

REDEVELOPMENT AGENCY STAFF MEMO

DATE: September 2, 2015

ITEM #: 8.A.

PREPARED BY: Justin Belliveau

RE: Consideration and Recommendation of Modifications to RDA Loan Program Policies.

REQUIRED ACTION: Recommendation to Board of Directors concerning implementation of policy changes to RDA loan programs.

POLICY ITEM: Implementation of policy direction provided by the Board in June 2014.

BUDGET IMPACTS: Not applicable.

REDEVELOPMENT ADVISORY COMMITTEE RECOMMENDATION: The Redevelopment Advisory Committee passed a motion to recommend the adoption of implementation steps outlined below, with the following additional suggestions:

- That the emphasis of training associated with these changes should be to strengthen the expertise of the RDA staff, as opposed to focusing solely on expanding the expertise of its loan committee.
- That the RDA should also emphasize developer capabilities and project feasibility in evaluating funding requests, with particular caution about funding projects that cannot otherwise secure private financing.
- That we ought to periodically evaluate whether the proposed loan maturity terms will adequately circulate funds, or whether we ought to establish a separate pool of funding for affordable housing that could be out for longer terms than other loans.
- That we should network directly with loan officers involved in real estate transactions to market the RDA's loan programs as gap filling resource.

EXECUTIVE SUMMARY/ANALYSIS: In June 2014, the Board of Directors approved a motion to implement policy revisions targeted at facilitating the administration of RDA loan programs. The objective of these changes is to strengthen the capabilities of RDA staff and its loan committee to administer all funding requests, which currently require Board approval when requests exceed \$500,000 or deviate from standard program terms. We have enlisted the National Development Council ("NDC") to advise us on specific measures we can take to implement the Board's policy

guidance, and are now seeking approval before we formally incorporate them in the administration of our loan programs.

We are also seeking confirmation of the general policy objective of RDA loan programs, as this will guide us in how we apply each of these implementation steps. Specifically, we wish to confirm that the function of the RDA's loan program is to bridge the gap in making projects that achieve project area goals feasible. Confirmation of this objective will enhance staff's and the loan committee's ability to exercise discretion in evaluating loan requests.

ANALYSIS & ISSUES: Discussions with the RDA Board and Redevelopment Advisory Committee identified the following changes to how we administer our loan programs:

1. Adjust RDA Loan Terms to Reflect Market Conditions.
2. Require a Demonstrated Funding Gap as Part of Assessing Eligibility for RDA Financing.
3. Include a Cost-Benefit Analysis to Quantify the Public Benefit Derived from Each Funding Request.
4. Identify Banking Advisory Resources to Support Staff in Administering Loan Requests.
5. Establish Lending Goals in Conjunction with Forming the Strategic Plan for Each Project Area.
6. Establish Goals for Tax Increment Reimbursement Program in Conjunction with Forming the Strategic Plan for Each Project Area.

To assist the RDA in implementing these policy changes, the NDC has prepared the attached report identifying specific steps that can be taken to achieve these objectives. Representatives from the NDC will be present at the meeting to discuss implementation steps, which include the following measures:

Adjust RDA Loan Terms to Reflect Market Conditions- NDC recommends the consolidation of all RDA loan programs into one program, and the adoption of the following terms:

- Establish a benchmark rate, such as Treasury rates, upon which to base an interest rate that will adjust according to changes in the benchmark rate.
- NDC recommends setting the rate on RDA loans at 200 basis points above the 5-year index.
- Downward adjustments to this spread would be available on a case-by-case basis for projects that achieve particular RDA objectives, such as the development of affordable housing.
- Amortization of RDA loans could be extended to a period of 30-35 years to assist in project stabilization.
- Establish a standard loan term of five years, with an additional extension of five years available at a stepped up interest rate. This would facilitate the recirculation of RDA loan funds, but allow for an extension of the fixed rate as needed to support affordable housing projects.

Require a Demonstrated Funding Gap as Part of Assessing Eligibility for RDA Financing-

Further refinement is required to the RDA's policy of being a "lender of last resort." NDC recommends the following steps to better reflect this objective:

- Require projects seeking funding to first secure a commitment for primary financing from another lender.
- Size the RDA loan to cover the remaining financing needed. RDA staff and NDC recommend additional training to RDA staff and its loan committee in developing a standard sources and uses analysis, pro forma template, and identification of metrics such as return on equity and internal rate of return that will provide the tools for sizing RDA loans.
- NDC recommends allowing the RDA to be the primary lender in situations where project size is less than \$500,000, or the project is unable to support more than \$250,000 in private financing. In such cases, RDA underwriting could require a more conservative debt coverage ratio of 1.2, as opposed to our standard requirement of 1.1.

Include a Cost-Benefit Analysis to Quantify the Public Benefit Derived from Each Funding Request- In addition to requiring that a loan request generally comply with RDA project area goals and objectives, NDC recommends that a reduction in interest rate be available to further incentivize projects under the following circumstances:

- Meeting one or more of the Implementation Program Priorities outlined in a project area's Strategic Plan.
- Involving sustainable building practices.
- Providing permanent new jobs at or above living wage.
- Providing affordable housing.
- Containing additional amenities that provide a documentable public benefit, such as the promotion of local business or inclusion of public open space.

Identify Banking Advisory Resources to Support Staff in Administering Loan Requests- NDC has identified opportunities for the RDA to partner with a community-based lending partner, such as the Utah Community Reinvestment Corporation, to assist in the servicing of RDA loans. The objective would be to streamline activities and RDA staff involvement in functions such as administering draw requests and document retention. Further exploration of these opportunities is recommended before determining how best to proceed.

The Board of Directors has indicated its willingness to delegate decision-making on all RDA loans to the RDA staff and its loan committee. The key to implementing this policy will be strengthening our staff's capabilities to evaluate funding requests, and bolstering the expertise of our loan committee. We have identified the opportunity to fill a vacancy on the Redevelopment Advisory Committee with a seasoned real estate lender who would contribute 30 years of industry experience to this group. Additionally, we recommend engaging NDC on a scope of work that would include staff training on financial analysis, and on-call availability to assist staff with an initial review of all loan requests. Additionally, the NDC would provide training to the loan committee, in order to align its role with the mission of RDA loan programs and evaluation criteria with those outlined above.

Items #5 and #6 above have been addressed by prioritizing the types of projects on which we will focus loan and tax increment programs as part of the Strategic Plan for each project area. For example, the Central Business District plan identifies Housing, Adaptive Reuse, and Economic Development as the particular types of projects we intend to support through that these programs. At a future date, we will follow up with the Advisory Committee and Board to identify specific modifications that may need to be made to the tax increment reimbursement program to accomplish these objectives.

PREVIOUS BOARD ACTION:

- **February, March, and April 2014-** Received briefings and engaged in discussion of RDA loan programs.
- **June 2014-** Adopted policy changes outlined above, with a request that staff identify more specific steps to implement policy changes.
- **June 2014-** Received briefing on progress towards implementing policy changes.

ATTACHMENTS: Report from National Development Council.

Historic Practices

6 different programs:

- New Construction
- Building Renovation
- High Performance New Construction
- High Performance Building Renovation
- Environmental Remediation
- Land Acquisition

1) In an RDA project area, or providing affordable housing

2) “Lender of Last Resort” for new construction, no such requirement for other financing

3) Compliance with threshold criteria (loan to value, debt coverage ratio)

• Fixed interest rate of 5% (new construction), 3% (building renovation)

• Amortization period of 20 years

• Loan term of 5 yrs, w/ extensions at base rate +2%

• RDA Board approves loans >\$500,000

• RDA Board approves changing terms on case-by-case basis

PROGRAMS



Changes

Consolidate into single program by:

- Standardizing terms (interest rate, term, amortization period) for all loan types
- Allowing for adjustment of terms to reflect market conditions & achievement of RDA goals
- Incentivizing LEED status/sustainability through reduction in interest rate

EVALUATION CRITERIA



1) Achievement of Implementation Plan Priorities in each project area, or providing affordable housing

2) Demonstrated funding gap:

- Staff training on standard form sources and uses and pro forma template

**Exception of projects <\$500,000, or where cannot secure >\$250,000 private financing*

LOAN TERMS



• Benchmark rate with standard spread

• Amortization period of 30-35 years

• Loan term of 5 yrs, w/ extensions at base rate +2%

**Exception of fixed rate for affordable housing*

• Adjust rate, amortization period, or term to incentivize RDA goals

ADMINISTRATION



• Add seasoned real estate banker to Loan Committee

• Training for RDA staff and Loan Committee

• Loan Committee approves ALL loans

• Explore partnership options to provide support