



City of Seattle

Michael Patrick McGinn, Mayor
Office of Economic Development
Stephen H. Johnson, Director

Memorandum

Date: July 13, 2011
To: Councilmember Richard Conlin, Chair of the Regional Development and Sustainability Committee; Councilmember Mike O'Brien, Vice-Chair; Councilmember Jean Godden, Member; Councilmember Tim Burgess, Alternate
From: Stephen H. Johnson, Director, Office of Economic Development
Subject: Bi-annual report on the activities and progress of the Rainier Valley Community Development Fund

I am pleased to submit the first 2011 bi-annual report on the activities and progress of the Rainier Valley Community Development Fund (RVCDF), as required by Council Ordinance #121953 and Statement of Legislative Intent (SLI) #010-2-A-1 in the 2005 Adopted Budget. The RVCDF is the non-profit, community-based financial institution that is managing the assets of the Transit-Oriented Community Development Fund of Southeast Seattle (the Fund). The City, King County and Sound Transit established the Fund to: (1) supplement mitigation available to businesses impacted by Link light rail construction along Martin Luther King Jr. Way S (MLK), and (2) invest in long-term business and real estate development in the Rainier Valley.

I especially appreciate Council's willingness to postpone this update for several months after its usual scheduled presentation. This extra time has allowed the Board of Directors to make progress on the development of a strategic plan that will guide the organization, and its oversight of the Fund, through the most important period of transition since its inception. The factors that create urgency to this moment in the history of the RVCDF are the imperatives of helping the Rainier Valley recover from the impacts of the recession and the approaching transition of paying for the Fund's operational expenses out of earned revenues rather than City of Seattle annual appropriations.

This report highlights some of the key issues you will hear about directly from members of the Board of Directors in the briefing scheduled for the July 19th meeting of the Committee on Regional Development and Sustainability. The Board is currently weighing the recommendations of a draft strategic plan that resulted from the extensive planning and community engagement process it initiated last winter. The key issues you will hear about in the briefing include decisions about the mix of products and services to be offered and the size and form of the organizational capacity necessary to administer the program over time.

I also want to take a moment to recognize the Board of Directors for their willingness to defer \$1 million in CDBG payments due to the Fund in each of fiscal years 2011 and 2012. Instead, the City will make a \$2 million payment to the Fund in fiscal year 2013. As you know, this action has enabled the City to reduce the impacts of federal budget cuts on other programs that provide critical support to low-income populations living in Seattle.

State of the Rainier Valley Highlights

Real Estate Development in the Valley

Despite the economy's slow recovery, there has continued to be a steady level of real estate development in the Valley, primarily of publicly-funded projects but also a few private developments. Two projects that received funding from RVCDF opened this year – Housing Resources Group's Rose Street apartments on the north edge of Rainier Beach and SEED's Claremont Apartments at the former Chubby & Tubby site. Tamarack Place, a Seattle Housing Authority project, held its grand opening this year as well. All of these projects provide affordable housing above new commercial space in key locations near business districts and transit.

Two private developments making progress are the Station at Othello Park, situated adjacent to the Othello light rail station and Harbor Properties' GreenHouse project in the Columbia City business district. The Station at Othello just recently opened and GreenHouse will begin construction in the fall, after delaying during the recession. Both projects are large-scale, market-rate housing projects; with commercial space at the ground level. Harbor Properties has also remodeled the nearby Columbia Motors Building for lease to local businesses.

All of this real estate development bodes well for residential growth, new building stock, density near light rail stations and new commercial space in the Valley. The subsidized units are filling up and the market rate units at the Station are leasing up slowly, but still within a normal rate. Yet so far, the new commercial space is not leasing up very quickly. Although older, there is a lot of existing commercial space at lower cost than the new space, which is likely a contributing factor to the slower pace. It will be important to continue monitoring the new retail space to see if it remains vacant and if it impacts lease rates Valley-wide.

RVCDF Key Issues

CDBG Funding Agreement

Due to severe cuts in the City's CDBG allocation, the RVCDF agreed to postpone \$1 million in CDBG funds in each of fiscal years 2011 and 2012, and receive a \$2 million payment in 2013. While the total funding commitment from the City remains the same, this extension will reduce the cuts to other programs that the City supports with CDBG funds. The RVCDF agreed to this as a partner in the community to minimize the impacts to other important services and programs.

Strategic Planning Process

The RVCDF had begun a strategic planning process in 2010, but progress was stalled at the end of the year with the resignation of the Executive Director. In 2011, the RVCDF selected a core team that included current and former RVCDF Board members, interim executive director, OED staff, and consultants with deep experience in the Valley to restart the strategic planning effort. The new process was to build on previous work, but to also engage the community for feedback and input. Many more stakeholders were interviewed and the community came out to the annual meeting in April to vote on the elements of the draft plan to show their priorities. From this process, it is clear that the community wants emphasis placed on developing and effectively managing lending and technical assistance programs to support existing Rainier Valley businesses, as well as, new businesses that will create more jobs in the Valley.



The core team delivered a final draft of the strategic plan to the RVCDF Board on June 20th. The Board has not yet approved the strategic plan. Through the strategic planning process a number of important issues have been identified that need to be addressed by the RVCDF:

- *Program Priorities.* The current draft of the strategic plan clarifies the mission, goals and strategies of the organization, incorporates feedback from community members and stakeholders, and has a sketch of the next steps for implementation. As noted above, business lending and technical assistance are the highest priorities for the Valley. The Board continues to develop this strategic plan.
- *Strategic Plan Implementation.* Once the strategic plan is finalized, the RVCDF will need to assemble an effective operational management structure to implement elements of the plan. The draft plan also includes new ideas that could require different organizational capacity and structure. What this structure will be and how the RVCDF could reorganize itself has not been fully explored yet.
- *Long Term Organizational Sustainability.* The RVCDF has critical organizational issues that need to be addressed in the near term in order to become sustainable in the long term:
 - Leadership – The Board President resigned recently and the Board has not taken action to replace her. More than half of the board members have left and been replaced in the past 6 months, which is difficult for any organization to manage and especially at a critical time of transition. There has also been consistent turnover in the Executive Director over the life of the organization.
 - Administrative Costs - OED recently compared the RVCDF to other similar community development lenders nationwide using the Opportunity Finance Network’s Side by Side Data and Peer Analysis report. The RVCDF’s staff cost per FTE are high and loans outstanding per financing FTE were comparatively low. It is difficult to make a direct comparison because the RVCDF is unique in its small geographic area and its equal mix of real estate and business lending. However administrative costs must be closely examined to plan for future sustainability.

Background

Mitigation of Light Rail Construction Impacts

The RVCDF has been operating now for the past eight years. Initially, it focused on designing and managing a program to support businesses along Martin Luther King Jr Way through heavy light-rail construction impacts. Through this program, called Supplemental Mitigation Assistance, the RVCDF provided payments to businesses based on actual revenues lost from the impacts of construction. The RVCDF made over 1,000 payments to 181 impacted businesses, disbursing over \$15 million. When construction ended in 2008, 85% of impacted businesses were still operating, although some had moved out of the Rainier Valley. The total percentage of businesses impacted by light rail construction that were still operating in the Rainier Valley was 77%.

Pre-Apprenticeship Training Program

During light rail construction, the RVCDF also funded a Pre-Apprenticeship training program, coordinated by the Seattle Jobs Initiative. Just under \$1 million was used to place 140 Rainier



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Valley residents into construction training programs and jobs at an average wage of \$17.38 per hour. All participants entering the program were low-income and of the 140 people placed, 58% are African American, 18% are Asian and 12% are multi-ethnic, Latino or Native American.

Community Development Program

The RVCDF's main line of business now is the Community Development Program, which is a revolving loan fund that provides low-cost real estate and business financing in the Rainier Valley. The program has been operating for over five years and has made 45 loans and 2 grants, investing \$15 million in businesses and real estate projects.

- Real Estate Investments – The RVCDF has invested \$11.7 million in real estate projects comprised of: \$5.8 million in commercial developments, \$4.6 million in mixed-use developments, and \$1.3 million in housing near a light rail station.
- Business Investments - \$3.3 million has been invested in small businesses to date. This includes the original City appropriations, revolved funds, and CDBG-R funding received in 2009.

The majority of real estate loan activity in 2011 has been for existing projects, such as providing funding for Housing Resource Group's Rose Street phase 2 and commercial space, as well as a commercial space loan for SEED's Claremont Apartments. Business loans in 2011 have included two loans in Columbia City, one for a restaurant and one for a new music club, as well as others for a daycare center and restaurant. With all the investments to date, the RVCDF has invested 78% in real estate and 22% in business lending. More detail on loan activity is in attached Table IV.

Financial Summary

Attachment A includes the following required reports:

- Table I. Summary of City Funding Appropriations and Disbursements for RVCDF Activities
- Table II. City Disbursements and Balances for RVCDF Activities by Fund Source
- Table III. The RVCDF Summary of Expenditures and Loan Activity as of April 30, 2011
- Table IV. The RVCDF Loan History as of April 30, 2011
- Table V. The RVCDF Loan Pipeline as of April 30, 2011

Questions regarding this report or other activities of the RVCDF can be directed to Theresa Barreras in the Office of Economic Development, phone number 206-684-4505, email Theresa.barreras@seattle.gov.

CC: Phyllis Schulman, Committee Staff;
Kieu Anh King, Council Central Staff;
Amanda Allen, City Budget Office;
Greg Shiring, City Budget Office;
Kristi Beattie, City Budget Office



Attachment A

Table I. Summary of City Funding Appropriations and Disbursements for the RVCDF Activities

Funding Appropriations ¹	Adopted									Projected			Total
	2003	2004	2005	2006	2007	2008	2009	2010	Total	2011	2012	2013	
Finance General	\$300,000	\$700,000	\$1,676,200	\$1,886,150	\$1,479,850	\$921,400	\$836,400		\$7,800,000				\$7,800,000
CDBG	1,912,500	2,400,000	2,400,000	2,500,000	4,350,000	4,330,000	4,330,000	\$4,230,000	26,452,500	\$3,230,000	\$3,317,500	\$2,000,000	35,000,000
Total	\$2,212,500	\$3,100,000	\$4,076,200	\$4,386,150	\$5,829,850	\$5,251,400	\$5,166,400	\$4,230,000	\$34,252,500	\$3,230,000	\$3,317,500	\$2,000,000	\$42,800,000
Disbursements	Actual									Projected			
Administration ²		(\$173,900)	(\$817,056)	(\$756,301)	(\$832,243)	(\$940,838)	(\$846,192)	(\$635,000)	(\$5,001,530)	(\$922,000)	(\$721,828)	(700,000)	(\$7,345,358)
Supplemental Mitigation ³			(674,635)	(2,753,528)	(3,287,760)	(2,392,889)	(17,077)		(9,125,889)				(9,125,889)
Community Development ⁴				(1,171,568)	(2,519,750)	(3,062,600)	(2,647,700)	(1,527,800)	(10,929,418)	(5,826,463)	(4,500,000)	(4,156,528)	(25,412,409)
Apprenticeship Program			(233,037)	(250,149)	(298,222)	(122,547)	(11,943)	(446)	(916,344)				(916,898)
Total Disbursements		(173,900)	(1,724,728)	(4,931,546)	(6,937,975)	(6,518,874)	(3,522,912)	(2,163,246)	(25,973,181)	(6,748,463)	(5,221,828)	(4,856,528)	(42,800,000)
Net Rolling Balance⁵	\$2,212,500	\$5,138,600	\$7,490,072	\$6,944,676	\$5,836,551	\$4,569,077	\$6,212,565	\$8,279,319	\$8,279,319	\$4,760,856	\$ 2,856,528	\$-	\$ -

1: **Total Finance General and CDBG appropriations** are based on the Council-approved Substitute Funding Agreement. Finance General Funds were planned to be appropriated from 2003 through 2009 and spent through 2012. This was originally designed to match appropriations to tax revenues generated by light rail construction. CDBG appropriations for 2011 – 2013 have been changed based on a proposed modification to the Substitute Funding Agreement that is slated for approval at Sound Transit and City Council in July. This schedule does not include CDBG-R funds that were awarded in 2009.

2: **Administration** includes amounts provided to the RVCDF and Sound Transit, as well as amounts retained by the City to cover a portion of City administrative costs. This is shown in more detail on Table II. Since this is a table of City disbursements only, program administration funded directly by Sound Transit is not shown.

3: **The Supplemental Mitigation program** provided reimbursements for losses caused by light rail construction and includes SDOT signal and software equipment shown on Table II. Since this is a table of City disbursements only, supplemental mitigation funded directly by Sound Transit is not shown.

4: **The Community Development program** is a revolving loan fund for business and real estate investments.

5: **Net Rolling Balance** reduces the cumulative appropriations by disbursements to date to show a running total of funds available (or projected to be available) at the end of each year. In the years 2003 through 2008, many of these “available” funds were reserved for the Supplemental Mitigation program. Current projections based on spending patterns and operations estimate that the RVCDF will not fully expend all funds by 2012.

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Table II. City Disbursements and Balances for the RVCDF Activities by Fund Source

Note: This table displays the information provided in Table I with more details of the amount and type of funds that the City has disbursed to the RVCDF and for what purpose. It also shows the net rolling balances by fund source. **These are City disbursements only.**

	Adopted								Total to Date	Projected			Total
	2003	2004	2005	2006	2007	2008	2009	2010		2011	2012	2013	
Finance General													
Appropriations	\$300,000	\$700,000	\$1,676,200	\$1,886,150	\$1,479,850	\$921,400	\$836,400	\$ -	\$7,800,000	\$ -	\$ -	\$7,800,000	
Disbursements	Actual									Projected			
RVCDF Program Admin.		(173,900)	(668,874)	(684,560)	(701,412)	(813,400)	(836,096)	(635,000)	(4,513,242)	(922,000)	(721,828)	(700,000)	(6,857,070)
Sound Transit Admin.			(148,182)	(71,741)	(80,831)	(77,438)	(10,096)		(388,288)				(388,288)
City of Seattle Admin.					(50,000)	(50,000)			(100,000)				(100,000)
Total Administration		(173,900)	(817,056)	(756,301)	(832,243)	(940,838)	(846,192)	(635,000)	(5,001,530)	(922,000)	(721,828)	(700,000)	(7,345,358)
Apprenticeship Program		-	-	(125,695)	(198,522)	(118,036)	(11,943)	(446)	(454,462)	-	-		(454,642)
Total Disbursements		(173,900)	(817,056)	(881,996)	(1,030,765)	(1,058,874)	(858,135)	(635,446)	(5,456,172)	(922,000)	(721,828)	(700,000)	(7,800,000)
Net Finance General Rolling Balance	\$300,000	\$826,100	\$1,685,244	\$2,689,398	\$3,138,483	\$3,001,009	\$2,979,274	\$2,343,828	\$2,343,828	\$1,421,828	\$ 700,000	\$ -	\$ -
CDBG	Adopted								Total to Date	Projected			Total
	2003	2004	2005	2006	2007	2008	2009	2010		2011	2012	2013	
Appropriations	\$1,912,500	\$2,400,000	\$2,400,000	\$2,500,000	\$4,350,000	\$4,330,000	\$4,330,000	\$4,230,000	\$26,452,500	\$3,230,000	\$3,317,500	\$2,000,000	\$35,000,000
Disbursements	Actual									Projected			
Supplemental Mitigation Business Assistance			(674,635)	(1,891,872)	(2,219,454)	(2,383,288)	(17,077)		(7,186,326)				(7,186,326)
SDOT - Signal Software & Equipment			-	(861,656)	(1,068,306)	(9,601)	-		(1,939,563)				(1,939,563)
Community Development			-	(1,171,568)	(2,519,750)	(3,062,600)	(2,647,700)	(1,527,800)	(10,929,418)	(6,200,000) ¹	(4,500,000)	(4,156,528)	(25,785,946)
Apprenticeship Program			(233,037)	(124,454)	(99,700)	(4,511)	-	-	(461,702)	-	-		(461,702)
Loan Loss Reserve Returned										373,537			373,537
Total Disbursements			(907,672)	(4,049,550)	(5,907,210)	(5,460,000)	(2,664,777)	(1,527,800)	(20,517,009)	(5,826,463)	(4,500,000)	(4,156,528)	(35,000,000)
Net CDBG Rolling Balance	\$1,912,500	\$4,312,500	\$5,804,828	\$4,255,278	\$2,698,068	\$1,568,068	\$3,233,291	\$5,935,491	\$5,935,491	\$ 3,339,028	\$2,156,528	\$-	\$ -

1: Projections are based on the assumption that all funds will be disbursed by the end of 2013. This would require an increased level of CDBG lending activity in 2011-2013 than has been the pattern to date. The RVCDF is updating its business plan, which will include an updated projection of activity levels.

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Table III. The RVCDF Summary of Expenditures and Loan Activity as of April 30, 2011

Table III shows the RVCDF's expenditures and loan activity to date broken out by product and purpose. This includes activity funded by the City of Seattle and Sound Transit. There are often differences in the recording and timing of transactions between the City and the RVCDF and amounts shown in this table might differ from the disbursements shown in Tables I and II. This table shows the total of all Supplemental Mitigation payments made, including those funded by the City and Sound Transit.

	2003	2004	2005	2006	2007	2008	2009	2010	Jan 1 - Apr 30 2011	Total
Program and General Administration	\$ 479,112	\$ 637,422	\$ 649,518	\$ 714,800	\$ 823,890	\$ 709,641	\$ 763,402	\$ 853,000	\$ 205,985	\$ 5,836,770
Community Development Program										
Real estate loans booked	-	-	-	1,087,185	2,050,000	2,250,000	1,850,000	2,618,050	1,845,830	11,701,065
Business loans booked	-	-	-	-	375,000	690,000	720,000	1,159,000	296,500	3,240,500
Business interest subsidy grants booked				40,897	-	-	-	-	-	40,897
Business technical assistance grants								3,000	-	3,000
Loan loss reserve funded	-	-	-	43,487	94,750	122,600	112,700	(373,537)	-	-
Subtotal	-	-	-	1,171,569	2,519,750	3,062,600	2,682,700	3,406,513	2,142,330	14,985,462
Supplemental Mitigation Payments to Businesses										
Re-establishment for relocating businesses	71,624	2,162,541	884,461	561,107	35,876	43,600	-			3,759,209
Business interruption caused by construction	-	1,328,406	1,538,533	2,065,564	3,169,214	2,939,652	17,077			11,058,446
Advances	95,000	179,048	-	-	-	-	-			274,048
Subtotal	166,624	3,669,995	2,422,994	2,626,671	3,205,090	2,983,252	17,077	-		15,091,703
Apprenticeship Program			267,319	277,909	225,284	71,742	12,047	446		854,747
Grand Total	\$ 645,736	\$ 4,307,417	\$ 3,339,831	\$ 4,790,949	\$ 6,774,014	\$ 6,827,235	\$ 3,475,226	\$ 4,259,959	\$ 2,348,315	\$ 36,768,682

Note: The Community Development Program was established to provide financing for real estate projects and businesses – 75% for real estate and 25% for businesses over the life of the program. So far, 22% of this program's funds have been used for business loans and grants and 78% for real estate loans. See Table IV for loan and grant details.

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Table IV. The RVCDF Loan History as of April 30, 2011

Real Estate Project Loans

Fund Source	Purpose	Date Booked	Loan Amount	Subtotal by Year	Year
CDBG	Mixed use project at former Chubby & Tubby site	Aug-06	\$ 1,087,185	\$ 1,087,185	2006
CDBG	Rose Street mixed use project in Rainier Beach	Dec-07	750,000		
CDBG	Housing project near Othello Station	Dec-07	1,300,000	2,050,000	2007
CDBG	Commercial development in North Rainier	Sep-08	2,250,000	2,250,000	2008
CDBG	Mixed use project on Rainier	Feb-09	865,000		
CDBG	Commercial development in Rainier Beach	Aug-09	850,000		
CDBG	Loan increase to accelerate mixed use project above	Aug-09	135,000	1,850,000	2009
Revolved	Columbia Motors Building in Columbia City	Apr-10	1,200,000		
CDBG	Oromo Community Center in Rainier Beach	Apr-10	904,800		
CDBG	Loan increase for pre-development on mixed use project	Aug-10	50,000		
Revolved	Site acquisition near Othello Station	Aug-10	463,250	2,618,050	2010
CDBG	Acquisition of adjacent property for Rose Street phase 2	Jan-11	148,030		
Revolved	Rose Street project commercial space	Jan-11	600,000		
CDBG	Commercial development in Rainier Beach loan increase	Jan-11	85,000		
Revolved	Site acquisition near Othello Station increase	Mar-11	62,800		
Revolved	Claremont Apartments commercial space	Apr-11	950,000	1,845,830	2011
Real Estate Total			\$ 11,701,065	\$ 11,701,065	

Business Loans

Fund Source	Purpose	Date Booked	Loan Amount	Subtotal by Year	Year
CDBG	Working capital	May-07	\$ 150,000		
CDBG	Community center and business expansion	Dec-07	225,000	\$ 375,000	2007
CDBG	Business expansion and job creation	Jun-08	200,000		
CDBG	Community center and business expansion	Jul-08	240,000		
CDBG	Business expansion and job creation	Jul-08	250,000	690,000	2008
CDBG	Business stabilization	Apr-09	35,000		
CDBG	Business stabilization and job creation	Apr-09	200,000		
CDBG	Business relocation and job creation	Jul-09	250,000		
CDBG	Business expansion	Sep-09	175,000		
CDBG	Business Retention and Expansion	Oct-09	25,000		
ARRA-Funded	Business Retention and Expansion	Dec-09	35,000	720,000	2009

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Business Loans						
Fund Source	Purpose	Date Booked	Loan Amount	Subtotal by Year	Year	
ARRA-Funded	Working capital	Feb-10	40,000			
ARRA-Funded	Equipment purchase & working capital	Feb-10	50,000			
ARRA-Funded	Microenterprise business acquisition	Mar-10	35,000			
Revolved	Refinance SBA loan	Mar-10	315,000			
CDBG	Equipment purchase & working capital	Apr-10	120,000			
ARRA-Funded	Equipment purchase & working capital	May-10	50,000			
Revolved	Inventory purchase & working capital	Sep-10	15,000			
CDBG	Inventory purchase & working capital	Oct-10	150,000			
Revolved	Working capital	Nov-10	9,000			
ARRA-Funded	Inventory purchase & working capital	Nov-10	25,000			
CDBG	Inventory purchase & working capital	Dec-10	250,000			
CDBG	Inventory purchase & working capital	Dec-10	50,000			
Revolved	Working capital	Dec-10	50,000	1,159,000	2010	
Revolved	Working capital	Jan-11	8,500			
Revolved	Working capital	Feb-11	25,000			
Revolved	Restaurant expansion	Mar-11	70,000			
Revolved	Restaurant/music club start up	Mar-11	108,000			
CDBG	Working capital, equipment purchase, refinance debt	Apr-11	85,000	296,500	2011	
Business Loans Total			\$ 3,240,500	\$ 3,240,500		
Total Loan History			\$ 14,941,565	\$ 14,941,565		

(1) This was the first RVCDF “Business Retention and Expansion” product, using their standard CDBG allocation.

Interest Subsidy Grants

Description	Date Booked	Loan Amount (Provided by CCD)	Interest Subsidy Grant (RVCDF)
Business working capital	Nov-06	\$ 50,000	\$ 6,794
Business working capital	Oct-06	100,000	34,103
Total Interest Subsidy Grants		\$ 150,000	\$ 40,897

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Table V. The RVCDF Loan Pipeline as of April 30, 2011

Pipeline	Estimated Loan Amount	Possible Closing Date
Real Estate Loans		
Community Center	\$ 1,270,000	July-11
Acquisition for mixed use property	4,330,000	Aug-11
Mixed use property	800,000	Aug-11
Community Center	60,000	To be Determined
Real Estate Total	<u>\$ 6,460,000</u>	
Business Loans		
Consulting business	\$ 25,000	July-11
Self-serve mechanic shop	80,000	To be Determined
Gas station/Convenience Store	500,000	To be Determined
Film company	37,000	To be Determined
Dentist office	110,000	To be Determined
Small grocer	500,000	To be Determined
Business Total	<u>\$ 1,252,000</u>	
Pipeline Total	<u>\$ 7,712,000</u>	