



AGENCY:	City Council
MEETING DATE:	March 10, 2014
DEPARTMENT:	Community Dev.
PREPARED BY:	J. Owen
PRESENTED BY:	J. Owen

## AGENDA ITEM SUMMARY

### **TITLE:**

**RECEIVE REPORT, CONDUCT PUBLIC HEARING, AND CONSIDER ADOPTION OF CITY COUNCIL RESOLUTION APPROVING AN APPLICATION FOR UP TO \$846,151 IN FUNDING AND EXECUTION OF A GRANT AGREEMENT AND ANY AMENDMENTS THERETO FROM THE 2013 ECONOMIC DEVELOPMENT OVER-THE-COUNTER ALLOCATION OF THE STATE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM**

### **ISSUE:**

The City of Fort Bragg has been invited to submit a CDBG application under the Enterprise Fund Over-the-Counter allocation. The Over-the-Counter (OTC) funding is project-specific funding that provides a business loan. Submittal of an OTC application is allowed only after potential applications are thoroughly vetted, reviewed, and preliminarily approved by CDBG staff. Jeff Lucas of Community Development Services, the City's OTC loan consultant, has developed a proposal for Sportz Investment Inc. DBA Sport Chrysler Jeep Dodge (Sport) to provide a CDBG loan in the amount of \$756,151. The loan will allow the company to restructure debt to ensure job retention of an existing business that provides essential services in Fort Bragg. The total grant application of up to \$846,151 includes Activity Delivery funding of up to \$40,000 and General Administration funding of up to \$50,000. Prior to submitting the CDBG OTC application, a public hearing must be held and a resolution authorizing submittal of the application must be approved.

### **RECOMMENDED ACTION:**

Adopt City Council Resolution Approving an Application for up to \$846,151 in Funding and Execution of a Grant Agreement and any Amendments Thereto from the 2013 Economic Development Over-the-County Allocation of the State Community Development Block Grant (CDBG) Program.

### **ALTERNATIVE ACTION(S):**

No action. Under this alternative, the City would not submit a CDBG Over-the-Counter application.

### **ANALYSIS:**

The CDBG OTC program provides grants of up to \$3 million for eligible cities and counties to lend to identified specific businesses; or to use for public infrastructure improvements necessary to accommodate the creation, expansion or retention of identified businesses. As with all CDBG activities, OTC activities must meet Public Benefit and National Objective requirements. Unlike other CDBG grant applications, OTC activities are developed by working closely with CDBG staff and no application is submitted until or unless CDBG staff has preliminarily approved the activity. The pre-application process is initiated by the City's submittal of a Project Initial Inquiry form. This form allows CDBG to evaluate project viability, identify project issues, and communicate the OTC program parameters and requirements to the applicant. After review of the initial proposal and consultation with the applicant, and if CDBG believes that CDBG funding may be appropriate for

the activity, CDBG requests a pre-application. The pre-application is a comprehensive compilation that provides all project background, Public Benefit and National Objective supporting documentation, underwriting data, and historical and projected financial data. Once the pre-application is reviewed by CDBG staff and outstanding issues are resolved, CDBG invites the jurisdiction to complete the formal application process. Submittal of the formal application requires the jurisdiction to provide any additional information requested during the pre-application process. It also requires submittal of the CDBG application summary forms and other certification information; a public hearing, and a City Council resolution authorizing submittal of the CDBG OTC application.

In March 2013, the City contracted with Community Development Services (CDS) to provide OTC and business assistance project development, underwriting services, pre-application and application development, and post-application assistance. In May 2013, after a series of consultations with CDBG by Jeff Lucas, CDS principal, and other project stakeholders including City staff, the City was invited to submit a pre-application for the Sportz Investment Inc. DBA Sport Chrysler Jeep Dodge (Sport) activity.

A voluminous pre-application document was compiled by CDS and presented to CDBG. Although initial responses from CDBG were positive, and despite numerous meetings and information re-submittals, CDBG issued a denial letter to the City in October 2013 for the loan proposal as presented. After restructuring the loan to address CDBG concerns, a second pre-application proposal was submitted in November 2013. After another series of communications with CDBG, an invitation to submit a final application was received on February 21, 2014.

The proposal is for debt restructure and permanent working capital which will result in retention of a business that employs 27 people. In addition, Sport expects to create two additional jobs as a result of the debt restructure. The CDBG loan will refinance and consolidate three loans into one proposed CDBG loan to be amortized over 20 years at 2.0% interest, thereby significantly reducing debt service costs and eliminating two balloon payments due in 2015 that place the business in financial jeopardy. In addition, Savings Bank of Mendocino County has conditionally agreed to restructure other debt to further ensure adequate working capital for on-going operations. The loan proposal's financial projections show that the debt restructuring will enable the business to build and maintain a solid net margin, enabling it to remain a viable business with new ability to expand operations and employment.

The project meets a CDBG National Objective by principally benefiting the low-moderate income population, based on census data showing that more than 51% of Fort Bragg's households are low/moderate income. Public Benefit is met though a low-moderate income area (LMA) calculation whereby because the population of the City of Fort Bragg is comprised of more than 51% low and moderate income households, maximum funding of \$350 per low-moderate income household is allowed. Using this criterion, the maximum allowable CDBG loan amount is \$1.2 million. The OTC proposal for Sport is for less than the maximum allowable amount.

Once the application is submitted, an internal loan committee within the State will review and consider final approval, after which time a grant agreement will be issued. Once grant special conditions, if any, are cleared, funding may be requested.

#### **FISCAL IMPACT:**

The CDBB OTC loan will result in retention of an important Fort Bragg business that employs at least 27 individuals and contributes significant sales tax to the City of Fort Bragg. If the application is awarded, the City will receive up to \$40,000 in Activity Delivery funding that may pay accumulated and post-funding consultant costs. In addition, the City will be eligible for up to \$50,000 in General Administration funding that may be used for any eligible CDBG administrative

activities over the term of the grant. Repayment of the OTC loan will be deposited as Program Income. Program Income may be used for CDBG-eligible activities including loans, programs or projects within the City of Fort Bragg.

**IMPLEMENTATION/TIMEFRAMES:**

CDBG has advised staff that the Housing and Community Development (HCD) internal loan review committee meeting could take place by mid-March, at which time a grant agreement should be finalized. Before that time, CDBG staff will develop a list of final submittal items needed from the City regarding the proposed loan and City grant application. It is unclear how long it will take CDBG to issue and execute a grant application and subsequently allow access to funding, but staff is optimistic that CDBG staff will work to avoid further processing delays for this loan project.

**ATTACHMENTS:**

1. Resolution authorizing application submittal
2. Public Hearing Notice

**NOTIFICATION:**

1. Mike Slaughter, Sportz Investments Inc.
2. Jody Stickels, Savings Bank of Mendocino County
3. Jeff Lucas, CDS

**City Clerk's Office Use Only**

Agency Action      ☐ Approved      ☐ Denied      ☐ Approved as Amended

Resolution No.: \_\_\_\_\_ Ordinance No.: \_\_\_\_\_

Moved by: \_\_\_\_\_ Seconded by: \_\_\_\_\_

Vote: \_\_\_\_\_

☐ Deferred/Continued to meeting of: \_\_\_\_\_

☐ Referred to: \_\_\_\_\_