

**SOUND TRANSIT
STAFF REPORT**

MOTION NO. M2002-138

Adoption of Community Development Fund Operating Plan

Meeting:	Date:	Type of Action:	Staff Contact:	Phone:
Finance Committee Board	12/5/02 12/12/02	Discussion Action	Ron Lewis, Link Deputy Director Joann Francis, Chief Administrative Officer Hugh Simpson, Finance Director	(206) 689-4905 (206) 689-4934 (206) 398-5082

Contract/Agreement Type:		Requested Action:	
Competitive Procurement		Execute New Contract/Agreement	
Sole Source		Amend Existing Contract/Agreement	
Memorandum of Agreement		Contingency Funds Required	
Purchase/Sale Agreement		Budget Amendment Required	

- Applicable to proposed transaction.

Objective of Action

To adopt the Rainier Valley Community Development Fund (CDF) Operating Plan, which provides overall guidance for the administration of the Fund and governance of the entity that will administer the Fund pursuant to a contract with Sound Transit.

Action

Adopt the Rainier Valley Community Development Fund Operating Plan.

KEY FEATURES

- Adopt the Rainier Valley Community Development Fund Operating Plan which includes the following:
- Establishes a business plan that provides overall guidance for the governance of the CDF and administration of the Fund.
- Details the products and services that will be offered for supplemental mitigation of the impacts of light rail construction, to promote the development of relocation sites for dislocated businesses, and to enhance Employment opportunities for Rainier Valley residents.
- Recognizes that all products and services of the supplemental mitigation account are compensatory in nature.
- Contemplates that Sound Transit will enter a contract with the newly incorporated non-profit organization called the Rainier Valley Community Development Fund (the "CDF") to administer the Fund.

- Provides the CDF Board flexibility to adjust certain aspects of its operations to meet market demands. Sound Transit will retain the right to review and/or approve the exercise of such flexibility in its long-term service contract with the CDF.
- Provides that certain fundamental aspects of Fund operations may not be adjusted without amendment to the Operating Plan approved by both Seattle City Council and Sound Transit Board:
 1. the mission statement of the Fund;
 2. the purposes of the payments, advances, and loans described in Appendix A of the Operating Plan;
 3. separation of its operations and financial record keeping into the Supplemental Mitigation Account and the Community Development Account;
 4. the geographic boundaries of each of the Fund's three product areas described in Section 4.2 of the Operating Plan; and
 5. legal and governance structure of the CDF as a private, non-profit corporation with tax-exempt status under section 501(c)(3) of the Internal Revenue Code.
- Provides that a future amendment to the Operating Plan, approved by both the Seattle City Council and the Sound Transit Board, will be necessary before the Fund can expend any funds for transit-oriented and community development activities (with the exception of the pre-apprenticeship training program) described in the Operating Plan.
- States that if there are inconsistencies between the provisions of the Operating Plan and the motion, the motion shall govern.

BUDGET DISCUSSION

Since the Operating Plan establishes how the Fund will operate and what business processes will be required, there is no affect on the overall Sound Transit budget. However, the table below depicts the budget and funding categories on an annual basis from 2002 to 2009 proposed for the CDF. Within the table there are four sections that describe funding from partnerships, Sound Transit funding, CDF mitigation payments and advances and CDF administrative costs along with accompanying notes. Once the long-term service agreement is executed a budget amendment for 2003 will be prepared for Board consideration that incorporates the numbers depicted below. Also note numbers depicted in the table are in thousands.

CDF Budget and Funding Notes

Note 1: Motion No. M2002-46 (Memorandum of Agreement with the City of Seattle) provides for funding from the City of Seattle to Sound Transit in reference 1(a) through utility related work on the Link light rail Initial Segment. Motion No. M2002-65 (Memorandum of Agreement with King County and City of Seattle related to the Downtown Seattle Transit Tunnel) provides for funding from King County to Sound Transit in line 1(b) for work related to the Link light rail Initial Segment.

Note 2: Under the agreements referenced above, Sound Transit will make payments per this schedule to a separate account to be used in disbursing funds for supplemental mitigation payments, advances and administrative costs. Annual payments for 2002 and 2003 are projected to be paid in 2003.

Note 3: Amounts included under this section are for payments from the CDF designated funds contained within Sound Transit financial records to impacted parties for program elements (mitigation payments and advances). Annual estimates were created from input from the CDF Steering Committee and Founding Board.

Note 4: Amounts included in this section are divided into two sections: service contract payments and Sound Transit internal administrative costs. Service contract payments are estimated and will be presented within the proposed long-term service agreement to the Sound Transit Board during December 2002 and January 2003. These funds will be used by the CDF entity to implement the operating plan through 2008. Sound Transit internal costs include to-date actual and committed expenditures of \$318 k, plus funding for one FTE in the City of Seattle Office of Economic Development, and annual amounts required for Sound Transit to administer the program through 2008. All administrative costs (service payments and Sound Transit internal administrative costs) will be reimbursed from CDF designated funds included in Note 2 to Sound Transit).

Note 5: Current funding from Sound Transit is forecasted at \$28.7 million. Forecasted program elements (supplemental mitigation payments, advances and administrative costs) are estimated at \$30.6 million. The difference of \$1.9 million is interest earned from 2003-2009 on funds administered by Sound Transit. Any shortfall will be made up through an adjustment of program elements or by repayments from advances.

Note 6: Beginning in 2003, Sound Transit and the City of Seattle are sharing costs of service contract payments. The costs shown include only Sound Transit's 70% portion of the total payment. The City of Seattle will pay the remaining 30%. Sound Transit's service contract payment responsibilities will end in 2008.

HISTORY OF THE PROJECT

On November 18, 1999, by Resolution No. R99-34, the Sound Transit Board established a \$50 million (YOE\$) Transit-Oriented Community Development Fund ("the Fund") to be available to mitigate impacts of the construction and operation of light rail in Southeast Seattle. In August 2000, by Motion No. M2000-72, the Sound Transit Board established a steering committee for the \$50 million Transit-Oriented Community Development Fund for Southeast Seattle, providing for associated tasks and procedures (the "Steering Committee").

In May 2002, by Motion No. M2002-46, the Board authorized execution of an Agreement with the City of Seattle to establish, oversee and fund the City of Seattle's portion of the Transit-Oriented Community Development Fund for Southeast Seattle, and to provide funding support for certain aspects of the Central Link Light Rail project (the "Funding Agreement"). The Funding Agreement states that both Sound Transit and the City must adopt an identical Operating Plan for the Fund before payments are made by either party into the Fund. On December 3, 2002, the Seattle Transportation Committee, and on December 9, 2002, the Seattle City Council, are scheduled to consider for adoption the Operating Plan that is the subject of this action. Under the Funding Agreement with the City, Sound Transit is required to make its initial payment of \$3,000,000 to the Fund sixty days after the date on which both of the following conditions have been met: (1) the Operating Plan has been adopted by both bodies and (2) the entity that is expected to administer the Fund is staffed sufficiently to begin Fund administration activities. In spring 2002, the Steering Committee submitted a draft Operating Plan to the Sound Transit Board. On September 19, 2002, the CDF Founding Board, the Committee charged with start-up of the Fund, submitted a further refined draft Operating Plan to the Sound Transit Board for consideration.

The attached Operating Plan provides that Sound Transit will contract with a newly incorporated non-profit entity, the Rainier Valley Community Development Fund (the "CDF") to administer Sound Transit's Supplemental Mitigation Account of the Fund. It details the products and services that will be offered for supplemental mitigation of the impacts of light rail construction, to promote the development of relocation sites for dislocated businesses, and to enhance Employment opportunities for Rainier Valley residents. It provides the CDF Board flexibility to adjust certain aspects of its operations to meet market demands. Sound Transit will retain the right to review and/or approve the exercise of such flexibility in its long-term service contract with the CDF. Certain aspects of Fund operations may not be adjusted without an amendment to the Operating Plan approved by both the Sound Transit Board and the Seattle City Council: the mission statement of the Fund; the purposes of the payments, advances, and loans described in Appendix A of the Operating Plan; separation of its operations and financial record keeping into the Supplemental Mitigation Account and the Community Development Account; the geographic boundaries of each of the Fund's three product areas described in Section 4.2 of the Operating Plan; and legal and governance structure of the CDF as a private, non-profit corporation with tax-exempt status under section 501(c)(3) of the Internal Revenue Code. A future amendment to the Operating Plan, approved by both the Seattle City Council and the Sound Transit Board, will be necessary before the Fund can expend any funds for transit-oriented and community development activities (with the exception of the pre-apprenticeship program) described in the Operating Plan.

In October 2002, by Motion No. M2002-16, the Sound Transit Board authorized execution of an interim service agreement and budget for operations start-up through the end of 2002 and authorized negotiations to begin with the CDF for a long-term service agreement. The interim agreement has been executed and the CDF has begun work on start-up operations. Long-term service agreement negotiations are underway and staff anticipates that a final agreement will be brought to the Board for consideration in January 2003. The service agreement will include additional detail about Fund administration and the obligations of the CDF. If Sound Transit is unable to negotiate a contract with the CDF for the administration of the Supplemental Mitigation Account or if the CDF fails in its contractual obligations, Sound Transit will administer the Supplemental Mitigation Account through other means, which may include contracting with another entity.

This action would adopt the Operating Plan as contemplated in the Funding Agreement.

One of the major and imminent goals of the Fund is the disbursement of supplemental mitigation funds to impacted parties in the Rainier Valley in tandem with Sound Transit's property acquisition and relocation program currently underway.

Prior Board or Committee Actions and Relevant Board Policies

Motion or Resolution Number	Summary of Action	Date of Action
R2002-16	Authorized an interim service agreement with the Community Development Fund (CDF), adopting a budget for that interim agreement through December 31, 2002, and authorizing beginning negotiations with the CDF incorporated as the Rainier Valley Community Development Fund for a long-term service agreement to be executed by December 31, 2002.	10/10/02
M2002-46	Authorizing an agreement with the City of Seattle to establish, oversee and fund the City of Seattle's portion of the Transit-Oriented Community Development Fund for Southeast Seattle, and to provide funding support for certain aspects of the Central Link Light Rail Project	5/9/02
M2002-34	Authorizing an amendment to a sole source contract with Paige Chapel (Solutions in Community Development and Finance) to assist the Steering Committee in completing the Draft Community Development Fund (CDF) Operating Plan and provide near term staffing to the CDF Founding Board (pending approval of the CDF Operating Plan)	3/28/02
M2002-35	Authorizing an amendment to a sole source contract with Patty Grossman (Good Management, Inc.) to assist the Steering Committee in completing the Draft Community Development Fund (CDF) Operating Plan and provide near term staffing to the CDF Founding Board (pending approval of the CDF Operating Plan).	3/28/02
M2000-72	Established a steering committee for the \$50 million Transit-Oriented Community Development fund for Southeast Seattle, providing for associated tasks and procedures, and directed staff to develop Memoranda of Understanding with the City of Seattle and King County identifying their offsetting contributions to the Link Light Rail program.	8/10/00
R99-34	Sound Transit established within the North King County sub-area budget a \$50 million (YOES) Transit-Oriented Community Development Fund ("The Fund") to be available to mitigate impacts of the construction and operation of light rail in Southeast Seattle.	11/18/99

CONSEQUENCES OF DELAY

- Adoption of the Operating Plan is one important step toward implementation of the CDF. Given that the property acquisition process is underway, it is important to move forward expeditiously to ensure timely distribution of supplemental mitigation funding.

Regional Partnership and Cooperation

- Sound Transit, the City of Seattle, King County and the CDF Steering Committee, Founding Board and Rainier Valley community members have partnered throughout the CDF process to develop an operating plan so that implementation of the CDF can continue.

Public Involvement

During the summer of 2000, the Rainier Valley community developed criteria for community representatives who would serve on the Steering Committee, the nominating and election process. Twenty community members volunteered to serve on the Steering Committee. A community election was held on September 11, 2000, resulting in the nomination of ten community members for the Steering Committee. The Steering Committee also included representatives from Sound Transit, the City of Seattle and King County.

The Steering Committee held its first meeting at a daylong retreat, on October 14, 2000. Since that first meeting, the Steering Committee has:

- Held 27 meetings (open to the public) to work through the details of the operating plan;
- Met more than 65 times in various sub-committees;
- Met twice in full-day summits to discuss and finalize decisions on critical aspects of the CDF structure, operation, and launch;
- Held three community forums attended by a total of 96 community members to review the Steering Committee's work plan and timeline; to solicit feedback on the proposed mission, principles, and funding priorities; to review the supplemental mitigation products and services; to solicit input on the use of the CDF's funds; and to ask for nominees to the CDF's Founding Board;
- Held two focus groups attended by 32 impacted businesses to discuss and evaluate proposed CDF financial assistance;
- Met one-on-one with an additional 33 impacted businesses to review their needs and to discuss whether proposed CDF financial products and technical assistance will be useful and sufficient;
- Met with 32 community stakeholders to discuss their opinions regarding the CDF's structure, governance, staffing, and non-mitigation activities;
- Made five presentations to Sound Transit's Central Link Task Force to discuss and seek approval on the CDF's proposed mission statement, guiding principles, and funding priorities, and to introduce the proposed supplemental mitigation products and services;
- Made one presentation to the full Sound Transit Board to review the Steering Committee's progress;
- Drafted and sent five letters to the Sound Transit Board regarding the Steering Committee's position on a number of issues that impacted the Rainier Valley community and the CDF;
- Participated in a presentation to the Seattle City Council regarding CDF funding issues;
- Made presentations to joint meetings of the Sound Transit Finance Committee, Central Link Oversight Committee and Seattle City Council Transportation Committee on the Operating Plan.

Legal Review

JB 12/2/02

SOUND TRANSIT

MOTION NO. M2002-138

A motion of the Board of the Central Puget Sound Regional Transit Authority adopting the Rainier Valley Community Development Fund Operating Plan.

Background:

On November 18, 1999, by Resolution No. R99-34, the Sound Transit Board established a \$50 million (YOE\$) Transit-Oriented Community Development Fund ("the Fund") to be available to mitigate impacts of the construction and operation of light rail in Southeast Seattle. In August 2000, by Motion No. M2000-72, the Sound Transit Board established a steering committee for the \$50 million Transit-Oriented Community Development fund for Southeast Seattle, providing for associated tasks and procedures (the "Steering Committee").

In May 2002, by Motion No. M2002-46, the Board authorized execution of an Agreement with the City of Seattle to establish, oversee and fund the City of Seattle's portion of the Transit-Oriented Community Development Fund for Southeast Seattle, and to provide funding support for certain aspects of the Central Link Light Rail project (the "Funding Agreement"). The Funding Agreement states that both Sound Transit and the City of Seattle must adopt an identical Operating Plan for the Fund before payments are made by either party into the Fund. On December 3, 2002, the Seattle Transportation Committee, and on December 9, 2002, the Seattle City Council, are scheduled to consider for adoption the Operating Plan that is the subject of this action.

Under the Funding Agreement with the City of Seattle, Sound Transit is required to make its initial payment of \$3,000,000 to the Fund sixty days after the date on which both of the following conditions have been met: (1) the Operating Plan has been adopted by both bodies and (2) the entity that is expected to administer the Fund is staffed sufficiently to begin Fund administration activities.

In spring 2002, the Steering Committee submitted a draft Operating Plan to the Sound Transit Board. On September 19, 2002, the Community Development Fund Founding Board, the Committee charged with start-up of the Fund, submitted a further refined draft Operating Plan to the Sound Transit Board for consideration. This proposed Operating Plan provides that Sound Transit will contract with a newly incorporated non-profit, the Rainier Valley Community Development Fund (the "CDF") to administer Sound Transit's Supplemental Mitigation Account of the Fund.

In October 2002, by Motion No. M2002-16, the Sound Transit Board authorized execution of an interim service agreement and budget for operations start-up through the end of 2002 and authorized negotiations to begin with the CDF for a long-term service agreement. The interim agreement has been executed and the CDF has begun work on start-up operations. Long-term service agreement negotiations are underway and staff anticipates that a final agreement will be brought to the Board for consideration in January 2003. The service agreement will include additional detail about Fund administration and the obligations of the CDF. If Sound Transit is unable to negotiate a contract with the CDF for the administration of the Supplemental Mitigation Account or if the CDF fails in its contractual obligations, Sound Transit will administer the Supplemental Mitigation Account through other means, which may include contracting with another entity.

This action would adopt the Operating Plan as contemplated in the Funding Agreement. By adoption of the Operating Plan, the Sound Transit Board deems the Steering Committee's obligations to propose an operating plan satisfied and finds that the proposed Operating Plan is consistent with the Fund purposes outlined in Resolution No. R99-34.

The attached Operating Plan is a business plan that provides overall guidance for the governance of the CDF and administration of the Fund. It details the products and services that will be offered for supplemental mitigation of the impacts of light rail construction, to promote the development of relocation sites for dislocated businesses, and to enhance employment opportunities for Rainier Valley residents. It provides the CDF Board flexibility to adjust certain aspects of its operations to meet market demands. Sound Transit will retain the right to review and/or approve the exercise of such flexibility in its long-term service contract with the CDF.

Motion:

It is hereby moved by the Board of the Central Puget Sound Regional Transit Authority that the attached Rainier Valley Community Development Fund Operating Plan is adopted, based on the background described above, with the following express conditions:

The following aspects of Fund operations may not be adjusted without an amendment to the Operating Plan approved by both the Sound Transit Board and the Seattle City Council:

- (1) the mission statement of the Fund;
- (2) the purposes of payments, advances, and loans described in Appendix A of the Operating Plan;
- (3) separation of its operations and financial record keeping into the Supplemental Mitigation Account and the Community Development Account;
- (4) the geographic boundaries of each of the Fund's three product areas described in Section 4.2 of the Operating Plan; and
- (5) legal and governance structure of the CDF as a private, non-profit corporation with tax-exempt status under section 501(c)(3) of the Internal Revenue Code.


Further, a future amendment to the Operating Plan, approved by both the Seattle City Council and the Sound Transit Board, will be necessary before the Fund can expend any funds for transit-oriented and community development activities (with the exception of the pre-apprenticeship training program) described in the Operating Plan.

It is further recognized by the Board, in adopting this Operating Plan, that the products and services described in the Operating Plan were developed based on the best information available to date, with the understanding that refinement of construction schedules and other underlying assumptions may require modifications to the products and services. Sound Transit shall, in its contract with the CDF, retain authority to recommend, review, and approve such changes.

It is further recognized that all products and services of the supplemental mitigation account are compensatory in nature.

It is further moved that if there are inconsistencies between the provisions of the Operating Plan and this motion, including the background set forth above, this motion shall govern.

APPROVED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on December 12, 2002.


Ron Sims
Board Chair

ATTEST:


Marcia Walker
Board Administrator

OPERATING PLAN:

Rainier Valley Community Development Fund

PREPARED BY:

The Community Development Fund Steering Committee

Claude Forward
Bob Markholt
David Silver
Timothy Tran
Michael Brown

Alma Kern
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Mary Jean Ryan

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Thao Tran
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REVISED BY:

The CDF Founding Board of Directors

Nemesio Domingo (*Board Chair*)
David Chen
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David Okimoto
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Thao Tran
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CONSULTANTS:

Paige Chapel and Patty Grossman

December 2002

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OPERATING PLAN: Rainier Valley Community Development Fund

1. EXECUTIVE SUMMARY

On November 18, 1999 the Sound Transit Board approved a resolution calling for the establishment of a \$50-million fund that would be available to the Rainier Valley community “to fund physical and economic improvements” in the Central Link light rail corridor and “to increase transit ridership on the system and/or to address project impacts.” Further, the resolution called for establishing a community advisory panel “to set priorities and make recommendations for the use of the Fund.” Subsequently, a steering committee was formed consisting of ten Rainier Valley community members and five government representatives that was charged with determining the community’s priorities for the use of the \$50 million and for submitting its written recommendations to the Sound Transit Board and Seattle City Council in a detailed operating plan.

The Steering Committee of the Rainier Valley Community Development Fund (“CDF”) began work in October 2000, meeting with Rainier Valley residents, business people, property owners, elected officials, and staff representatives of Sound Transit, the City of Seattle, and King County to develop this operating plan. The hope of the Steering Committee, the CDF Founding Board, and the greater Rainier Valley community is that this document moves us closer to establishing a long-lived asset for our community. The CDF offers a unique opportunity to lessen the impact of light rail construction on Rainier Valley businesses and residents, to leverage the economic opportunities that come with improved transportation, and to invest in this community for many years to come after the dust has settled.

The promise of the CDF is clearly articulated in its mission statement:

The Rainier Valley Community Development Fund is a self-sustaining, community-controlled financial institution that preserves and strengthens cultural diversity, long-term livability, and economic opportunity for Rainier Valley residents, businesses, and institutions.

This operating plan describes every element of the CDF necessary to launch operations during 2002. The CDF will offer three categories of products:

- 1) Supplemental Mitigation Products and Services;
- 2) Transit–Oriented Development Products and Services; and
- 3) Community Development Products and Services

The Steering Committee’s primary focus since October 2000 has been to design the CDF’s supplemental mitigation products so resources would be available concurrent with Sound Transit’s acquisition activities. *Supplemental Mitigation Products and Services*, which will help lessen the impact of the construction of light rail on Rainier Valley business and property owners, are described in detail in this plan. The CDF’s *Transit–Oriented and Community Development Products and Services*, which will allow the community both to leverage the economic opportunities associated with improved transportation and to invest in the community for years to come, are outlined in this plan and will be further refined by the CDF Board during 2003. ***The primary focus of this operating plan is on supplemental mitigation.***

Supplemental Mitigation Products and Services. The CDF will offer supplemental mitigation *payments* (which do not have to be repaid) and *advances* (which must be repaid), depending on the type of cost incurred by the impacted business or property owner. Supplemental mitigation assistance will be in addition to payments required by law and by policy from Sound Transit, and must be compensatory in nature, only covering losses attributable to impacts from the construction of light rail. The Steering Committee is projecting supplemental mitigation disbursements of \$26 million between 2003 and 2008: \$15 million in one-time payments and \$11 million in recoverable advances that must be repaid by the impacted business or property owner.¹ Only impacted businesses and property owners located along the Link Light Rail alignment between South McClellan Street and the Boeing Access Road are eligible for supplemental mitigation payments and advances. In addition, the CDF is projecting to originate \$14.5 million in CDBG-funded commercial mortgages for development of relocation sites. *(Please note that the most important variables determining how large payments and advances will be – rents or acquisition prices for new business locations – are, at this time, unknown to everyone. The demands for the supplemental mitigation products could be very different than projected.)*

Transit-Oriented and Community Development Products and Services. Approximately \$30 million is targeted for transit-oriented and community development projects.² ***No local public funds will be committed or expended by the CDF for transit-oriented or community development projects until the funders approve a revised operating plan that describes in detail these additional products.*** In the interim, the Steering Committee has established a set of transit-oriented and community development principles, described in this operating plan, to be used as a guide by the CDF Board in developing these products. The Steering Committee has defined transit-oriented development as projects that 1) meet CDF community development principles; 2) are located within one-quarter mile of the alignment; and 3) enhance transit ridership. State law prohibits the direct funding of privately owned developments with monies administered by Sound Transit. However, General Fund and Community Development Block Grant (“CDBG”) monies originating from the City of Seattle may be used to fund privately owned projects that meet the CDF’s community development principles and benefit low- and moderate-income people (a requirement of both Washington State law and the U.S. Department of Housing and Urban Development – see the discussion of legal issues in *section 4.1*).

Supplemental mitigation, transit-oriented development, and community development activities will be funded through two distinct accounts:

- 1) The ***Supplemental Mitigation Account***, which will be administered by Sound Transit and is funded through supporting contributions to the light rail project by the City of Seattle and King County; and
- 2) The ***Community Development Account***, which will be administered by the City of Seattle and is funded with General Fund monies and federal Community Development Block Grant dollars.

¹ Once recovered, proceeds from advances will be used a second time to fund transit-oriented development projects based on approval by the City of Seattle and Sound Transit of the CDF’s revised operating plan.

² This includes approximately \$4 million in undisbursed funds from the Supplemental Mitigation Account, \$10 million in recovered supplemental mitigation advances, and \$15.5 million in revolving CDBG loans and unspent General Fund monies originating from the Community Development Account (less organizing expenses, loan loss reserves, and administrative fees to be negotiated between the CDF and Sound Transit and between the CDF and the City of Seattle).

The CDF will originate and manage transactions from the Supplemental Mitigation Account for Sound Transit and from the Community Development Account for the City of Seattle. Sound Transit and the City of Seattle will fund the CDF's staff and operating costs as necessary to manage disbursements from the two Accounts through separate service agreements. In addition, the CDF will originate commercial mortgages for the development of relocation sites for impacted businesses. These mortgages will be funded with Community Development Block Grant monies through the Community Development Account and unlike supplemental mitigation advances, will be booked as assets on the CDF's balance sheet.

The CDF is incorporated as a private nonprofit corporation and is applying for tax-exempt status under section 501(c)3 of the Internal Revenue Code. The CDF also will apply to HUD for designation as a Community-Based Development Organization ("CBDO") and to the U.S. Treasury Department for certification as a Community Development Financial Institution ("CDFI").

Since May 2002, an eight-member Founding Board of Directors has overseen the start-up activities of the CDF. The Founding Board was elected by the Steering Committee in February 2002 after an extensive search. The Committee contacted sixty-five candidates, looking for a balance of technical skills and strong community knowledge and commitment. The Committee believes the resultant Founding Board has the experience, skills and character to carry out its fiduciary responsibilities prudently and professionally. The Founding Board is responsible for establishing the full or sustaining board by the end of 2002.

To date, the CDF Founding Board has secured the services of a business support person to begin meeting with impacted business and property owners in the CDF's investment area,³ initiated the search for an executive director, selected attorneys to advise the Board on legal matters, developed articles of incorporation and bylaws, incorporated the CDF, refined eligibility for supplemental mitigation products and services, and developed financial management, product underwriting, and personnel policies.

A great deal of momentum is now in place to launch CDF operations. This operating plan serves as a working document for the CDF Board and its funders to prudently oversee the operations of a significant, new community development financial institution.

The balance of this operating plan describes in detail:

- ❑ History of the Community Development Fund
- ❑ Mission and guiding principles
- ❑ Customer and product description
- ❑ Structure, governance, and management
- ❑ Operations and risk mitigation
- ❑ Capitalization and financial forecast
- ❑ Implementation

³ The business support person is employed by the City of Seattle until the end of 2002 and reports to both the Office of Economic Development and the CDF Founding Board of Directors. Sound Transit is funding this position and will be reimbursed out of the Supplemental Mitigation Account.

2. HISTORY OF THE COMMUNITY DEVELOPMENT FUND (CDF)

On November 29, 2001, the Sound Transit Board voted to start construction on the Central Link light rail line. The initial segment of this line will run from the Westlake Station in downtown Seattle to a large park-and-ride lot at South 154th Street and Pacific Highway. Along the way, the line will serve Downtown Seattle, part of the Duwamish industrial area, Beacon Hill and the Rainier Valley.

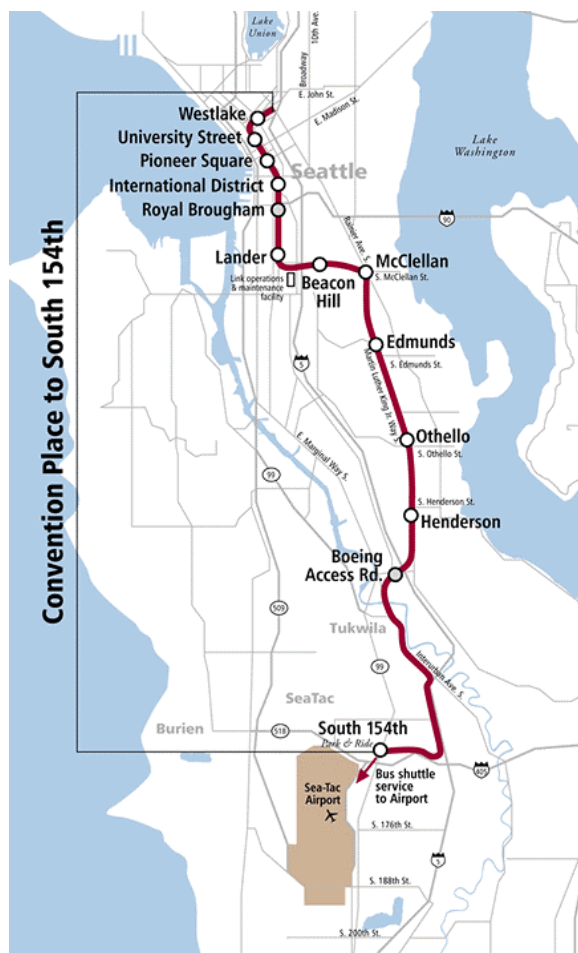
The Rainier Valley Community Development Fund (“CDF”) grew out of a desire by both the Rainier Valley community and elected officials to minimize the impact of light rail construction on the community and to leverage economic opportunities created by improved transportation access.

A letter, dated February 9, 1999 bearing the signatures of City of Seattle Council member Richard McIver, Seattle Mayor Paul Schell, King County Executive Ron Sims, and King County Council members Greg Nickels and Cynthia Sullivan, was sent to the Southeast Seattle community. The letter stated that, in the view of these elected officials, *“the transit system...offers substantial opportunities for economic development.”* They also noted:

“For too long Southeast Seattle neighborhoods have suffered from poor planning and lack of accountability. Now, with Link Light Rail we have an historic opportunity to bring much needed investment and vitality to the Southeast Seattle community. To be sure we take full and timely advantage of this opportunity, we are recommending the creation of a \$50 million Community Investment Fund. Driven by the community and controlled by the community, this fund can leverage the investment needed to convert the potential of ‘transit-oriented development’⁴ into growing small businesses, creating jobs, attracting housing, and building healthy neighborhoods.”

They urged Sound Transit to *“...go beyond federal requirements to ensure that every relocated resident, business owner, and tenant – especially small, fragile businesses – get the full relocation assistance they need...”*

FIGURE 1. Central Link light rail alignment



⁴ The Steering Committee has defined transit-oriented development as projects that 1) meet the CDF’s community development principles; 2) are located within one-quarter mile of the alignment; and 3) enhance transit ridership.

The Rainier Valley Community Development Fund officially became part of the Link Light Rail project on November 18, 1999 when the Sound Transit Board unanimously passed Resolution No. 99-34, which established the alignment and station locations for the Link Light Rail project. In the same resolution, the Board also established a \$50-million Transit-Oriented Community Development Fund for Southeast Seattle. The resolution states:

“Sound Transit shall establish within the North King County subarea budget a \$50 million (YOE\$)⁵ Transit-Oriented Community Development Fund (“The Fund”) to be available to mitigate impacts of the construction and operation of light rail in southeast Seattle. The cost of this fund shall, to the extent possible, be offset by contributions from the City of Seattle and King County to the Central Link Light Rail Project. The Fund shall be available to the community to fund physical and economic improvements to the southeast Seattle corridor. The Fund shall be used exclusively to increase transit ridership on the system and/or to address project impacts. Sound Transit will work with the City of Seattle and the southeast Seattle community to develop a process to decide how decisions regarding the use of The Fund will be made. A community advisory panel or panels shall be established to set priorities and make recommendations for the use of the Fund... Expenditures from The Fund shall be generally consistent with the timing of construction of the project, the mitigation of impacts of the project, and promotion of increased ridership. The Fund shall pay all necessary and associated administrative, legal and staff support costs, including any economic feasibility studies completed to support the implementation of The Fund’s programs.”

The Federal Transit Administration’s Amended Record of Decision issued in February 2002 makes the establishment of the \$50 million CDF a project requirement for the Sound Transit Link light rail project.

Public involvement in establishing the CDF has been substantial. In the spring of 2000, the community proposed the formation of a steering committee to develop the operating plan for the CDF. The proposed Steering Committee was to be comprised of 15 members: ten elected from the community and five representing public-sector stakeholders. The Steering Committee proposal was the result of an extensive and inclusive community process to determine the size, nominating and election process for the ten community positions. In addition, community members identified three key attributes of the CDF that they believed would be critical to its success:

- 1) The CDF must be community controlled;
- 2) It must be a long-lived asset that would survive for generations; and
- 3) It must have the ability to lend funds.

On August 10, 2000, the Sound Transit Board adopted Motion No. M2000-72 to establish a Steering Committee responsible for developing an operating plan for the CDF and submitting it to the Sound Transit Board for approval. The 15-member committee would be comprised of ten non-paid community members, two Sound Transit representatives, two City of Seattle representatives, and one King County representative. The ten community members would be elected by the community and the government representatives would be appointed by their respective bodies. The Sound Transit Central Link Task Force was authorized to approve the nominations to the Steering Committee.

⁵ “YOE\$” refer to “Year of Expenditure dollars,” that is, projected dollars that reflect adjustments for inflation and other cost increases over the life of the project. Sound Transit manages to and reports in YOE dollars.

The Steering Committee was charged with two major objectives:

- 1) To ensure community involvement in determining how the CDF is structured and governed; and
- 2) To develop an operating plan for the Fund to submit to the Sound Transit Board for approval.

Upon approval of the operating plan by the Sound Transit Board and the Seattle City Council, the Steering Committee will disband.

During the summer of 2000, the Rainier Valley community developed criteria for community representatives who would serve on the Steering Committee, and the nominating and election process. Twenty community members volunteered to serve on the Steering Committee. A community election was held on September 11, 2000, resulting in the nomination of ten community members for the Steering Committee, whose nominations subsequently were approved by the Sound Transit Central Link Task Force.

The Steering Committee held its first meeting at a daylong retreat, on October 14, 2000. Since that first meeting, the Steering Committee has:

- ❑ Held 30 meetings (open to the public) to work through the details of the operating plan;
- ❑ Met more than 65 times in various sub-committees;
- ❑ Met twice in full-day summits to discuss and finalize decisions on critical aspects of the CDF structure, operation, and launch;
- ❑ Held three community forums attended by a total of 96 community members to review the Steering Committee's work plan and timeline; to solicit feedback on the proposed mission, principles, and funding priorities; to review the supplemental mitigation products and services; to solicit input on the use of the CDF's non-mitigation funds; and to ask for nominees to the CDF's Founding Board;
- ❑ Held two focus groups attended by 32 impacted businesses to discuss and evaluate proposed CDF financial assistance;
- ❑ Met one-on-one with an additional 33 impacted businesses to review their needs and to discuss whether proposed CDF financial products and technical assistance will be useful and sufficient;
- ❑ Met with 32 community stakeholders to discuss their opinions regarding the CDF's structure, governance, staffing, and non-mitigation activities;
- ❑ Made five presentations to Sound Transit's Central Link Task Force to discuss and seek approval of the CDF's proposed mission, guiding principles, and funding priorities, and to introduce the proposed supplemental mitigation products and services;
- ❑ Performed due diligence on the use of public funds with Sound Transit legal staff and the Sound Transit economist;
- ❑ Made one presentation to the full Sound Transit Board to review the Steering Committee's progress;
- ❑ Drafted and sent five letters to the Sound Transit Board regarding the Steering Committee's position on a number of issues that impacted the Rainier Valley community and the CDF; and
- ❑ Participated in presentations to the Seattle City Council regarding CDF funding issues.

Community forums were publicized through individual mailings to 10,000 Rainier Valley households and businesses two weeks before the forums, and in community newspapers. The Steering Committee's meeting schedule, meeting minutes, and other information are posted on the Sound Transit website at (<http://www.soundtransit.org>) along with the addresses of four community locations where the public can review minutes of previous meetings and the Committee's working documents.

The Steering Committee will hold one final community forum after the CDF's operating plan is approved to introduce the Founding Board and explain how the CDF will operate.

3. MISSION AND GUIDING PRINCIPLES

The mission statement of the Rainier Valley Community Development Fund is:

The Rainier Valley Community Development Fund is a self-sustaining, community-controlled financial institution that preserves and strengthens cultural diversity, long-term livability, and economic opportunity for Rainier Valley residents, businesses, and institutions.

The CDF's mission is intentionally broad so its relevance extends beyond the relatively short time frame associated with the construction of the Link light rail project and the need for the CDF to focus on supplemental mitigation and transit-oriented development activities.⁶

The term “self-sustaining” implies an entity that will achieve its social and development goals as well as achieve breakeven or better on operations. The ability of the CDF to generate sufficient earned income to cover its operating expenses will help insure its existence as a long-lived asset that will serve generations to come in the Rainier Valley. Whenever possible, the CDF will leverage both a) its initial capital with private and public dollars; and b) its investment in individual projects with other private- and/or public-sector investments.

“Community-controlled” acknowledges that a majority of the CDF's Board of Directors will reside and/or work in the Rainier Valley and that the CDF will operate in an open manner and solicit input from community stakeholders about its programs and priorities.

The CDF will function as a financial institution, as opposed to a real estate developer or social service provider. As a mission-driven financial institution, the CDF will join the more than 500 community development financial institutions (“CDFIs”) currently operating in the United States. CDFIs are private sector, financial intermediaries with community development as their primary mission. They make loans and investments that conventional financial institutions would consider infeasible using taxpayer-insured dollars, while linking their financing to other developmental activities. Although CDFIs typically share a common mission of community development, their structures and development goals vary by the communities they serve. Some are chartered as credit unions or banks. Others are unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. CDFIs are classified into six basic categories: community development banks, community development loan funds, community development credit unions, micro-enterprise funds, community development corporation-based lenders, and community development venture funds. The

⁶ The CDF Steering Committee established the mission statement along with a set of guiding principles and preliminary funding priorities that were adopted on 9/25/01 and subsequently approved by the Central Link Task Force. Since then, the Agreement negotiated between the City of Seattle and Sound Transit has further clarified the source and flow of funds that will capitalize CDF activities. As an outgrowth of the Agreement, the Steering Committee refined the guiding principles and funding priorities, which are reflected in section 4. *Customer and Product Description*.

CDF is structured as a nonprofit, community development loan fund. (See section 5.1 *Legal Structure of the CDF.*)

The CDF will strive to “...preserve(s) and strengthen(s) the cultural diversity, long-term livability, and economic opportunity for Rainier Valley residents, businesses, and institutions.” Rainier Valley is one of the most diverse neighborhoods in Seattle – culturally, racially, and economically. The CDF’s Board and staff must carefully balance the expansion of economic opportunity in the Rainier Valley while preserving the diversity that is deeply valued by its residents. The first priority of the Fund is to encourage local ownership of properties and businesses. Over the long term, the CDF may support any legitimate business (both for-profit and nonprofit) that is responsive to community needs and that creates economic opportunities for local residents. This mandate extends to the CDF’s role in providing supplemental mitigation to businesses, institutions, and property owners impacted by the construction of light rail, to supporting the development of projects that enhance transit ridership, and to stimulating economic opportunity throughout the community.

4. CUSTOMER AND PRODUCT DESCRIPTION

The CDF’s eligible customer base and products are based on discussions with almost 200 community stakeholders, residents, and impacted business and property owners as well as numerous consultations with private attorneys and attorneys for both Sound Transit and the City of Seattle regarding legally permissible uses of public funds.

The CDF’s products fall into three distinct categories:

- 1) Supplemental mitigation funding and business support services
- 2) Transit-oriented development funding
- 3) Community development funding and services

The CDF’s products will address impacts of light rail construction on Rainier Valley business and property owners, enhance transit ridership, and stimulate economic opportunity throughout the community. A description of how the CDF’s products will satisfy these purposes is included in APPENDIX B.

The customer base for each product category is defined in part by geography. Supplemental mitigation is available to businesses, nonprofit organizations, and property owners located along the light rail alignment between South McClellan Street on the north and the Boeing Access Road on the south. Transit-oriented development funding will only be available for projects located within one-quarter mile of that same alignment. Community development funding will be available for small businesses and real-estate development and community improvement projects located in the defined Rainier Valley investment area (*see below for a more in-depth discussion and the investment area map in FIGURE 2*).

This section describes in detail the products offered by the CDF for supplemental mitigation. The immediacy of Sound Transit’s acquisition and construction activities dictates the need for supplemental mitigation support to be available by the end of 2002. Consequently, the CDF Steering Committee has gone to great lengths to define supplemental mitigation products and services. Because demand for transit-oriented and community development funding is likely to lag behind supplemental mitigation, the Steering Committee has deferred the design of specific products for those focus areas to the CDF Board.⁷

⁷ The CDF Board will update the transit-oriented and community development portions of the operating plan for approval by the Sound Transit Board and Seattle City Council prior to committing funds for these uses.

A discussion follows on:

- ❑ Legal constraints governing the use of funds,
- ❑ Eligibility and target customers,
- ❑ Supplemental mitigation products and services,
- ❑ Transit-oriented and community development: guiding principles, and
- ❑ Alternate sources of financing

4.1. Legal Constraints Governing Use of Funds

Based on input from Rainier Valley community stakeholders, the CDF is designed to be a multi-faceted revolving fund that addresses the construction impact of light rail, supports projects developed in the light rail corridor that enhance transit ridership, and supports broader community development in the Rainier Valley. To accomplish all these objectives and revolve the capital managed by the CDF so it is a long-lived asset, a number of legal issues had to be resolved, which in turn determined the source and type of funds required by the CDF.

Two legal constraints shape the type of funding the CDF requires to achieve the community's objectives:

- 1) The Washington State Constitution prohibits the gifting and lending of public funds (i.e., state or local taxpayer dollars) to private entities (individuals, for-profit, and nonprofit organizations), except for the necessary support of the poor and infirm. Consequently, the transfer of state or local funds must be consistent with this constitutional provision.
- 2) The use of funds originating from a Washington State or local government entity must conform to that entity's specific statutory authority.

Sound Transit is authorized to develop and operate a public transportation system. Permissible uses of funds originating from Sound Transit include supplementing the mitigation of impacts from light rail construction and enhancing ridership through transit-oriented development (publicly owned projects only). Funds originating from Sound Transit may not be used to assist the poor and infirm in any way that is inconsistent with Sound Transit's statutory authority.

In contrast, the City's and County's authority may include assistance to the poor and infirm. Similarly, public funds originating from the City of Seattle and King County may be used to fund privately owned residential real estate development if it benefits low-/moderate-income people. However, City and County local funds may not be used to fund privately owned commercial real estate development, including privately owned transit-oriented developments.

To address these constraints and meet community objectives, two separate accounts will be established to fund the CDF's activities: 1) the *Supplemental Mitigation Account*, which will be administered by Sound Transit; and 2) the *Community Development Account*, which will be administered by the City of Seattle. In general, the CDF's activities will be funded through these accounts as follows:

- ❑ The CDF's supplemental mitigation products and services will be funded by Sound Transit through the Supplemental Mitigation Account;
- ❑ Transit-oriented development products may be funded through either the Supplemental Mitigation Account or the Community Development Account, depending on whether the proposed improvement is publicly or privately owned and benefits low- or moderate-income people.

- ❑ The CDF's community development products and services will be funded through the Community Development Account administered by the City of Seattle.

Please note: a portion of funds in the Community Development Account may be federal Community Development Block Grant ("CDBG") dollars to ensure that the CDF can originate loans to impacted commercial property owners who want to acquire new property and rebuild in the investment area; for development of receiving sites for displaced tenant businesses; and for development of privately owned transit-oriented and community development projects.⁸

Please refer to section 7.1 for a more detailed discussion of sources and uses of funds.

4.2. Eligibility and Target Customers

The map in FIGURE 2 shows the geographic eligibility criteria for each of the CDF's three product categories. Combined, these three sub areas comprise the boundaries of the CDF's investment area. Eligibility for each product category is as follows:

- 1) **Supplemental Mitigation:** business and property owners, nonprofit organizations and other institutions physically located along the light rail alignment between South McClellan Street on the north and the Boeing Access Road on the south. This is the **black dotted line** drawn on the map that follows Martin Luther King Jr. Way South (also see FIGURE 1).
- 2) **Transit-Oriented Development:** projects located within one-quarter mile of the light rail alignment between South McClellan Street on the north and the Boeing Access Road on the south. This area is shaded **red** on the attached map. The bulges in the boundary correspond to the location of light rail stations.
- 3) **Community Development:** small businesses, real-estate development, and community improvement projects that directly benefit Rainier Valley residents and businesses, and that are located in the area outlined in **blue** (the western boundary corresponds to the western boundary of the quarter-mile transit-oriented development area). The boundary zigzags on the east, roughly outlining the more economically distressed areas of Rainier Valley. Businesses and projects located outside the area but within one or two blocks of the boundary may be eligible for CDF community development funding, if, in the CDF Board's estimation, the benefits from the project/business accrue to Rainier Valley residents.

Additional eligibility requirements are described in the next section.

4.3. Supplemental Mitigation Products and Services

The CDF will offer supplemental mitigation **payments** (which do not have to be repaid) and **advances** (which must be repaid), depending on the type of cost incurred by the impacted business.

⁸ CDBG funds also carry restrictions, although different than those imposed on local public funds. The CDF will need to comply with all federal restrictions in place at the time of funding. Current restrictions include: the City of Seattle must certify each loan and complete an environmental review before funds are released; investments must result in one job created or retained per \$50,000 lent; projects or businesses must benefit low-/moderate-income people, pay Davis-Bacon prevailing wages on construction projects, and meet federal asbestos and lead abatement requirements. If a certified Community-Based Development Organization ("CBDO") disburses CDBG funds as loans (as contemplated by the CDF), these restrictions may be lifted on subsequent disbursements once the funds are recaptured. (See section 5.1.)

Supplemental mitigation payments and advances originated by the CDF will be in addition to payments required by law and by policy from Sound Transit, and must be compensatory in nature – that is, the CDF will only provide supplemental mitigation assistance for expenses and/or losses incurred by an impacted business or property owner that result directly from the construction of light rail. Eligible businesses (including for-profit businesses, property owners, and nonprofit organizations) must be located on the Martin Luther King Jr. Way alignment between South McClellan Street and the Boeing Access Road.

Eligibility for specific products is also dependent on whether or not relocation is required:

- 1) If a business must relocate because its property is being acquired in full by Sound Transit or because its location is no longer viable for business operation because Sound Transit is acquiring a portion of the property; or
- 2) If a business does not have to relocate but its operation is impaired by light rail construction.

*For impacted businesses, institutions, and property owners that **must** relocate, supplemental mitigation products will be available to mitigate:*

- 1) Moving and re-establishment expenses in excess of payments required by law and offered by policy from Sound Transit;
- 2) Certain increases in the cost of conducting business in the new location, such as increased rent; and
- 3) A portion of lost income caused by business disruption.

The supplemental mitigation products are intended to compensate businesses that relocate within the CDF's investment area. However, at the discretion of the CDF Board, support may be provided to an impacted business able to demonstrate that a suitable relocation site is not available in the investment area.

*For impacted businesses, institutions, and property owners that do **not** have to relocate, the CDF will provide financial assistance to mitigate loss of business income or service activity (in excess of mitigation payments and actions required by law and by policy from Sound Transit) that result from Sound Transit's construction activity during the realignment of Martin Luther King Jr. Way South and/or the building of the light rail line and stations.*

TABLE 1 (below) provides an overview of the CDF's supplemental mitigation products. A matrix, attached as APPENDIX A, describes in detail eligible recipients, eligible uses of funds, maximum amounts, terms, and other underwriting considerations.⁹ APPENDIX B explains in detail how each payment and advance product will address project impacts or increase transit ridership.

The size of payments and advances will be limited by the amount of funds available for supplemental mitigation. The stated maximum payment and advance amounts are guidelines and may be constrained by the availability of funds. **The CDF Board reserves the right to modify maximum mitigation payments and advances based on the actual expenses incurred by impacted businesses and property owners.**

Interest rates and repayment terms on advances are structured to maximize the ability of an impacted business to survive. The CDF fully intends to and will strive to structure below-market interest rates on mitigation advances (which must be repaid); however actual interest rates will be tied, in part, to the need to cover a portion of the CDF's operating costs. Funds from the *Supplemental Mitigation Account* will be used to reimburse the CDF for a portion of the staff and overhead expenses associated with managing the *Account* for Sound Transit. To the extent possible, Sound Transit will generate earned income on advances and fund balances in the SMA to cover CDF operating costs, thereby minimizing the draw against funds slated for impacted business and property owners. Advances or a portion of an advance may bear a below-market interest rate if determined appropriate and feasible by the CDF's board and management.

As can be seen in the detailed product descriptions in APPENDIX A, the CDF's underwriting requirements are more liberal than conventional credit underwriting. For example, the CDF does not have a maximum debt-to-equity requirement on most of its advances. Generally, commercial banks require a debt-to-equity ratio under 3:1 to better ensure that a borrower can repay a loan. The experience of other community development lenders has been that debt-to-equity ratios are not always an accurate measure of a business' capacity to repay debt. Historic cash flow has proven to be a more reliable predictor than the amount of equity in a business' capital structure.

⁹ The CDF Founding Board of Directors has adopted product underwriting policies and procedures that provide detailed information on how supplemental mitigation payments and advances will be underwritten, evaluated, structured, disbursed, and monitored.

TABLE 1. Overview of supplemental mitigation products ¹⁰

Source	Use	For Displaced Businesses	For Impacted Businesses Not Moving
SUPPLEMENTAL MITIGATION ACCOUNT	<u>PAYMENTS:</u>		
	♦ Business Re-establishment	\$100,000 maximum	None
	♦ Business Interruption	Up to \$25,000 maximum for each of two years	Up to \$30,000 maximum for one year only
	<u>ADVANCES:</u> <i>(must be repaid, funds will revolve)</i>		
	♦ Working Capital Advance	Up to \$250,000 Priced pursuant to underwriting guidelines	Up to \$250,000 Priced pursuant to underwriting guidelines
	♦ Tenant Improvement	Up to \$200,000	None
COMMUNITY DEVELOPMENT ACCOUNT	♦ Equipment Advance	Up to \$100,000	None
	<u>PROPERTY ADVANCES</u> <i>(CDBG funded for development of relocation and receiving sites)</i>		
	♦ Commercial Bridge Loan	Average of \$500,000	Average of \$500,000
	♦ Commercial Mortgage	Average of \$750,000	Average of \$750,000

The CDF's objective is to strike a balance between the impacted business owners' need for flexibility and prudent financial underwriting practices. As described below, the CDF's ability to mitigate the additional risk associated with these more liberal underwriting criteria is directly tied to the provision of business support services. Community development financial institutions, by definition, assume more risk than conventional lenders. However, the additional risk is mitigated by a close working relationship with the borrower or recipient. The proposed staffing and business support services that the CDF will provide in conjunction with its funding are intended to serve this function.

Two sample cases are included in APPENDIX C that illustrate how the CDF's supplemental mitigation products might work in tandem with Sound Transit's compensation program. One represents a property and business owner, the other is a tenant business owner. Tenant businesses that must relocate are likely to have the greatest need for CDF assistance because they will not realize any equity from Sound Transit's purchase of the property in which they are currently located.

¹⁰ Please note: All supplemental mitigation payments and advances are funded by the Supplemental Mitigation Account administered by Sound Transit. The *Property Advances* (commercial bridge loans and mortgages) will be funded with CDBG monies from the Community Development Account administered by the City of Seattle.

A discussion follows of each of the CDF's supplemental mitigation payments, advances, and business support services.

4.3.1. Supplemental Mitigation Payments

Payments are intended for businesses that relocate within the CDF's investment area. The CDF recognizes, however, that a suitable location may not be available in the investment area for every impacted business. Consequently, each case will be judged on an individual basis.

Business Re-establishment Payment. For businesses and entities that must relocate, Sound Transit covers almost all direct and indirect costs of the move. In addition, Sound Transit provides up to \$10,000 in compensation for re-establishment costs. In many cases, this may not cover the full cost of re-establishing a business.

Costs in excess of Sound Transit's reimbursements may be covered up to \$100,000 through the CDF with a *Business Re-establishment Payment*. Examples of eligible expenses include:

- ❑ Functional repairs/improvements to replacement real property necessary for business operation (*Tenant Improvement Advances* are available for interior or exterior refurbishment for aesthetic purposes);
- ❑ Net increased rent for up to 24 months for comparable space;
- ❑ Modifications to replacement property to accommodate business operation;
- ❑ Advertisement of replacement location.

These payments are compensatory in nature, so the beneficiary business must substantiate actual expenses incurred for moving and re-establishment with bids, receipts, and/or other written documentation.

Business Interruption Payment. This payment is meant to compensate businesses for the loss of business and/or rental income. Payments are capped at \$25,000 annually for up to two years for relocating businesses, and \$30,000 for just one year for non-relocating businesses.

The difference in the eligibility period for relocating and non-relocating businesses is based on the expected time required for businesses in each category to re-establish sales lost during the impact period. Businesses that do not have to relocate are likely to be most impacted just before, during, and just after construction activity is in the vicinity of their business. Sound Transit estimates that construction will last no less than three months and no longer than nine months in front of any one property. Therefore, the *Business Interruption Payment* from the CDF will cover up to a 12-month period of sales activity for non-relocating businesses. Businesses that are required to relocate (i.e., that must physically move to a new location and possibly re-establish their customer base) are likely to incur significantly greater loss of business revenue.

Loss of business will be based on average net business income before taxes and shall include a comparison of the following equation for the impact period and the two years prior to relocation or the start of construction in front of a business:

Net business income before taxes + amortization (a non-cash expense) + depreciation (also a non-cash expense) + owner's draw/salary + one-time extraordinary expenses

The level of compensation will be determined based on the federal tax return for the year in which the impact occurs compared to returns for the prior two years of operation. Businesses that have not filed tax returns must do so retroactively to be eligible for CDF funding. CDF staff will work with impacted businesses to plan for the possible decrease in business activity during the impact period. If necessary, CDF staff also will work closely with impacted businesses to help them establish an accurate operating history for the prior two years and for the impact period.

4.3.2. Supplemental Mitigation Advances

All advances extended by the CDF must be repaid (with interest in most cases) and, similar to supplemental mitigation payments, must be compensatory in nature, only covering losses attributable to impacts from the construction of light rail.

Working Capital Advance. This advance is intended to augment the *Business Interruption Payment* when lost revenue exceeds the stated caps. The *Working Capital Advance* may cover any legitimate business operating expense (payroll, marketing, funding of receivables or inventory purchases) required to continue operation during the mitigation period (roughly the time a relocating business requires to reach operating stability after a move, to a maximum number of months to be determined; or for a non-relocating business, the time that business traffic or operations are impeded by the presence of construction in the vicinity of the subject business). Both relocating and non-relocating businesses are eligible for this advance.

This particular product is expected to be in significant demand by impacted businesses. Because it must be compensatory (that is, it may only fund cash-flow deficits actually incurred versus anticipated shortfalls), the CDF may need to secure private-sector funds to accommodate some businesses.

Tenant Improvement Advance. Only relocating businesses are eligible for this advance. Proceeds from the advance may be used to cover the costs that exceed compensatory payments from Sound Transit.

Equipment Advance. Again, only relocating businesses are eligible for this advance, which may be used to purchase equipment for ongoing business operations at a cost that exceeds the compensation provided by Sound Transit.

4.3.3. Community Development Block Grant Loans

The CDF will offer two types of loans, which will be funded with CDBG monies from the Community Development Account, to support the development of receiving and relocation sites for displaced businesses: ¹¹ a commercial bridge loan and a commercial mortgage. These loans, also referred to as *Property Advances*, must be used for development of properties within the CDF's investment area.

The Commercial Bridge Loan is a short-term loan (up to two years) that may be used to secure interim site control or to acquire a property, and/or to cover any related non-construction predevelopment cost (e.g., architectural design and engineering fees, feasibility studies, holding costs, and so on).

¹¹ Because *Property Advances* will be funded with CDBG monies, borrowers must meet HUD requirements (see footnote 8).

The Commercial Mortgage is a long-term financing product that, combined with other sources of permanent financing, may repay construction and/or other bridge loans. These mortgages may be amortized over 15 years but will require full repayment in five to seven years.

Eligible borrowers include:

- 1) For-profit and nonprofit businesses that must relocate or rebuild as a result of light rail construction; or
- 2) For-profit and nonprofit developers that provide receiving sites to house tenant businesses dislocated by the construction of light rail.

4.3.4. Business Support Services

In addition to providing supplemental mitigation payments and advances, the CDF will offer guidance and other technical support to impacted businesses. The provision of business support services is one of the characteristics that distinguish “*development*” finance institutions from traditional lenders. The CDF can offer these types of services because, as a nonprofit entity, it will not be constrained by the necessity to maximize profits for shareholders.

Business support services are intended to:

- 1) Help impacted businesses develop strategies to address temporary business disruption; and
- 2) Better position the CDF to mitigate the higher risks inherent in the type of financial support it will extend.

Business support services may focus on any area of business operations. A key component of support services will be helping impacted businesses and property owners evaluate their mitigation and supplemental mitigation requirements. Another major area of technical support is likely to be assistance with tracking cash flows and using financial statements. CDF staff will strive to be culturally sensitive and appropriate at all times.

4.4. Transit-Oriented and Community Development: Guiding Principles

As previously noted, because of the more immediate need to focus CDF activities on supplemental mitigation, the CDF Steering Committee has deferred the design of specific products for transit-oriented and community development to the CDF Board. ***The CDF will not commit funds for these activities until its Board completes detailed product designs for approval by Sound Transit and the City of Seattle.*** In the interim, the Steering Committee has established a set of principles to guide the CDF Board in its deliberations. These guiding principles are based on interviews with Sound Transit, City of Seattle, and King County staff, one-on-one interviews with 32 community stakeholders, and feedback from an additional 31 community residents and business owners who attended a community forum held on February 6, 2002.

In general, the CDF Board's transit-oriented and community development funding decisions will be based on the following principles:

- ❑ Priority will be given to projects that 1) provide space for locally owned businesses and/or that employ Rainier Valley residents (at all pay levels), including the development of receiving sites and relocation sites for businesses displaced by the construction of light rail; 2) provide affordable housing opportunities for low- and moderate-income individuals and families; 3) provide facilities for community and cultural activities and are privately owned; and 4) support small businesses in the Rainier Valley.
- ❑ Physical development projects must fit well into the community and enhance the livability of the Rainier Valley.
- ❑ The majority of funds should be revolved as loans, to the extent legally permissible, to ensure maximum leverage of CDF dollars. Loans should be collateralized, should bear an interest rate, and should include terms and conditions that serve as incentives for the borrower to achieve the CDF's social and community development goals, and that are commensurate with the risk assumed by the CDF.
- ❑ The CDF will not fund public improvements such as streets, street lighting, sidewalks, pedestrian bridges, green space, etc. except with monies that originate from the Supplemental Mitigation Account administered by Sound Transit and that are required public improvements associated with a privately owned development.

4.4.1. Transit-Oriented Development ("TOD") Principles

The CDF will fund transit-oriented real estate development projects that:

- 1) Meet the community development principles described above;
- 2) Are located within a quarter mile of the light rail alignment between South McClellan Street on the north and the Boeing Access Road on the south; and
- 3) Enhance transit ridership – that is, demonstrate a physical and functional link with the transit system; are pedestrian, bicycle and transit friendly; and reflect the values of the community and encourage community participation.

The CDF's investment in a transit-oriented development project must leverage other sources of funding. The CDF's ability to fund these activities will be defined, in part, by the source of funds available, as described below in TABLE 2.

4.4.2. Community Development Principles

The CDF may support projects that preserve and strengthen cultural and economic diversity, long-term livability, and economic opportunity for Rainier Valley residents, businesses, and institutions.

Projects and businesses eligible for funding must be located within the area outlined in blue on the CDF investment area map (*see FIGURE 2*). Businesses and projects located outside the area but within one or two blocks may be eligible for community development funding, if, in the CDF's estimation, the benefits from the project/business accrue to Rainier Valley residents. As demographics in the Rainier Valley and adjacent neighborhoods shift, the CDF board may modify the boundary. However, the expressed intent of the Steering Committee and the CDF Founding

Board is that CDF funds be used exclusively to benefit low- and moderate-income residents, businesses, and institutions located in Rainier Valley.

TABLE 2. Sources and uses of funds for transit-oriented development projects

USES	SOURCE OF FUNDS
Transit-Oriented Development:	
1) <i>Required improvements to <u>public</u> infrastructure associated with private developments that meet the CDF's community development principles, are located within a quarter mile of the alignment, and enhance transit ridership</i>	Supplemental Mitigation Account administered by Sound Transit
2) <i><u>Privately</u> owned developments that meet the CDF's community development principles, are located within a quarter mile of the alignment, and enhance transit ridership</i>	Community Development Account administered by the City of Seattle: <ul style="list-style-type: none"> ❑ CDBG funds for commercial and mixed-use developments ❑ City of Seattle General Fund for affordable housing developments

As previously described, priority will be given to projects that:

- 1) provide space for locally owned businesses and/or that employ Rainier Valley residents (at all pay levels), including the development of receiving sites and relocation sites for businesses displaced by the construction of light rail;
- 2) provide affordable housing opportunities for low- and moderate-income individuals and families;
- 3) provide facilities for community and cultural activities and that are privately owned; and
- 4) support small businesses in the Rainier Valley.

The CDF will provide support services in conjunction with small business lending to maximize the probability of the borrower's long-term successful operation.

In addition, the CDF may grant up to \$2 million to eligible organizations to provide pre-apprenticeship training for transit-related jobs (including construction, maintenance, and operations). The CDF Board will oversee the design of the funding program, including requests for proposals, evaluation, selection, funding, and monitoring of successful applicant organizations. For the complete product proposal, which contains an annual budget, timeline and other details, please refer to APPENDIX D. *Labor Force Training Product Proposal*.

During 2003, the CDF's Board of Directors will develop specific community development funding guidelines including defining financial products, eligibility, and related underwriting requirements. This operating plan will be revised accordingly and submitted for approval to the Sound Transit Board and Seattle City Council prior to committing funds to any project or business.

The source of funds for community development projects and the pre-apprenticeship training grants are summarized in TABLE 3.

TABLE 3. Sources and uses of funds for community development projects

USES	SOURCE OF FUNDS
Community Development:	
1) <i>Commercial real estate development, mixed use, and small business projects that meet community development principles described above</i>	Community Development Account: <input type="checkbox"/> City of Seattle CDBG funds
2) <i>Pre-apprenticeship training programs for transit-oriented construction, maintenance, and operating jobs</i>	Community Development Account: <input type="checkbox"/> City of Seattle General Funds

4.5. Alternate Sources of Financing

The CDF will not be the only development finance institution that serves the Rainier Valley. In addition to regulated commercial banks, including Bank of America, Key Bank, US Bank, Wells Fargo Bank, and Washington Federal Savings Bank, three development lenders include Rainier Valley in their service areas: Evergreen Community Development Association (“ECDA”), Community Capital Development (“CCD”) and Cascadia Revolving Fund (“Cascadia”).

All three development lenders offer small business financing. CCD and Cascadia are certified CDFIs, and ECDA is an SBA-certified development company (i.e., a non-profit lender that originates SBA 504 commercial loans). These lenders typically fill the financing gap that regulated financial institutions cannot address with taxpayer-insured dollars (FDIC-insured deposits). A synopsis of the products offered by these lenders is included in APPENDIX E.

Whenever possible, the CDF will strive to collaborate with these institutions.

5. STRUCTURE, GOVERNANCE, AND MANAGEMENT

This section describes the CDF’s:

- ☐ Legal structure and anticipated certification as a community-based development organization, community development financial institution, and community renewal district intermediary;
- ☐ Governance structure;
- ☐ Management and staffing requirements; and
- ☐ Community accountability and outreach.

5.1. Legal Structure of the CDF

The CDF was incorporated in September 2002 as an independent private nonprofit corporation and seeks tax-exempt status under federal Internal Revenue Code section 501(c)3. As an independent corporate entity, the CDF is governed by a board of directors that has fiduciary responsibility for the organization,

including signing and complying with service and funding contracts with Sound Transit, the City of Seattle, and future funders. The CDF is seeking tax-exempt status so that in the future, it can accept tax-deductible contributions from individuals, foundations, and other private entities to support expanded community development activities.

A brief discussion follows of some of the implications of being a *private* (versus *public*) corporation:

Transfer of public funds. Public money cannot be used to capitalize a private, nonprofit corporation except for the necessary support of the poor and infirm (*Washington State Constitution, Article VIII*). From an accounting standpoint, local public funds administered by the CDF will not appear on the CDF's balance sheet and may not be used as a match to raise additional capital. The restriction does not apply to federal CDBG funds.

Governance considerations. As a private corporation, the CDF is a community-controlled institution with a community-elected or self-perpetuating board. Two-thirds of the CDF's board must be comprised of individuals who live and/or work in the CDF's investment area.

Eligibility to become a "CBDO."¹² As a private, nonprofit corporation whose primary purpose is to preserve and strengthen the cultural diversity, long-term livability, and economic opportunity in the Rainier Valley investment area, the CDF is eligible for designation as a Community-Based Development Organization ("CBDO") from the U.S. Department of Housing and Urban Development ("HUD"). CBDOs may lend CDBG dollars to qualifying projects. Once those loans are repaid, they may be relent by the CBDO without the previous federal restrictions. In essence, once the CDF receives CBDO designation and recovers the first round of loans it makes with CDBG funds, it will be able to lend those dollars as if it were private capital (while still benefiting low- and moderate-income Rainier Valley residents and businesses).

Eligibility to become a "CDFI."¹³ At a future date, the CDF will apply to the U.S. Treasury Department for certification as a Community Development Financial Institution. CDFIs are private nonprofit and for-profit financial institutions that have community development as their primary mission. CDFIs make loans and investments and provide basic services to people and institutions that, for various reasons, are unable to obtain these services from conventional financial institutions. CDFIs work closely with their borrowers to ensure they make the most effective use of loan proceeds. For example, CDFIs often work with entrepreneurs to develop long-term plans for their businesses. This serves two purposes: it increases the likelihood that the CDFI will be repaid and increases the business owner's chances for success. Certified CDFIs can qualify for capital grants of up to \$5 million every three years from the U.S. Treasury Department's CDFI Fund. These awards are granted on a competitive basis, are performance based, and require a dollar-for-dollar match of non-federal funds.

Eligibility to become Community Renewal Agency. Governor Locke signed into law House Bill 2357, the Community Renewal Statute, on March 28, 2002. Under the statute, community renewal agencies enjoy more flexible powers in administering public funds in economically distressed communities designated as Community Renewal Districts. Investments made within a Community Renewal District fulfill public-purpose requirements by improving conditions in a "blighted" area, as defined in the statute, and by benefiting the public at-large. To receive designation, a municipality must develop a Community Renewal Plan for a specific geographic area. Within the area and pursuant to the Community Renewal

¹² Please see APPENDIX F for relevant excerpts from the HUD regulations.

¹³ Please see APPENDIX G for additional background information CDFIs.

Plan, the municipality and its agents will be able to use public funds for certain purposes not otherwise allowed.

As a private entity, the CDF cannot be designated as a Community Renewal Agency. However, it could be approved as an *intermediary* and as such, could originate loans on behalf of the Community Renewal Agency to private businesses in the District that create jobs benefiting low-income residents of the District. The statute will apply only to CDF funds originating from the Community Development Account, which are administered by the City of Seattle, but not to funds originating from the Supplemental Mitigation Account, which are administered by Sound Transit.

5.2. Governance Structure

CDF operations will begin under the auspices of an eight-member *Founding Board of Directors* that is responsible for launching the CDF in 2002 and establishing the full or sustaining Board by December 31, 2002. The *Sustaining Board* will be comprised of no fewer than seven and no more than 19 directors. The formation of the Board of Directors is being phased due to the immediacy of Sound Transit's acquisition activities in the Rainier Valley and the need to have a functioning CDF for impacted businesses as soon as this operating plan is approved and service agreements are executed with Sound Transit and the City of Seattle.

5.2.1. Founding Board Responsibilities and Selection

The Founding Board was elected by the Steering Committee following an extensive search conducted during January and February 2002. The Steering Committee sought Founding Directors with the following skills and characteristics:

- ❑ Specific technical expertise in commercial lending, real estate development, small business development or management, financial management, government contract compliance, or legal knowledge relevant to the complex funding structure and activities the Board must oversee;
- ❑ Prior Board experience in a financially complex organization (ideally, on the Board of a start-up organization, a community development agency or its finance or Loan Committee);
- ❑ Ability to make impartial, independent decisions based on presented facts and knowledge of small business operation, real estate development, and Rainier Valley community priorities;
- ❑ Demonstrated commitment to preserving and strengthening the cultural diversity, long-term livability, and economic opportunity in Rainier Valley;
- ❑ Culturally sensitive to the diverse needs of Rainier Valley's residents and businesses; and
- ❑ Available and willing to commit the time necessary to launch the CDF.

In addition, a majority of Founding Board members were required to live and/or work in the CDF investment area and represent Rainier Valley's cultural diversity. No more than three Steering Committee members were allowed to serve on the Board. Steering Committee members were included to ensure continuity in thought and action so the rationale behind previous decisions would not be lost, to avoid the loss of the expertise that Steering Committee members developed during the design of the CDF, and because Steering Committee members already have legitimacy in Rainier Valley because of the earlier community-wide process that elected them.

The Founding Board is responsible for establishing CDF operations by the end of 2002 and carrying out the following duties:

- ❑ Join the Steering Committee in reviewing and finalizing the operating plan for the CDF;
- ❑ Participate in presentations of the operating plan and discussions with members of the Sound Transit Board and Seattle City Council;
- ❑ Incorporate the CDF and apply for 501(c)3 status;
- ❑ Implement a staffing plan including (but not limited to) hiring and negotiating a contract with an interim technical assistance provider, hiring the Executive Director of the CDF as soon as possible, reviewing and approving contracts with any third-party service provider(s);
- ❑ Negotiate service and funding contracts between the CDF and Sound Transit and the City of Seattle;
- ❑ Oversee the establishment of a chart of accounts for the CDF; establish bank accounts and associated cash and financial management policies;
- ❑ Oversee the development of and approve financial management, product underwriting, and personnel policies and procedures;
- ❑ Conduct community outreach to remain accountable to the community;
- ❑ Review and approve initial supplemental mitigation requests for CDF funding; and
- ❑ Ensure that the balance of the Board of Directors is selected and oriented by the end of 2002.

Community stakeholders and CDF Steering Committee members nominated sixty-five people with a range of the above skills and characteristics for consideration for the eight Founding Board positions. Each of the 65 nominees was contacted by Steering Committee members to discuss the responsibilities, characteristics, and time requirement for Founding Board members and to assess each nominee's interest in running for a Board seat. Of the 65 people nominated, twenty wished to be considered. In addition, five Steering Committee members submitted their names for election to the Founding Board.

Each applicant who was not a member of the Steering Committee submitted written responses to five essay questions regarding his/her relevant experience and involvement in the community. The twenty applicants were strong individuals displaying many of the characteristics and skills enumerated by the Steering Committee.

In late February 2002, the entire Steering Committee met to discuss and fairly evaluate the assets of each candidate. The election process was structured so that only candidates receiving at least two-thirds of the votes were successfully elected to the Board.

The eight people elected to serve possess a complement of the skills and characteristics identified above. Seven of the Board members reside and/or work in the CDF's investment area. The Board includes two Steering Committee members. The CDF's Founding Board members are:

- 1) David Chen
- 2) Diane Davies
- 3) Nemesio Domingo
- 4) Robert Mohn
- 5) David Okimoto
- 6) Patricia Paschal (Steering Committee member)
- 7) Thao Tran (Steering Committee member)
- 8) Doug Wheeler

Biographies for each of the Board members are included in APPENDIX H.

5.2.2. Sustaining Board Composition and Function ¹⁴

The Founding Board is responsible for determining the most appropriate process for electing the *Sustaining Board of Directors* and for establishing the Board by 12/31/02. To conform to the CDF By-Laws, two-thirds of the CDF's Board members will live and/or work in the Rainier Valley. In addition, to conform to HUD's CBDO certification requirements (see APPENDIX F), 51% of the Board members will be either low- or moderate-income residents of the Valley, owners or senior officers of private establishments or other institutions located in and serving the Valley, or representatives of low- or moderate-income neighborhood organizations located in the Valley. The Sustaining Board will consist of no fewer than seven directors and no more than 19, including Founding Board members.

The Founding Board will establish staggered term limits for all Board members to ensure that the Board regenerates at appropriate intervals but does not lose critical knowledge, skills, and experience. Four of the eight Founding Board members will serve one and a half year terms (until the end of 2003). The remaining four will serve two and a half years until the end of 2004. New directors (and Founding Board members asked to serve an additional term) will serve terms of three years. No director may serve for more than two consecutive terms.

Each year, the directors of the Board will nominate and elect new directors prior to replacing those whose terms have expired. One of those new directors must be elected by a vote of the community-at-large at an open meeting. Care must be taken to ensure that candidates possess the necessary technical skills, as well as broader community-oriented characteristics, so the Sustaining Board can carry out its fiduciary responsibilities prudently and professionally.

The principles on the following page are set forth to guide the formation of the Sustaining Board:

¹⁴ Excerpted from the CDF's By-Laws.

Guiding Principles: Sustaining Board Formation

1. The Sustaining Board of the CDF shall strive to be inclusive of the diversity of Rainier Valley (including, but not limited to, cultural, socio-economic and geographic diversity) and also of the different interests of the Valley.
2. This Board shall seek nominations of its members from the various groups and individuals within the community through an open and public process.
3. The Board shall, among its entire membership, include the skills and characteristics necessary to perform its duties, i.e., maintain the mission of the organization, oversee the financial health of the organization, hire and supervise the executive director.
4. The Board shall ensure that the organization is well integrated with and accountable to the community and its funding partners.
5. The Board shall be community-controlled – two-thirds of its members shall reside and/or work within the boundaries of the investment area.
6. The Board shall strive to balance its representation of the various interest groups and organizations included within its membership.
7. No individual shall financially gain from the CDF on a personal level while serving as a CDF Board Member and for a period one year after. (Please refer to *Section 6.2.5 Conflict of Interest*.)

The Sustaining Board will be responsible for the following functions:

- ❑ Assessing and approving all payment, advance, grant, and loan write-ups, recommendations, and disbursements to fund prospective CDF customers;
- ❑ Overseeing final design and implementation of the CDF's transit-oriented and community development activities (including the pre-apprenticeship training grant program);
- ❑ Overseeing the development of community outreach strategies;
- ❑ Approving and overseeing the annual budget;
- ❑ Overseeing compliance with all service and funding contracts;
- ❑ Overseeing, evaluating, hiring, and firing the CDF's Executive Director;
- ❑ Overseeing the monitoring and evaluation of third-party service contracts;
- ❑ Reviewing and updating financial management, product underwriting, and personnel policies;
- ❑ Setting the future direction of the CDF and approving the CDF's business plan.

To carry out its responsibilities, the Sustaining Board will establish working committees, including but not limited to executive, loan, audit and finance, nominations, and outreach/ communications committees.

Once management and staffing have been finalized, the Board will establish thresholds on the authority of the Executive Director, third-party contractors, and/or the Loan Committee to approve individual payments, advances, loans and grants. Until the Executive Director and/or a

third-party service provider are hired (and their skills and judgment are observed in practice), it would be presumptuous to arbitrarily assign a dollar amount for this level of authority.

5.3. Management and Staffing

To ensure that the CDF is operational by the end of 2002 and that support services are available to impacted businesses concurrent with the start of Sound Transit's property acquisition activities, it is essential that the business support function is staffed as soon as possible and that the Founding Board have access to temporary staff to carry out their work. During this interim staffing period, the Founding Board will be responsible for recruiting an Executive Director and for considering long-term staffing plans.

A discussion follows on the interim and long-term staffing functions.

5.3.1. Interim Staffing

The CDF's interim staffing requirements include:

- ❑ Providing business support services to impacted businesses to help them evaluate their mitigation and supplemental mitigation requirements; and
- ❑ Staffing the Founding Board during the implementation stage so the CDF can become operational soon after Sound Transit and the City of Seattle approve this plan and service agreements are executed.

Interim business support services are being provided until the end of 2002 by City of Seattle Office of Economic Development ("OED") through an interlocal agreement funded by Sound Transit. OED is providing 2.5 FTE staff members to assist businesses and others affected by the construction of light rail for the duration of 2002. Of these, one full-time staff person is assigned to work with businesses located along the light rail alignment between South McClellan Street and the Boeing Access Road. In May 2002, the CDF Founding Board and OED staff recruited for and filled this position. Sound Transit will be reimbursed through the Supplemental Mitigation Account for salary and benefits incurred for this position through December 2002, at which time staffing expenses will transfer to the CDF's payroll. To date, OED business support staff have worked closely with the CDF Founding Board, Sound Transit, and impacted Rainier Valley businesses to begin defining mitigation and supplemental mitigation needs.

During this interim staffing period, Paige Chapel and Patty Grossman, the consultants who staffed the Steering Committee in the development of this operating plan, have been retained by Sound Transit to carry out the following tasks:

- 1) Help orient the Founding Board;
- 2) Draft by-laws and articles of incorporation for legal review;
- 3) Assist the Founding Board in recruiting candidates for Executive Director and evaluating and recruiting an executive search firm;
- 4) Assess opportunities to engage existing organizations as third-party contractors to deliver specific CDF services and/or products;
- 5) Develop preliminary policies and procedures for financial management, product underwriting, and personnel management;

- 6) Evaluate legal counsel to assist in incorporating the CDF and drafting payment and advance documents, and a CPA firm to set up the CDF's chart of accounts and bookkeeping system;
- 7) Select and set up initial data collection and management processes;
- 8) Develop initial application materials; and
- 9) Revise and finalize the operating plan to reflect negotiations with the funders and progress made by the Founding Board to further refine CDF operations.

In addition, in September 2002, the CDF Founding Board voted to retain an interim program assistant (subject to the Sound Transit Board's approval of the CDF's implementation budget) to staff the CDF Board during the intense final stage of implementation. The role of the program assistant is to provide behind-the-scenes assistance to the CDF Founding Board as they establish CDF operations and begin disbursement of supplemental mitigation products. The primary responsibilities of this position will include: managing the approval process for the CDF operating plan; assisting CDF Board committees in meeting their work plans and timelines; shepherding contracting and applications efforts; and scheduling interview appointments for executive director candidates. In addition, the program assistant will schedule community outreach activities for the CDF Board and take the lead in setting up a functioning CDF office by yearend 2002. Founding Board members will continue to represent the CDF to the community and funders.

5.3.2. Long-Term Staffing: Capacity, Skills and Experience Required for Key Staff

To minimize the cost and time involved in establishing a new organization, the CDF's Founding Board will evaluate opportunities to contract as much as possible of the CDF's staffing functions with existing development finance organizations that already serve the Rainier Valley (please refer to section 4.5 *Alternate Sources of Financing*). As a starting point, this operating plan includes a description of the staffing positions the CDF minimally requires to carry out its work. When evaluating contracting opportunities with existing organizations, the Founding Board will use these position descriptions to evaluate the feasibility of subcontracting specific functions.

The CDF will require a diverse set of skills to successfully deliver its ambitious program. The CDF will offer supplemental mitigation payments and advances, loans and grants in support of small business, commercial real estate, affordable housing, and facilities development, and pre-apprenticeship training. The CDF will require an experienced and skilled team (whether through contracted third-parties or full-time staff) that can hit the ground running without requiring on-the-job training.

At a minimum, the CDF requires staffing for the following three functions:¹⁵

- ❑ Executive Director
- ❑ Program Officer (3 during the supplemental mitigation period, fewer thereafter)
- ❑ Program Assistant

Bookkeeping and portfolio servicing may be contracted out initially.

¹⁵ Detailed job descriptions for each position are included in APPENDIX I.

Executive Director. The Executive Director is the chief staff member, provides leadership, and is the organization's liaison to the Rainier Valley community, all community organizations, public and private funding sources, financial institutions, and the media. S/he oversees all management and program operations, and hires and supervises staff, interns, volunteers, and consultants; and/or contracts with and monitors third-party service providers. The Executive Director reports to the Board of Directors and is responsible for performing executive functions such as communicating with the Board and community stakeholders; overseeing all funding disbursements, lending and granting functions; capitalization and development; accounting and financial management; and infrastructure development for a start-up non-profit. More specifically, the Executive Director will be responsible for:

- ❑ Negotiating and managing terms and conditions of contracts with all funders;
- ❑ Managing a diverse product set, including finalizing the underwriting details for supplemental mitigation products;
- ❑ Directing all programs, including business technical assistance, lending programs, ongoing management assistance, business support services, pre-apprenticeship training grants, and all aspects of real estate lending;
- ❑ Raising funds, developing a diverse resource base, and planning the budget;
- ❑ Recruiting, hiring, supervising, and motivating staff, and promoting development of their skills and leadership abilities;
- ❑ Selecting and overseeing the implementation of all management information systems, including financial and program information, to facilitate planning, provide evaluative data for monitoring the CDF's performance, and support resource development efforts;
- ❑ Promoting economic development (business lending and real estate development lending) with funding sources and others, to ensure that clients have access to other community resources and financing;
- ❑ Developing and maintaining external relationships with community organizations and groups, business assistance organizations, financing institutions and public agencies; and
- ❑ Developing collaborative relationships and partnerships that enhance the organization and its ability to meet the needs of its diverse constituency.

The Executive Director should be an experienced professional and have a minimum of 5-8 years of relevant work experience, with background in nonprofit community development financial institution management, preferably in both real estate development and business lending. The candidate's experience should include experience in strategic planning, board and community relations, personnel supervision, and financial management. S/he also must have experience working with lower income people and in diverse communities, and be a capable, compassionate, energetic and positive leader – able to motivate and work with a wide variety of professionals and volunteers.

Program Officers. The Program Officers will provide business support services to impacted businesses and property owners, and will screen requests, underwrite supplemental mitigation payments and advances, CDBG loans and pre-apprenticeship training grants, present proposals for review to the Loan Committee of the Board, negotiate and close all transactions, maintain data and files relating to all applications and transactions, assist in monitoring and servicing the loan portfolio, and market loan products and services to potential new borrowers/beneficiaries.

The Program Officers' primary responsibilities include:

- ❑ Review applications and financial data from prospective borrowers/beneficiaries;
- ❑ Follow up with applicants, conduct site visits, secure whatever other data are necessary to perform sound loan review;
- ❑ Prepare written reviews including financial analyses and present screened applications to the Loan Committee;
- ❑ Negotiate credit or payment structure and issue commitment letters; prepare and execute credit and/or payment documents, file necessary legal documents;
- ❑ Maintain accurate and complete files on all financial products underwritten and approved;
- ❑ Maintain constructive and positive working relationships with applicants, borrowers/beneficiaries, and the community;
- ❑ Participate in training, technical assistance and organizational capacity building efforts;
- ❑ Monitor portfolio, communicating directly with borrowers/beneficiaries as appropriate;
- ❑ Work with borrowers to negotiate past-due collections, workouts and default situations;
- ❑ Provide assistance as necessary to help potential borrowers successfully qualify for financing; or where loans are at risk or where beneficiaries, businesses and/or organizations are at risk, help applicants locate other funding sources if the CDF is not a good fit; and
- ❑ Review, close, disburse, track and monitor grants under the pre-apprenticeship grant program.

Program Officers should have a minimum of three years experience in commercial credit and/or real estate finance, strong analytical, time management, and organizational skills and the capacity to integrate diverse objectives with a high level of attention to detail. They must have effective written and verbal communication skills and prior experience working with a variety of small businesses from diverse cultures.

Program Assistant. The Program Assistant will assist the Executive Director on outreach and communications, coordinate with other community groups, answer inquiries about the CDF, and generally staff the office. This position requires an unusual mix of skills. Although the position requires fewer technical skills than the others, it will be no less demanding – it requires a willingness to perform office management tasks and the ability to stand in for the Executive Director when required. The Program Assistant will have primary responsibility for:

- ❑ Implementing the CDF's communications and outreach plan with the community;
- ❑ Assisting the Executive Director in staffing the Board and communicating with funders;
- ❑ Helping staff the final design of the transit-oriented and community development programs;
- ❑ Maintaining the corporate records;
- ❑ Answering all inquiries for applications; and
- ❑ Maintaining office operations, from equipment maintenance to human resource files.

At a minimum, the Program Assistant must have effective written and verbal communication skills, have an entrepreneurial spirit with the ability to work successfully in a collaborative setting with a minimum of hands-on supervision, and enjoy working with people.

5.4. Community Accountability and Outreach

The CDF Board and staff will be accountable to the community they serve as well as to their funders (Sound Transit and the City of Seattle). The CDF's annual budget will include a sufficient commitment of resources to maintain ongoing outreach and communication with the residents, businesses, and institutions of the CDF's investment area. In addition, the Board will ensure that all reporting and communication requirements with funders are met in a timely manner.

Community accountability, outreach, and communications will be guided by the following principles:

1. Every effort will be made to maintain a Board of Directors that fairly represents the diverse communities and interests served by the CDF.
2. CDF staff will regularly communicate about the CDF's activities with existing community-based organizations and institutions and will coordinate with other community initiatives. Every effort will be made to partner with existing organizations within the community.
3. The CDF will maintain regular and ongoing communications with the broader community about projects and/or businesses funded and the impact of the CDF's programs.
4. Every effort will be made to actively consult with and involve members of the community in the CDF's activities.
5. The CDF's financial statements, annual audits, and other internal reports will be available to the general public upon request as long as disclosure does not violate customer confidentiality.
6. Customer confidentiality will be preserved under all circumstances by staff and Board unless otherwise required by law.

6. OPERATIONS AND RISK MITIGATION

The CDF, under separate contracts with Sound Transit and the City of Seattle, will manage the origination, underwriting, and monitoring of payments, advances, loans, grants, and the provision of technical assistance for the Supplemental Mitigation Account and the Community Development Account. In addition, the CDF will originate commercial bridge loans and mortgages with Community Development Block Grant funds (to be negotiated with the City as a portion of the Community Development Account). The CDF will track transactions for the SMA and CDA, providing monthly reports to Sound Transit and the City of Seattle on transactions disbursed and where appropriate, repayments collected. Sound Transit and the City will record these transactions in their own financial systems. Consequently, the CDF Founding Board and Steering Committee members have spent a significant amount of time with Sound Transit and City of Seattle staff mapping out the procedures and reporting requirements that will be followed to ensure the prudent management of public funds.

In addition, the CDF Founding Board has developed comprehensive written policies that will govern all aspects of product origination, underwriting, disbursements, and subsequent servicing. These policies will be expanded over the next nine months to include all supplemental mitigation, transit-oriented, and community development products and pre-apprenticeship training grants. Similar to other financial institutions, the CDF's Board and management will continually update and revise its policies to reflect changes in the operating environment.

In the balance of this section, we provide a summary of the procedures and policies that will govern the CDF's operations and the disbursement of public funds.

6.1. Transaction Procedures

The CDF will originate transactions and provide documentation to Sound Transit and the City of Seattle supporting disbursements from the SMA and CDA. Over the last few months, the CDF Founding Board has worked with agency staff to devise the specific steps that will be followed by the CDF and each agency in managing supplemental mitigation disbursements and CDBG loans to individual businesses and property owners. The procedures will be further refined or modified, as required, once the CDF's transit-oriented and community development products are developed. A summary follows of the processes for the SMA and CDA.

Supplemental Mitigation Payments and Advances. CDF staff will have primary responsibility for determining which CDF products impacted business and property owners are eligible for and for conducting all the due diligence and underwriting associated with preparing a funding recommendation for consideration by the CDF Board. CDF staff will coordinate their outreach efforts with Sound Transit's acquisition and relocation team.¹⁶ To minimize paperwork requirements, the CDF will ask impacted owners for written permission to access information they have provided to Sound Transit. The CDF also will provide the owner with a list of additional information required to structure and underwrite supplemental mitigation funding. The CDF staff person assigned to each business/property owner will prepare a detailed, written program action memo that describes the recommended package and the underwriting justification for it. This memo will be similar to the written credit memos used in traditional financial institutions.

Following review and approval by the CDF's Executive Director, the program action memo will be submitted to the CDF Board's Loan Committee for consideration. Sound Transit will assign a staff person to participate as a non-voting, advisory member in CDF Loan Committee meetings. This will help ensure Sound Transit's input before a program action is approved and is intended to expedite the disbursement process. To ensure the avoidance of conflict of interest, all members of the CDF Loan Committee who vote on a disbursement will sign a written statement attesting that they will not benefit in any way (financially or otherwise) from the approved program action. Following Loan Committee approval, CDF staff will notify the business/property owner of the decision and will establish a closing and disbursement date.

The CDF will prepare all closing documents and agreements, obtain a legal review from its attorneys when necessary, and submit a formal disbursement request to Sound Transit along with all supporting documents. Following Sound Transit's review and approval of the CDF disbursement request, CDF staff

¹⁶ The OED business support team, including the CDF-sponsored staff person, began coordinating their outreach efforts with Sound Transit staff during the summer 2002. Sound Transit makes the initial contact with impacted owners, followed by OED's business support team. The business support team helps businesses plan for the impact of relocation and introduces the supplemental mitigation products and application process for the CDF.

will sign all closing documents with the business/property owner and notify Sound Transit to wire funds or issue a check to the business/property owner.

The CDF will have responsibility for initiating the disbursement, monitoring transactions, maintaining contact with the recipient, and in the case of advances, ensuring the timely collection of payments. In addition, the CDF will provide monthly reports to Sound Transit on transaction activity made. In the event that an advance needs to be restructured or foreclosed, the CDF will initiate procedures on behalf of Sound Transit as its agent and under the CDF's name.

Community Development Block Grant Loans. The CDF will follow well-established procedures used by the City's Office of Economic Development (Community Development Block Grant unit). The first step involves providing OED with information on the proposed loan so it can make an eligibility determination. Once determined eligible for CDBG funding, the CDF will conduct all due diligence and underwriting on the loan and will prepare a credit memo and recommendation for the CDF's Loan Committee. If approved, CDF staff will prepare loan documents for review and approval by OED. The City of Seattle's CDBG Administrative Unit will also review the documents to confirm eligibility of the activity under HUD guidelines. After OED notifies the CDF that the loan has been approved, CDF staff will sign loan papers with the borrower and invoice OED for the loan disbursement. The CDF will monitor the loan, collect loan payments, and report to OED on the status of the loan and use of loan proceeds.

6.2. Operating Policies

Although the CDF, similar to other CDFIs, has community development and preservation as its primary mission, it will operate as a disciplined lender and investor in the Rainier Valley and as a responsible steward of taxpayer resources. The CDF must balance, and sometimes subordinate, mission-related desires with financial reality. The CDF may decline to finance projects that exceed its risk tolerance. Risk tolerance is, to a great extent, determined by the ability of the CDF staff to manage a disbursement and the ability of the organization to tolerate potential losses from worst-case scenarios for that transaction.

Accordingly, the CDF Board's oversight of management and operations will be guided by comprehensive written policies. These policies will cover product underwriting for supplemental mitigation payments and advances and CDBG loans, financial management of the Fund, and personnel management. A summary follows of the key elements of these policies.

6.2.1. Product Underwriting Policies

The CDF's product underwriting policies provide all the guidelines necessary for staff to prepare a transaction recommendation to the CDF Board and for the CDF Loan Committee to evaluate staff funding recommendations. Specific transaction procedures will be detailed in the service agreement with both Sound Transit and the City of Seattle. To date, policies have been written for supplemental mitigation advances. The policies will be completed for supplemental mitigation payments and CDBG loans prior to implementation of these programs. Once the pre-apprenticeship training grants and transit-oriented and community development products are defined in great detail, the CDF Board will update the policies. In September 2002, the CDF Board approved a draft set of working policies that include sections on the following underwriting and operating areas:

- 1) Underwriting Guidelines – staff and the Loan Committee will underwrite loans based on an analysis of:
 - (a) Credit History
 - (b) Repayment Ability
 - (c) Equity
 - (d) Liquidity
 - (e) Break-even Analysis
 - (f) Efficiency of operations
 - (g) Trends
 - (h) Credit History and References
 - (i) Collateral and Valuation
 - (j) Technical Assistance Needs
- 2) Collateral and Loan to Value Standards
- 3) Application, Review, and Approval Process
- 4) The Role of Sound Transit and Reports from the CDF to Sound Transit
- 5) The Role of City of Seattle and Reports from the CDF to City of Seattle
- 6) Closing Process on Program Actions and Loans
- 7) Monitoring and Servicing Process on Advances and Loans
- 8) Reporting
- 9) Default and Foreclosure Policies
- 10) Program Action Files
- 11) Charge-Offs
- 12) Real Estate Appraisals
- 13) Environmental Risk

6.2.2. Financial Management Policies

Financial management policies and procedures govern how the CDF's finances will be handled and include (but are not limited to):

- ☐ Liquidity Reserve Policy
- ☐ Loan Loss Reserve and Loan Risk Rating System
- ☐ Maximum Credit to a Single Borrower
- ☐ Risk Management Reporting
- ☐ Pricing on Loans and Advances
- ☐ Internal and External Audits
- ☐ Internal Controls
- ☐ Cost Accounting

A Liquidity Reserve Policy defines the minimum amount of resources maintained at all times to meet current obligations, including funding commitments. The policy describes the CDF's budgeting and funding process with Sound Transit and City of Seattle and the minimum operating reserve the Fund will maintain.

The liquidity reserve is separate from the CDF's operating reserve, which will be cash and cash equivalents equal to at least six months of projected operating expenses.

The CDF Board will establish a *Loan Loss Reserve* on CDBG loans. The loan loss reserve is designated by the CDF Board of Directors as a reserve against possible losses on CDBG loans disbursed by the CDF to third parties. The reserve currently is set to be four percent of total

outstanding commercial bridge loans and mortgages carried as assets on the CDF's balance sheet. These reserve funds may not be used for lending or granting purposes.

6.2.3. Investment Management Policies and Procedures

These policies govern how the CDF manages idle cash, that is, cash not yet disbursed to beneficiaries or borrowers and waiting to be deployed. Currently, the CDF is not projected to have significant idle funds until CDBG loans begin to repay in 2004. This set of policies is quite conservative, preserving liquidity and minimizing risk. For example, investment of idle cash in instruments such as derivatives is forbidden. In general, these policies describe a risk profile for investments similar to those deemed acceptable for a regulated financial institution or government agency.

6.2.4. Personnel Policies

The CDF Founding Board has developed personnel policies that articulate the CDF's affirmative action and employment practices including: hiring procedures, employment expectations, pay practices, personal conduct, training and staff development, personnel actions, communications, and employment separation. The CDF's attorney will review these policies to make certain they are consistent with current employment laws.

6.2.5. Conflict of Interest

The following policy statement is included in the CDF's operating policies:

"The CDF Board has an affirmative obligation to disclose any actual or potential conflicts of interest. An affirmative obligation means that board members must volunteer information and disclose it to the Board and the public as soon as they realize there is an appearance of a potential conflict.

Conflicts of interest include the following situations involving a board member, a member of the board member's family or household, or a business partner of the board member:

- 1) Receipt or solicitation of any retainer, gift, loan, entertainment or other thing of monetary value from anyone seeking to advance or obtain business or other financial relationship with the CDF*
- 2) Attempts to advance or obtain contractual or other business or financial relationships with the CDF.*
- 3) Existence of a financial or economic interest that may be substantially affected by the board member's performance or non-performance of his or her official duties for the CDF.*
- 4) The fact of engaging in, accepting private employment from, or rendering services for private interests when such employment or service is incompatible with the proper discharge of CDF duties or would tend to impair independence of judgment or action in the performance of official duties for the CDF.*

No individual board member, member of the board member's family or household, or business partner of the board member shall financially gain from the CDF on a personal level while the board member is serving as a CDF Board Member and for a period one year after."

As previously noted, to ensure that CDF Board members avoid all real and perceived conflicts of interest, all members of the CDF Loan Committee who vote on a program action (payment, advance, loan, or grant) will sign a written statement attesting that they have not benefited and will not benefit in any way (financial or otherwise) from the CDF's funding decision. The signed statement will be included with the formal request for a disbursement (along with other documentation) to Sound Transit or the City of Seattle.

6.3. Management Information Systems and Procedures

Multiple software systems are now available that are tailored to the needs of an organization such as the CDF. These systems are flexible, functional, modifiable, and inexpensive. The CDF will be able to operate for a year or so with only an automated chart of accounts and financial statements; but, as soon as activity exceeds thirty clients, the CDF will have software systems installed to automatically track transaction activity. *(Please note: this area of operation may be contracted to a third-party.)*

6.4. Reporting and Accountability

The CDF Founding Board and staff of Sound Transit and the City of Seattle share expectations about the need for and importance of accountability. Accordingly, the CDF will provide regular reports on its activities to Sound Transit and the City of Seattle. Reporting will include an annual financial audit per ACIPA standards, monthly reports on transaction activity for the SMA and CDA, and regular reports on CDF operations. In addition, a Sound Transit representative will attend Loan Committee meetings as a non-voting, advisory member to ensure ongoing review and input on supplemental mitigation transactions. These and other specific reporting requirements and procedures will be articulated in the separate service agreements the CDF negotiates with Sound Transit and the City of Seattle and prior to the commitment or disbursement of any funds.

7. CAPITALIZATION AND FINANCIAL FORECAST

This section describes the CDF's funding structure and provides a six-year financial forecast for the CDF's supplemental mitigation program.¹⁷

7.1. Capitalization

As discussed in section 4.1 *Legal Constraints Governing Use of Funds*, two separate accounts will be established to fund the CDF's activities (see FIGURE 3):

- 1) The *Supplemental Mitigation Account*, administered by Sound Transit, will consist of \$28.7 million in funds paid to the SMA by Sound Transit over eight years beginning in 2002. These monies will be used for supplemental mitigation and transit-oriented development projects.

¹⁷ The financial forecast does not include projections for the transit-oriented and community development programs (with the exception of the pre-apprenticeship grant program). The CDF Board will complete additional work during 2003 to define products, eligibility, and underwriting policies and procedures for these program areas.

The \$28.7 million from Sound Transit will be offset by supporting contributions to the light rail project from the City of Seattle (\$21.5 million) and King County (\$7.2 million).

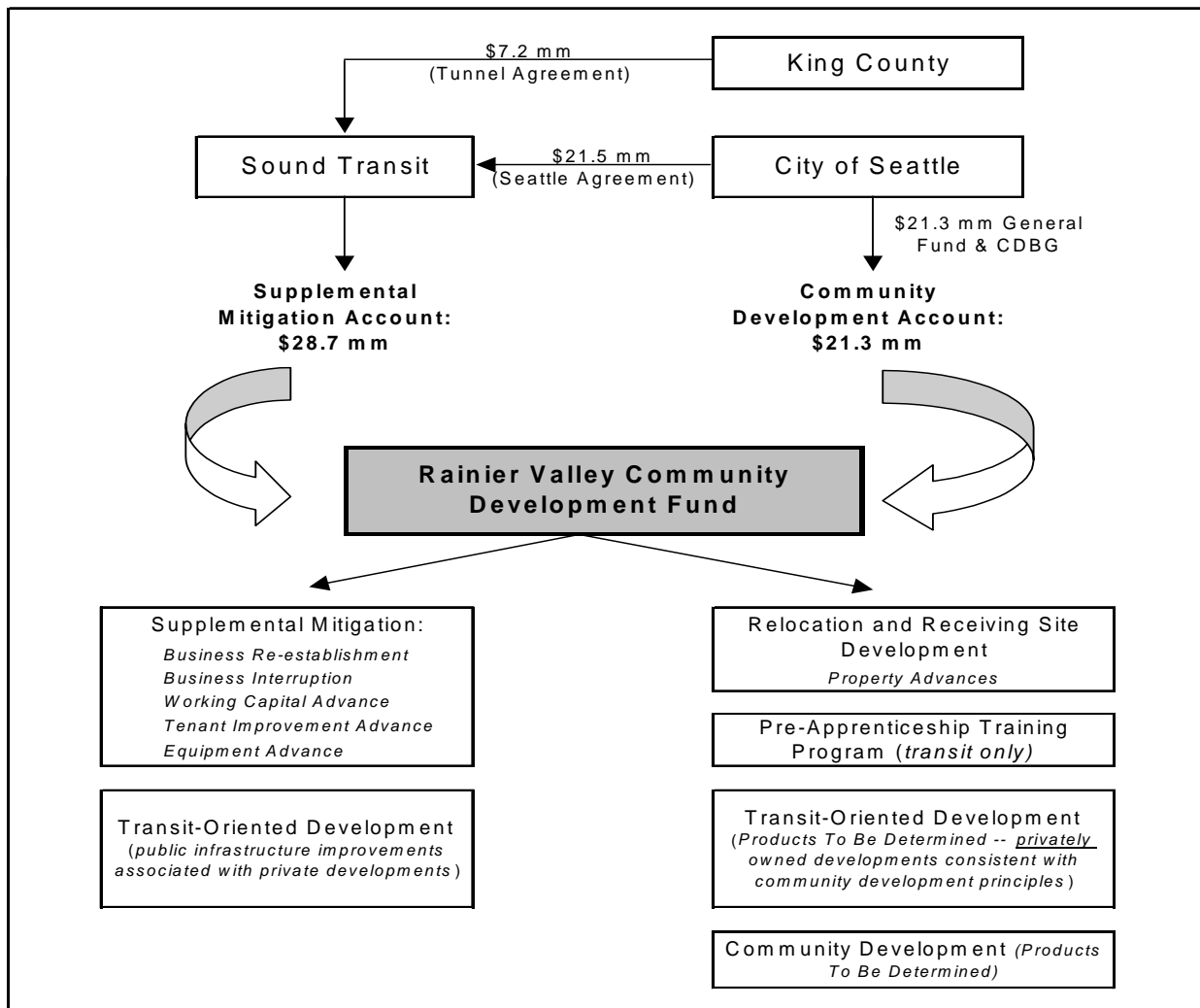
- 2) The Community Development Account, administered by the City of Seattle, will consist of \$21.3 million of General Fund and CDBG dollars paid in over seven years beginning in 2003. These monies will be used to fund relocation sites for impacted businesses, pre-apprenticeship training grants, and transit-oriented and community development projects that meet the CDF's community development principles (see section 4.4).

The amount, timing, and conditions of payments to the SMA and CDA are spelled out in two separate funding agreements. The City of Seattle and Sound Transit signed an agreement ("*Seattle Agreement*") on June 13, 2002 that establishes a schedule for payments totaling \$42.8 million to the SMA and CDA. Sound Transit, King County, and the City of Seattle signed a subsequent agreement ("*Tunnel Agreement*") that establishes a separate schedule for Sound Transit to make the remaining \$7.2 million in payments to the SMA. This operating plan is intended to be consistent with these agreements. TABLE 4 summarizes projected funds available for CDF activities through 2009.

TABLE 4. Summary of capital contributions (\$ million)

	2002	2003	2004	2005	2006	2007	2008	2009	TOTAL
Supplemental Mitigation Account:									
• Seattle Agreement Payments ¹⁸	\$3.0	\$7.0	\$2.5	\$2.5	\$6.5				\$21.50
• Tunnel Agreement Payments	--	1.0	1.0	1.0	1.0	1.0	1.0	1.2	7.2
Sub-Total	\$3.0	\$8.0	\$3.5	\$3.5	\$7.5	\$1.0	\$1.0	\$1.2	\$28.70
Community Development Account:									
• Seattle General Fund	\$.1	\$.8	\$.2	\$.5	\$1.8	\$1.1	\$.8	\$1.0	\$6.30
• Seattle CDBG	--	2.0	2.5	2.5	2.5	2.5	2.5	.5	15.0
Sub-Total	\$.1	\$2.8	\$2.7	\$3.0	\$4.3	\$3.6	\$3.3	\$1.6	\$21.30
Total Funds Available	\$ 3.1	\$10.8	\$ 6.2	\$ 6.5	\$11.8	\$4.6	\$4.3	\$2.8	\$ 50.0

¹⁸ The *Seattle Agreement*, in which this payment schedule is established, includes a provision (section 4.3.3) to accelerate payments "to achieve the purposes of the SMA." If necessary, the CDF Board may submit a request to Sound Transit to accelerate contributions to the SMA in the event that supplemental mitigation activities exceed available funds.

FIGURE 3. Sources and uses of funds

Of the \$50 million, only CDBG funds will appear on the CDF's financial statements. All other funds will remain in the Supplemental Mitigation and Community Development Accounts until disbursed to eligible recipients. At a future date, the CDF will expand its capital base by raising additional private-sector capital from foundations and other institutions that support community development. The CDFI industry in the U.S. is fortunate to operate within a well-established funding infrastructure of national foundations, regulated banks, and federal programs. As previously noted, the CDF will seek CDFI certification from the U.S. Treasury Department once operations have stabilized. As a certified CDFI, the CDF will be eligible for direct funding from the Treasury Department's CDFI Fund, as well as becoming a more attractive investment opportunity for banks through the CDFI Fund's Bank Enterprise Act Program.

7.2. Financial Forecast

A financial forecast and notes of explanation are included in APPENDIX J. The forecast includes a balance sheet, statement of activities and cash flows, and supporting schedules for the CDF and projected cash flows for the Supplemental Mitigation and Community Development Accounts. *Please note:* although the CDF is likely to contract with existing third-party agencies to perform a number of functions (business support, underwriting, closing, monitoring, and/or portfolio management), the financial forecast in

this operating plan is based on a fully staffed operation and stand-alone office. These projections are intended as a base case scenario for the Founding Board and Executive Director as they assess different third-party contract opportunities.

Projected demand for supplemental mitigation funding is based on focus groups and individual interviews with impacted businesses conducted in Fall 2001, and data provided by Sound Transit about projected acquisition and construction activity. Suffice it to say, these projections are best-guess estimates: most business and property owners do not yet have a good handle on their mitigation needs. *Consequently, actual demand for the CDF's supplemental mitigation could be delayed, or substantially higher or lower than represented in the appended forecast.*

Cumulative projected disbursement activity through 2008 is summarized in TABLE 5. For more detailed assumptions, please refer to pages J-6 and J-10 in the APPENDIX.

TABLE 5. Cumulative projected disbursements from 2002-2008

Product	# Originated	\$ Volume Originated	Net Written Off	Net Outstgnd YE 2008
SUPPLEMENTAL MITIGATION ACCOUNT:				
Payments:				
• Business Re-establishment	88	\$5.28 mm	NA	NA
• Business Interruption	300	9.69 mm	NA	NA
TOTAL PAYMENTS	388	\$14.97 mm		
Advances:				
• Working Capital	150	\$7.50 mm	\$607,500	\$2,161,000
• Tenant Improvement	28	2.80 mm	252,000	1,908,000
• Equipment	15	.75 mm	37,500	26,000
TOTAL ADVANCES	193	\$11.05 mm	\$897,000.00	\$4,095,000.00
TOTAL SMA DISBURSEMENTS	581	\$26.02 mm		
COMMUNITY DEVELOPMENT ACCOUNT:				
• Property Advance (Commercial Bridge & Mortgage)	24	\$14.50 mm	\$285,000	\$7,637,000
Pre-Apprenticeship Grants	NA	\$2.00 mm	NA	NA
TOTAL CDA DISBURSEMENTS	24	\$16.50 mm		

The CDF is projected to originate over 380 supplemental mitigation payments and over 190 advances by the end of 2008. Disbursements from the Supplemental Mitigation Account (not including start-up costs and service fees paid to the CDF) total over \$26 million: \$15 million in payments that will not be recovered; and \$11 million in advances that, once recovered, will be available to fund transit-oriented development projects. In addition, the CDF is projected to originate \$14.5 in CDBG-funded commercial bridge loans and mortgages for replacement facilities and receiving sites for impacted businesses. An additional \$2.0 million in grants are projected to fund pre-apprenticeship training programs that will prepare Rainier Valley residents for transit-oriented construction, maintenance, and operations jobs.

Of the total \$42.5 million disbursed through the Supplemental Mitigation and Community Development Accounts, approximately \$23.4 million will revolve and be available for future transit-oriented and community development investments. In total, approximately \$30 million is projected to be available for transit-oriented and community development activities (after reserves for losses on advances and loans). This includes recovered advances from the Supplemental Mitigation Account, recovered CDBG loans, and other unexpended funds from the Supplemental Mitigation and Community Development Accounts.

The CDF's operating budget (*Schedule D* on page J-8 in the APPENDIX) is derived from interviews with other CDFIs and development lenders, Rainier Valley property owners, and nonprofit developers. The current forecast includes servicing fees paid to the CDF from the SMA and CDA as compensation for managing the two Accounts. The assumption in the scenario is that 70% of the CDF's staffing and overhead costs are paid from the SMA; 30% of staffing and overhead plus contributions to the loan loss reserve on CDBG transactions are paid from the CDA with General Fund monies. The CDF recognizes these figures must be finalized during contractual negotiations with the City of Seattle and Sound Transit.

Prior to the end of each calendar year, the CDF Executive Director will prepare a twelve-month operating budget for the next year for approval by the CDF Board. Once approved, this budget will be submitted to Sound Transit and the City of Seattle. Administrative or servicing fees paid monthly to the CDF from the SMA and CDA will be based on the CDF's approved annual budget. Adjustments to the monthly payments will be made at intervals based on actual CDF performance and as articulated more specifically in the individual service agreements to be negotiated by the CDF with Sound Transit and the City of Seattle.

The base case scenario included in the forecast assumes the Executive Director begins work at the beginning of 2003. An office in Rainier Valley would be established during the fourth quarter of 2002. Start-up expenses, including professional services for legal and accounting, equipment and furniture purchases, and office build-out, would be incurred during 2002. The projections include an estimated \$540,000 in organizing expenses paid for consulting services, interim business support services, executive search expenses, interim program administration, legal fees, and outreach incurred from October 2000 through December 2002. Additional assumptions are included as footnotes in the financial forecast and in the accompanying notes of explanation. Once the operating plan is approved and service agreements are executed, monthly payments from the SMA and CDA will begin to support the operating expenses of the CDF.

8. IMPLEMENTATION

The CDF Founding Board has taken significant steps towards establishing the CDF as an operating entity by the end of 2002. Work completed to date includes:

- Developed Articles of Incorporation and by-laws;
- Incorporated the CDF as a private, nonprofit corporation;
- Initiated the application process for designation as a tax-exempt corporation under IRS Code section 501(c)3;
- Recruited and selected legal and accounting professionals to assist in developing closing documents for supplemental mitigation payments and advances, and CDBG loans, and to establish the CDF's bookkeeping and management information systems;
- Recruited and hired (in conjunction with OED) a business support staff person;

- Initiated the recruitment process for an executive director which included conducting a national search for prospective candidates and recruiting and selecting an executive search firm (contract pending approval by Sound Transit);
- Met with impacted business and property owners on an ongoing basis to informally discuss how the CDF will work and actions they can take to prepare for an application for supplemental mitigation assistance;
- Developed application materials for supplemental mitigation funding;
- Further refined eligibility considerations for each of the supplemental mitigation products;
- Developed preliminary product underwriting, financial management, and personnel policies as described in section 6, *Operations and Risk Mitigation*; and
- With Sound Transit and City of Seattle staff, developed disbursement management procedures for the Supplemental Mitigation Account and CDBG funding from the Community Development Account.

Formal operation of the CDF cannot begin until the Sound Transit Board and Seattle City Council approve the operating plan. Prior to offering supplemental mitigation funding or commercial mortgages, the CDF will negotiate and execute service and funding agreements with Sound Transit and the City of Seattle, and will establish sufficient internal systems so it can track and manage cash flow.

The tasks associated with this work will be time and labor intensive. To facilitate the timely completion of these tasks, the CDF Founding Board has hired an interim program assistant (*pending Sound Transit funding*) to staff the Board until the end of 2002 (see section 5.3.1 *Interim Staffing*). Specific tasks that will be completed to establish CDF operations include:

- Execute a service contract with the executive search firm;
- Hire the Executive Director;
- Set up bank accounts and disbursement procedures;
- Identify an office location and negotiate the lease;
- Purchase equipment, furniture, and supplies;
- Set up office systems (phone, internet, utilities, insurance);
- Design, write, and print stationery, business cards, promotional materials that describe CDF programs and procedures;
- Set up the CDF's chart of accounts and bookkeeping system, including engaging a part-time bookkeeping service to maintain records;
- Finalize all legal documents pertaining to disbursements;
- Negotiate contracts with Sound Transit and the City of Seattle;
- Develop an RFP and proposal evaluation process for pre-apprenticeship training program grant requests;
- Evaluate options for third-party service providers and negotiate service contracts and/or recruit and hire staff;
- Continue meeting with impacted businesses and begin accepting applications for supplemental mitigation assistance;

- Apply for CBDO designation from HUD through the City of Seattle;
- Begin designing the products and program for transit-oriented and community development;
- Host the final community forum to explain how the CDF will work and to introduce the CDF Founding Board and Executive Director (if identified);
- Recruit and elect the Sustaining Board members.

Upon completion of the above tasks, the CDF will be fully operational. In 2003, the supplemental mitigation program will be staffed (through either third-party contractors or CDF employees) and in full swing. Systems, policies, and procedures will be refined. In addition, the program design for the transit-oriented and community development programs will be completed; the operating plan will be modified accordingly, adopted by the CDF Board and submitted to the Sound Transit Board and the Seattle City Council for final approval.

APPENDIX A:

Supplemental Mitigation Products: Terms & Conditions

Rainier Valley Community Development Fund Supplemental Mitigation Products

(version 9.0)

All supplemental mitigation payments and advances from the CDF will be in excess of payments required by law and by policy from Sound Transit; and **must be compensatory in nature, only covering losses attributable to impacts from the construction of light rail.** Payments and advances will be limited by the amount of funds available for the program. The stated maximum payment and advance amounts are guidelines and may be constrained by the availability of funds. **The CDF Board reserves the right to modify maximum mitigation payments and advances based on the actual expenses incurred by impacted businesses and property owners.** The CDF fully intends to and will strive to offer below-market interest rates on advances; however actual interest rates will be tied, in part, to the cost of operating the supplemental mitigation program.

PAYMENTS:

Product	Eligibility & Use	Payment Amount	Considerations
Business Re-establishment Payment	<p><u>Eligible Businesses/Property Owners:</u> For-profit and non-profit businesses (including property owners who also operate a business in the impacted building and tenant businesses) that must <u>permanently relocate</u> due to the construction of light rail along the MLK alignment and choose to relocate in the CDF investment area.</p> <p><u>Eligible Costs or Expenses:</u></p> <ul style="list-style-type: none"> ▪ <u>Direct or indirect moving</u> expenses not covered by Sound Transit that are necessary for the operation of the business. ▪ <u>Re-establishment</u> expenses not otherwise covered by Sound Transit that are necessary to re-establish business operations to pre-relocation conditions, including: <ul style="list-style-type: none"> – Functional repairs/improvements to replacement real property necessary for business operation (tenant improvement advances are available for interior or exterior refurbishment for aesthetic purposes); – Net increased rent for up to 24 months for comparable space; – Modifications to replacement property to accommodate business operation; – Advertisement of replacement location. 	Maximum payment of \$100,000.	<p>Payments for moving and re-establishment expenses will be based on bids and/or receipts documenting actual expenses incurred by the business, executed lease agreements, or other relevant documents that support the requested payment amount.</p> <p>The CDF will look at each request on an individual basis.</p>

Product	Eligibility & Use	Payment Amount	Considerations
Business Interruption Payment	<p><u>Eligible Borrowers:</u> For-profit and nonprofit businesses located on the MLK alignment between McClellan and Boeing Access Road that are directly impacted by construction of light rail.</p> <p><u>Eligible Uses:</u> Loss of business and/or rental income for a maximum impact period of two years for relocating businesses and one year for non-relocating businesses. Loss of business will be based on average net business income before taxes for the two years prior to relocation or start of construction and shall include: <i>Net business income before taxes + amortization + depreciation + owner's draw/salary + one-time extraordinary expenses.</i></p>	<p><u>For non-relocating businesses:</u> Up to \$30,000 based on demonstrated need for a maximum of one year.</p> <p><u>For relocating businesses:</u> Up to \$25,000 per year based on demonstrated need for a maximum of two years.</p>	<p>Payments will be based on comparison of tax returns for the prior two years and the year in which the loss was incurred (during the mitigation period). Working Capital Advances are available for amounts in excess of the maximum payment.</p> <p>The CDF will look at each request on an individual basis.</p>

ADVANCES:

Product	Eligibility & Uses	Advance Size	Terms and Conditions	Additional Requirements
Working Capital Advance	<p><i>Working capital advances supplement payments by Sound Transit and the "Business Re-establishment" and "Business Interruption" payments from the CDF.</i></p> <p><u>Eligible Borrowers:</u> For-profit and nonprofit businesses along the MLK alignment from McClellan to Boeing Access Rd that:</p> <ol style="list-style-type: none"> 1) Must permanently or temporarily relocate; or 2) Are not relocating but are temporarily impacted by construction of light rail. <p><u>Eligible Uses:</u> Any legitimate business operating expense (payroll, marketing, insurance, inventory purchase, funding of receivables, transportation, etc.) required to continue operation during the mitigation period (as defined by the CDF).</p>	<p><u>Maximum:</u> \$250,000</p>	<p><u>Interest Rate:</u> Less than prime (depending on the CDF's operating constraints, the intent is to offer no to low interest on a portion of the advance)</p> <p><u>Term:</u> Up to 5 years, fully amortizing. Based on business cash flow and ability to repay.</p> <p><u>Fee:</u> None</p> <p><u>Closing Costs:</u> Up to \$250 paid by borrower.</p> <p><u>Collateral:</u> Prefer 100% loan-to-value. Secured by any unencumbered business or personal assets, and personal and/or corporate guarantees.</p> <p><u>Position:</u> Collateral positions will be perfected. Will subordinate to other lenders.</p>	<ul style="list-style-type: none"> ▪ Minimum debt coverage: 1:1 ▪ No debt:equity requirement. ▪ No minimum length-of-business-operation requirement ▪ Tax returns and financial statements (or proxy) for each year of operation up to 3 years. ▪ Cash flow projection showing monthly performance for the first 12 months and quarterly performance for the subsequent four years.

Product	Eligibility & Uses	Advance Size	Terms and Conditions	Additional Requirements
Tenant Improvement Advance	<p><u>Eligible Borrowers:</u> For-profit and nonprofit businesses that must relocate permanently or temporarily as a result of the construction of light rail along the MLK alignment, or whose business operations are no longer viable at that location due to the impact of a partial property acquisition by Sound Transit.</p> <p><u>Eligible Uses:</u> Costs associated with the build-out of permanent or temporary facilities to accommodate business activity that are in excess of Sound Transit's and the CDF's compensatory payments. Improvements may include but are not limited to partitioning, painting, lighting, flooring, electrical, plumbing, signage. Excludes furnishings, fixtures, and equipment.</p>	<u>Maximum:</u> \$200,000	<p><u>Interest Rate:</u> Less than prime (depending on the CDF's operating constraints)</p> <p><u>Term:</u> Variable depending on useful life of the improvement, lease length, and ability to repay.</p> <p><u>Fee:</u> None</p> <p><u>Closing Costs:</u> Up to \$250 paid by borrower.</p> <p><u>Collateral:</u> Prefer 100% loan-to-value. Secured by any unencumbered business or personal assets, and personal and/or corporate guarantees.</p> <p><u>Position:</u> Collateral positions will be perfected. Will subordinate to other lenders.</p>	<ul style="list-style-type: none"> Minimum debt coverage: 1:1 No debt:equity requirement. No minimum length-of-business-operation requirement Tax returns and financial statements (or proxy) for each year of operation up to 3 years. Cash flow projection showing monthly performance for the first 12 months and quarterly performance for the balance advance term. Executed lease. Bids and/or receipts documenting actual expenses incurred by the business, or other relevant documents that support the requested payment amount
Equipment Advance	<p><u>Eligible Borrowers:</u> For-profit and nonprofit businesses that must relocate permanently or temporarily as a result of the construction of light rail along the MLK alignment, or whose business operations are no longer viable at that location due to the impact of a partial property acquisition by Sound Transit.</p> <p><u>Eligible Uses:</u> Purchase of furnishings, fixtures, and equipment for ongoing operation of the business that exceeds compensation by Sound Transit.</p>	<u>Maximum:</u> \$100,000	<p><u>Interest Rate:</u> Less than prime (depending on the CDF's operating constraints)</p> <p><u>Term:</u> Up to 7 years, fully amortizing. Based on business cash flow and useable live of the equipment.</p> <p><u>Fee:</u> None</p> <p><u>Closing Costs:</u> Up to \$250 paid by borrower.</p> <p><u>Collateral:</u> Secured by purchased furniture, fixtures, and equipment.</p> <p><u>Position:</u> Senior</p>	<ul style="list-style-type: none"> Minimum debt coverage: 1:1 No debt:equity requirement. No minimum length-of-business-operation requirement Tax returns and financial statements (or proxy) for each year of operation up to 3 years. Cash flow projection showing monthly performance for the first 12 months and quarterly performance for the balance advance term. Receipts documenting actual expenses incurred by the business.

Product	Eligibility & Uses	Advance Size	Terms and Conditions	Additional Requirements
Commercial Mortgage; Bridge Loan <i>(funded with CDBG dollars)</i>	<p><u>Eligible Borrowers:</u></p> <ol style="list-style-type: none"> 1) For-profit and nonprofit businesses that must relocate and/or rebuild as a result of the construction of light rail along the MLK alignment, or whose business operations are no longer viable at that location due to the impact of a partial property acquisition by Sound Transit. 2) For-profit and nonprofit developers that develop properties within the CDF investment area to house dislocated businesses (65% or more of tenants in the proposed property), nonprofit organizations, and/or residents. <p><u>Eligible Uses:</u></p> <p><i>Bridge Loan</i> – site control, acquisition, or predevelopment costs associated with acquiring and developing a temporary or permanent relocation property within the CDF's investment area.</p> <p><i>Mortgage</i> – permanent financing for the acquisition, construction, and/or rehab of a relocation property within the CDF's investment area.</p> <p>Location exceptions will be considered for businesses that can no longer operate on MLK because of zoning changes or that cannot find adequate or affordable property within the CDF's investment area.</p>	<p><u>Average:</u></p> <p><i>Mortgage</i> – \$750,000</p> <p><i>Bridge Loan</i> – \$500,000</p> <p>Loan amount may include debt service reserve if debt coverage is temporarily less than 1:1</p>	<p><u>Interest Rate:</u> Less than prime (depending on the CDF's operating constraints)</p> <p><u>Term:</u></p> <p><i>Bridge Loan</i> – 2 years, interest only</p> <p><i>Mortgage</i> – 5-7 years with 15-year amortization</p> <p><u>Fee:</u> 1% or actual origination costs incurred by the CDF</p> <p><u>Closing Costs:</u> All costs paid by borrower.</p> <p><u>Collateral:</u> Secured by the property or personal guarantee. Loan amount not to exceed 100% of property value or cost. Recourse to borrower.</p> <p><u>Position:</u> Senior position on deed of trust but will subordinate to other lender, if required.</p>	<ul style="list-style-type: none"> ▪ Minimum debt coverage: <ul style="list-style-type: none"> – Owner-occupied: 1:1 – Income-generating rental properties: 1.15:1 ▪ Debt:equity < 5:1 ▪ Minimum length-of-business-operation: 2 years ▪ Tax returns and financial statements (or proxy) for each year of operation up to 3 years. For developers, financial statements on historical property performance. ▪ Cash flow projections for the term of the loan. ▪ Appraisal and Phase I environmental assessment. ▪ For income properties, leasing commitments and/or executed leases for 65% of gross leasable area, some portion of which must include businesses displaced by the construction of light rail along the MLK alignment. ▪ Closing is subject to inspection approval at construction completion, prior to occupancy. ▪ Demonstrated compliance with HUD CDBG funding requirements (Davis Bacon prevailing wage, job creation or retention, etc.)

APPENDIX B:

Product Compliance with Funding Requirements

APPENDIX B:

Product Compliance with Funding Requirements

Products for transit-oriented and community development will be developed by mid-2003 by the CDF Board. At that time, this table will be completed for those products, including detailed descriptions of how each product complies with Seattle City Council Ordinance 120796.

SOURCE	PRODUCT	ELIGIBLE USES	COMPLIANCE
SUPPLEMENTAL MITIGATION ACCOUNT	<u>PAYMENTS:</u>		
	♦ Business Re-establishment	<ul style="list-style-type: none"> ▪ <u>Direct or indirect moving</u> expenses not covered by Sound Transit that are necessary for the operation of the business. ▪ <u>Reestablishment</u> expenses not otherwise covered by Sound Transit that are necessary to reestablish business operations to pre-relocation conditions, including: <ul style="list-style-type: none"> – Functional repairs/improvements to replacement real property necessary for business operation (tenant improvement advances are available for interior or exterior refurbishment for aesthetic purposes); – Net increased rent for up to 24 months for comparable space; – Modifications to replacement property to accommodate business operation; – Advertisement of replacement location. 	Payment will be compensatory, only covering losses attributable to impacts from the construction of light rail and in excess of mitigation payments required by law and by policy from Sound Transit.
	♦ Business Interruption	Loss of business and/or rental income for a maximum impact period of two years for relocating businesses and one year for non-relocating businesses. Loss of business will be based on average net business income before taxes for the two years prior to relocation or start of construction.	Payment will be compensatory, only covering losses attributable to impacts from the construction of light rail.

SOURCE		PRODUCT	ELIGIBLE USES	COMPLIANCE
SUPPLEMENTAL MITIGATION ACCOUNT	ADVANCES: <i>(must be repaid, funds will revolve)</i>			
	♦ Working Capital Advance		Any legitimate business operating expense (payroll, marketing, insurance, inventory purchase, funding of receivables, transportation, etc.) required to continue operation during the mitigation period (as defined by the CDF).	Payment will be compensatory, only covering losses attributable to impacts from the construction of light rail and in excess of mitigation payments required by law and by policy from Sound Transit. Working capital advances will supplement the "Business Re-establishment" and "Business Interruption" payments from the CDF.
	♦ Tenant Improvement		Costs associated with the build-out of permanent or temporary facilities to accommodate business activity that are in excess of Sound Transit's and the CDF's compensatory payments. Improvements may include but are not limited to partitioning, painting, lighting, flooring, electrical, plumbing, signage. Excludes furnishings, fixtures, and equipment.	Payment will be compensatory, only covering losses attributable to impacts from the construction of light rail and in excess of mitigation payments required by law and by policy from Sound Transit.
	♦ Equipment Advance		Purchase of furnishings, fixtures, and equipment for ongoing operation of the business that exceeds compensation by Sound Transit.	Payment will be compensatory, only covering losses attributable to impacts from the construction of light rail and in excess of mitigation payments required by law and by policy from Sound Transit.
TRANSIT-ORIENTED DEVELOPMENT PAYMENTS			TBD	TBD
			<i>Preliminary concept:</i> fund required public infrastructure improvements associated with privately owned developments that increase transit ridership	

SOURCE	PRODUCT	ELIGIBLE USES	COMPLIANCE
COMMUNITY DEVELOPMENT ACCOUNT	PROPERTY ADVANCES (CDBG funded)		
	Commercial mortgages and bridge loans for:		
	♦ Supplemental mitigation	Acquisition, new construction, and/or rehab of existing properties within the CDF's investment area to accommodate the relocation of businesses that must move due to light rail construction.	Supports the development of relocation and receiving sites in the Rainier Valley for businesses that must relocate due to full or partial acquisition by Sound Transit of their current locations.
	♦ Transit-oriented development	TBD	TBD
	♦ Community development	TBD	TBD
	PRE-APPRENTICESHIP TRAINING GRANTS (transit jobs only)	Training costs associated with preparing Rainier Valley residents for apprenticeship jobs in Link light rail construction, operations, and maintenance. (Specifics to be determined.)	Training will target Rainier Valley residents, preparing them for family-wage transit jobs, and improving their ability to continue living in Rainier Valley as property values rise.

APPENDIX C:

Sample Mitigation Cases

Sample Mitigation Case: XYZ Medical Clinic

Sound Transit notifies Dr. Jones of XYZ Medical Clinic that she will be required to move as a result of the light rail construction project. Sound Transit will buy the property from Dr. Jones at fair market value, help find a replacement site, and pay for the relocation of her personal property. Dr. Jones has chosen a suitable replacement site about a mile away that requires construction of a new building. Dr. Jones feels she may lose some revenue during the construction and move when her office is closed.

Dr. Jones needs to buy the replacement site, which is improved with an older building, and plans to construct a new medical office that complies with new property codes regarding ADA accessibility and energy conservation. A great deal of time will be necessary for Dr. Jones to coordinate the architect and contractors and to oversee the installation of equipment and interior finishes. It is going to take several months to get the necessary permits and several months to complete the construction and move.

Under this scenario, the total cost to Dr. Jones to acquire the new site and construct the new medical office is \$1,243,000. Sound Transit's total compensation is \$631,500. The Rainier Valley Transit-Oriented Community Development Fund (CDF) provides \$611,500 in compensation as follows:

◆ Business Interruption Payment	\$ 50,000
◆ Business Re-establishment Payment	31,500
◆ Working Capital Advance	30,000
◆ Equipment Advance	40,000
◆ Property Advance	460,000

Of this, \$81,500 is a payment in compensation for the impact on the business of the construction of light rail, and does not need to be repaid; and \$530,000 is an advance at very preferential rates and terms. The exact rates and terms still to be decided based on total money available and the total demands and requirements of the CDF, but the current intent is for advances to be priced below prime rate. Owners will be required to seek conventional financing in addition to the Property Advance. Please refer to the Product Matrix for more specifics.

Sample Mitigation Case: XYZ Medical Clinic

	<u>XYZ Expenditures</u>	<u>Sound Transit Reimbursement</u>	<u>CDF Contribution</u>	<u>Type of CDF Investment</u>
1. Moving personal property	\$25,000	\$25,000	\$0	
2. Reconnection of electrical / mechanical	\$35,000	\$35,000	\$0	
3. Purchase of new real estate (land and improvements)	\$600,000	\$500,000 (a)	\$100,000	Property Advance
4. Cost to construct replacement building: \$120 sq ft x 3000 sq ft	\$360,000	\$0	\$360,000	Property Advance
5. Planning move (contractors, service providers, permits, layout etc.)	\$25,000	\$12,500 (b)	\$12,500	Re-establishment Payment
6. Cost to replace printed material made obsolete	\$3,000	\$3,000	\$0	
7. Loss of business (20% times \$200,000 for 2 years)	\$80,000	\$0	\$80,000	Business Interruption Payment \$25,000 per year for 2 years; Working Capital Advance for remaining \$30,000 (at x% interest)
8. Sign Relocation	\$20,000	\$20,000	\$0	
9. Search costs (100 hours @ \$100 per hour)	\$10,000	\$1,000 (c)	\$9,000	Re-establishment Payment
10. Reconnection of phones and computers	\$20,000	\$20,000	\$0	
11. Cost to purchase replacement equipment (water cooler, new computers)	\$40,000	\$0 (d)	\$40,000	Equipment Advance (at x% interest)
12. Legal fees, appraisal, accounting fees	<u>\$25,000</u>	<u>\$15,000</u>	<u>\$10,000</u>	Re-establishment Payment
TOTAL	<u>\$1,243,000</u>	<u>\$631,500</u>	<u>\$611,500</u> (e)	

- (a) Price paid to Dr. Jones by Sound Transit to purchase the existing property.
- (b) Part of XYZ's planning expense is reimbursable. The portion of their planning expenses not reimbursable is in connection with the replacement site build-out and permitting. Only planning expenses necessary for planning the move of the personal property are reimbursable.
- (c) Search costs are generally limited to \$1,000.
- (d) Cost to purchase new equipment is not reimbursable except as loss of tangible personal property or purchase of substitute property (limited to moving cost).
- (e) A \$81,500 payment and \$530,000 in loans.

Sample Mitigation Case: ABC Machine Shop

Mr. Smith is the landlord of a site occupied by ABC Machine Shop. Fifteen years ago ABC leased the site from Mr. Smith and currently pays \$2,500 per month. ABC built out the site to suit their needs. ABC installed new carpet, partition walls, front counter, painted, upgraded power, mechanical etc. The cost to build-out the site to their needs was \$15 per SF for a total cost of about \$40,000. ABC developed a large clientele and people in the area have become very familiar with their location along a busy street. ABC generates \$800,000 per year in business income. Comparable sites to lease are in short supply and all sites will require a certain amount of build-out.

ST notifies ABC that they will be required to move as a result of the project. ST offers to help find a replacement site. A suitable replacement site is located about a mile away. ABC feels that they will likely lose about 20 percent of their business the first year because the public will not be familiar with the new location.

The replacement site will require a build-out. ABC will need to comply with new property codes regarding ADA accessible restrooms and electrical and mechanical lines will need to be installed. A great deal of time will be necessary for ABC to coordinate contractors, negotiate the lease, notify service providers, hook-up phones, computers, and other telecommunication equipment. It is going to take several months to get the necessary permits and several months to complete the construction and be moved. The new rent at the replacement site is \$3,500 per month.

The total cost to ABC is \$299,000. Sound Transit's total compensation is \$63,000. The Rainier Valley Community Development Fund (CDF) provides \$176,000 in compensation as follows:

◆ Business Re-establishment Payment	\$68,000
◆ Business Interruption Payment	50,000
◆ Working Capital Advance	50,000
◆ Equipment Advance	8,000

Sample Mitigation Case: ABC Machine Shop

	<u>ABC Expenditures</u>	<u>Sound Transit Reimbursement</u>	<u>CDF Contribution</u>	<u>Type of CDF Investment</u>
1. Moving personal property	\$12,000	\$12,000	\$0	
2. Reconnection of electrical / mechanical	\$7,000	\$7,000	\$0	
3. Cost to build-out replacement site	\$40,000	\$10,000 (Max)	\$30,000	Re-establishment Payment
4. Increased rent \$2,500 to \$3,500 (24 months)	\$24,000	\$0 (a)	\$24,000	Re-establishment Payment
5. Planning move (contractors, service providers, permits, layout etc.)	\$10,000	\$5,000 (b)	\$5,000	Re-establishment Payment
6. Cost to replace printed material made obsolete	\$3,000	\$3,000	\$0	
7. Loss of business (20% times \$800,000)	\$160,000	\$0	\$100,000	Business Interruption Payment of \$25,000 during first year; \$25,000 during second year. Working Capital Advance of \$50,000 at x% interest. Balance covered through bank loan.
8. Sign Relocation	\$5,000	\$5,000	\$0	
9. Search costs (100 hours @ \$100 per hour)	\$10,000	\$1,000 (c)	\$9,000	Re-establishment Payment
10. Reconnection of phones and computers	\$5,000	\$5,000	\$0	
11. Cost to purchase replacement equipment (water cooler, new computers)	\$8,000	\$0 (d)	\$8,000	Equipment Advance (at x% interest)
12. Legal fees, appraisal, accounting fees	<u>\$15,000</u>	<u>\$15,000</u>	<u>\$ 0</u>	
TOTAL	<u>\$299,000</u>	<u>\$63,000</u>	<u>\$176,000</u>	

- (a) Increased rent for 24 months is a reimbursable expense but ABC has exhausted their \$10,000 maximum reestablishment payment by building out the replacement site.
- (b) Part of ABC's planning expenses is reimbursable. The portion of their planning expenses not reimbursable is in connection with the replacement site build-out and permitting. Only planning expenses necessary for planning the move of the personal property are reimbursable.
- (c) Search costs are generally limited to \$1,000.
- (d) Cost to purchase new equipment is not reimbursable except as loss of tangible personal property or purchase of substitute property (limited to cost to move).

APPENDIX D:

Labor Force Training Product Proposal

APPENDIX D

Labor Force Training Product Proposal

December 11, 2001

Product: \$2 million for grants to non-profit organizations to run pre-apprenticeship training programs. The training program/s will prepare trainees to enter apprenticeship programs and create opportunities for them to work on the light rail project.

Eligibility and Use: Eligible applicants for pre-apprenticeship slots in the training programs will be available to low income people with a special emphasis given low-income women and people of color who are residents of Rainier Valley.

Eligible respondents for the grants to run the pre-apprenticeship programs will be non-profit organizations that are community based and can demonstrate experience in pre-apprenticeship recruitment, training and placement. (Note: There are several such organizations. See below)

Considerations: The CDF must write a Request for a Proposal; and then manage the process to award the grants and to monitor the achievement of outcomes. This program will be run in addition to the pre-apprenticeship training and support services that Sound Transit will fund. (Sound Transit has committed a nickel a labor hour for this purpose.) The reason the CDF will be augmenting and not advancing money to the Sound Transit program is that we have determined that the Sound Transit Fund will fall far short of meeting the need for pre-apprenticeship slots. Please see analysis below. The CDF will want to co-ordinate its program with Sound Transit's advisory committee that will be running Sound Transit's pre-apprenticeship program.

Please note that, legally, public funds from either Sound Transit or the City (and probably the County) could be used to fund this product.

Outcomes achievable: 285 formerly unemployed or underemployed residents of the Rainier Valley with good paying careers.

BACKGROUND

The Community Development Fund (CDF) has a great opportunity to use its moneys to help prepare many unemployed or underemployed residents of the Rainier Valley for high paying family wage careers in the construction industry. The "Project Labor Agreement" (PLA) signed by Sound Transit and a number of construction unions establishes the following voluntary goals:

- It is the goal of the parties to increase the membership and participation of underrepresented groups, including women and people of color, in the construction of the projects to which this PLA applies. It is an additional goal of the parties, that said underrepresented groups, including low-income women and people of color, will perform one-third (33%) of the total work hours on this project....These sub-goals are: People of color 21% and women 12%. (Pages 10-11, PLA)
- A Project-wide goal of 20% of all labor hours for Washington State Apprenticeship Council (SAC) approved apprentices. (Page 11, PLA)

- Women and people of color to perform at least 50% of all first-year apprentice hours in all trades.
Women and people of color to perform at least 33% of all apprentice hours.” (Page 11, PLA)

In order to increase the likelihood of meeting these PLA goals, an expansion of pre-apprenticeship programs is necessary to increase the number of low-income women and people of color who are qualified to enter the apprenticeship programs. These important and ambitious goals gives the CDF in partnership with other organizations a strategic opportunity to help residents of Southeast Seattle enter a wide range of construction apprenticeship programs. This effort can provide great long-term benefits to this area of the City.

ASSESSING THE EMPLOYMENT OPPORTUNITIES

A large number of apprenticeship positions for women and minorities will be made available under the PLA with Sound Transit.

The following methodology can be used to estimate the employment opportunities created by the PLA language cited above Sound Transit estimates that 20 million labor hours will be required to complete the jobs covered by the PLA. Of this total, the PLA makes the following commitments:

- | | |
|---|--------------|
| • Hours to be worked by people of color and women (33% of total) | 6.7 million |
| • Hours to be worked by apprentices (20% of total) | 4 million |
| • Hours to be worked by people of color and women apprentices (33%) | 1.33 million |

The 1.33 million apprentice labor hours goals for people of color and women are the equivalent of approximately 850 work-years of apprentices working 1600 hours per year over the life of the projects covered by the agreement. (1.33 million hours divided by 1600 work hours per year equals 850 years of work.) These 850 apprentice work years is the equivalent of 285 apprentices working three years on the project. This calculation is intended to demonstrate the large number of apprentice opportunities for women and people of color that can arise from the light rail project.

This voluntary goal gives the CDF in cooperation with Sound Transit’s “nickel an hour” fund and other funders and partners a strategic long-term opportunity to stabilize, expand and improve the current fragmented pre-apprenticeship system.

WHAT IS A PRE-APPRENTICESHIP TRAINING PROGRAM?

Pre-apprenticeship training programs recruit at risk youth or unemployed or underemployed people of any age; and teach them the necessary skills to enter a state registered apprenticeship program.

Typical curriculum of a pre-apprenticeship program covers such subjects as trades math, blueprint reading, construction safety, flagger certification, First Aid, forklift certification, resume and interview preparation, hand-on construction site experience, suspended drivers license assistance, and apprenticeship placement assistance.

The elements of a successful pre-apprenticeship training program itself and the associated cost per student for a 13-week course include:

Recruitment	\$130
Training	1,800
Case Management	810
Support Services	476
Student Stipend	1,275
Total Cost Per Student	\$4,472

These are estimated costs and may vary between pre-apprenticeship programs.

DEFINING THE SIZE OF THE TRAINING NEED TO MEET PLA GOALS

The PLA is intended to provide opportunities for new apprentices to work on these long-term projects. This means we should ensure that low-income and disadvantaged residents are adequately prepared to compete for these openings.

Lets assume that each of the people of color and women apprentices on the Sound Transit programs work 3 years on the project. This would require that approximately 285 apprentices enter the apprenticeship programs and work at least three years on Sound Transit projects. We need to determine how many students would need to be enrolled in expanded pre-apprenticeship programs in order to supply the 285 apprentices needed to meet these goals.

- Assume that 75 percent of pre-apprenticeship enrollees graduate
- Assume that 75 percent of graduates enroll in apprenticeship programs
- Assume 75% of enrolled apprentices would work three years on the project
- 675 students would need to be enrolled in pre-apprenticeship programs in order to produce 285 apprentices who would work the three years estimated above.
- A reasonable estimate is that each enrolled student would cost \$4,500 to \$5,000 per student.
- **Total cost for 675 students: (675) X (\$4,500 to \$5,000) = \$3.04 to 3.39 million**

The costs identified above are conservative as they assume that 75 % of the graduates who enrolled in apprenticeship programs would work at least three years on the project. An assumption that they worked an average of 2 years would substantially drive up the costs.

If we want these ambitious goals for the PLA to be met, the CDF should use its moneys to augment Sound Transit's efforts so that a sufficient number of people from the Rainier Valley will be qualified to take advantage of these contractual opportunities.

WHAT ORGANIZATIONS ARE POTENTIAL RESPONDENTS TO AN RFP?

- Seattle Vocational Institute's Construction Trades training program. Currently has 64 funded training slots with no funds for case management, retention or stipends for students.
- The ANEW program. It conducts training at Renton Technical College. ANEW provides case management and other services to help people get into and stay in pre-apprenticeship and apprenticeship programs. In addition, ANEW operates a small pre-apprenticeship program for the Seattle Housing Authority.

- Apprenticeship Opportunity Project. This program is operated by the Office of Port Jobs and serves as a clearinghouse and referral agency for people wanting to enter construction trade apprenticeships.

PROPOSED BUDGET AND TIMELINE FOR THE PRODUCT

	<u>Per Year</u>	<u>5 years 2003-2008</u>
• Administrative costs	\$20,000	\$100,000
• RFP Funding Costs	<u>\$380,000</u>	<u>\$1,900,000</u>
• Total funds available for 5 RFP's for each of the 5 years starting in 2002	\$400,000	\$2 million

TIMELINE

Goal: To have the first apprentices on the job when construction starts and to supply a yearly stream of apprenticeships for construction.

CDF operating entity produces and publishes RFP (requires 2 months)	January 1, 2003
Proposal Deadline	March 1, 2003
Grantee Chosen	May 1, 2003
CDF operating entity signs contract with grantee	June 1, 2003
Grantee begins recruitment – 3	June 2003
Pre-apprenticeship Training begins 3	September 1, 2003
Training ends – Apprentices placed	December 1, 2003
Construction begins on the first segment Norfolk to Henderson	January 2004

APPENDIX E:

Summary of Existing Development Lenders

APPENDIX E:

Summary of existing private development lenders serving Rainier Valley

Lender & Loan Product	Eligible Borrower	Loan Amount	Eligible Uses	Terms	Timing
Community Capital Development:					
<ul style="list-style-type: none"> ◆ SBA 7(a) Loan ◆ SBA Pre-Qualification 	Any small business For Pre-Qual loan, only open to women, ethnic minorities, and veterans	<i>Maximum: \$250,000</i>	Acquire and install machinery & equipment used by the business Purchase, renovate, refinance, or build commercial or mixed-use real estate projects Start-up or purchase an existing franchise Working capital: payroll, equipment and supplies needed to complete a contract Advance on receivables for contracts with public-sector agencies or large, private financially-sound companies Debt restructuring	<ul style="list-style-type: none"> ◆ <i>Interest rate:</i> Prime + 225-275 bp ◆ <i>Term:</i> 5-7 years on equipment and cash flow loans; 25-year term with 5-year balloon on mortgages ◆ <i>Loan fee:</i> \$1,000 administrative fee plus SBA guarantee fee (based on loan amount: 2% - 3.875%). Additional \$500 packaging fee for Pre-Qual loans ◆ Will subordinate to bank ◆ Owner's equity required ◆ Flexible underwriting ◆ Prefer debt:equity <5:1 ◆ Minimum debt coverage 1:1 ◆ Prefer collateral 100% loan-to-value ◆ No pre-payment penalty 	<i>Decision:</i> up to 6 weeks (2 weeks for CCD from receipt of a complete application plus up to an additional 4 weeks for the SBA) <i>Disbursement:</i> 2-3 days from decision <i>(Note: timing may vary based on complexity of individual loan)</i>
◆ Childcare Micro-loan	Qualified in-home childcare providers and childcare centers	<i>Maximum: \$5,000 for in-home providers; \$25,000 for childcare centers</i>	Same as SBA except: No real estate acquisition No debt restructuring	<ul style="list-style-type: none"> ◆ <i>Interest rate:</i> 8.5% fixed ◆ <i>Term:</i> up to 5 years ◆ <i>Loan fee:</i> 2% of loan amt 	<i>Same as City of Seattle Loan Program (see below)</i>

Lender & Loan Product	Eligible Borrower	Loan Amount	Eligible Uses	Terms	Timing
Community Capital Development <i>(continued)</i> :					
♦ City of Seattle Program	Any small business located in the City of Seattle	<i>Maximum: \$100,000</i>	Same as SBA	♦ <i>Interest rate:</i> 12% fixed ♦ <i>Term:</i> up to 7 years on equipment and cash flow loans; 25-year term with 5-year balloon on mortgages ♦ <i>Loan fee:</i> 3% of loan amount ♦ Will subordinate to bank ♦ Owner's equity required ♦ Flexible underwriting ♦ Prefer debt:equity <5:1 ♦ Minimum debt coverage 1:1 ♦ Prefer collateral 100% loan-to-value ♦ No pre-payment penalty	<i>Decision:</i> 2 weeks from receipt of a complete application <i>Disbursement:</i> 2-3 days from decision (Note: timing may vary based on complexity of individual loan)
♦ King County Program	Any existing or expanding small business located in King County outside of the Cities of Seattle, Auburn, and Bellevue	<i>Maximum: \$50,000</i>	Same as SBA	<i>Same as City of Seattle Loan Program except:</i> 2% loan fee	<i>Same as City of Seattle Loan Program</i>
♦ Seattle Housing Authority Loan Program	Business owner must live in SHA complex	<i>Maximum: \$25,000</i>	Same as SBA	<i>Same as City of Seattle Loan Program except:</i> 2% loan fee	<i>Same as City of Seattle Loan Program</i>

Lender & Loan Product	Eligible Borrower	Loan Amount	Eligible Uses	Terms	Timing
Evergreen Community Development Association:					
♦ SBA 504	Business owner-occupant (occupy at least 51% of available building)	<i>Minimum:</i> \$80,000 <i>Maximum:</i> \$750,000 or 40% of project (up to \$1.0 million for exports expansion, minority ownership, business district revitalization, veteran-owned, increasing productivity and competitiveness)	<ul style="list-style-type: none"> ♦ Purchase land & construct buildings ♦ Purchase existing building & renovate ♦ Acquire machinery & equipment with 10-year life ♦ Construct/remodel building on leased land 	<ul style="list-style-type: none"> ♦ Permanent financing only ♦ <i>Interest rate:</i> 10-year Treasury plus 300 bp fixed (approximately) ♦ <i>Term:</i> 10-20 years ♦ <i>Loan fee:</i> 2.75% plus legal costs (approx. \$2,000 additional) ♦ Minimum 10% owner's equity (15-20% for business < 2-years-old and special-use buildings) ♦ Prefer debt:equity of 4:1 ♦ Prefer minimum debt coverage 1.1:1 ♦ Up to 90% loan-to-value ♦ Pre-payment penalty during first half of loan term. 	<p><i>Decision:</i> 3-4 weeks from receipt of a complete application</p> <p><i>Disbursement:</i> 60 days from acquisition of building or completion of construction as take-out on interim bank financing</p>
Cascadia Revolving Fund:					
♦ Small business loans	Disadvantaged small businesses (start-up and going-concerns), especially: <ul style="list-style-type: none"> ♦ minority-owned ♦ low-income individuals ♦ women-owned ♦ immigrant-owned ♦ non-profits 	<i>Minimum:</i> \$1,000 <i>Maximum:</i> \$150,000 but will consider up to \$250,000	<ul style="list-style-type: none"> ♦ Acquire and install machinery & equipment used by the business ♦ Purchase, renovate, refinance, or build commercial real estate ♦ Working capital: payroll, equipment and supplies/materials needed to complete a contract ♦ Receivables financing 	<ul style="list-style-type: none"> ♦ <i>Interest rate:</i> varies 11% to 16% fixed, tied to risk ♦ <i>Term:</i> tied to type of loan ♦ <i>Loan fee:</i> 2% ♦ Will subordinate to bank ♦ Owner's equity required ♦ Prefer minimum DCR 1:1 ♦ Minimum collateral 80% to 90% loan-to-value ♦ No pre-payment penalty 	<p><i>Decision:</i> 2-4 weeks from receipt of a complete application</p> <p><i>Disbursement:</i> 1 day to 2 weeks from decision</p>

APPENDIX F:

HUD Regulations Describing CBDOs

APPENDIX F:

Excerpts from Relevant HUD Regulations Describing CBDOs

Subpart c, 570.204 special activities by community-based development organizations (CBDOs)

subpart c contents --

- [570.200](#) General policies.
 - [570.201](#) Basic eligible activities.
 - [570.202](#) Eligible rehabilitation and preservation activities.
 - [570.203](#) Special economic development activities.
 - [570.204](#) Special activities by Community-Based Development Organizations (CBDOs).
 - [570.205](#) Eligible planning, urban environmental design and policy-planning-management-capacity building activities.
 - [570.206](#) Program administration costs.
 - [570.207](#) Ineligible activities.
 - [570.208](#) Criteria for national objectives.
 - [570.209](#) Guidelines for evaluating and selecting economic development projects.
 - [Appendix A](#)
- a. *Eligible activities.* The recipient may provide CDBG funds as grants or loans to any CBDO qualified under this section to carry out neighborhood revitalization, community economic development, or energy conservation project. The funded project activities may include those listed as eligible under this subpart, and, except as described in paragraph (b) of this section, activities not otherwise listed as eligible under this subpart. For purposes of qualifying as a project under paragraphs (a)(1), (a)(2), and (a)(3) of this section, the funded activity or activities may be considered either alone or in concert with other project activities either being carried out or for which funding has been committed. For purposes of this section:
1. Neighborhood revitalization project includes activities of sufficient size and scope to have an impact on the decline of a geographic location within the jurisdiction of a unit of general local government (but not the entire jurisdiction) designated in comprehensive plans, ordinances, or other local documents as a neighborhood, village, or similar geographical designation; or the entire jurisdiction of a unit of general local government which is under 25,000 population;
 2. Community economic development project includes activities that increase economic opportunity, principally for persons of low and moderate income, or that stimulate or retain businesses or permanent jobs, including projects that include one or more such activities that are clearly needed to address a lack of affordable housing accessible to existing or planned jobs and those activities specified at 24 CFR [91.1\(a\)\(1\)\(iii\)](#);
 3. Energy conservation project includes activities that address energy conservation, principally for the benefit of the residents of the recipient's jurisdiction; and

4. To ***carry out a project*** means that the CBDO undertakes the funded activities directly or through contract with an entity other than the grantee, or through the provision of financial assistance for activities in which it retains a direct and controlling involvement and responsibilities.
- b. *Ineligible activities.* Notwithstanding that CBDOs may carry out activities that are not otherwise eligible under this subpart, this section does not authorize:
1. Carrying out an activity described as ineligible in [570.207\(a\)](#);
 2. carrying out public services that do not meet the requirements of [570.201\(e\)](#), except that:
 - i. services carried out under this section that are specifically designed to increase economic opportunities through job training and placement and other employment support services, including, but not limited to, peer support programs, counseling, child care, transportation, and other similar services; and
 - ii. services of any type carried out under this section pursuant to a strategy approved by HUD under the provisions of 24 CFR [91.215\(e\)](#) shall not be subject to the limitations in [570.201\(e\)\(1\)](#) or (2), as applicable;
 3. Providing assistance to activities that would otherwise be eligible under [570.203](#) that do not meet the requirements of [570.209](#); or
 4. Carrying out an activity that would otherwise be eligible under [570.205](#) or [570.206](#), but that would result in the recipient's exceeding the spending limitation in [570.200\(g\)](#).
- c. *Eligible CBDOs.*
1. A CBDO qualifying under this section is an organization which has the following characteristics:
 - i. Is an association or corporation organized under State or local law to engage in community development activities (which may include housing and economic development activities) primarily within an identified geographic area of operation within the jurisdiction of the recipient, or in the case of an urban county, the jurisdiction of the county; and
 - ii. Has as its primary purpose the improvement of the physical, economic or social environment of its geographic area of operation by addressing one or more critical problems of the area, with particular attention to the needs of persons of low and moderate income; and
 - iii. May be either non-profit or for-profit, provided any monetary profits to its shareholders or members must be only incidental to its operations; and
 - iv. Maintains at least 51 percent of its governing body's membership for low- and moderate-income residents of its geographic area of operation, owners or senior officers of private establishments and

other institutions located in and serving its geographic area of operation, or representatives of low- and moderate-income neighborhood organizations located in its geographic area of operation; and

- v. Is not an agency or instrumentality of the recipient and does not permit more than one-third of the membership of its governing body to be appointed by, or to consist of, elected or other public officials or employees or officials of an ineligible entity (even though such persons may be otherwise qualified under paragraph (c)(1)(iv) of this section); and
 - vi. Except as otherwise authorized in paragraph (c)(1)(v) of this section, requires the members of its governing body to be nominated and approved by the general membership of the organization, or by its permanent governing body; and
 - vii. Is not subject to requirements under which its assets revert to the recipient upon dissolution; and
 - viii. Is free to contract for goods and services from vendors of its own choosing.
2. A CBDO that does not meet the criteria in paragraph (c)(1) of this section may also qualify as an eligible entity under this section if it meets one of the following requirements:
- i. Is an entity organized pursuant to section 301(d) of the Small Business Investment Act of 1958 (15 U.S.C. 681(d)), including those which are profit making; or
 - ii. Is an SBA approved Section 501 State Development Company or Section 502 Local Development Company, or an SBA Certified Section 503 Company under the Small Business Investment Act of 1958, as amended; or
 - iii. Is a Community Housing Development Organization (CHDO) under [24 CFR 92.2](#), designated as a CHDO by the HOME Investment Partnerships program participating jurisdiction, with a geographic area of operation of no more than one neighborhood, and has received HOME funds under [24 CFR 92.300](#) or is expected to receive HOME funds as described in and documented in accordance with 24 CFR 92.300(e).
3. A CBDO that does not qualify under paragraphs (c)(1) or (2) of this section may also be determined to qualify as an eligible entity under this section if the recipient demonstrates to the satisfaction of HUD, through the provision of information regarding the organization's charter and by-laws, that the organization is sufficiently similar in purpose, function, and scope to those entities qualifying paragraph (c)(1) or (c)(2) of this section.

[60 FR 1944, Jan. 5, 1995]

Source: <http://www.hud.gov/offices/cpd/communitydevelopment/rulesandregs/regulations/subc/570204.cfm>

APPENDIX G:

Background Information on CDFIs

APPENDIX G:

Background on CDFIs

Community Development Financial Institutions (“*CDFIs*”) serve economically disadvantaged people and communities throughout the United States. They act as bridges between capital and communities in need of capital.

While the term CDFI is new, the concept itself is part of a rich history of self-help credit. From the immigrant guilds of New York City's Lower East Side to the Prairie Populists of the late 1800s, from African-American communities forming the first community development credit unions in the 1930s, to the start of the micro-enterprise movement of the late 1970s and early 1980s, communities have sought self-help credit solutions because traditional financial institutions have ignored or abandoned them. Many communities have suffered long-term disinvestment and decline. Many potential borrowers have historically been denied access to credit because they don't meet conventional credit standards.

Rebuilding disinvested communities and making loans to people with little or no credit histories requires more than simply providing access to conventional loans. It requires the flexibility to adapt lending guidelines to the needs of borrowers; to accept unconventional collateral for loans; and to provide education, training, and assistance to potential borrowers

CDFIs serve:

- Housing developers who want to build quality affordable housing for people in their community
- People who want to start or expand a business
- Community groups that want to build a community center
- Childcare providers who want to expand the size of the center
- And many others

CDFIs also provide a way for people and institutions to be a part of the revitalization of economically distressed communities. CDFIs work where mainstream financial institutions cannot; but they work in partnership with traditional banks. They help:

- Banks meet their Community Reinvestment Act (CRA) obligations
- Churches carry out their humanitarian mission
- Foundations carry out their charitable mission
- Individuals give back to the community

CDFIs strive nationally to:

- Leverage the power and resources of mainstream financial institutions, individuals, government, and private institutions
- Shape policies regarding access to capital to create wealth and economic opportunities
- Strengthen and expand a national industry of performance-driven community development financial institutions

There exist more than 500 CDFIs in all 50 states who have loaned and invested more than \$3.5 billion in distressed communities throughout the United States in the last fifteen years, including:

- 198 community development loan funds
- 45 community development venture capital funds
- 170 community development credit unions
- 24 community development banks

State with the most CDFIs: New York (80)

States with the fewest CDFIs: Idaho and Nevada (1 each)

CDFIs providing financing for:

- Homeownership: 119
- Rental Housing: 72
- Cooperative Housing: 43
- Micro-businesses: 134
- Small Business: 147
- Medium/Large Business: 52
- Childcare Facilities: 61
- Healthcare Facilities: 41
- Other Community Facilities: 43
- Individual Development Accounts (IDAs): 43
- Personal Loans: 76
- Checking/Savings Accounts: 70

A 1998 survey of the premier 51 CDFIs that are members of the national trade association, National Community Capital, ranging in capital size from less than \$500,000 to more than \$200 million in net assets reports that as of December 31, 1998, these 51 CDFIs report:

- Total capital under management: \$742,937,185
- Total cumulative financing: \$1.3 billion
- Total loans and investments outstanding: \$474,999,529
- Housing units financed: 86,005
- Jobs created or retained: 66,863
- Nonresidential space created or preserved (sq. ft.) 310 million

Source: *Directory of Community Development Financial Institutions*, CDFI Coalition – 1999.
Charting CDFI Progress, National Community Capital – 1999

APPENDIX H:

Biographies of Founding Board Members

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Biographies of Founding Board Members

David Y. Chen owns and manages two commercial developments in the Rainier Valley. Mr. Chen is an active member of the Holly Park Merchants Association, the Holly Park Neighborhood Planning Association, The Rainier Valley Chamber of Commerce and the Rainier Valley Transit Advisory Committee. He is a graduate of UCLA and the University of Rochester William E. Simon Graduate School of Business Administration; and is fluent in Mandarin and Taiwanese.

Diane Davies has worked on light rail issues and the Rainier Valley Community Development Fund for the past three-and-a-half years. As Coordinator of the Rainier Valley Transit Advisory Council, she was actively involved in the creation and work of the CDF Steering Committee. Diane lives in the Rainier Valley and is active in the community. She was Coordinator of the Rainier Valley Rose Project, and then Fundraising Coordinator for the Southeast Seattle Senior Foundation's purchase of the Brighton Place Apartments. She is now Secretary of the Senior Foundation Board, as well as a member of the Rainier Chamber of Commerce, and past member of Orca School Garden Steering Committee. She graduated Phi Beta Kappa from the University of Idaho with degrees in Landscape Horticulture and English Literature.

Nemesio Domingo is chief of vehicle maintenance for the King County Department of Transportation. Included in Mr. Domingo's long list of responsibilities as the supervisor of a staff of 23, is the oversight of the division budget and the management of allocated resources. Mr. Domingo is a founding board member and the secretary/treasurer of the Seattle-King County Workforce Development Council (SKCWDC), which manages the worker training and retraining programs in King County. He is a founding member and vice-president of the Northwest Labor and Employment Law Office (LELO), a minority worker's organization that has litigated and organized locally and internationally on minority worker's rights. He is past president of the Renton School Board, and Publisher of the International Examiner.

Robert A. Mohn is a consultant on environmental and regulatory matters to the Federal Energy Regulatory Commission. He is a civil engineer and has specialized in providing environmental, engineering and planning services to industry and government since 1975. Mr. Mohn recently received Historic Seattle's "Preservation in My Neighborhood Award" for the rehabilitation of two commercial buildings in the Columbia City Landmark District. Mr. Mohn is a graduate of the United States Military Academy at West Point and The Woodrow Wilson School of Public and International Affairs at Princeton University. He is an active member of the Rainier Valley Chamber of Commerce and the Columbia City Business Association; and has lived in the Valley with his wife and son for 14 years.

David Okimoto is Vice President of Community Services for United Way of King County and has responsibility for the distribution of \$30 million annually. Previously David served as the Executive Director of the Atlantic Street Center (ASC) from 1990 to 2001, a social services agency serving youth and families; and as Director of the Department of Human Resources for the City of Seattle from 1985 to 1990. He has served as a founding board member of the Asian Counseling and Referral Service; the Asian Pacific Island Task Force on Youth and the Minority Executive Directors Coalition. As Director at the Atlantic Street Center, David helped to lead the process of transformation of the public housing complex Holly Park into New Holly. David has lived in the Rainier Valley for 25 years.

Patricia Paschal is an independent computer systems consultant and a 26-year resident of Rainier Valley. She is a graduate of Seattle's Garfield High School with a degree in mathematics from Portland's Reed College. Her work experience includes increasingly responsible assignments in a wide variety of situations as a sole practitioner, team leader or team member. As a project director, Ms. Paschal has prepared and monitored budgets as well as recruited, directed and mentored staff. She has performed business analyses, designed and implemented automated systems, and developed policies and procedures for clients who are responsible for financial processing, management and/or controls in both the public and private sectors. Ms. Paschal has been a member of Save Our Valley since shortly after its founding and has worked on organizational issues as well as researching materials, identifying inconsistencies and informing the community of adverse impacts. Ms. Paschal is the proud mother of two adult sons and one adult daughter. She and her teenage niece live within walking distance of the planned Othello light rail platform/station.

Thao Tran is currently the Executive Director for the Vietnamese American Business Development of South Seattle. He has served as the chairperson of the Steering Committee for the Rainier Valley Community Development Fund and is a board member for SouthEast Youth and Family Services. In the past, he has worked in the financial service industry specializing in estate planning and investments. Thao obtained a Bachelor of Arts degree in Political Science and International Relations from the University of Washington.

Doug Wheeler, the founder of Zion Preparatory Academy has lived in the Rainier Valley for 55 years. As Headmaster of Zion Academy, his commitment is to the training, development and strengthening of young people as leaders. He is the Executive Director of Vision Youth, an organization that employs, trains and develops, in an intense 3-year program, young adults to be the mature responsible leaders of our future. Mr. Wheeler is Pastor of the Christian Restoration Center, whose sole purpose is to hear the cry and understand the need of the homeless and those who feel hopeless by providing shelter, food, education and support. He is also a member of CCDR, a group of approximately 25 pastors who have come together collectively to meet the needs of the community. Mr. Wheeler has many years of experience in the area of business development and management and much expertise concerning the development of governance and founding boards. He excels at bringing people together in harmony.

APPENDIX I:

Job Descriptions for Key Staff

APPENDIX I:

Job Descriptions for Key Staff

JOB TITLE: Executive Director of the Rainier Valley Community Development Fund

STARTING DATE:

POSITION DESCRIPTION AND RESPONSIBILITIES

The Executive Director is the chief staff member, provides leadership and is the organization's liaison to the Rainier Valley community, all community organizations, public and private funding sources, financial institutions, and the media.

The Executive Director is responsible for promoting and adhering to the use of the CDF's tools in support of the organization's mission. The mission of the CDF is:

The Rainier Valley Community Development Fund is a self-sustaining, community-controlled entity that preserves and strengthens cultural diversity, long-term livability, and economic opportunity for Rainier Valley residents, businesses, and institutions.

The initial focus of the CDF is on providing financial and technical support to business and property owners impacted by the construction of light rail in the Rainier Valley. Over time, the CDF will expand into funding community and transit-oriented development projects including commercial real estate, affordable housing, community facilities, and pre-apprenticeship training.

Financial products offered by the CDF are diverse and range from business loans and grants, commercial mortgages, affordable housing mortgages, facilities loans, to pre-apprenticeship training grants. S/he oversees all management and program operations, and hires and supervises staff, interns, volunteers and consultants who assist staff.

The Executive Director reports to the Board of Directors and is responsible for:

- Negotiating and managing terms and conditions of contracts with all public funders
- Managing a diverse product set, including finalizing the underwriting details for supplemental mitigation products
- Directing all programs, including business technical assistance, lending programs, ongoing management assistance, business and personal support services, pre-apprenticeship training grants; and all aspects of residential and commercial real estate lending;
- Raising funds, developing a diverse resource base, and planning the budget;
- Recruiting, hiring, supervising, motivating staff, and promoting development of their skills and leadership abilities;
- Selecting and overseeing the implementation of all management information systems, including financial and program information, to facilitate planning, provide evaluative data for monitoring the CDF's performance, and support resource development efforts;

- Promoting economic development (business lending and real estate development lending) with funding sources and others, to ensure that clients have access to other community resources and financing;
- Developing and maintaining external relationships with community organizations and groups, business assistance organizations, financing institutions and public agencies; and
- Developing collaborative relationships and partnerships that enhance the organization and its ability to meet the needs of its diverse constituency.

More specific responsibilities of the Executive Director are added at the end of this job description.

KNOWLEDGE SKILLS AND PERSONAL CHARACTERISTICS

The Executive Director should be a mature professional and have a minimum of 5-8 years of relevant work experience, with background in nonprofit community development financial institution management, and preferably in both housing and/or facilities development and business lending. The candidate's experience should include strategic planning, board and community relations, personnel supervision, and financial management. S/he must also have experience working with lower income people, diverse communities; and be a capable, compassionate, energetic and positive leader – able to motivate and work with a wide variety of professionals and volunteers.

The Executive Director must:

- Be passionate about the agency's mission and eager to represent the organization to a diverse group of external audiences;
- Be an effective advocate for lower income and minority business owners and individuals; and
- Write well and have excellent verbal communication skills.

The Executive Director must possess a high level of commitment to meet the economic needs of a racially and culturally diverse community, have a reputation for high ethical and moral standards, have an inclusive non-hierarchical management style, and be enthusiastic about working with a diverse staff and strong Board of Directors. Proficiency in another language would be a plus.

OTHER QUALIFICATIONS:

- College degree in any applicable field or equivalent experience in relevant areas. MBA and/or CPA are plusses.
- Real estate development and/or commercial lending experience required.
- Solid financial accounting, statement preparation and analytical skills.
- Proven cash management skills, i.e. control, forecasting and budgeting.
- Proven human resource management skills and experience.
- Interpersonal skills must include a demonstrated ability to deal effectively with diverse constituents, internal staff, board members, investors, outside public accounting, legal, bank and other professionals.
- Computer literate, with strong working knowledge of accounting software and spreadsheet applications.
- MIS management experience is a plus.
- Financial services experience (i.e., lending, funding and portfolio risk analysis) is a plus.
- Nonprofit work experience is a plus.
- Experience managing start-ups successfully a plus.

Compensation and benefit

Starting salary ranges from \$\$\$\$ to \$\$\$\$, based on experience, plus an excellent benefits package including health, dental, and x weeks vacation. Position is full-time.

APPLICATION PROCESS AND DEADLINE

The CDF is an equal opportunity employer: people of color, women, and disabled persons are encouraged to apply.

Send cover letter with resume, two brief writing samples and personal and professional reference list to:

No calls please

Deadline for applications: Or Position Open until Filled

More specific responsibilities of the Executive Director include:

A. Executive Functions

1. Mission: Make sure that the mission is clearly stated and understood by all staff and Board Members; insure that all programs and policies are in concert with organizational mission.
2. Board of Directors: Manage relationship with the Board of Directors, including preparing policies for their approval, providing regular reports on activities, reporting on the financial status of the corporation, recommending program guidelines, etc. Recruit new Board and Committee Members as appropriate. Staff all Board committees.
3. Financial Management: Prepare and manage annual operating budget to maintain fiscally sound operations. Manage all resources in a fiscally responsible manner, in compliance with all internal policies and within GAAP.
4. Human Resource Management: Supervise personnel, provide appropriate training opportunities to personnel, develop salary and benefits policies that attract and retain skilled personnel.
5. Organizational Development: Strategic planning, develop and maintain partnerships, program development, create information management systems, etc. as appropriate.

B. Lending Functions: For both Commercial (Business) and Real Estate Development:

1. Develop loan programs and policies.
2. Market loan programs.
3. Operate Loan Programs, including:
 - Receive and evaluate loan applications.
 - Present credit requests to Loan Committee for approval.
 - Close and disburse loans.
 - Send rejection letters to applicants when necessary.
 - Send out loan invoices and monitor payments.

- Provide technical assistance to borrowers and other clients.
 - Implement collections and foreclosures as necessary.
4. Evaluate market for new lending opportunities and evaluate lending experience for improving performance and responsiveness to market.

C. Capitalization and Development

1. Develop proposals for funding, including operations, equity capital and debt capital.
2. Cultivate and maintain contacts with a variety of existing and potential funding sources.
3. Ensure that all funding restrictions and reporting requirements are met.

D. Infrastructure Development

1. Develop and implement administrative policies as appropriate.
2. Purchase and maintain appropriate technology for optimal efficiency.
3. Develop appropriate information systems, including loan management systems.

E. Accounting and Financial Management

1. Managing cash, investment and loan portfolios, and related risks
2. Implementing accounting systems, policies and procedures
3. Providing internal and external financial reports
4. Forecasting, budgeting and financial planning
5. Serve as primary contact with banks and money managers.
6. Manage annual audit preparation and serve as primary staff liaison with auditor
7. Establish and maintain adequate control system to handle loan fund expansion.

JOB TITLE: Program Officer of the Rainier Valley Community Development Fund

STARTING DATE: To be determined

The Program Officer of the CDF works as a team member to use the products of the CDF to promote the CDF mission within the Rainier Valley of The City of Seattle. The mission of the CDF is:

The Rainier Valley Community Development Fund is a self-sustaining, community-controlled entity that preserves and strengthens cultural diversity, long-term livability, and economic opportunity for Rainier Valley residents, businesses, and institutions.

The initial focus of the CDF is on providing financial and technical support to business and property owners impacted by the construction of light rail in the Rainier Valley. Over time, the CDF will expand into funding community and transit-oriented development projects including commercial real estate, affordable housing, community facilities, and pre-apprenticeship training.

Financial products offered by the CDF are diverse and range from business loans and grants, commercial mortgages, affordable housing mortgages, facilities loans, to pre-apprenticeship training grants.

PURPOSE of the Program Officer: To underwrite grant and loan applications, screen requests, present proposals for review to the Loan Committee of the CDF Board, negotiate grant and loan transactions and close grants and loans, maintain data and files relating to grant and loan applications, assist in the monitoring and servicing of the loan portfolio and market loan products and services to potential new borrowers/beneficiaries.

PRIMARY RESPONSIBILITIES:

- Review applications and financial data from prospective borrowers/beneficiaries
- Follow up with applicants, conduct site visits, secure whatever other data necessary to perform sound loan review
- Prepare written reviews and financial analyses and present screened applications to the Loan Committee
- Negotiate credit or payment structure and issue commitment letters; prepare and execute credit and/or payment documents, file necessary legal documents
- Maintain accurate and complete files on all financial products underwritten and approved
- Maintain constructive and positive working relationships with applicants, borrowers/beneficiaries, and the community
- Monitor portfolio, communicating directly with borrowers/beneficiaries as appropriate
- Work with borrowers to negotiate past due collections, workouts and default situations
- Provide assistance as necessary to help potential borrowers successfully qualify for financing or where loans are at risk; or where beneficiaries businesses and/or organizations are at risk; help applicants locate other funding sources if is not a good fit
- Help write Request for Proposals for the pre-apprenticeship grants, disburse, track and monitor results of the program
- Help refine loan and financial management policies and procedures and internal and external reports.

QUALIFICATIONS:

- Strong analytical, time management, and organizational skills and the capacity to integrate diverse objectives with a high level of attention to detail
- Knowledge of real estate finance, tax credits, development and law, lending practices and procedures and the escrow process; and construction and/or development loans and draws

- Effective written and verbal communication skills with the ability to be persuasive one-on-one as well as in a group setting
- Bachelor's degree or equivalent professional experience in a relevant field such as financial management, small business management, real estate development, business administration or economics
- Minimum 3 years commercial credit experience
- Thorough understanding of basic principles of accounting, finance and financial analysis
- Computer literacy in word processing, data base and spreadsheet programs
- Experience with small business lending and consumer finance, or willingness to learn
- Skills in discussion facilitation and problem solving
- Willingness and ability to travel within service area to conduct site visits and visit borrowers
- Ability to work effectively with community-based organizations, banks, public sector organizations, and individuals from a variety of economic and cultural circumstances
- An entrepreneurial spirit with the ability to work successfully in a collaborative manner with a minimum of hands-on supervision
- Impeccable personal integrity; ability to maintain confidentiality of customer data
- Motivated individual with high level of initiative and demonstrated commitment to facilitating the growth and development of organizations
- Someone who enjoys working with people
- Being Bilingual in any one of numerous languages and English a plus

Project Management

From time-to-time this position may be required to manage segregated funds restricted to targeted geographic areas and/or populations.

Public Relations

Speak to media, community groups, investors and others about the goals and achievements of the CDF.

Special Considerations

A dedication to issues of economic justice is helpful if accepting this extremely demanding job. The position requires the usual superhuman qualities – flexibility, perseverance, sensitivity, self-motivation and creativity. Familiarity with the field of community economic development a plus. The CDF is a start-up – each staff member must be a team player as well as carry considerable individual responsibilities.

Compensation and benefits

Starting salary ranges from \$\$\$\$ to \$\$\$\$\$, based on experience. Competitive benefits package.

Position is full-time.

APPLICATION PROCESS AND DEADLINE

Position is currently available. We will accept resumes until the position is filled. Please indicate salary requirement. Send whatever material you feel is necessary to make us feel we need to talk with you (but do include a resume.) to:

Deadline for applications: Or Position Open until Filled

The CDF is an equal opportunity employer: People of color, women, and people with disabilities strongly encouraged to apply.

JOB TITLE: Program Assistant of the Rainier Valley Community Development Fund

STARTING DATE: To be determined

The Program Officer of the CDF works as a team member to promote the CDF mission within the Rainier Valley of The City of Seattle. The mission of the CDF is:

The Rainier Valley Community Development Fund is a self-sustaining, community-controlled entity that preserves and strengthens cultural diversity, long-term livability, and economic opportunity for Rainier Valley residents, businesses, and institutions.

The initial focus of the CDF is on providing financial and technical support to business and property owners impacted by the construction of light rail in the Rainier Valley. Over time, the CDF will expand into funding community and transit-oriented development projects including commercial real estate, affordable housing, community facilities, and pre-apprenticeship training.

Financial products offered by the CDF are diverse, ranging from business loans and grants, commercial mortgages, affordable housing mortgages, facilities loans, to pre-apprenticeship training grants.

As a start-up organization with a small staff but a huge job typical of a nonprofit, the CDF seeks a person with an unusual mix of skills to aid the Executive Director and Program Officers. The position is a combination Public Relations Director and Office Manager and offers a strong possibility of advancement.

PURPOSE of the Program Assistant: To work with the Executive Director on outreach and communication with the community, to help co-ordinate efforts with other community groups, serve as a program manager where needed, especially in communication with funders, both public and private; answer inquiries about the CDF; and to serve as office manager.

PRIMARY RESPONSIBILITIES:

Communications

To aid the Executive Director and the Board in maintaining accountability to the community through the execution of the CDF accountability, outreach, and communications plan. The plan provides for openness of communications (i.e., CDF financial reports are available on request, but with customer confidentiality maintained in the strictest manner).

The communications plan requires the program assistant to help develop outreach materials, schedule community meetings and attend meetings with other organizations to maintain regular and ongoing communications with the broader community about projects and/or businesses funded and the impact of the CDF's programs.

Program Management

- Reporting: Depending on the scale of the CDF program undertaken, there will be various information and reporting needs which may include the following:
 - Financial reporting
 - Budgeting.
 - Reports to funders
 - Impact / Evaluation reporting
 - Ad hoc information as needed by other staff for marketing or more general reporting

Program Development

- Resource development: The Program Assistant will assist the Executive Director in attracting new resources necessary for new CDF initiatives.
- Design: the Program Assistant may be responsible for the initial design of the program or product, and/or may be responsible for the ongoing development and refinement of the program/product.

Office Management

- Maintain and provide all CDF internal and external reports, policies and procedures.
- Keep the corporate record.
- Answer all inquiries for applications.
- Maintain the operations of the office, from equipment maintenance to human resource files.
- Assist the Executive Director in staffing the Board of Directors.

QUALIFICATIONS:

- Effective written and verbal communication skills with the ability to be persuasive one-on-one as well as in a group setting
- Bachelor's degree or equivalent professional experience in a relevant field such as public relations or graphic design or office management
- An entrepreneurial spirit with the ability to work successfully in a collaborative manner with a minimum of hands-on supervision
- Impeccable personal integrity; ability to maintain confidentiality of customer data
- Motivated individual with high level of initiative and demonstrated commitment to facilitating the growth and development of organizations
- Someone who enjoys working with people
- Being Bilingual in any one of numerous languages and English a plus

Special Considerations

A dedication to issues of economic justice is helpful if accepting this extremely demanding job. The position requires the usual superhuman qualities – flexibility, perseverance, sensitivity, self-motivation and creativity. Familiarity with the field of community economic development a plus. The CDF is a start-up – each staff member must be a team player as well as carry considerable individual responsibilities.

Compensation and benefit

Starting salary ranges from \$\$\$\$ to \$\$\$\$\$, based on experience. Competitive benefits package. Position is full-time.

APPLICATION PROCESS AND DEADLINE

Position is currently available. We will accept resumes until the position is filled. Please indicate salary requirement. Send whatever material you feel is necessary to make us feel we need to talk with you (but do include a resume.) to:

Deadline for applications: Or Position Open until Filled

The CDF is an equal opportunity employer: People of color, women and people with disabilities strongly encouraged to apply.

APPENDIX J:

Financial Forecast and Notes of Explanation

APPENDIX J:

Notes of Explanation to Financial Forecast

(version 8)

***Please note:** the projections accompanying this operating plan are subject to substantial revision. Current projections are for the first six years of CDF operation, beginning in 2003. They do not yet include assumptions about transit-oriented or community development products beyond funding pre-apprenticeship grants and commercial mortgages for relocation and receiving sites.*

Balance Sheet:

- ❑ **Net Outstanding Loans** only reflect loans originated with CDBG funds. All other disbursements are made directly to eligible business and property owners from the Supplemental Mitigation and Community Development Accounts. Repaid supplemental mitigation advances are booked to the Supplemental Mitigation Account and carried on Sound Transit's financial statements. Principal recovered on CDBG-funded loans is tied to assumptions in Schedules A and B on pages J-5 and 6.
- ❑ **Liabilities** are not shown on this *Balance Sheet*. Liabilities generally would include accounts payable and debt assumed by the CDF. If the CDF borrows capital to fund additional loans, the amount borrowed would appear as a liability. The CDF will have accounts payable, however for the purposes of financial modeling, we consider these amounts to be insignificant relative to other financial activities.
- ❑ **Net Assets** include the total CDBG funds disbursed plus cumulative surplus or deficit funds (which for a nonprofit is called *Change in Net Assets*).

On *Schedule B* (page J-6), the total CDBG dollars disbursed by the CDF are shown followed by the total CDBG funds available through the Community Development Account. Capital does not decrease when loans are made because they must be repaid, thereby preserving funds for future investments.

Change in Net Assets is calculated on page J-3, *Pro Forma Statement of Activities*. The CDF earns interest and fee income on CDBG loans it originates and is paid servicing fees out of the Supplemental Mitigation and Community Development Accounts.

Statement of Activities:

- ❑ **Interest Income: CDBG Loans** are based on assumptions described in *Schedule A* on page J-5. Terms reflect product descriptions summarized in APPENDIX A, *Supplemental Mitigation Products: Terms & Conditions*. Interest is calculated on a declining balance basis on average loans outstanding.
- ❑ **Origination Fees** are charged on Commercial Mortgages and Bridge Loans as noted in *Schedule A*.
- ❑ **Interest on Idle Funds** is the interest earned on cash held in interest bearing accounts. We have conservatively calculated interest at 3%. Interest is calculated on the average projected cash balance as show on the bottom of page J-4, *Pro Forma Statement of Cash Flows*.

- ❑ **Operating Expenditures** are shown in greater detail in *Schedule D* on page J-8. Although the CDF Board may choose to out-source all or some portion of the CDF's functions, this financial forecast provides a basis of comparison by detailing the costs associated with a fully staffed, stand-alone entity. The Board will be able to use these projections when evaluating potential cost savings negotiated through third-party contracts.

Base case staffing requirements include:

- *Executive Director*,
- *3 Program Officers* to provide business support services to impacted businesses and property owners and to underwrite and close all supplemental mitigation packages, and
- *Program Assistant* to assist the Executive Director on outreach and communications, to coordinate with other community groups, to answer inquiries about the CDF when other staff are away, and to staff the office.

Additional program officers may be required once community and transit-oriented development programs are launched. The number of staff is likely to decrease once supplemental mitigation activities subside.

Benefits (health insurance, Social Security and Medicare taxes, unemployment, and retirement) are calculated at 35% of salaries based on prevailing nonprofit practices. Salaries are projected to increase annually at cost-of-living, assumed to average 3.5% per year.

Annual allocations to the loan loss reserve are sufficient to maintain a 4% reserve against total outstanding loans as shown on the *Balance Sheet* (page J-2).

Supplemental Mitigation Account - Statement of Cash Flows:

A cash flow is included for the *Supplemental Mitigation Account* on page J-9. Detailed information is shown for supplemental mitigation payment and advance disbursements on page J-10. These statements show all projected funding activity including CDF organizing expenses, administrative fees paid to the CDF to manage disbursements, and interest earned on advances and idle funds.

The *Supplemental Mitigation Account*, which eventually will include contributions totaling \$28.7 million, is projected to earn \$1.5 million in interest on advances through 2008 and approximately \$200,000 in interest on idle funds. Projected earnings will offset, to a certain extent, the administrative fee paid to the CDF to manage disbursements and to Sound Transit for costs associated with maintaining the Account (*not yet included in this projection*).

The current cash flow for the Supplemental Mitigation Account shows deficits in 2004 and 2005. In the event that SMA activity exceeds available cash, as shown in this cash flow projection, the CDF Board would approach the Sound Transit Board to negotiate an acceleration of payments to the SMA (per the *Seattle Agreement* section 4.3.3), would adjust the maximum transaction size for supplemental mitigation payments and advances, and/or would seek private-sector resources to fill the cash flow shortfall.

The *Projected Program Actions* schedule on page J-10 is based on the following assumptions:

- ❑ **Relocation Impact** projects the total number of businesses expected to relocate as a result of Link Light Rail construction. These numbers are based on information provided by Sound Transit as of

6/15/02. The total number of projected businesses and property owners that will have to relocate includes 38 identified by Sound Transit as possible, but not definite, acquisitions. To be conservative, we have included all tentative acquisitions in the CDF projections. Approximately 33 impacted businesses are property owners. Fifty-five of the 88 are tenants. Relocation impact estimates are the basis for calculating the number of transactions for each of the CDF's supplemental mitigation products.

- ❑ **Construction Impact** (shown on page J-10) is based on the projected linear feet of construction undertaken in a given year. Sound Transit estimates that construction will begin at the end of 2003, impacting businesses at the beginning of 2004. Based on actual business licenses, we are assuming that 300 businesses are located along the alignment between South McClellan Street and Boeing Access Road. Since a total of 88 businesses may be required to relocate, projections are based on 212 businesses remaining that could be impacted by construction. The number of businesses impacted each year is tied to the percentage of the alignment under construction. Disbursement of *Business Interruption Payments* is projected accordingly (see # of *Disbursements Originated*).

Community Development Account - Statement of Cash Flows:

The cash flow statement for the *Community Development Account* on page J-11 shows disbursements for CDBG loans by the CDF. As noted earlier, repayment of these loans is booked to the CDF's balance sheet (page J-2). Consequently, the Community Development Account balance declines over time.

The projected cash flow for the Community Development Account also shows deficits in 2004 and 2005. In the event that CDA activity is projected to exceed available cash, as shown in this cash flow projection, the CDF Board would adjust its future grant and loan activity, and/or would seek private-sector resources to address the cash flow shortfall. The CDF Board and management will coordinate with City staff to carefully manage commitments so they do not exceed funds available in the Account.