila, CDBG/HOME Administrator  
**Date:** March 26, 2008  
**Re:** 2008 CDBG / HOME Amended Funding Recommendations

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On November 7, 2007 City Council approved the 2008 CDBG / HOME Funding Recommendations. CDBG staff submitted these recommendations to the Department of Housing and Urban Development (HUD) in the 2008 Annual Action Plan, and HUD approved the plan.

In summary, the proposed resolution makes two additions to the 2008 CDBG / HOME Action Plan:

- 1) Allocate up to \$146,000 of uncommitted HOME funding to the City's Down Payment Assistance Program; and
- 2) Allow participation under the CDBG Section 108 Loan Guarantee Program. Please refer to Attachment for a summary description of the Section 108 program.

No changes will be made to the recommendations already accepted by City Council.

Two events triggered staff into making these additions to the 2008 CDBG / HOME Action Plan:

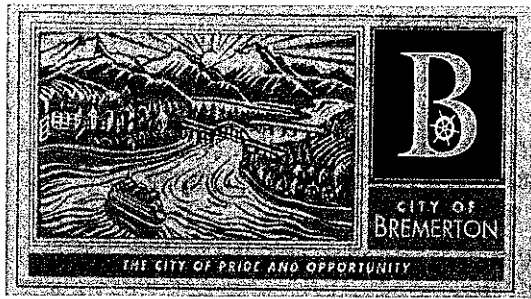
First, the city did not receive any applications for HOME funding during the 2008 competitive funding round. Because HOME funds expire if not committed and spent in a timely manner, it is important that we continue fund other qualified and needed programs.

Second, during 2007 when the 2008 funding policy and recommendation process was taking place, CDBG staff did not anticipate finding a viable need for the Section 108 Loan Guarantee Program. In late 2007, however, staff learned of a Notice of Funding Availability for HUD's Brownfields Economic Development Initiative (BEDI) grant, which works with Section 108 funding. The two funding sources together are a good option for the Downtown Boardwalk project. If the City is awarded the BEDI funding, we need Council approval at this time in order to consider moving forward with a Section 108 application at a future date.

A 30-day public comment period, commencing February 29, 2008, was advertised in the Kitsap Sun. All comments received from the public will be provided to City Council for consideration. The Action Plan Amendments will be presented to City Council for adoption in a public hearing scheduled for April 2, 2008.

Once these changes have been considered and approved by City Council, the 2008 CDBG / HOME Amended Action Plan will be submitted to HUD.

If you have any questions about the program or recommended funding, please do not hesitate to contact me at 473-5375.



## DEPARTMENT OF COMMUNITY DEVELOPMENT

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**To:** Bremerton City Council  
**From:** Marie Vila, CDBG/HOME Administrator  
**Date:** March 26, 2008  
**Re:** CDBG Section 108 Loan Guarantee Program Summary

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**Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) program.** It provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. All CDBG program regulations apply to activities carried out with Section 108 financing.

**Benefits:**

- Section 108 is one of the most potent and important public investment tools that HUD offers to local governments.
- Transforms a small portion of local CDBG funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects that can renew entire neighborhoods.
- Can inspire private economic activity, providing the initial resources or simply the confidence that private firms and individuals may need to invest in distressed areas.
- Makes a jurisdiction eligible for accessing other HUD grant funding (more below)

**Risks:**

**Section 108 loans are not risk-free;** local governments borrowing funds guaranteed by Section 108 must pledge their current and future CDBG allocations to cover the loan amount as security for the loan.

**How the program operates:**

**Maximum Commitment Amount:** An entitlement community may apply for up to 5 times its latest CDBG entitlement (Bremerton's 2008 CDBG entitlement was \$545,418).

**Financing Source:** Section 108 obligations are financed in two ways: *permanent financing* is available annually through underwritten public offerings in which fixed rate notes are sold to private investors. HUD handles the transaction and provides a 100% full faith and credit guarantee to investors. *Interim financing* is available prior-to or instead-of permanent public financing. Interim financing is provided through a lending facility established by HUD. Rates are adjustable based on 3-month LIBOR + 20 basis points.

**Security:** Security for the loan guarantee includes a pledge by the public entity of its current and future CDBG funds. The CDBG funds are not escrowed and may continue to be used as planned. Additional security is also required, which provides a safeguard to reduce the risk to CDBG funds. City of Bremerton may pledge its full faith and credit for this requirement, or may be able to identify other assets as security. An entity must also identify a cash stream for repayment of the loan obligation under Section 108. Public Works and the Boardwalk Project team have identified wastewater revenues, a solid funding source

already dedicated to the project, which will greatly reduce the risk to the City's future CDBG entitlement.

Loan Repayment: The maximum repayment period is 20 years. Interim loan repayments are due quarterly. Principal payments on permanent loans are due once a year, and interest payments on permanent loans are due twice a year.

Prepayment: Permanent financing may not be pre-paid. Jurisdictions do have the option of remaining in the interim financing for the term of the loan, or for any extended period deemed appropriate by the jurisdiction's financial staff. Interim financing may be prepaid at any time.

Financing Fees: Fees for permanent financing are only those related to issuance of notes (usually about .05 - 1% of principal). Interim loans are charged a \$100 quarterly fee.

### **Section 108 and the Downtown Boardwalk Project: How it fits together...**

The initial impetus for considering Section 108 financing for the Downtown Boardwalk was a HUD Notice of Funding Availability for the Brownfields Economic Development Initiative (BEDI) grant. BEDI is a competitive grant awarding up to \$2 million for a qualified project. In order to use BEDI funds, Section 108 must also be part of the financing package for the project.

The Boardwalk Project team applied for \$2 million in BEDI funds by the program's December 28<sup>th</sup>, 2007 deadline. If the City is awarded BEDI funding it can accept the funding and follow through with the Section 108 application with HUD, or it can decline the funding and not pursue Section 108 funding.

If the Boardwalk project wins BEDI funding, another layer of security is added to protect current and future CDBG funds from Section 108 risk since BEDI funds may be used not only for project site remediation costs, but also for funding reserves, interest payments, over-collateralizing the Section 108 loan obligation, and other loan related uses.

#### **Next Steps:**

##### First:

If the City does not win BEDI funding, we will not pursue Section 108 for the Boardwalk Project.

If the City wins BEDI funding, the Boardwalk team, together with members of the Finance and Block Grant departments will determine the viability of the Section 108 financing and loan repayment plan with a goal of ensuring minimum risk to CDBG future funding. If the analysis shows an positive benefit, a Section 108 financing and loan repayment strategy will be developed in consultation with HUD. Finally, a Section 108 application will be prepared.

##### Second:

Section 108 application requires a robust public participation plan, which must include informing the public about the program, funding availability, range of activities proposed, impacts on low- and moderate income populations and potential displacement. Public comment periods and at least two public hearings—one of which must occur prior to submission of the application—must be held. Applications will be brought to City Council for consideration and approval after public participation requirements are met.

If you have any questions about the program or recommended funding, please do not hesitate to contact me at 473-5375