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## City Council

### Approval of Community Development Block Grant (CDBG) Action Plan Amendment to Include Section 108 Loan for the Avalon Project

**Agenda Date:** 10/3/2017  
**Agenda Item Number:** 4.K  
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**Type:** decision **Version:** 1 **Status:** Passed

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**Title**

Approval of Community Development Block Grant (CDBG) Action Plan Amendment to Include Section 108 Loan for the Avalon Project

**Recommended Action**

**Committee Recommendation:**

Not referred to a committee.

**City Manager Recommendation:**

Move to approve the amendment to the City's CDBG Action Plan for Program Year (PY) 2017 and direct staff to submit the attached application for Section 108 loan funds to HUD for the Avalon project on the former Griswold's property.

**Report**

**Issue:**

Whether to amend the City's CDBG PY 2017 Action Plan to include Section 108 loan funds for the Avalon project.

**Staff Contact:**

Leonard Bauer, Deputy Director, Community Planning and Development, 360.753.8206

**Presenter(s):**

Leonard Bauer, Deputy Director, Community Planning and Development

**Background and Analysis:**

In 2013, the U.S. Housing and Urban Development Department (HUD) approved Olympia's Section 108 Loan Guarantee Fund in the amount of \$1,756,000. This pledge facilitates the city's access to the Section 108 Loan Guarantee Program to fund eligible activities pursuant to 24 CFR 570.703 that may include acquisition, clearance, demolition, removal, site preparation, eligible housing rehabilitation, economic-development activities, or public facilities. Section 108 loan funds may be awarded to a private party, or to the City for a public project. Olympia's first loan was completed in 2014, for downtown safety improvements that provided accessibility improvements at State Avenue and Columbia Street, and alley lighting installation throughout downtown.

As Olympia identifies project-specific Section 108 loan proposals to be funded, each project undergoes a full financial underwriting analysis. The City has contracted with the National Development Council to perform underwriting analysis for its Section 108 loan program. Section 108 loan projects must also be included in the City's Community Development Block Grant (CDBG) Action Plan, after public review in accordance with the city's Citizen Participation Plan. The Plan requires a 30-day public comment period, which was held September 1 - October 1, 2017, for the proposed \$500,000 Avalon project loan. No written comments had been received as of the writing of this staff report. Any subsequent written comments received during the comment period will be provided to the City Council at the October 3 meeting. A public hearing was held during the comment period on September 12.

Following the public comment period, the City Council may direct the Section 108 loan application be submitted to HUD for review and approval. A draft Section 108 loan application to HUD is attached. If the \$500,000 loan is approved for the Avalon project, the remainder of the City of Olympia's Section 108 Loan Guarantee Fund will continue to be available until all funds are expended or September 30, 2018 whichever occurs first. The balance available in the Section 108 Loan Guarantee Fund for loan is approximately \$1,000,000. Should the City wish to continue the Section 108 Loan Guarantee Fund beyond September 30, 2018, a new loan application would need to be approved by HUD.

### The Avalon Project

The Avalon project will redevelop the blighted building formerly occupied by Griswold's at 308-310 4<sup>th</sup> Avenue East. The site is the first that was designated as a public-private partnership under the City's Community Renewal Area (CRA), which was adopted in 2015. The state's Community Renewal Law provides the City with tools to eliminate blight, and to use those tools to encourage private sector participation in downtown renewal in partnership with the City.

Through a Request for Proposals process, the City selected Big Rock Capital Partners as its development partner for the Avalon project. As part of the financing for the project, Big Rock is requesting a Section 108 loan of \$500,000. This represents approximately 8 percent of the total financing for the \$6.2 million project. The Section 108 loan will be subordinate to a private loan of \$4.38 million. Developer and investor equity will be approximately \$1.26 million.

The proposed Avalon building will include approximately 5,900 square feet of leasable commercial space on the first floor. Current plans include a lease for a co-working space that would be managed through a partnership between the Thurston Economic Development Council and The Evergreen State College. Floors 2-4 of the building will include 30 multi-family housing units - 27 studios and 3 1-bedroom units. To maintain eligibility for the Section 108 loan program, at least 51 percent of the housing units are required to be rented at or below 80 percent of area median income (AMI) for the 20-year term of the loan. Current rent projections for the project show that all 30 units will meet the standard of affordability at 80 percent AMI.

### **Neighborhood/Community Interests (if known):**

There is strong interest city-wide in downtown redevelopment projects and in the CRA process. There is also significant interest city-wide in the Avalon project due to its inclusion of affordable housing units (at or below 80 percent AMI) and proposed co-working space.

**Options:**

1. Approve the amendment to the CDBG PY 2017 Action Plan and direct staff to submit the Section 108 loan application for the Avalon project to HUD.
2. Do not approve the amendment to the CDBG PY 2017 Action Plan to include Section 108 loan funds for the Avalon project.

**Financial Impact:**

The proposed Section 108 loan is \$500,000. Repayment of the loan will come from the development partner; however, it would be backed by payments from the City's future CDBG entitlement grants.

**Attachments:**

PY 2017 Amendment  
Loan Application