

REDEVELOPMENT AGENCY STAFF MEMO

DATE: December 8, 2015 **ITEM #:** 7.B.

PREPARED BY: Justin Belliveau

RE: Consideration and Approval of Modifications to Redevelopment Agency
Loan Programs.

REQUESTED ACTION: Pass a motion approving the proposed changes to RDA loan programs.

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

BUDGET IMPACTS: Not applicable.

EXECUTIVE SUMMARY/ANALYSIS: As a follow-up to the briefing concerning revisions to the RDA's loan programs at its October meeting, the Board of Directors requested that staff provide additional information to identify the process through which we propose to adjust loan terms to incentivize projects that advance particular RDA objectives. We are seeking approval of the proposed framework for adjusting standard loan program terms. Once approved, we will commence with implementing all modifications to RDA loan programs as approved by the Board.

REDEVELOPMENT ADVISORY COMMITTEE RECOMMENDATION: The Redevelopment Advisory Committee ("RAC") reviewed the proposed framework for adjusting standard loan terms and recommends that the Board adopt these changes to the RDA's loan programs.

RDA staff received additional input on the proposed changes to the loan programs at its Developer Input Forum. The written briefing materials included in the December Board packet include a summary of these comments, and staff will be prepared to share the input we received and how it has shaped the framework outlined below.

ANALYSIS & ISSUES: At the October meeting, the Board approved the following changes to the RDA's loan programs:

- (1) Adoption of the following mission statement:

The RDA loan program provides critical gap financing for projects that advance the RDA's goals and objectives outlined in its Strategic Plans. We work with project developers and lenders to bridge the funding gap between a project's economics and market realities. In support of the RDA's mission, we can assume a higher level of risk than traditional lenders to ensure that transformative projects get built. While our approach is flexible, we incentivize projects that achieve the RDA's goals for affordable housing, placemaking, sustainability, high quality urban design, and economic development.

- (2) Require all loan applicants to seek and obtain primary financing commitment from another lending source at the best possible rate and terms in the maximum size available given the economics of the project in order to be eligible for gap financing from the RDA.
- (3) Establish compliance with the RDA's Strategic Plans as a threshold requirement for RDA funding by requiring a clear demonstration that the proposed project is consistent with the goals and objectives articulated for the relevant project area.
- (4) Consolidate all programs and establish the following as standard loan terms, which would fluctuate based on changes in the marketplace:
 - Utilize the 5-year United States Treasury rate as a benchmark
 - RDA interest rate will be fixed at a margin above this benchmark at the time of closing that is consistent with "market" rates
 - Standard loan term of 5 years, with one additional extension available at an increase in the interest rate by 2%
 - Standard amortization term of 20 years
- (5) Return to the Board with a proposal for administering design review as part of the loan administration process once the ongoing work of developing a set of Design Guidelines is complete. The RDA has engaged its on-call architect, Urban Design Associates, to develop a set of standards that can articulate our urban design objectives to the development community. On a parallel track, we will develop a clearly-defined process for applying these standards in the context of RDA financing.

Next Steps.

The Board requested that we follow up with more specific information about the process through which we propose to administer the adjustments of standard loan terms on a case-by-case basis. Through our work with the National Development Council, we propose the following approach to determining eligibility for RDA financing, and for applying adjustments in loan terms to incentivize the particular project that is involved:

Loan Program Base Rate and Terms.

The standard rate for RDA gap financing would be based on the applicable Treasury yield, plus 300 basis points (results in loan of 4.69% for 5 year term, or 5.27% for 10 year closed on November 15, 2015), and amortization period of 20 years. To qualify for RDA base rate loan, a project must meet the following criteria:

1. Located in a Redevelopment Project Area (or provides affordable housing outside Project Area boundaries);
2. Meets one or more Objectives and Implementation Program Priorities of the particular Project Area Strategic Plan;
3. Has a demonstrated financing gap pertaining to efforts to obtain debt and equity financing from conventional private sources. An exception to this policy would be instances where the total project size is less than \$500,000, in which case a higher debt coverage requirement of 1.20 would be required.
4. Consistency with RDA design guidelines that we are in the process of establishing. This initial screening would likely be conducted by a small review committee comprised of one or more design professionals, and is not anticipated to require significant time or resources to assess.
5. Confirmation of the developer's capabilities to successfully complete the project.

Additional Incentives.

We propose to offer a reduction in the standard interest rate as an incentive for projects that meet the following evaluation criteria:

1. **Sustainability-** Does the project involve a commitment to implement sustainable building practices through any of the industry's recognized certification programs, including but not limited to Passive House, Enterprise Green, Energy Star, LEED, or participation in Salt Lake City's Project Skyline initiative?
2. **Public Amenities-** Does the project include open space or other publicly accessible amenity?
3. **Adaptive Reuse-** Does the project preserve or repurpose a building that contributes positively to its surrounding neighborhood?
4. **Permanent Job Creation-** Will the project attract employers as permanent occupants that provide jobs at or above living wage?
5. **Urban Design-** In addition to the initial screening for compliance with RDA design guidelines, will the borrower voluntarily participate in a more thorough design review allowing the further refinement of design?
6. **Supporting Transit Alternatives-** Does the project provide amenities, such as car sharing, bicycle facilities, employee showers or lockers that expand transit options for its users?

7. Economic Impact- Will the project catalyze additional positive economic activity and investment in the Project Area?

8. Other proposed characteristics as determined by RDA Board

The fulfillment of any one of these criteria would provide a 50 basis point (one half of one percent) reduction in the interest rate, with a maximum overall reduction of 300 basis points (three percent) for a project that achieves six or more of these criteria.

We propose to further incentivize the development of affordable housing through offering either- or both- a reduction in the standard interest rate and an extension of the amortization period to as long as 30 years in order to facilitate the project's achievement of stabilized valuation. The extent of these adjustments would be determined on a case-by-case basis as needed based on the projected cash flow of the project.

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 2015-** Received briefing on progress towards implementing policy changes.
- **September 2015-** Considered steps for implementing loan program changes and requested additional information at the October meeting.
- **October 2015-** Approved changes to the loan programs as outlined above, with a request for additional information about the processes for evaluating loan applications and for keeping the Board informed as to decisions on loan applications.

ATTACHMENTS: None.