

## Central Market Cultural District Loan Fund Guidelines & Application Checklist

### PROGRAM DESCRIPTION AND OBJECTIVES

The Central Market Cultural District Loan Fund (CDLF) will enable the City and County of San Francisco to provide \$11 million in HUD Section 108-guaranteed loan proceeds to support eligible projects that will contribute to the stabilization and revitalization of the Central Market and Tenderloin area. A primary emphasis will be on financing businesses and development projects that will enhance the area's cultural arts and entertainment functions, building on the economic assets already there and focusing on industries that have the ability to create and/or retain jobs for low- and moderate-income people.

The objectives of the program are to:

- Provide subordinated financing to eligible borrowers to fill a financing gap beyond the amount of private and equity investment that can be raised.
- Provide long term fixed rate financing at interest rates lower than conventional financing.
- Provide a means for revitalizing the disadvantaged areas of San Francisco.
- Create sources of new jobs.

### PROGRAM DETAILS

**A. Loan Amounts**     \$250,000 to \$1 million, with exceptional cases going as low as \$50,000 and as high as \$4 million. The recommended levels of participation for the project funding vary with the size of the transaction:

<u>Project Cost</u>	<u>% Section 108</u>	<u>Maximum</u>
Less than \$250,000	80% of Value/ Cost	\$200,000
\$250,000 to \$3 Million	40% of Value/ Cost	\$1 Million
Greater than \$3 Million	35% of Value/ Cost	\$1 Million

#### Example

Project Cost:             \$2,000,000 (Real Estate)  
Equity:                     \$400,000  
Amount to Finance:     \$1,600,000

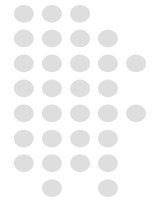
#### 1<sup>st</sup> Mortgage (Conventional)

Amount:                  \$800,000  
Rate:                        Market  
Term:                        Minimum of 10 Years, if Real Estate

#### 2<sup>nd</sup> Mortgage: (Section 108)

Amount:                  \$800,000 (up to 40%)  
Rate:                        Fixed at Public Offering  
Term:                        Up to 20 Years

**B. Loan to Value**     The maximum loan to value is 80% based on current appraisals (no more than 90 days old) and reflecting fair market value.



- C. Subordination** As long as the transaction conforms to the loan to value maximum, Section 108 loan may be subordinated in collateral.
- D. Interest Rates** Interest rates are one and a half percent (1.5%) over the City's cost of funds. The cost of funds is approximately 60 basis points over the 10-year Treasury rate. For example, as of June 2, 2010, the cost to the borrower would be 5.45% = 1.5% plus .60 plus 3.35% (10-year treasury rate as of 6/2/2010).
- E. Term** Up to 20 year maximum based on, but not limited to, cash flow, collateral, use of funds, and equity.
- F. Basic Eligibility Requirements**
- For-profit or nonprofit commercial endeavors that will generate new jobs for low- and moderate-income people as a result of this investment
  - Loan may be to a property owner or a tenant, at the City's discretion
  - Priority will be given to businesses that anchor or complement the cultural district
- G. Ineligible Businesses**
- Adult Bookstores, theaters or adult/companion escort or entertainment services
  - Liquor stores (convenience or grocery stores with alcohol more than 15% of inventory)
  - Check cashing businesses and pawn shops
  - Uses that have led to recurrent problems of public safety and welfare or that contribute to conditions to blight
- H. Eligible Loan Uses**
- Acquisition of real estate; new construction or rehabilitation; tenant and/or leasehold improvements
  - Soft costs (such as legal and loan fees)
  - Permanent working capital; inventory purchase, purchase of equipment and machinery
  - Management assistance to enable the business to carry out the project
- I. Loan Fees**  
A one and a half percent (1.5%) loan fee is assessed on the loan amount to capitalize interest payments, establish a debt service reserve fund, and pay for the costs of origination.
- Borrower is also responsible for the appraisal, title, and other out-of-pocket expenses related to loan processing, approval, environmental assessment and documentation.
- J. Job creation and retention requirement**  
It is a goal of the CDLF to create or retain quality permanent jobs as a result of the financial assistance provided. Section 108 program guidelines require a minimum of one permanent full-time equivalent (FTE) job for every \$50,000 in loan proceeds.
- A job created is a new permanent position created and filled that provides 1,750 hours a year of employment. A job retained is an existing position that would have been lost were it not for the Section 108 loan proceeds. Part-time and seasonal employment positions are eligible. For example, two 20-hour a week positions would qualify as one FTE. Only compensated employment should be reported.
- Job transfers resulting from businesses relocating to the Central Market and Tenderloin area do not satisfy the job creation and retention requirement.
- A list of jobs including job descriptions, full-time equivalency, and employee names should be available for review during the term of the project until job requirements are met. Businesses may have up to five years from completion of project to meet job creation requirements.
- K. Environmental Assessment**  
Activities funded through this program are subject to the environmental review regulations contained in 24 CFR Part 58. All projects must have received final environmental clearance before funds can be committed by the Mayor's Office of Housing (MOH). The form of environmental clearance will vary

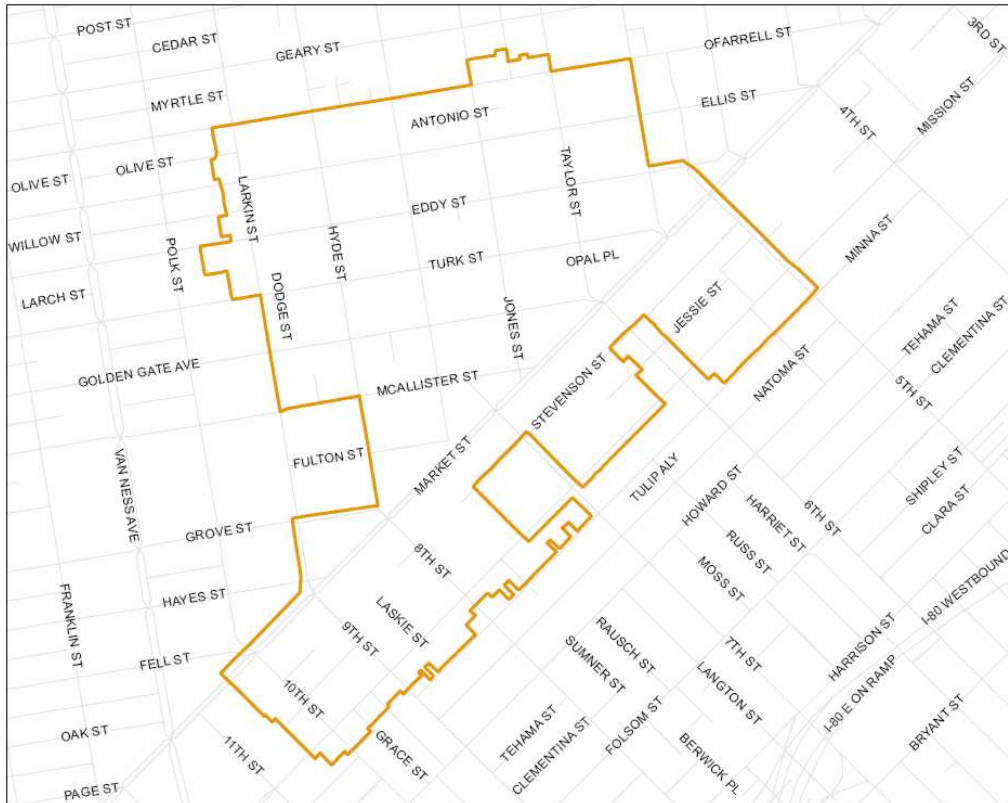
depending upon the nature and extent of the project. Environmental clearances (ERR) include exemptions and Categorical Exclusions issued by MOH and Categorical Exclusions and Environmental Assessments approved by HUD. We will determine based on your project description the appropriate level of environmental review and refer you to qualified consultants to assist in the preparation.

**L. Other Program Information**

All Section 108 funded projects are required to comply with federal, state and local statutes, regulations, and requirements, including but not limited to the Davis-Bacon Act, Workers Compensation, and insurance requirements.

**M. Geographic Scope**

Slightly north and south of Market Street from 5<sup>th</sup> to 10<sup>th</sup> Streets and Tenderloin area within approximate boundaries of Mason, O’Farrell, and Larkin Streets.



**COLLATERAL EVALUATION**

CDLF will require 100% coverage (collateral value/loan amount) based on the discount value of collateral.

	<b>Discount</b>	<b>Book Value Source</b>
<b>Equipment</b>	60-80% dependant on type of equipment	Appraiser, Balance Sheet, Machinery and Equipment quotes
<b>Real Estate</b>	80%	Appraisal
<b>Stock Securities</b>	Up to 80%	Financial journals/newspaper

**UNDERWRITING GUIDELINES**

Loan requests will be considered on an individual basis using the factors in the documentation checklist below. In evaluating an application for a Section 108 loan, OEWD considers both the ability and willingness to repay a loan. This is appraised through qualitative (i.e. personal character) and quantitative (i.e. credit history) factors.

## **BUSINESS LOAN CHECKLIST**

### **A. Project**

**Market Analysis**

Business applicants should provide a market analysis (if available) demonstrating who the (potential) customers of the business are and how large the demand is, who the major competitors are, their marketing strategies, and the trends of the industry and the market to be served.

**Site control**

Submit a deed or tax bill as evidence of ownership (if loan is provided, a deed of trust will be required later). If facility is leased, submit copy of lease (if loan is provided, lease would later be modified to provide security of loan terms and appropriate term)

**Legal Status**

OEWD requires legal formation documents to verify the ownership and legal structure of potential borrowers. Clients must provide one of the following sets of documents:

- Nonprofit corporation: Articles of Incorporation
- Corporation: Articles of Incorporation and Shareholders Agreement
- Partnership: Partnership Agreement
- LLC: Articles of Organization, LLC Operating Agreement
- Other (explain): \_\_\_\_\_

### **B. Credit Factors**

Applicants need to demonstrate a capacity to afford the loan payments in order to qualify. Cash flow from the business is a primary source of repayment. The ability to repay may be demonstrated by historical figures of an existing business, by projected cash flow, equity contributions and commitment and industry information. Applicants are required to provide the following:

- Fully loaded budget**— Applicant must provide all hard and soft costs of budget
  - Soft costs—legal fees, architecture, engineering, appraisals, environmental assessment
  - Hard costs—building, inventory, equipment, machinery
- Ten-Year Forecast of Profit and Loss and One-Year Pro-forma Balance Sheet**
- Personal Financial Statements (no more than 90 days old) of Principals**—These are required from everyone having twenty 20% or more ownership of the business.
- Financial Statements**—Current and historical financial statements for the business are required.
  - Current financial statements must be less than 90 days old.
  - Historical financials—Three years of statements are required including the all notes.
    - Balance Sheet
    - Profit and Loss
    - Reconciliation of Net Worth
    - Changes in Cash Position
- Business Tax Returns (3 years)**
- Aging of payables and receivables** (less than 30 days, 30-60 days, greater than 60)
- If new venture, month-to-month cash flow for 24 months after loan is made**— Since startups do not have historical cash flow on which to base repayment, the financial projections are the best estimate we have.
- List of long term debt and capital leases (original amount, rate, term, payment, outstanding balance, etc.)**

### **C. Management and Organization Factors**

It is important that OEWD gain personal knowledge of the person(s) who are the owner and/or manager of the project.

- Resumes of Key Personnel**— Resumes of principals and key staff who provide managerial functions like organizing, staffing and directing will be analyzed.

## REAL ESTATE/DEVELOPER LOAN CHECKLIST

### A. Project

**Collateral**

The value of the site must be supported by an appraisal. Fair market rents will also be analyzed. Property age, appearance, local market, location, and accessibility are other factors that may be considered. CDLF will accept a second position on the mortgage to a financial institution.

**Site control**

Submit a deed or tax bill as evidence of ownership (if loan is provided, a deed of trust will be required later). If facility is leased, submit copy of lease (if loan is provided, lease would later be modified to provide security of loan terms and appropriate term)

**Legal Status**

OEWD requires legal formation documents to verify the ownership and legal structure of potential borrowers. Clients must provide one of the following sets of documents:

- Nonprofit corporation: Articles of Incorporation
- Corporation: Articles of Incorporation and Shareholders Agreement
- Partnership: Partnership Agreement
- LLC: Articles of Organization, LLC Operating Agreement
- Other (explain): \_\_\_\_\_

### B. Credit Factors

Applicants need to demonstrate a capacity to afford the loan payments in order to qualify. Net operating income from the debt service derived from leasing is a primary source of repayment. The ability to repay may be demonstrated by historical figures of third party leases, by projected cash flow, equity contributions and commitments, and industry information. Applicants are required to provide the following:

- Fully loaded budget**— Applicant must provide all hard and soft costs of budget
- Ten-Year Projection of Cash Flow**
  - Include Sale of Property for Holding Period
  - Include Tax Credits
  - Calculate Yield to Various Classes of Investors
  - Document Assumptions used for Rents, Vacancy, Operating Expenses, Reserves, etc. Cite Comparables
- Personal Financial Statements (no more than 90 days old) of Developers**
- Appraisals (if available)**—Appraisal reports, Market Studies, and/or Market Surveys are recommended to substantiate assumptions in the pro-forma and forecasts. OEWD reserves the right to request appraisal reports throughout the application process.

### C. Management and Organization Factors

It is important that OEWD gain personal knowledge of the person(s) who are the manager and/or developer of the project. Provide the names in your development team—the contractor, property manager, architect, leasing agent, and developer. The project must have a development team that has capacity and experience to complete the project as demonstrated by past projects and financial strength.

- Resumes of Key Personnel**— Resumes of your development team will be analyzed.

**SUBMISSION INSTRUCTIONS** - Send five (5) double sided and stapled copies of required documentation, and email an electronic PDF copy to:

Amy Cohen  
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1 Dr. Carlton B. Goodlett Place, Suite 448  
San Francisco, CA 94102  
Email: amy.b.cohen@sfgov.org