



City of Seattle

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

Memorandum

Date: August 1, 2012
To: Councilmember Sally Clark, Chair of the Economic Resiliency and Regional Relations Committee; Councilmember Tom Rasmussen, Vice-Chair; Councilmember Richard Conlin, Member; Councilmember Jean Godden, Alternate
From: Stephen H. Johnson, Director, Office of Economic Development
Subject: Bi-annual Rainier Valley Community Development Fund report

I am pleased to submit the first 2012 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 provided funding to the RVCDF 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.

In previous reports and presentations, the RVCDF has described the outreach and planning process conducted to develop its 2012-2016 Strategic Plan and discussed early implementation steps taken and general financial projections. However, these reports have not described the goals and strategies within the plan or the underlying intentions behind them. This report will take a step back to provide an overview of the Strategic Plan and give an update on the status of implementation.

Strategic Plan Highlights

The RVCDF's core goals as stated in the plan are essentially the same and are not intended to change its direction dramatically. There are a few important nuances that provide further clarification about the RVCDF's priorities and direction. The core goals of the plan are:

1. Support employment creation and retention by attracting, developing, maintaining and investing in businesses with significant potential to create and retain jobs.
2. Cultivate a supportive environment for new and existing businesses, including real estate acquisition, development and improvement
3. Secure funds for sustainability.

The first goal states that the RVCDF wants to maintain and build the job base in the Valley by attracting new employers as well as investing in local businesses that can grow. While the RVCDF has made a few loans in the past that created jobs, the intention of this goal is to emphasize this focus even more. In addition, the RVCDF will continue to lend to local small businesses as well as real estate development projects, particularly those that "cultivate a supportive environment" for businesses. In other words, real estate development projects should enhance the physical appearance of a key area and/or provide affordable or improved commercial spaces. Finally, the third primary

goal is for the RVCDF to seek new funds to enhance the sustainability of the Fund and its operations, rather than allowing the Fund to gradually diminish over time. Long-term sustainability was the initial intention of the Fund, but other possibilities had been discussed over the years. Overall, the core functions of business and real estate lending remain the same with an emphasis on business development and job creation.

To achieve the core goals, the Strategic Plan describes three primary program strategies:

- 1) Small business financing,
- 2) Commercial real estate financing, and
- 3) Business assistance.

The first two strategies are essentially a continuation of existing business and real estate lending products and services, with a new emphasis on commercial rather than residential real estate. Residential real estate development will be available but deployed more strategically to support neighborhood stability. The third strategy is essentially new, because the RVCDF has not fully realized a business technical assistance program even though it has attempted it in the past. Based on feedback from the community, local businesses continue to desire better technical assistance and the RVCDF has committed to developing an approach, either by serving businesses directly or by establishing a better referral and case management structure. There is further explanation below about how the RVCDF will engage with the Neighborhood Transit Oriented Development (NET) Initiative, now called “Community Cornerstones” to develop this technical assistance.

In addition to the three Program Strategies listed above, the RVCDF also outlined Organizational Strategies to improve its loan processing, communication and outreach, and performance measurement. These address feedback raised by local businesses and other community stakeholders that the lending process was not accessible enough.

Status of Implementation Plan

So far this year, the RVCDF has stayed on track with many of the actions in the implementation plan, particularly those related to organizational improvements. They have reviewed loan processes and materials to identify changes that would improve clarity and accessibility to the borrowers. They have added links to outside technical assistance providers on their website, although a couple of pages on the website remain blank: “Business Climate” and “Classes and Workshops.” They started a regular community survey to get feedback about their programs and services. They completed an application to become a Community Development Financial Institution (CDFI), which could lead to grants and loan resources in the future, if accepted. All of these steps were important and needed and the RVCDF, under the new Executive Director’s leadership, began addressing them right away.

The RVCDF has also been working through Community Cornerstones to develop technical assistance resources in the Valley. The community was clear in its desire for more business technical assistance: it was a priority during the MLK Neighborhood Plan update and came up in the RVCDF’s Strategic Plan outreach. While Community Cornerstones was an outgrowth of the Neighborhood Planning work, the RVCDF has been key partner and is co-chairing, with OED, the Business Technical Assistance and Vacant Spaces Committees.

Loan Production Goals

The RVCDF is on track to exceed its goal of providing over \$1 million in business loans for the year. So far there have been three business loans totaling \$800,000 from revolved funds (not CDBG). Another \$1 million in business loans were approved in July and are awaiting disbursement. These numbers show that business lending has increased as intended and can start to make up for the

dismal numbers in 2011 (only \$201,500 in business loans last year). The RVCDF is also on pace to exceed total business lending in any previous year. See Table IV, “The RVCDF Loan History” for more information about current and previous loans.

The Real Estate lending goal for the year is \$9 million. So far, a \$215,000 increase to an existing loan has been made and one real estate loan for \$2,175,000 in CDBG funds was disbursed in late July. The loan is to help an affordable housing nonprofit acquire and rehabilitate an apartment building to ensure permanent affordability and improve the appearance and maintenance of the property. The building is located in the heart of Rainier Beach on Rainier Avenue. The nonprofit is looking at two more properties as well, which make up part of the \$7 million pipeline. (See Table V. The RVCDF Loan Pipeline as of June 30, 2012 for details on the loan pipeline). The RVCDF has managed to increase its business lending, but its ability to triple real estate lending to meet the 2012 goal is less certain. They are working on a healthy pipeline, but real estate projects are much slower to materialize.

Sustainability

The RVCDF’s ability to meet these loan production targets is a critical component of its sustainability plan. The RVCDF’s 5 Year Loan Production Projections presented in its last presentation to this committee, estimated \$9 million in real estate loans made in 2012, comprised of \$8 million in CDBG and \$1 million in revolved funds. Each year, the RVCDF predicts that it will deploy all available CDBG funds but has yet to do so. As shown in the attached Table II, the RVCDF had unspent CDBG allocations of \$7.9 million at the end of 2011 and another \$3.3 million was allocated this year. Despite its best efforts, and much work to find good projects for a large investment, the RVCDF has not been able to catch up.

Although City funding will end after 2013, the RVCDF generally has up to three years to deploy CDBG funds from the year of allocation. If funds are not deployed in time, they must be returned to HUD. Based on allocations and disbursements to date, the RVCDF is probably not at risk of forfeiting any funds to this three-year timeline. However, because the balance of undisbursed CDBG funds is so high, the City is at risk of exceeding HUD’s limitations on unspent CDBG allocations. At least \$3 million of the projects in RVCDF’s pipeline need to occur this fall in order to avoid action by HUD.

Yet, the RVCDF’s current financial projections continue to plan for accelerated activity levels in the coming two years that increasingly seem unrealistic. There appears to be a real limit to the amount of lending the RVCDF is able to do in a year and especially for CDBG eligible projects. Part of this lies in the difficulty of finding projects that can meet all of the multiple conflicting goals and constraints: hoped-for job creation, commercial development, the market realities, and CDBG eligibility requirements. A different approach might be needed if the RVCDF really wants to deploy funds as quickly as stated.

Impact

The final question about lending is whether or not the types loans made are meeting the goals and intentions of the Strategic Plan. The business loans made to date have been to existing Valley businesses, which is one component of the Strategic Plan. While some of the loans help local businesses to retain or create jobs, the RVCDF is just beginning to actively work on attracting new jobs into the Valley. Likewise, the majority of real estate loans to date have been for mixed-use projects, in which the RVCDF provides critical funding for the commercial space. These loans have helped to improve commercial stock in key areas but there have not been any strictly commercial real estate projects with significant job creation yet.

Looking Ahead

OED and the RVCDF staff have been discussing how to strengthen our ongoing partnership now and looking ahead as the City's funding ends and our oversight role changes. OED sees the RVCDF as an unparalleled resource for economic development in the Rainier Valley and wants to support them as the "go-to" place for all business and real estate development. The RVCDF has built a network of businesses, professionals, and developers and has a deep knowledge of property sites and buildings which can be re-positioned. The RVCDF likewise wants to partner with the City on any initiatives for economic development and would like to be considered as part of the funding team on New Markets Tax Credit deals and other financing. OED will continue to use our business retention and attraction resources to support the RVCDF's job creation goals. As an example, OED worked with the RVCDF and the Rainier Chamber to create a business attraction brochure for the Valley and helped to fund a tour of the Valley for brokers and businesses. OED and the RVCDF have reaffirmed our commitment to work together to supporting economic development in the Valley.

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 June 30, 2012
- Table IV. The RVCDF Loan History as of June 30, 2012
- Table V. The RVCDF Loan Pipeline as of June 30, 2012

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: David Yeaworth, Committee Staff;
Dan Eder, Council Central Staff;
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	2011	Total	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	3,230,000	29,682,500	\$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	\$3,230,000	\$37,482,500	\$3,317,500	\$2,000,000	\$42,800,000
Disbursements	Actual										Projected		Total
Administration ²		\$(173,900)	\$(817,056)	\$(756,301)	\$(832,243)	\$(940,838)	\$(846,192)	\$(635,000)	\$(964,447)	\$(5,965,977)	\$(932,000)	\$(447,381)	
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)	(1,205,993)	(12,135,411)	(6,415,000)	(5,000,000)	(23,550,411)
Apprenticeship Program			(233,037)	(250,149)	(298,222)	(122,547)	(11,943)	(446)	-	(916,344)	-	-	(916,344)
Total Disbursements		(173,900)	(1,724,728)	(4,931,546)	(6,937,975)	(6,518,874)	(3,522,912)	(2,163,246)	(2,170,440)	(28,143,621)	(7,347,000)	(5,447,381)	(40,938,002)
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	\$9,338,879	\$9,338,879	\$5,309,379	\$1,861,998	\$1,861,998

1: **Total Finance General and CDBG appropriations** are based on the Council-approved Substitute Funding Agreement, as modified in 2011. Finance General Funds were appropriated from 2003 through 2009, which was originally designed to match appropriations to tax revenues generated by light rail construction. The schedule does not include CDBG-R funds that were awarded to RVCDF 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. Average annual spending on RVCDF Administration since 2005 is \$827,000. The 2010 disbursement shown of \$635,000 does not include a \$215,000 payment made in 2011. This payment also makes the total for 2011 appear higher than average. The amount projected to be disbursed in 2012 is based on the RVCDF's adopted budget. In 2013, the City will disburse the remaining undisbursed appropriations. The RVCDF plans to continue operations in 2013 at current levels and will therefore use other resources to cover its remaining costs.

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. The RVCDF has set a goal of \$10 million in lending in 2012, which includes both CDBG and revolved loan funds. This goal is much larger than any previous year's activity level. Thus, the 2012 and 2013 projections for CDBG disbursements are higher than average, yet would still not fully expend all appropriations.

5: **Net Rolling Balance** reduces the cumulative appropriations by disbursements to date to show a running total of funds undisbursed at the end of each year. In the years 2003 through 2008, many of these "available" funds were reserved for the Supplemental Mitigation program. Based on historic activity levels and projections for 2012 and 2013, it is estimated that as much as \$1.8 million in CDBG funds could be undisbursed at the end of 2013. These funds would remain reserved for the RVCDF's lending activity for at least three years after 2013.

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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.**

Finance General ¹	Adopted										Total
	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total	
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 ²	Actual										Projected				Total
	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total	Jan-Jun 2012	Jul-Dec 2012	Total 2012	2013	
RVCDF Program Admin.		(173,900)	(668,874)	(684,560)	(701,412)	(813,400)	(836,096)	(635,000)	(964,447)	(5,477,689)	(226,472)	(705,528)	(932,000)	(447,381)	(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)	(964,447)	(5,965,977)	(226,472)	(705,528)	(932,000)	(447,381)	(7,345,358)
Pre Apprenticeship		-	-	(125,695)	(198,522)	(118,036)	(11,943)	(446)	-	(454,642)					(454,642)
Total Disbursements		(173,900)	(817,056)	(881,996)	(1,030,765)	(1,058,874)	(858,135)	(635,446)	(964,447)	(6,420,619)	(226,472)	(705,528)	(932,000)	(447,381)	(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	\$1,379,381	\$1,379,381			\$447,381	\$ -	\$ -

1: **Total Finance General and CDBG appropriations** are based on the Council-approved Substitute Funding Agreement, as modified in 2011. Finance General Funds were appropriated from 2003 through 2009, which was originally designed to match appropriations to tax revenues generated by light rail construction. The schedule does not include CDBG-R funds that were awarded to RVCDF in 2009.

2: **Disbursements** 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. Since this is a table of City disbursements only, program administration funded directly by Sound Transit is not shown. Average annual spending on Administration from 2009 to the present is \$815,000. The 2010 disbursement shown of \$635,000 does not include a \$215,000 payment made in 2011. This payment also makes the total for 2011 appear higher than average. The amount projected to be disbursed in 2012 is based on the RVCDF's adopted budget. In 2013, the City will disburse the remaining undisbursed appropriations. The RVCDF plans to continue operations in 2013 at current levels and will therefore use other resources to cover its remaining costs.

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

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.**

CDBG	Adopted											2012	2013	Total
	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total				
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	\$3,230,000	\$29,682,500		\$3,317,500	\$2,000,000	\$35,000,000

Disbursements	Actual										Projected			Total	
	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total	Jan-Jun 2012	Jul-Dec 2012	Total 2012		2013
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)	(1,579,530) ¹	(12,508,948)	(215,000)	(6,200,000) ¹	(6,415,000)	(5,000,000)	(23,923,948)
Pre Apprenticeship Loan Loss Reserve Returned			(233,037)	(124,454)	(99,700)	(4,511)	-	-	-	(461,702)	-	-	-	(461,702)	
								373,537		373,537				373,537	
Total Disbursements			(907,672)	(4,049,550)	(5,907,210)	(5,460,000)	(2,664,777)	(1,527,800)	(1,205,993)	(21,723,002)	(215,000)	(6,200,000)	(6,415,000)	(5,000,000)	(33,138,002)
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	\$7,959,498	\$7,959,498			\$4,861,998	\$1,861,998	\$1,861,998

¹ CDBG Disbursements for the Community Development Lending Program - The RVCDF has set a goal of \$10 million in lending in 2012, which includes both CDBG and revolved loan funds. This goal is much larger than any previous year's activity level. Thus, the 2012 and 2013 projections for CDBG disbursements shown above are estimates based on upcoming projects in the pipeline.

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Table III. The RVCDF Summary of Expenditures and Loan Activity as of June 30, 2012

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	2011	Jan-Jun 2012	Total
Program and General Administration	\$ 479,112	\$ 637,422	\$ 649,518	\$ 714,800	\$ 823,890	\$ 709,641	\$ 763,402	\$ 853,000	\$ 678,298	\$502,143	\$ 6,811,226
Community Development Program											
Real estate loans booked	-	-	-	1,087,185	2,050,000	2,250,000	1,850,000	2,618,050	3,152,770	215,000	13,223,005
Business loans booked	-	-	-	-	375,000	690,000	720,000	1,159,000	201,500	800,000	3,945,500
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	3,354,270	1,015,000	17,212,402
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	\$ 4,032,568	\$ 1,517,143	\$ 39,970,078

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, 23% of program funds have been used for business loans and grants and 77% for real estate loans.

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Table IV. The RVCDF Loan History as of June 30, 2012

Business Loans Made by Funding Source	2006	2007	2008	2009	2010	2011	2012	Grand Total
ARRA-Funded Loans				\$ 35,000	\$ 200,000			\$ 235,000
CDBG	\$ 40,897	\$ 375,000	\$ 690,000	685,000	570,000	\$ 85,000		2,445,897
Revolved					389,000	116,500	\$ 800,000	1,305,500
Grand Total	\$ 40,897	\$ 375,000	\$ 690,000	\$ 720,000	\$ 1,159,000	\$ 201,500	\$ 800,000	\$ 3,986,397
2012 Loan Detail:								
Alpha Cine							300,000	
CDK Investments Partnership							25,000	
UT&T							475,000	
2012 Total							\$ 800,000	

Real Estate Loans Made by Funding Source	2006	2007	2008	2009	2010	2011	2012	Grand Total
CDBG	\$ 1,087,185	\$ 2,050,000	\$ 2,250,000	\$ 1,850,000	\$ 904,800	\$ 1,544,530	\$ 215,000	\$ 9,901,515
Revolved					1,676,000	1,716,940		3,392,940
Grand Total	\$ 1,087,185	\$ 2,050,000	\$ 2,250,000	\$ 1,850,000	\$ 2,580,800	\$ 3,261,470	\$ 215,000	\$ 13,294,455
2012 Loan Detail:								
Urban Impact Increase 3							215,000	
2012 Total							\$215,000	

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Table V. The RVCDF Loan Pipeline as of June 30, 2012

Pipeline	Estimated Loan Amount	Possible Closing Date	Possible Disbursement Date	Funding Source
Real Estate Loans				
Commercial space in mixed-use project on Rainier	\$ 925,000	Approval in Dec	2014	Revolved
Acquisition to rehab and convert to affordable	2,175,000	Aug	Aug	CDBG
Acquisition to rehab and convert to affordable	3,075,000	Nov	Dec	CDBG
Predevelopment for 50 unit affordable housing	\$750,000	Oct	Nov	CDBG
Real Estate Total	<u>\$ 6,925,000</u>			
Business Loans				
Retail/Service Store	\$200,000	Approved July	Aug	CDBG
Retail/Service Store	\$646,000	Approved July	Aug	Revolved
Convenience Store	\$250,000	Approved July	Aug	Revolved
Business Total	<u>\$ 1,096,000</u>			
Pipeline Total	<u>\$ 8,021,000</u>			