

DATE: June 13, 2012

TO: Mayor Boudreau and City Council

FROM: Eric Stendal, Special Projects Administrator *EKS*

SUBJECT: PUBLIC HEARING REGARDING COUNCIL APPROVAL TO SUBMIT AN AMENDED APPLICATION FOR CDBG SECTION 108 LOAN GUARANTEE

**RECOMMENDED ACTION:**

Hold the Open Records Public Hearing to obtain the views of citizens and other interested parties on the housing and non-housing community development needs of the City in regards to a Section 108 Loan Application.

Following the public hearing staff requests that Council authorize the Mayor to sign a project-specific application for a Section 108 Loan Guarantee in the amount of \$1,000,000 to the U.S. Department of Housing and Urban Development (see attached) to secure funding for the Phase II Downtown Flood Protection and Waterfront Revitalization Project.

**INFORMATION/BACKGROUND:**

-Phase II of the Downtown Flood Protection and Waterfront Revitalization Project has an estimated cost of \$12,900,000. To date we have secured \$11.9 million in funding and this \$1,000,000 loan guarantee would provide the finale funding element.

-Since 2005, the City has been using a large portion of its CDBG funding to purchase buildings and land on Main Street in preparation of Phase II construction. Our 2011 CDBG allotment was \$294,383 and our 2012 amount is \$292,317. CDBG has a Section 108 Loan Program that allows an entity to borrow up to five years of CDBG annual allotments for items such as construction.

-On December 14, 2011 Council approved preparation of a Section 108 Loan Application that subsequently became available for public review. The application requested a \$1,000,000 loan that we would repay with \$200,000 each year for five years from our CDBG allotment. (I have attached a copy of the Power Point from the meeting as the last attachment.)

-On February 1, 2012 Council held a Public Hearing on the Section 108 Application and no one provided written or verbal comments.

On February 15, 2012 Council authorized staff to submit the referenced application.

-In late March we received a response to our application from HUD's Seattle Office Director recommending "That the city submit a revised Section 108 loan application that extends the repayment period to a term greater than 5 years. A long term would decrease the annual repayment amount, thereby enabling the city to have more CDBG funds to expend annually on its housing and other priority need projects." (Letter attached.)

-Staff subsequently had a number of conversations with our HUD representative and as a result of those conversations; staff is now recommending that Council authorize submitting an amended application having a loan repayment of \$100,000 per year for ten years. We were also advised that to hold an additional Public Hearing on this matter before submitting the amended application.

-On the attached amended application you can see that we have modified page 4, item no. 4, Repayment Schedule, to reflect the revised ten year repayment. Also, I believe it was Councilman Ragan that suggested the construction period be increased from 12 months to 12 to 18 months on pages 4 and 5 and that has been incorporated into the amended application.

**RECOMMENDATION:**

Staff recommends Council approval.

**CITY OF MOUNT VERNON, WASHINGTON**

**PROJECT-SPECIFIC APPLICATION  
FOR SECTION 108 LOAN GUARANTEE**

**FROM**

**U.S. DEPARTMENT OF HOUSING AND  
URBAN DEVELOPMENT**

**FOR**

**CITY OF MOUNT VERNON DOWNTOWN  
FLOOD PROTECTION PROJECT**

*IN THE AMOUNT OF*  
**\$1,000,000 Section 108 Loan Program  
Originally Submitted in February, 2012  
Amended submittal in June, 2012**

## Background

The primary factor that supports the vision of the Mount Vernon downtown is completion of the flood protection structure that will remove the area from the threat of flooding, thus protecting neighborhood residents and local businesses, and removing a major barrier to investment in the downtown area. Without flood protection, the area will continue to suffer from floods and the local economy will continue to experience depressing effects due to the uncertainties of future floods and the regulatory obstacles that render redevelopment unfeasible.

Once downtown is no longer at risk from flooding and development constraints associated with building in a flood plain are removed, the downtown can move forward to create a vibrant, attractive and safe riverfront district which will be prime for redevelopment.

Downtown Mount Vernon is home to the regional transit center, Skagit Station, that provides bus and passenger rail service within the region. The major public amenity downtown is the Skagit River, and the river has provided more obstacles to downtown development with its flood threat than attractions. With the City completing the flood protection project, conditions will be ripe for facility infrastructure improvements and amenities to attract additional residential and commercial development. The flood protection project creates a significant opportunity for the City to protect, revitalize and redevelop its downtown. Downtown residents, businesses and property owners will share in the benefits of redevelopment through added jobs, planned infrastructure improvements and private investment.

Key planned City infrastructure improvements vital to the redevelop of the downtown area include:

- Flood Protection Project (permanently removing downtown from the 100-year flood plain)
- Riverfront Promenade (riverwalk/pathway)
- Riverfront Park Plaza
- Parking Facility (funded by WA State approved LIFT award)
- Streetscape and Traffic Improvements

### 1. Overall Project Description

The City of Mount Vernon has undertaken a flood protection project designed to provide the historic downtown and the City's Wastewater Treatment Plant with 100-year flood protection. The flood hazard control system will deploy a flood wall to protect a City neighborhood, delineated by Census Tract 9525 that has a high concentration of low-to-moderate income (LMI) residents. The process of developing this system includes acquiring the land where the flood wall will be deployed, demolishing the buildings on that land, and constructing the floodwall improvements. The entire project begins at Lion's Park, north of the downtown core, and continues south through downtown, terminating at the City's Wastewater Treatment Plant which

will be protected with a ring dike. The total length of the flood protection measure is 1.76 miles. The City's project received a Conditional Letter of Map Revision (CLOMR) from the Federal Emergency Management Agency (FEMA) in August 2010 indicating that once built to the approved design, FEMA will issue a Letter of Map Revision for the downtown area removing it from the 100-year flood plain as mapped by FEMA.

Downtown protection and revitalization, via the flood control project, has been a high priority within the City's community development objectives, as outlined within the City's CDBG Five Year Consolidated Housing and Community Development Plans and annual CDBG Action plans, since the City became a CDBG entitlement City in 2004.

The City has spent over \$8.3 million in project-related downtown master planning, specific flood control project engineering, Phase I of the flood structure and riverwalk trail and Phase II property acquisition. Phase I of the overall project was constructed and completed in 2010, at a cost of \$2.1 million. Phase I included not only the flood structure from Lion's Park south to the Division Street Bridge (SR 536) but has a recreational overlay, the Skagit Riverwalk, a 16-foot wide pathway that connects the public with the river.

#### Phase II – Section 108 Project Description

The City is requesting a \$1.0 million Section 108 loan for Phase II construction of the flood structure. Phase II will begin at the Division Street bridge and continue south through downtown Mount Vernon, ending at the Moose Lodge. The flood structure once completed in its entirety will provide 100-year flood protection to downtown residents and businesses, and will include a 24-foot wide riverwalk trail. This urban trail will provide improved public access to the river's shoreline and create a vibrant waterfront downtown that will result in increased economic activity within and around Mount Vernon. The flood structure in this phase of construction will include significant and in some places, continuous openings in the floodwall allowing for unencumbered public access to the riverfront. During flood events these openings will be secured with a stop-log system that interlinks into the flood structure. This project, which includes the floodwall and riverwalk are fully designed and permitted. The structural design for the floodwall has been approved by FEMA. All environmental reviews have been completed.

The \$1.0 million sought from the Section 108 loan program is needed as the final funding element for the flood protection project phase II construction. Since 2004, the City will have expended \$1.7 million of its CDBG entitlement funds in this high priority project for property acquisition. Funding for this \$12.9 million Phase II project is nearly fully secured in anticipation of its 2012 construction start.

## 2. Sources and Uses

Below is a summary of the project funding sources and uses:

Phase II Source of Proceeds:	<u>Amount</u>	<u>Funding source comments:</u>
<b>Construction:</b>		
<u>Federal</u>		
CDBG Section 108 Loan (2012)	\$ 1,000,000	funding request in process
<u>State</u>		
RCO/WWRP trails grant (2011-2013)	\$ 781,200	funds secured
RCO/ALEA grant (2011-2013)	\$ 500,000	funds secured
Governor Capital Budget (2011-2013)	\$ 700,000	funds secured
WA State Capital Budget (2012-2013)	\$ 1,500,000	funds secured
<u>Local</u>		
Skagit Econ Dev/Distressed County grant	\$ 500,000	funds secured
City Funds (WW Utility / Reet I)	\$ 400,000	funds secured
Dike District No. 3	\$ <u>1,000,000</u>	funds secured
<b>Total Construction Sources</b>	<b>\$ <u>6,381,200</u></b>	
<b>Property Acquisition:</b>		
<u>Federal</u>		
CDBG Entitlements (2004-2011)	\$ 1,484,086	funds secured
CDBG Entitlements (2012)	\$ 218,000	funds secured
<u>State</u>		
Governor Capital Budget (2009-2011)	\$ 656,400	funds secured
<u>Local</u>		
City, Wastewater Utility, Dike District, Donations, Miscellaneous	\$ <u>4,160,314</u>	All local funding for property acquisition is secured
<b>Total Property Acquisition Sources</b>	<b>\$ <u>6,518,800</u></b>	
<b>Total Phase II Sources</b>	<b>\$ <u>12,900,000</u></b>	
Phase II Use of Proceeds:	<u>Amount</u>	<u>Use of proceeds comments:</u>
<b>Construction cost</b>	<b>\$ 6,381,200</b>	costs based on outside engineering firm estimates
<b>Property acquisition cost</b>	<b>\$ <u>6,518,800</u></b>	costs based on actual expenditures and contracted property specialist
<b>Total Phase II Uses</b>	<b>\$ <u>12,900,000</u></b>	

3. Project Structure and Participants

The City’s Phase II project cost is estimated at \$12,900,000. Financing includes a combination of federal, state and local funds, and the proposed HUD Section 108 guaranteed loan. The City of Mount Vernon, as an entitlement CDBG grantee, will use the proceeds of the loan funds directly to fund cost of construction of public improvements. The City plans to finish right of way acquisition and bid the construction project in 2012. Construction is anticipated to start in summer 2012 and be completed in 12 to 18 months.

The City of Mount Vernon is the developer and owner of the public facility. The public facility funded by the Section 108 funds will be within public right of way, controlled, operated and maintained by the City.

4. Repayment Schedule

The City commits to repayment of the loan through its annual Community Development Block Grant (CDBG) entitlement funds in the following amounts, annually on August 1st:

<u>CDBG Entitlement Year</u>	<u>Principal Payment</u>
2013	\$100,000
2014	\$100,000
2015	\$100,000
2016	\$100,000
2017	\$100,000

<u>CDBG Entitlement Year</u>	<u>Principal Payment</u>
2018	\$100,000
2019	\$100,000
2020	\$100,000
2021	\$100,000
2022	\$100,000

5. Collateral

Per HUD’s requirement that the City collateralize the Section 108 loan beyond the pledge of its future CDBG entitlement funds, the City pledges the full faith and credit of the City of Mount Vernon as collateral for the Section 108 loans, with Real Estate Excise Tax (REET) funds and general property tax revenues specifically identified.

An ordinance will be adopted by City Council for the payback of the funding when the HUD loan documents are processed.

## 6. Project Implementation

Construction - the City anticipates that Phase II construction will begin in summer 2012 and will be completed in 12 to 18 months.

Section 108 construction financing would be needed at the midpoint of the Phase II construction.

Property acquisition - 5 of the required 7 properties have been purchased. City plans to purchase the remaining 2 properties in early to mid-2012. All funding is secured for property acquisition.

Previous City efforts to date:

Phase I construction was completed in 2010.

City received a Conditional Letter of Map Revision (CLOMR) in August 2010, indicating FEMA's approval of our project that once built to the approved design FEMA will issue a Letter of Map Revision for the downtown area, removing it from the 100-year flood plain as mapped by FEMA. This is a crucial element to the success of the City's project.

Final engineering for the project is completed.

Hydraulic Project Approval issued April 2009.

Shoreline Permit issued March 2009.

NEPA process - completed August 2008.

Environmental Impact Statement - completed July 2007.

Master Planning process for downtown/waterfront development - completed June 2007.

## 7. Eligible Activity

The project's eligible activity for the use of the Section 108 loan is *construction and installation of public facilities and other site improvements and public utilities* pursuant to 24 CFR (Code of Federal Regulations) 570.703 (1).

## 8. National Objective

In conjunction with the City's use of CDBG entitlement funds for property acquisition related to this project, the City has fully documented project compliance with the national objective requirements for area benefit activities (benefitting low and moderate-income persons) as outlined in 24 CFR 570.208 (a) (1) and 570.506 (b).



The flood hazard control system will deploy a flood wall to protect a City neighborhood, delineated by Census Tract 9525 that has a high concentration of low-to-moderate income (LMI) residents.

9. Public Benefit Standards (PBS)

Not applicable as the City's public facility project is not a proposed *eligible* special economic development activity (City project eligibility is pursuant to 24 CFR 570.703 (1)).

10. Contact Information

Contact Name/Title: Eric Stendal, Special Projects Administrator  
Contact Address: 910 Cleveland Avenue, Mount Vernon, WA 98273  
Phone/Fax: 360 336-6211/360 336-0623  
E-mail: [erics@mountvernonwa.gov](mailto:erics@mountvernonwa.gov)

Application Attachments

Phase II Downtown Flood Protection Project Map  
Entitlement Public Entity Certifications  
Certification Regarding Lobbying  
Copy of Notice of Public Hearing



**U.S. Department of Housing and Urban Development**

Washington State Office  
Seattle Federal Office Building  
Office of Community Planning & Development  
909 First Avenue, Suite 300  
Seattle, WA 98104-1000  
[www.hud.gov/washington.html](http://www.hud.gov/washington.html)

MAR 26 2012

Eric Stendal  
Special Projects Administrator  
City of Mount Vernon  
910 Cleveland Avenue  
Post Office Box 809  
Mount Vernon, WA 98273

Dear Mr. Stendal:

SUBJECT: Section 108 Loan Application for Downtown Floodwall Protection Project

We have reviewed the City of Mount Vernon's request for Section 108 loan guarantee assistance for the Downtown Flood Wall Protection project. The goal of this project is to construct a flood wall that will protect a downtown neighborhood that has a majority of low to moderate income residents. This letter provides our comments on the city's application and recommends a revision to the proposed repayment schedule.

The city is requesting to use \$1,000,000 of Section 108 loan funds to construct a 1,650 foot concrete flood wall to protect residents and businesses from the Skagit River. The city indicated in its application that the Community Development Block Grant (CDBG) backed project is a vital component in the revitalization of downtown Mount Vernon. The application further explains that once completed, the flood wall will provide 100 year flood protection for the residents of Census Tract 9525 as well as enable the city to proceed with other public infrastructure projects. These other projects include the creation of a 24 foot wide river walk and a 30,000 square foot Public Riverfront Park.

Since 2004, the city has used \$1.7 million of CDBG funds to acquire the land where construction of the flood wall will take place. The request by the city for \$1 million of Section 108 loan funds is needed as gap financing for the flood protection project Phase II. The total cost of Phase II is estimated at \$12,900,000. Financing for this includes federal, state and local funds. The city estimates that construction of the wall will begin in the summer of 2012 and will be completed in 12 months. An Environmental Review and Request for Release of Funds (RROF) has been completed and a Conditional Letter of Map Revision (CLOMR) which provides the city with a letter from FEMA removing the area from the 100 year flood plain.

The city is proposing to repay the Section 108 loan through its annual CDBG allocation. The repayment schedule is as follows:

Year 2013	\$200,000
Year 2014	\$200,000

[www.hud.gov/washington.html](http://www.hud.gov/washington.html)  
[espanol.hud.gov](http://espanol.hud.gov)

Year 2015	\$200,000
Year 2016	\$200,000
Year 2017	\$200,000

As collateral the city has pledged the full faith and credit of the City of Mount Vernon, Real Estate Excise Tax (REET) funds and general property tax revenues. Please note the following comments.

The city's annual CDBG allocation has ranged from the 2012 amount of \$292,317 to \$319,303 in 2008. The city's proposed repayment schedule would limit the amount of CDBG funds that would be available to address other housing and community development needs as outlined in the 2008-2013 Consolidated Plan (ConPlan). One of the priority needs in the ConPlan was to provide citizens of Mount Vernon with affordable housing options. As of 2008, 48 percent of all renters pay more than 30 percent of their income toward housing. In addition, the area which benefits the most from the constructed flood wall (Census Tract 9525) has 1,500 people out of a total population of 32,139. The city through its ConPlan as well as Annual Action Plans certifies to meeting the needs of low to moderate income residents in the city. These needs must be addressed through housing and other eligible activities. With 68 percent of the city's annual allocation reserved for this project, serving the housing and other community needs, as outlined in the Consolidated and Annual Action Plans might be a difficult task to accomplish.

We recommend that the city submit a revised Section 108 loan application that extends the repayment period to a term greater than 5 years. A longer term would decrease the annual repayment amount, thereby enabling the city to have more CDBG funds to expend annually on its housing and other priority need projects. Or, the city could provide additional information describing the actions it will take to meet the other housing and priority needs while still maintaining the five year repayment schedule. Please note the increased repayment term will not impact the city's proposed schedule of construction and completion of the flood wall. Therefore, the same outcomes will be accomplished within the timeframe outlined in the application.

If we can be of any further assistance regarding the Section 108 loan guarantee, please contact Quincy Williams, Community Planning Development Representative, at (206) 220-5370.

Sincerely,



John W. Peters  
 Director  
 Office of Community Planning  
 and Development



# Proposed City of Mount Vernon CDBG Section 108 Loan Program

City Council Briefing Presentation

December 14, 2011



# Purpose of briefing

To brief Mount Vernon City Council and constituents regarding Community Development Block Grant (CDBG) Section 108 Loan Program, application requirements, and proposed program guidelines for the City to apply for up to \$1.4 million in loans (5 times the annual CDBG grant amount).

# Summary of Section 108 Loan

## Program

### Program purpose

- Keep momentum going on development project by providing gap financing and a substitute for declining availability of capital funding

### Eligible activities

- Acquisition of real property
- Clearance, demolition
- Site preparation, construction, installation of public facilities
- Commercial or industrial improvements
- Grants, loans, technical assistance for commercial or industrial improvements
- Planning for economic development projects

# Section 108 Program Application

## Requirements

### Pre-submission requirements

- Modify CDBG Citizen Participation Plan with a substantial amendment for Section 108 Loan public participation process
- Develop the proposed application, including:
  - Description of activity
    - Community development objectives
    - Federal national objective
    - Amount of funds
    - Location
    - Program income (if any)
  - Description of pledge of grants

# Section 108 Program Application

## Requirements

Pre-submission requirements (continued)

- Publish proposed application according to Citizen participation plan
- Hold public hearing
  - Describe proposed activities
  - Obtain views of citizens
    - Community development objectives
    - Housing needs
- Prepare final application, including
  - Consideration of public comments
  - Finalized description of activity





# Section 108 Program Application

## Requirements

Pre-submission requirements (continued)

- Obtain City Council approval
  - To submit application
  - Obtain HUD-required authorizations



# Section 108 Program Application

## Requirements

### Submission requirements

- Final application
- Schedule for repayment
- Certifications
  - Legal authority to pledge grants
  - Efforts made to obtain financing without Section 108 loan funds
- Citizen participation requirements followed
- Certifications required by HUD as with annual Con Plan

# Section 108 Program Application

## Requirements

HUD Review and Approval of Application

- Seattle Regional Office
  - Due diligence
  - Compliance
- HUD Washington, D.C. headquarters review
  - Project meets CDBG program requirements
  - Acceptable financial risk
  - Availability of funds in the amount requested
  - Environmental review prior to release of funds



# Proposed Section 108 Loan

## Application

Purpose: Funding for City Downtown Flood Protection and  
Waterfront Revitalization Project, Phase II

Application Loan Amount: \$1,000,000

Loan Guarantee: Pledge of future City CDBG annual  
entitlements

Loan Repayment Source: City's CDBG 2013 to 2017  
entitlements



# Section 108 Loan Application Next

## Steps

- December 2011
  - Amend CDBG Citizen Participation Plan
    - To include Section 108 Loan program citizen participation process (Notice published November 30)
    - Substantial amendment with 30-day comment period
  - Brief City Council and seek approval to move forward with application process
- January/February 2012 – develop loan application
  - Publish proposed application
  - Hold public hearing



## Section 108 Loan Application Next

### Steps (continued)

- January/February 2012 – develop loan application (cont.)
  - Prepare final application
  - Seek Council approval to submit application
  - Submit final application
- May 2012 – HUD approves application
- June 2012
  - Hold second public hearing to consider HUD's offer of loan guarantee
  - Seek Council approval of loan guarantee agreement