

CITY OF TOLEDO

SECTION 108 LOAN PROGRAM POLICY

General

The City of Toledo's Section 108 Program is a loan program that utilizes the federal Community Development Block Grant's Section 108 loan guarantee program funds to leverage other local resources to finance economic development projects that builds upon the Toledo region's unique industrial strengths. The strategic employment of these funds will result in regional economic growth while creating job opportunities for low and moderate income persons. In providing these funds, the City of Toledo pledges a portion of their current and future CDBG allocations as a guarantee to cover the loan amount as security. In accepting Section 108 funds, the City of Toledo and any loan recipient must follow all CDBG rules and regulations, except modification contained in 24 CFR 570 part M.

Principles

The City's Section 108 program is built upon several sound and rational principles:

- Leveraging other federal, state and local resources to create an expanded loan pool,
- Building upon regional industrial strengths and plans,
- Utilizing local expertise in program and project development, implementation and evaluation
- Forming and strengthening partnerships among local entities,
- Ensuring compatibility between funded projects and neighborhood plans,
- Conforming with federal Section 108 program rules and regulations, and
- Resulting in construction and permanent job opportunities for low and moderate income persons.

Funding Pool

The size of the funding pool will be contingent upon the City of Toledo's CDBG entitlement allocation at the time of the Section 108 loan application to HUD, the amount of additional local funds and the Port Authority's bonding authority. The City of Toledo shall apply for an amount that is five times the City's latest approved CDBG entitlement allocation minus any outstanding Section 108 commitments and/or principal balances of Section 108 loans. The City of Toledo's Section 108 loan or loan guarantee, along with any other local funds or guarantees that are secured, will be provided to the Port Authority as basis for the Port Authority to issue bonds utilizing this original local principal amount to create a pool that is four to five times the local amount. Only the bond proceeds would be loaned out, with the original City's Section 108 loan amount or loan guarantee amount, together with any locally raised funds, remaining untouched, except in the case of a default.

National Objective

All projects must meet the national objective of job creation for low and moderate income people. As such at least 51% of permanent jobs created, computed on a full-time bases, must be available to low and moderate income persons. In addition, at least one job must be created for each \$35,000 of Section 108 funds in a project. For a job to be considered available to low or moderate income person, a position must not require that special skills beyond that available to someone who graduated from high school to fill the position or that businesses agree to hire unqualified person and provide training for that position when special skills are required, and that action is taken to ensure that low and moderate income persons receive **first consideration** for filling a position that is consider available for low or moderate income person.

Project Type Eligibility

The City of Toledo's Section 108 funds shall be limited to the one of the following CDBG-eligible economic development or public improvement projects located within a City of Toledo low and moderate income neighborhood;

1. Advances one of the five industrial cluster areas of strength for Northwest Ohio, as identified in the Toledo Regional Meta-Plan, including the following
 - Advanced and alternative energy,
 - Advanced manufacturing and materials,
 - Biosciences,
 - Transportation and logistics, and
 - Architecture, engineering and construction services;
2. Supports small and micro businesses; or
3. Public improvements

At least 10% of the funds will be reserved to support small or micro businesses and public improvement projects. The Section 108 funds are to be used to maximize the area's economic or community development resources by investing strategically to build upon Toledo's asset and strengths in order to improve Toledo's competitiveness through leveraging.

Project Review

The project review shall consist of three parts: project type eligibility review performed by Port Authority, LISC or City of Toledo depending on the project type, project regulatory review performed by City of Toledo and project financial underwriting review performed by the Toledo-Lucas County Port Authority, LISC or City of Toledo depending on the project type. Project applications that fail to meet regulatory standards will not be forwarded to the Port Authority for project underwriting review.

A. Project Type Eligibility Review

Applications categorized as advancing one of the five industrial cluster areas identified in the Toledo Regional Meta-Plan will be first reviewed by Port Authority to identify consistency with Toledo Regional Meta-Plan. Failure by Port Authority to certify the project as being consistent with one of the eligible project types will deem the project to be ineligible for funding from the Section

108 Fund Pool. The applicant will be notified that the project does not meet industrial cluster, and project will not be forwarded for further review.

Applications under the small business or micro business category will be first reviewed by the Toledo LISC office as to eligibility as a small business or micro business. Failure by Toledo LISC to certify the project as an eligible small business or micro business project will deem the project to be ineligible for funding from the Section 108 Fund Pool.

Public improvement applications will be reviewed by the City of Toledo to identify as eligibility as a public improvement project. Failure by the City of Toledo to certify the project as an eligible public improvement project will deem the project to be ineligible for funding from the Section 108 Fund Pool.

B. Project Section 108 Regulatory Review

Following project type eligibility approval, the certifying agency will forward the application to The City of Toledo for review to determine compliance with Section 108 rules and regulations and geographic target area standard. The project is limited to eligible economic development activities that comply with 24 CFR 570.203, which include but are not limited to, real property acquisition, construction, rehabilitation, relocation, clearance/demolition, site preparation, equipment issuance costs, capitalized interest, and reserves. The City will review the application to ensure that all activities will be undertaken utilizing Section 108 funds are eligible activities.

Following the initial project activity eligibility review, the City will review the application to ensure that each project is located within a low and moderate income census tract and meets the low and moderate income job creation national objective. To judge compliance with this national objective, the City will review proposed commitments by the applicant, that 51% of jobs created are available to low and moderate income persons; these commitments will be formalized within written agreements prior to closing. The city will determine the number of jobs identified in the application that will be available to low and moderate income persons applying the following criteria:

1. Counting jobs that do not require special skills that can only be acquired with substantial training or work experience or education beyond high school or counting jobs that require special skills for which a business agrees to hire unqualified persons and provide training, and
2. Receiving a commitment from the business that ensures that low and moderate income persons receive **first consideration** for filling such jobs.

In addition, the City will be looking for a listing of all job positions, identifying all those positions designated for low and moderate income persons and the applicant's hiring process that will be used to fill those identified as positions reserved for low and moderate income persons. The City will then measure this amount against the total amount of jobs, based upon full-time equivalency, to identify if the applicant has met the 51% minimum low and moderate income criteria. Additionally, the City will review that the applicant is creating at least one job for every \$35,000 of Section 108 funds utilized in the project. Failure to

meet these low and moderate income job creation tests (public benefit test) will result in disqualification for the funding.

Furthermore, the City will review the project application to ensure that CDBG project cost and financial requirements are consistent with 24 CFR 570.204. These requirements include, but are not limited to, the following:

- Project costs are reasonable
- All other sources of project financing are committed
- Funds are not substituted for non-federal funds
- Project is financially feasible
- The return on the owner's equity investment will not be unreasonably high

Applications that cannot meet project cost and financial requirements will not be forwarded for underwriting review unless deficiencies are addressed.

For construction projects, the City will review the applicant's Davis-Bacon, Section 3 and MBE plan to ensure compliance with those obligations. For construction projects, the applicant must make a good faith effort to contract at least 21.3% of total amount of all construction contracts to certified minority business enterprises. Furthermore, at least 10% of the total amount of the value of construction contracts must go to certified Section 3 businesses (businesses that are owned and controlled by a local low or moderate income persons or businesses that employ or will employ substantial numbers of low or moderate income persons) and 30% of any new hires must be local low or moderate income persons, utilizing Section 3 hiring preference procedures. Furthermore, construction projects will require Davis-Bacon prevailing wage payment; wage determination letters and construction contracts will be reviewed to ensure compliance with Davis-Bacon regulations. The City will review Davis-Bacon, MBE and section 3 plans and/or documentation for compliance. Only those applicants that meet the Davis-Bacon, MBE and section 3 requirements will be eligible for further review.

The City will also review projects to ensure that Section 108 loan funds are not used for ineligible activities as well as consistency with other related federal laws and regulations.

C. Project Financial Underwriting Review

Upon a positive project Section 108 regulatory review, the City will forward the Toledo Regional Meta-Plan application to the Port Authority for project financial underwriting review. The Port Authority has a proven successful track record in regards to underwriting. The Port Authority's bond fund has a default rate of just 0.5%. Given that impressive default rate and expertise, the Port Authority will underwrite each project application for which the Port Authority will be providing financing and that meets the project type eligibility review standards and the Section 108 regulatory review standards, utilizing its present underwriting standards. The present Port Authority underwriting standards consist of the following:

Toledo-Lucas County Port Authority
Northwest Ohio Bond Fund Underwriting Standards: Minimum Criteria

<u>Term</u>	<u>Standard</u>
Debt Service Coverage EBIT/Fixed Charges (interest+principal+taxes)	Greater than 1.25x
Total Debt/EBITDA	No greater than 3.00x
Book Leverage Total liabilities/total equity	Not exceed 4.00x
Liquidity Current ratio	Greater than 1.00x
Collateral Coverage Assets to be secured/Proposed financing	Equal to or greater than 1.10x
Loan Tenure	Not to exceed useful life of asset
Personal guarantees	Required for businesses with less than \$20 million in book equity
Years in business	3 years operating history

Upon a positive project Section 108 regulatory review, the City will forward the small business or micro business application to Toledo LISC for project financial underwriting review. Toledo LISC will underwrite each project application, utilizing its present underwriting standards.

For public improvement projects, the City of Toledo shall review and approve the project as to its compatibility and cost-reasonableness.

Geographic Target Areas

Projects must be located within one of the low and moderate income census tracts within the City of Toledo, as identified in the current City of Toledo Consolidated Plan. The low and moderate income census tracts located in the City of Toledo 2010 – 2015 Consolidated Plan are as follows: 7, 8, 9,10, 11, 12.02, 13.02, 14, 15, 16, 17, 18, 19, 20, 22, 23, 24.02, 25, 26, 27, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43.01, 46, 47.01, 47.02, 48, 49, 50, 51, 52, 53, 54, 55.01, 66, 67, 68, and 73.02. In Appendix 1, you will find low and moderate-income census tracts, which are identified either as dark green (low-income census tracts) or light green (moderate-income census tracts) in color.

In addition, the project must be consistent with existing neighborhood plans.

Citizen Participation Plan

For Section 108 project, the consortium will follow the City of Toledo's Citizen Participation Plan for Substantial Amendments. Any interested party or individual has 30 days to comment on any substantial amendments/Section 108 project to the CONPLAN or Action Plan before its submission to HUD, unless specifically waived by HUD. Notices for the comment periods will be published in the local newspaper and two local minority periodicals at least seven days in advance of the comment period. Information will also be available on the City of Toledo website and disseminated to subrecipients of HUD funding. News releases will be sent to local media, announcing the substantial amendment and location of draft copies containing the changes. A summary of all citizen comments will be included within any substantial amendment forwarded to HUD. All comments will be accepted.

Depending on the scope of the proposed amendment, a minimum of two public hearing may be held to obtain citizen comment on any substantial amendments for Section 108 projects to the CONPLAN/One-Year Action Plan. The hearings will be held toward the end of the workday for the convenience of working people, at a location convenient to beneficiaries. Prior to the public hearings, notices for the public hearing will be published at least 7 days in advance of the hearing in the local newspaper and two local minority periodicals. Written notice will be forwarded to all subrecipients, announcing the date, time and location of the public hearing. Information will also be available on the City of Toledo website. All comments received at the public hearing will be accepted and noted within the final substantial amendment submitted to HUD. Further, draft copies and final copies of any substantial amendments will be available to all citizens at One Government Center, and various locations, including all local branches of the Toledo-Lucas County Public Library, Lucas Metropolitan Housing Authority, Fair Housing Center and the Ability Center.

For more detailed discussion of the Citizen Participation Plan, please review the full City's Citizen Participation Plan in Appendix 2.

Definitions

Micro-Business – a business that employs 5 or fewer employees

Public Improvement – any addition to or restoration of publicly-owned land or building that normally increases its usefulness and value and that benefits the general public

Small Business – a business that employs between 6 to 99 employees

Flow Chart

See Appendix 3 for details.