



CITY COUNCIL AGENDA STATEMENT



January 15, 2019

File ID: 18-0591

TITLE

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA AUTHORIZING THE CITY MANAGER TO EXECUTE ANY AND ALL NECESSARY DOCUMENTS RELATED TO THE PARTICIPATION OF THE HUD PUBLIC OFFERING AS PART OF THE SECTION 108 LOAN GUARANTEE ASSISTANCE PROGRAM TO REFINANCE THE EXISTING NOTE B-08-MC-06-0547 OR OTHER OBLIGATION IN THE ORIGINAL PRINCIPAL AMOUNT OF \$5,886,000, FOR THE 2008 CASTLEPARK INFRASTRUCTURE PROJECT (4/5 VOTE REQUIRED)

RECOMMENDED ACTION

Council adopt the resolution.

SUMMARY

On November 27, 2018, the City received notice from HUD regarding the opportunity to refinance the City's Section 108 Note B-08-MC-06-0547 with a lower interest rate. On December 6, 2018, the City notified HUD of its election to redeem the current note. In January 2019, HUD will provide the City the applicable loan documents for the refinancing, with the expected funding to occur on February 1. Upon Council's approval and execution of the loan documents, the City will have a new Section 108 note with lower interest rates, resulting in a cost savings to the City.

ENVIRONMENTAL REVIEW

The Development Services Director has reviewed the proposed activities for compliance with the California Environmental Quality Act (CEQA) and National Environmental Policy Act (NEPA). The proposed activities are not considered "Projects" as defined under Section 15378(b)(5) of the State CEQA Guidelines because the proposals consist of a reporting action, is an administrative function, and is not site specific project(s) and will not result in a direct or indirect physical change in the environment. Therefore, pursuant to Section 15060 (c)(3) of the State CEQA Guidelines, these activities are not subject to CEQA. Under NEPA, the activity qualifies for a Certification of Exemption pursuant to Title 24, Part 58.34(a)(2)&(3) of the Code of Federal Regulations and pursuant to the U.S. Department of Housing & Urban Development Environmental Guidelines. Thus, no further environmental review is necessary.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

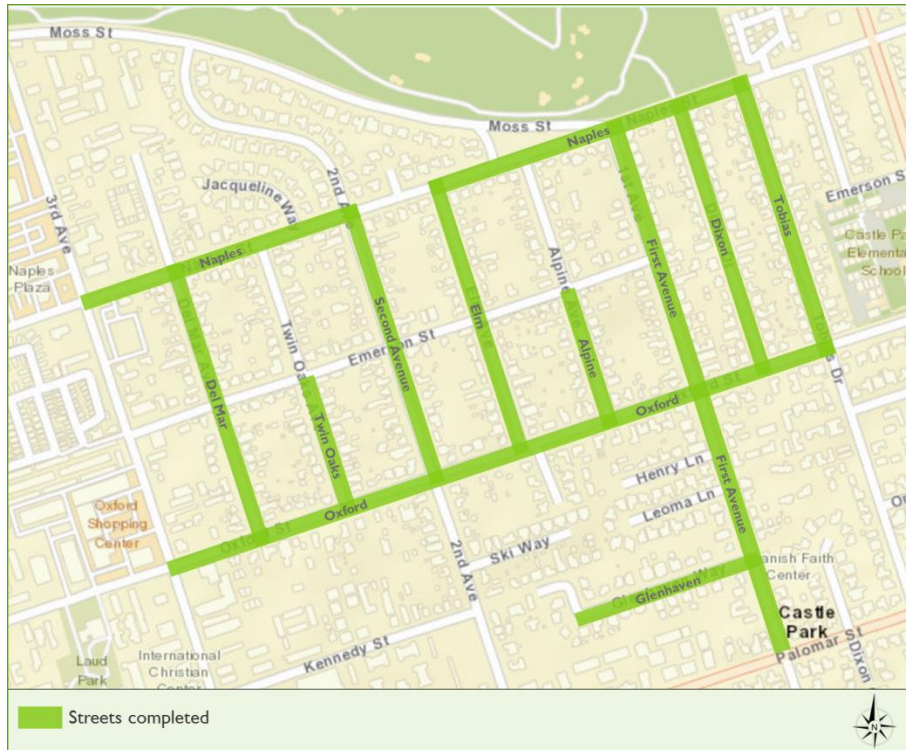
Not applicable.

DISCUSSION

Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) program. Under Section 108, HUD offers state and local governments the ability to leverage a small portion of their CDBG program funds into a source of financing for certain eligible activities and projects. Under the terms of the Section 108 program, an entitlement public entity may apply for loan commitments of up to five times the entity's latest approved CDBG entitlement amount. Section 108 loans are principally secured by a pledge of the jurisdiction's current and future CDBG funds.

In 2008, the City received a Section 108 Loan Guarantee in the amount of \$9,500,000 to complete infrastructure improvements in the Castle Park area. Such improvements included the construction of new sidewalks, curbs, gutters, lighting and signage in an area that lacked this basic infrastructure. By 2013, the loan proceeds in its entirety had been exhausted and eleven streets completed (refer to map below).

Castlepark Infrastructure Project



The current outstanding principal balance of the loan is \$5,886,000. The loan requires an average annual debt service payment of \$750,000, which is funded through the CDBG annual entitlement funds. Debt service on the current Section 108 loan began in January 2009 and is scheduled to be completed in August 2028.

On November 27, 2018, HUD notified the City of its scheduled February 2019 public offering that will enable those borrowers that participated in certain prior public offerings to refinance their existing loans at more favorable interest rates. The existing City of Chula Vista Section 108 note balance of \$5,886,000 is eligible to be refinanced through this public offering. Participation in the public offering would refinance

the current note balance in its entirety. Other terms of the loan would remain the same such as the final maturity date and security provisions of the existing note.

Based on current estimates, the issuance costs to the City are expected to amount to approximately \$29,430 and the present value of the savings to be realized through the note's final maturity date are anticipated to be approximately \$586,000, or 10 percent of the current debt obligation.

Below are the City's current interest rates under the current note (Series 2008-A) compared to the projected interest rates for the Series 2019-A offering:

Payment Date	2008-A	2019-A*
Aug 1, 2019	4.87%	2.89%
Aug 1, 2020	4.96%	3.05%
Aug 1, 2021	5.05%	3.08%
Aug 1, 2022	5.13%	3.13%
Aug 1, 2023	5.19%	3.15%
Aug 1, 2024	5.25%	3.20%
Aug 1, 2025	5.30%	3.33%
Aug 1, 2026	5.34%	3.38%
Aug 1, 2027	5.38%	3.52%
Aug 1, 2028	5.42%	3.57%

**Estimated rates as of 11/26/2018*

On December 6, 2018, the City notified HUD of its intent to redeem the current note based upon the cost savings that would be realized and the opportunity for the City to fund other CDBG eligible activities with such costs savings. In January 2019, HUD will provide the City the applicable loan documents for the refinancing. Subsequent to the execution of the refinancing documents, HUD will provide the documents to the Bank of New York Mellon (BNYM) in its role as the Fiscal Agent for the Section 108 Program, and it will arrange for the loans to be funded on February 1.

DECISION-MAKER CONFLICT

Staff has reviewed the decision contemplated by this action and has determined that it is not site-specific and consequently, the 500-foot rule found in California Code of Regulations Title 2, section 18702.2(a)(11), is not applicable to this decision for purposes of determining a disqualifying real property-related financial conflict of interest under the Political Reform Act (Cal. Gov't Code § 87100, et seq.).

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. The activities funded through the federal grant programs are directed towards the revitalization of neighborhoods, economic

development opportunities, and improved facilities and services. The nature of these activities is consistent with the Goals, Strategies and Initiatives in Goal 5: Connected Community.

Strategy 5.2: Provide Opportunities that Enrich the Community's Quality of Life

Initiative 5.2.1 Provide Services and Programs Responsive to Residents Priorities

The CDBG program, in its entirety, provides for a suitable living environment with adequate public facilities, infrastructure and services to City residents.

CURRENT-YEAR FISCAL IMPACT

The City's current Section 108 note has an outstanding principal balance of \$5,886,000. Based on the current estimates of the HUD underwriters, the net savings to the City over the remaining life of the note are estimated to be \$588,000. Issuance costs for the new Section 108 note are estimated to be approximately \$29,430. These costs will be paid to HUD three business days in advance of the offering date, and will be paid with CDBG entitlement funds.

ONGOING FISCAL IMPACT

The present value of the savings from the note refinancing, as calculated by the HUD underwriters, will result in an average savings of approximately \$58,000 per year over the remaining ten years of loan debt service. Because the Section 108 loan debt service is funded by the City's CDBG entitlement funds, the average annual debt service savings per year will be available for the City to fund other CDBG-eligible activities.

ATTACHMENTS

None.

Staff Contact: Angelica Davis, DSD – Housing Sr Management Analyst