SOUND TRANSIT
STAFF REPORT

MOTION NO. M2005-110

Proposed Amendment to 2002 Operating Plan for the Rainier Valley Community Development Fund

Meeting:	Date:	Type of Action:	Staff Contact:	Phone:
Finance Committee Board	10/6/05 10/13/05	Discussion/Possible Action to Recommend Board Approval Action	Hugh Simpson, Chief Financial Officer **Ron Lewis, Link Deputy Director**	206-398-5082 206-689-4905

Contract/Agreement Type:	✓	Requested Action:	✓
Competitive Procurement		Execute New Contract/Agreement	
Sole Source		Amend Existing Contract/Agreement	✓
Agreement with Other Jurisdiction(s)		Budget Amendment	

PROJECT NAME

Rainier Valley Community Development Fund Operating Plan Amendment

PROPOSED ACTION

To approve an amendment to the 2002 Operating Plan for the Rainier Valley Community Development Fund.

KEY FEATURES of PROPOSED ACTION

- The Operating Plan, adopted by Seattle City Council Ordinance 121021 and Sound Transit Board Motion No. M2002-138, as well as the funding and substitute funding agreements authorized by the Sound Transit Board per Motions No. M2002-46 and No. M2005-14 require that an amendment be approved by both Seattle City Council and Sound Transit Board before the Transit Oriented Community Development Fund for Southeast Seattle (the Fund) can expend any funds for transit-oriented and community development activities.

- The Operating Plan amendment includes the following:

  - Establishes a Community Development Program, including transit-oriented and community development products.

  - Details those products and services as identified by community needs, including implementation and product delivery.

  - Products are designed under two lines of business: Business Development (25%) and Real Estate Development (75%).

    - Business Development encourages small business formation, strengthens existing businesses in the Rainier Valley and promotes job creation. There are three products under this line of business: (1) Business Interest Subsidy Grant; (2) Business Incentive Loan; and (3) Façade Improvement Grant.

- Real Estate Development encourages new catalyst development and physical improvements in the Rainier Valley. This includes a range of physical revitalization activities involving both new construction and rehabilitation of existing building stock, for the purpose of simulating economic activity, increasing inventory of commercial spaces for Rainier Valley businesses and promoting affordable housing for Rainier Valley residents. Real Estate Development Products are: Site Assembly Loan for Non-Profits; Site Assembly for For-Profits; Site Assembly Interest Subsidy Loan; Real Estate Financing Loan and Façade Improvement Grant.

- Eligibility is determined on required and desirable criteria. Required criteria must be met for issuance of a loan or grant. Projects meeting one or more desirable criteria will strengthen an application. Examples of required criteria: must be in the investment area; must be eligible for CDBG funding; must conform to Transit-Oriented Definition developed by Sound Transit, City of Seattle and King County.

- Makes several adjustments to the boundaries of the Community Development Investment Area that do not affect the Supplemental Mitigation Program boundaries as defined in the 2002 Operating Plan. This includes approval of Transit-Oriented Development boundaries, regardless of potential future changes in transit routes and route frequency in the Rainier Valley.

- Provides for the management of the Rainier Valley Community Development Fund's Seattle-funded loans and proceeds be held in trust on behalf of the Rainier Valley Community Development Fund. Specifically, the Rainier Valley Community Development Fund will hold only legal title to loan assets and revolved money. The funds in trust will be used to accomplish the purposes of the Community Development Programs.

- Provides continued oversight by Sound Transit in connection with remaining funds, if any, after cessation of supplemental mitigation activities.

- Recognizes and provides for the restriction of Sound Transit/King County dollars, consistent with Sound Transit statutory authority.

- Provides financial projections reflecting sustainability of the Fund.

BUDGET IMPACT SUMMARY

The Operating Plan Amendment does not affect the overall Sound Transit Budget. However, the Substitute Community Development Fund Funding Agreement approved by Seattle City Council Ordinance 115178 and Sound Transit Board Motion No. M2005-14 maintains the funding commitment of Seattle of $42,800,000 as well as $7,200,000 for transit-oriented development related to the purposes of the King County contribution for a total of $50,000,000.

M/W/DBE – SMALL BUSINESS PARTICIPATION

Not applicable for this action.

PROJECT DESCRIPTION and BACKGROUND for PROPOSED ACTION

On November 18, 1999, by Resolution No. R99-34, the Sound Transit Board directed the establishment of a $50 million Transit-Oriented Community Development Fund for southeast Seattle to increase transit ridership on Central Link light rail and to address the impacts of light rail construction. Board approval of Motion No. M2000-72 established a community-based steering committee to develop the Operating Plan for the Rainier Valley Community Development Fund (RVCDF).

On May 9, 2002, by Motion No. M2002-46, the Sound Transit Board authorized the Executive Director to enter into an agreement with the City of Seattle to establish, oversee, and fund Seattle's portion of the Transit-Oriented Community Development Fund for Southeast Seattle and on February 24, 2005, by Motion No. 2005-14, the Sound Transit Board authorized the Executive Director to enter into a Substitute Funding Agreement to replace the 2002 Funding Agreement and to establish, oversee and fund Seattle's portion of the Transit-Oriented Community Development Fund for Southeast Seattle (the Substitute Funding Agreement). Both the initial funding agreement and the Substitute Funding Agreement require that the Operating Plan for the RVCDF and any amendments be approved by both the Sound Transit Board and the City of Seattle.

On December 12, 2002, by Motion No. 2002-138, the Sound Transit Board adopted the Rainier Valley Community Development Fund Operating Plan. The Operating Plan provides that Sound Transit will contract with the RVCDF to administer the 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.

The motion also stated, "[F]urther, 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."

Per the Substitute Funding Agreement, Sound Transit internal costs, plus funding for one FTE, will continue to be reimbursed from the Fund. Sound Transit, with FTA approval, may receive project funding through City of Seattle Community Development Block Grants, allowing direct contributions to the Supplemental Mitigation Account by Sound Transit, in lieu of direct payments for project costs to the City of Seattle. This would have no financial impact to Sound Transit.

Supplemental Mitigation Program History:

In 2003, Sound Transit and the City of Seattle initiated the Supplemental Mitigation Program for supplemental mitigation payments and advanced to businesses impacted by light rail construction. Two businesses received Business Re-establishment Payments totaling $73,000 and one business received two Advances totaling $95,000, for a total disbursed amount of $168,000.

In 2004, twenty-six businesses received Business Re-establishment Payments totaling $2,100,000; fifty-six businesses received Business Interruption Payments totaling $1,300,000 and three businesses received Advances totaling $179,000, for a total disbursed amount of $3,500,000.

In 2005, seven businesses received Business Re-establishment Payments totaling $442,000; forty-two businesses received Business Interruption Payments totaling $1,200,000 for a total disbursed amount of $1,600,000.

Total Supplemental Mitigation Payments to date are $2,600,000 for Business Re-establishment, $2,500,000 for Business Interruption and $275,000 in Advances. A total of one hundred eleven businesses have received supplemental mitigation products from the Fund.

This action would approve the Operating Plan Amendment as provided above.

CONSEQUENCES of DELAY

Delay of the approval of the Operating Plan Amendment will delay implementation of the Community Development Program and may impact funding of transit-oriented related projects in the Rainier Valley.

PUBLIC INVOLVEMENT

The Rainier Valley Community Development Fund conducted a thorough public process leading to the development of products developed in the Operating Plan Amendment. That process included the following:

- A Project Steering Committee, including representation from the Rainier Valley Community Development Fund Board and staff, the City of Seattle, Sound Transit and King County met weekly to develop the content of the Operating Plan Amendment. The Project Steering Committee also included two technical advisory committees of profit and non profit developers and lenders.
- Southeast Seattle Action Plan (community engagement facilitated by the City of Seattle).
- Rainier Valley Community Development Fund community outreach surveys
- Consolidated Plan Process (HUD requirements for CDBG)
- Neighborhood Plans
- Light Rail Station Area Plans
- Prior Southeast Seattle Action Plans

LEGAL REVIEW

JB (10/6/2005)

SOUND TRANSIT

MOTION NO. M2005-110

A motion of the Board of the Central Puget Sound Regional Transit Authority amending the 2002 Operating Plan for the Rainier Valley Community Development Fund.

Background:

On November 18, 1999, by Resolution No. R99-34, the Sound Transit Board directed the establishment of a $50 million Transit-Oriented Community Development Fund for southeast Seattle to increase transit ridership on Central Link light rail and to address the impacts of light rail construction. Board approval of Motion No. M2000-72 established a community-based steering committee to develop the Operating Plan for the Rainier Valley Community Development Fund (CDF).

On December 12, 2002, by Motion No. 2002-138, the Sound Transit Board adopted the Rainier Valley Community Development Fund Operating Plan. The Operating Plan provides that Sound Transit will contract with the CDF to administer the 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.

The motion also stated,""[F]urther, 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.

The amendment establishes a Community Development Program, including transit-oriented and community development products and details those products and services as identified by community needs. The products are designed under two lines of business: Business Development (25%) and Real Estate Development (75%). Business Development encourages small business formation, strengthens existing businesses in the Rainier Valley, and promotes job creation. There are three products under this line of business: (1) Business Interest Subsidy Grant; (2) Business Incentive Loan; and (3) Façade Improvement Grant. Real Estate Development encourages new catalyst development and physical improvements in the Rainier Valley. Real Estate Development Products are: Site Assembly Loan for Non-Profits; Site Assembly for For-Profits; Site Assembly Interest Subsidy Loan; Real Estate Financing Loan and Façade Improvement Grant.

The amendment provides for the management of the Rainier Valley Community Development Fund's Seattle-funded loans and proceeds be held in trust on behalf of the Rainier Valley Community Development Fund. Specifically, the Rainier Valley Community Development Fund will hold only legal title to loan assets and revolved money. The funds in trust will be used to accomplish the purposes of the Community Development Programs.

The amendment provides for continued oversight by Sound Transit in connection with remaining funds, if any, after cessation of supplemental mitigation activities. It also recognizes and provides for the restriction of Sound Transit/King County dollars, consistent with Sound Transit statutory authority, and provides for financial projections reflecting sustainability of the Fund.

Sound Transit internal costs, plus funding for one FTE, will continue to be reimbursed from the Fund. Sound Transit, with FTA approval, may provide additional supplemental mitigation funding with Community Development Block Grants which has no overall financial impact for Sound Transit. This would allow direct contributions to the Supplemental Mitigation Account by Sound Transit, in lieu of direct payments for project costs to the City of Seattle.

Motion:

It is hereby moved by the Board of the Central Puget Sound Regional Transit Authority that the 2002 Operating Plan for the Rainier Valley Community Development Fund is approved.

APPROVED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on October 13, 2005.

John W. Ladenburg
Board Chair

ATTEST:

Marcia Walker

Marcia Walker
Board Administrator

RAINIER VALLEY COMMUNITY DEVELOPMENT FUND OPERATING PLAN AMENDMENT

July 19, 2005

Prepared by:
Operating Plan Amendment Steering Committee

Dawn Blanch, RVCDF Board
Robert Mohn, RVCDF Board
Patricia Paschal, RVCDF Board
Jaime Garcia, RVCDF Executive Director
Steve Johnson, City of Seattle
Ken Takahashi, City of Seattle
Q'Deene Nagasawa, Sound Transit
David Hopkins, King County

Approved by:
RVCDF Board of Directors

David Okimoto, Board Chair
Greg Anderson
Barbara Bell
Dawn Blanch
David Chen
Sally Clark
Nemesio Domingo
Elaine Hayes
Andrew McConnell
Robert Mohn
Patricia Paschal
Priya Singh
Joshua Williams

Consultants:
John Howell and Trang Tu, Cedar River Group
John Finke and Chuck Depew, National Development Council

CONTENTS

page

APPENDICES ***(Separate Document)***

1. EXECUTIVE SUMMARY

The Rainier Valley Community Development Fund (RVCDF) is a community-based, non-profit organization founded in 2002 to establish and manage the $50 million Fund mandated by the Sound Transit Board for the Rainier Valley in conjunction with at-grade light rail. This Fund is to be used to provide supplemental mitigation to businesses affected by light rail construction and to support community development in the Rainier Valley. In this Operating Plan Amendment, "Fund" is used to denote the $50 million public financial resources committed to the Rainier Valley, and "RVCDF" refers to the non-profit organization formed to implement the programs created by the Fund.

An Operating Plan adopted in 2002 governs the RVCDF's initial work of assisting businesses impacted by light rail construction. This work is referred to as supplemental mitigation account (SMA) activities. However, the long-term vision for the Fund is to use a portion of its assets to create a self-sustaining, community-controlled fund that supports community development in the Rainier Valley. This portion of the Fund's activities is called the Community Development Program (CDP). The 2002 Operating Plan describes the general vision and principles for the Community Development Program, and directs that the details for the Program are to be defined in a subsequent Operating Plan Amendment (OPA). The purpose of this Operating Plan Amendment is to describe the Community Development Program and its goals, products, eligibility criteria, governance, and financial projections. The OPA was developed by the RVCDF Board with assistance from a Project Steering Committee comprised of representatives from RVCDF, the City of Seattle, King County and Sound Transit.

The Community Development Program will be capitalized by public funds to be appropriated by the City of Seattle between 2005 and 2012 to pay for activities defined in this OPA. Of the total $50 million mandated for use in Southeast Seattle, up to $21.5 million may be spent on supplemental mitigation activities, and $2 million is earmarked for a four-year pre-apprenticeship job training program, per the 2002 Operating Plan. The remainder will be available for the Community Development Program as defined in this OPA. Any residual funds not used for supplemental mitigation activities, any funds repaid from supplemental mitigation advances (unless recommitted for supplemental mitigation) and any interest earned on community development loan payments will be dedicated to eligible activities defined in this OPA. This Operating Plan Amendment applies only to the public funds under management by the RVCDF as described above and is not intended to address other lines of business, staffing, or organizational issues related to other sources of funds the RVCDF may secure over time.

The Community Development Program focuses on needs identified through several community planning efforts. Of these, the most recent have been the process to develop this amendment since early 2004, the Southeast Action Agenda developed in the autumn of 2004, and the community outreach conducted by the RVCDF in the spring of 2004. These efforts have consistently identified two critical community priorities: 1) supporting business growth and development, and 2) promoting physical improvements in the Rainier Valley. The Community Development Program is a direct and strategic response to these objectives.

The Community Development Program consists of two lines of business: Business Development and Real Estate Development. For the initial use of funds for community development purposes, 25% of funds governed by the OPA will be targeted to Business Development and 75% will be targeted to Real Estate Development. Business Development encourages small business formation, strengthens existing businesses in the Rainier Valley, and promotes job creation. Business loan and grant products include a Business Interest Subsidy Grant, a Business Incentive Loan, and a Façade Improvement Grant. Real Estate Development encourages new catalyst development and physical improvements in the Rainier Valley. This includes a range of physical revitalization activities involving both new construction and rehabilitation of existing building stock, for the purpose of stimulating economic activity, increasing the inventory of commercial spaces for Rainier Valley businesses, and promoting affordable housing for Rainier Valley residents. Real estate loan and grant products include a Site Assembly Loan for Non-profits, a Site Assembly Loan for For-profits, a Site Assembly Interest Subsidy Loan, and a Real Estate Financing Loan.

In delivering these loan and grant products, the RVCDF has completed a strategic analysis to determine the preferred delivery method for each product. As the implementing organization of the Community Development Program, the RVCDF will maximize benefit to the community in the most cost-effective manner, strategically using its strengths and expertise, while leveraging the strengths and expertise of other community partners when appropriate. As a result of the strategic analysis, the RVCDF has determined that it will directly provide some products, while others will be offered in conjunction with established partner organizations.

2. BACKGROUND AND SCOPE OF OPERATING PLAN AMENDMENT

2.1. History of Rainier Valley Community Development Fund

On November 18, 1999 the Sound Transit Board mandated by resolution 99-34 the establishment of a $50 million Transit-Oriented Community Development Fund for Southeast Seattle. The Federal Transit Administration's Amended Record of Decision for the Link Light Rail Project, issued in February 2002, makes the establishment of a $50 million Community Reinvestment Fund a project requirement.[1] This Fund, created to address the adverse impacts of at-grade light rail construction, is to be used to provide supplemental mitigation to businesses affected by light rail construction and to support community development in the Rainier Valley. Sound Transit, the City of Seattle, and King County have committed to capitalizing the Fund.

The Rainier Valley Community Development Fund (RVCDF) is a community-based, non-profit organization founded in 2002 to execute and manage the $50 million Fund. In this Operating Plan Amendment, the term "Fund" is used to denote the $50 million in public financial resources committed to the Rainier Valley, and "RVCDF" refers to the non-profit organization formed to implement the programs created by the Fund.

The initial use of the Fund, under the management of the RVCDF, has been to provide financial assistance to the businesses along the light rail alignment and to reduce the impact of construction on those businesses. An Operating Plan adopted in 2002 governs this work, which is referred to as supplemental mitigation account (SMA) activities. The Fund will continue to assist these businesses through the course of light rail construction, which Sound Transit forecasts will be completed in 2007.

However, the long-term vision for the Fund is to use a portion of its assets to create a self-sustaining, community-controlled fund that supports community development in the Rainier Valley. This long-term investment program is called the Community Development Program. The 2002 Operating Plan describes the general vision and principles for the Community Development Program, and states that the Program details are to be defined in a subsequent Operating Plan Amendment.

The purpose of this Operating Plan Amendment (OPA, or Amendment) is to describe the Community Development Program and its goals, products, eligibility criteria, governance, and financial flows. The OPA was drafted by the RVCDF Board with assistance from a Project Steering Committee, comprised of representatives from the RVCDF board and staff, the City of Seattle, King County and Sound Transit. After the OPA is approved by the RVCDF Board, Sound Transit, and the City of Seattle, program details will be developed and documented by the RVCDF in policies and procedures consistent with the Operating Plan Amendment.

2.2. Scope of Operating Plan Amendment

The Operating Plan Amendment applies only to the public funds (described below) used for Community Development Program purposes, and the management of those programs by the RVCDF. The Operating

[1] Resolution 99-34 and the Amended Record of Decision use slightly different terms for the Fund, but are referring to the same $50 million of public financial resources for the Rainier Valley.

Plan Amendment supplements and, in the event of inconsistency, supersedes the Operating Plan. It is not intended to address other lines of business, staffing, or organizational issues related to other sources of funds the RVCDF may secure over time.

The City of Seattle, Sound Transit and King County are providing $50 million to capitalize the Fund. The City of Seattle is providing $42.8 million through annual appropriations from 2005 to 2012. The remaining $7.2 million is being provided by Sound Transit as directed in the Downtown Seattle Transit Tunnel agreement.

Of the total $50 million mandated for the Fund, up to $21.5 million may be used for light rail supplemental mitigation activities, and $2 million has been earmarked for a four-year pre-apprenticeship job training program, per the 2002 Operating Plan. The remainder will be available for the Community Development Program. Additional detail on fund capitalization, funds restrictions and annual cash flows is included in Section 7 and Appendix F.

3. NEEDS ASSESSMENT AND GAP ANALYSIS

3.1. *Mission Statement for the Rainier Valley Community Development Fund*

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

3.2. *Strategic Vision for Community Development Program*

To create a strategic vision for the Community Development Program, the RVCDF conducted a thorough gap analysis comprised of several steps. First, community needs were assessed and confirmed, as described in section 3.2.1. The two highest priorities were: supporting business growth and promoting physical development. Not only have recent community efforts identified these priorities, but numerous past initiatives have articulated these longstanding and fundamentally important needs. Next, existing providers of financing for business and real estate development were identified and assessed, as described in section 3.2.2. Gaps in products and services were then identified, detailed in section 3.2.3. This formed the basis for defining the products and implementation of the Community Development Program, which are structured to avoid duplication while serving unmet needs in the community.

3.2.1. Identification of Community Needs

The Community Development Program focuses on needs that have been identified through community planning efforts in the Rainier Valley over many years. Thousands of community members have been involved in these initiatives, and the products described in this Amendment respond directly to the priorities that have been identified. These various planning efforts have been documented in numerous reports and plans, and additional descriptions of them are included in Appendix B. Key initiatives have included the following:

Current Process to Develop OPA

Since early 2004, a Project Steering Committee (described in section 2.1.) has met weekly to develop the content of this Operating Plan Amendment. The Committee has included representation from the RVCDF Board and staff, the City of Seattle, Sound Transit, and King County. The Committee also established two Technical Advisory Committees to provide technical review of strategies and recommendations. These Committees included for-profit and non-profit developers, for-profit and non-profit lenders, the Rainier Chamber of Commerce, the Seattle Housing Authority, and others.

Southeast Seattle Action Agenda

In the autumn of 2004, the City of Seattle facilitated a community engagement process to develop goals and strategies for the Rainier Valley in five topical areas: Business and Job Creation, Physical Development, Education and Workforce Development, Public Safety, and Arts, Culture and Public Space. Recommendations from the Business and Job Creation and Physical Development topical areas have influenced the development of this Amendment.

Previous OPA Process

In the spring of 2004, the RVCDF sponsored a significant community outreach effort to initiate planning for the OPA. The work included stakeholder interviews, organization meetings, focus groups, community meetings, and surveys. A multi-agency Steering Committee met regularly to provide guidance to this work.

Consolidated Plan Process

As required by the U.S. Department of Housing and Urban Development (HUD), the City of Seattle Consolidated Plan outlines funding policies and strategies for the use of Community Development Block Grant monies. In 2004, the Seattle Office of Economic Development led a planning process that developed strategies and actions for the parts of the plan that promote financial independence of low- and moderate-income residents and invest in the development of economically distressed neighborhoods.

Other Community Planning Efforts

Several important planning processes have been conducted in the Rainier Valley in the past fifteen years, including the creation of neighborhood plans (1996 to 1999), light rail station area plans (1998 to 2001), and the Southeast Action Plan (1990 to 1991).

These efforts have articulated the community's needs and development goals. Two of the most consistent and strongly-expressed economic development priorities for the Rainier Valley are:

- Support business activity and small business growth, and
- Improve the physical environment (new and redevelopment)

These two priorities form the strategic base for the Community Development Program, further described in Section 4.

3.2.2. Existing Products and Providers

To identify the best use of the Fund's resources, and to meet the needs described in the previous section, the Project Steering Committee and its consultants identified business and real estate financing products that are currently available in the marketplace, and how they are delivered.

Business Financing

In the business financing industry, products are typically grouped into two categories: debt and equity. A debt product is an obligation owed to another person or entity and is required to be paid by a specific date. For a debt product, a lender typically does not participate in overseeing the activities for which the loan is being used, beyond standard loan servicing and management. An equity product represents ownership interest in a corporation. With an equity product, an investor or lender makes a direct investment of resources with the expectation that the investor will share in the revenue or income earned from the project. The investor often plays an active role in overseeing, guiding, and/or directing the activities for which the investment is used. The description below groups existing business financing products as either debt or equity, and lists the sources available, from those available to high risk borrowers to those available to low risk borrowers.

Debt sources

Credit cards. For small sums (typically below $50,000), the most prominent form of small business debt is personal credit cards. The credit is readily available and although interest rates are relatively high, it is not unreasonably priced given the risk and lack of collateral requirement.

Community-based lenders. In Seattle, the largest community lenders for small businesses are Community Capital Development and Cascadia Revolving Fund. Both are non-profit community lenders that focus on investing in traditionally underserved communities. They both have larger geographic service areas than that of the RVCDF. These lenders seldom lend sums over $200,000. Their programs are characterized by intensive administrative costs, along with shorter loan terms and higher interest rates compared with conventional financing that reflect the relatively higher risks they are taking.

Asset-based lenders (Factors). Asset-based lenders are commercial lenders who lend against business assets, most commonly accounts receivable and inventory. They advance funds that are then repaid through collection of the businesses' receivables. Interest rates are typically 9% to 15%. Asset-based lenders only work with businesses that have established sales histories and reliable accounts receivable.

Small Business Administration (SBA) loan guarantees. This includes the SBA 7a guarantee and SBA 504 programs. The SBA 7a loan program provides term working capital and fixed asset financing for machinery, equipment, land and buildings. The benefit of the program is that it provides longer loan terms compared with conventional financing, made possible by the SBA loan guarantee to lenders. Interest rates on these loans are capped at the prime interest rate plus 2.75%. Loan sizes range from $25,000 to $1,500,000. The loans are primarily provided by banks, with only a few SBA-approved non-bank lenders in the nation. The SBA 504 program is a fixed asset loan that provides 10- and 20-year term loans currently at interest rates between 6% and 7%. It targets a more established and generally more creditworthy category of borrowers than does the 7a loan program.

Commercial loans. Unguaranteed bank loans tend to be similar in structure to SBA guaranteed loans but with loan sizes and other characteristics that exclude them from the guarantee programs. The creditworthiness of borrowers of these loans tends to be somewhat stronger than borrowers of SBA guaranteed loans. Often the loan terms are shorter, and the interest rates lower than on SBA guaranteed loans.

Capital markets. Beyond bank loans, debt sources include the capital markets. Capital markets are comprised primarily of larger commercial banks and institutional financing sources. These sources typically look for strong borrowers and will not provide loans to small businesses. Interest rates and terms correspond to the risk taken by the lender.

Equity sources

Venture capital. Venture capital occupies a very small niche at the high risk end of the lending spectrum. This equity source targets transactions where a business expects to see extraordinarily rapid business growth, and requires the ability to manage that growth on the part of the entrepreneur. Without the potential for rapid growth, the venture capital model does not work.

Refinancing equity out of current assets. Another prominent source of business equity is from refinancing personal assets such as home equity. This is only available to individuals with equity in real property. Rates and terms depend on the asset and the market.

Family and friends. For many small businesses, the first source of equity is from family and friends. The availability of such equity depends on these individuals having disposable resources to invest. Much of the non-traditional investment in the Rainier Valley currently comes from this source.

Real Estate Financing

There are fewer sources of real estate financing than there are sources of business financing. In Seattle, few real estate financing sources exist, especially those that would assist with site acquisition. Those that are available tend to be short-term construction and pre-construction loans provided by non-profit entities such as Impact Capital and Enterprise Foundation, equity programs exclusively for low-income housing, and the limited Federal Section 108 funding for commercial development.

The real estate financing industry groups loans into two primary categories, construction and permanent loans.

Construction loans

Construction lenders are typically banks. They provide debt for construction and rehabilitation of income-producing property. Loan terms cover the period of construction plus a short time span to allow for closing on the permanent loan. Rates are between prime minus 1% (the prime interest rate minus 1 percentage point) and prime plus 2%. Loans are almost always conditioned on the borrower having an approved permanent loan commitment.

Permanent loans

Permanent lenders are usually commercial banks, insurance companies, and mortgage companies who provide the long-term financing on projects. These loans are typically amortized over 20 to 30-year terms, with fixed or floating rates. Lenders often require projects to have pre-lease commitments from 50% to break-even or greater. Often, the loans will be due before they are fully amortized.

Site acquisition

The real estate financing industry does not typically provide loans for site acquisition. When banks do finance site acquisition, it is typically at a loan-to-value ratio of 50% or lower.

3.2.3. Gaps and Strategic Role

Given this spectrum of available loan products and lenders, there are several strategic roles the Community Development Program can play to help achieve the community's priorities. The general vision of the Fund is to fill gaps in the provision of business and real estate products to Rainier Valley residents and businesses.

Business Financing Gaps

Small businesses are an integral part of the Rainier Valley economy. They provide for the needs of neighborhoods, and they provide jobs and income for residents. Many new businesses benefit from the Valley's role as an incubator for new economic entities. Yet many businesses do not have access to credit through traditional sources, and subsequently face difficulty finding the capital to expand their enterprises or sustain them through difficult business cycles.

As described above, products currently in the marketplace come with some significant limitations. Asset-based lenders work only with businesses that are established. The SBA 7a loan is primarily provided by banks. The SBA 504 product generally targets more creditworthy borrowers. Community lenders tend to offer shorter loan terms with higher interest rates. Commercial loans have standards that may be prohibitive to many potential borrowers. Refinancing equity out of current assets is only available to individuals with equity in real property. And capital markets do not provide debt to small businesses. As a result, the following niches have been identified to support business development:

Lending for high-risk businesses

There is a need for a product that targets business owners who would likely be unable to qualify for a loan based on traditional lending criteria. This "high-risk" group of potential borrowers includes businesses deemed less creditworthy by traditional lending standards, and also those that may represent "non-traditional" lending clients such as refugee and immigrant-owned businesses. While such clients may be able to access loan products from community-based lenders, the high rate of interest commensurate with the level of risk may discourage potential borrowers.

Incentive lending for creditworthy businesses

There are many business owners in the Rainier Valley who would likely be able to qualify for a loan, but choose not to, for a variety of reasons, often based on their assessment that it is not in their financial interest to do so. Loan products with more attractive terms than those currently available could offer an incentive to these "fence-sitters" to invest further in their businesses.

Façade Improvements

There is also an opportunity for the Community Development Program to help fill a niche in strengthening the community's façade improvement resources. These City-sponsored funds are currently administered by Southeast Effective Development (SEED), a long-time non-profit developer in the Rainier Valley. However, given the vast opportunities for supporting physical improvements in the community, the relatively small amount of funds available annually for this purpose, and the dollar matching requirements placed on the participating businesses, the Fund can augment SEED's capacity to implement this program.

Real Estate Financing Gaps

New investment is slow in coming to the Rainier Valley because development costs exceed what investors can expect to earn back in lease rents or purchase prices. At the same time, the community desires to preserve affordability for housing, goods and services. Additionally, the community has many under-utilized and poorly maintained properties. In many cases, the property owner's perception of the economic benefits of additional investment fails to outweigh the costs of improvements, with scant consideration of the communitywide benefits of the improvement.

Further, as described earlier, the real estate financing industry also presents some significant limitations. Overall, there is a narrow pool of alternative real estate financing sources, and the loan products that do exist often come with leasing and/or financial requirements that make their use prohibitive for many Rainier Valley development projects. There are fewer banks that lend on long-term loans, their loan products often have pre-leasing requirements (signed leases), and may require larger amounts of private equity in the project.

As mentioned in the previous section, it is difficult for developers to secure a site assembly loan. Purchasing property is not an income-generating activity and therefore is difficult to finance. Private equity is most commonly used to purchase property. This situation leads to significant financing gaps for land assembly if the developer does not have adequate equity to buy and hold the land.

As a result, the following niches have been identified to support real estate development:

Incentive lending

There is a need to create a loan product that targets property owners who have under-utilized properties on which there is potential for upgrading, rehabilitation, or new development. Providing a product with attractive terms could be an incentive for these owners to invest in their properties.

Site assembly

There is a niche to fill in supporting site assembly. The niche would include providing a product to help subsidize the cost of carrying land when non-profit developers seek financing from other lenders, as well as providing a site assembly loan product which the Fund itself underwrites, available to both non-profits and for-profits.

Cross-cutting Community Gaps

Cutting across both business and real estate financing is a significant gap in lending to refugee and immigrant-owned businesses. These businesses comprise a significant portion of the economic activity in the Rainier Valley and underscore the Valley's importance as a business incubator. A variety of reasons may contribute to this gap. Ethnic businesses may be perceived as high-risk, and/or more complex to work with. There may be language and cultural issues that leave these "non-traditional borrowers" outside the service abilities of existing providers. For example, some ethnic communities do not believe in accruing interest. Often, owners lack familiarity with and understanding of the lending community and its procedures. Or they may simply prefer to tap into their family and their own community structures for support.

To address this need, the loan products offered by the Fund will require more than simply offering translation or interpretation services. They will require a broader framework of cultural competency to address some of the cultural and knowledge gaps and to effectively reach these communities. The RVCDF, because of its close involvement with and credibility in the Rainier Valley and because of the relationships built by its multicultural staff in delivering its light rail supplemental mitigation products, is in a unique position to fill this gap and help build wealth and equity for refugee and immigrant-owned businesses. The RVCDF also is focused on a relatively narrow geographic area, unlike other non-profit lenders, who cover a broader territory. As a result, it is better able to reach potential borrowers using a highly personalized and relationship-based approach.

The gap analysis described above forms the foundation on which the Community Development Program rests. Impediments to investment were analyzed in order to identify the strategic niches which the Program could fill. The products and delivery approach described in the following sections were designed expressly and strategically to fill these gaps in community investment.

4. COMMUNITY DEVELOPMENT PROGRAM

The Community Development Program consists of a set of loan and grant products and eligibility criteria structured specifically to achieve community goals. This section describes these elements of the program. Section 4.1 describes the geographic Investment Area of the Community Development Program and several proposed amendments to the boundaries of the Investment Area. Section 4.2 identifies the primary community goals that the Community Development Program strives to achieve. Section 4.3 gives a general description of each loan and grant product offered by the Community Development Program. Section 4.4 describes criteria that will be used in evaluating loan applications.

4.1. Community Development Investment Area

The Community Development Investment Area was approved as part of the RVCDF's 2002 Operating Plan. The boundaries of the Investment Area were delineated to target areas within the Rainier Valley that could most benefit from resources to support business development and physical revitalization.

This Operating Plan Amendment makes several adjustments to the boundaries of the Community Development Investment Area. Both the original boundaries and the adjustments are depicted in Figure 1 on the following page. The adjustments are described in the paragraphs that follow.

The northern boundary of the Investment Area was defined by an arc of ¼-mile radius around the Mount Baker/South McClellan Street light rail station. This boundary does not correspond to any established planning areas or any commonly accepted boundary of Rainier Valley, and it fails to encompass important commercial areas along Rainier Avenue South that are well served by bus transit. The northern boundary of the Community Development Investment Area is modified in this Operating Plan Amendment. The new northern boundary will be South Atlantic Street, immediately south of I-90. This east-west route is a traditional northern delineation for the Rainier Valley, coincides with the north boundary of the North Rainier Neighborhood Planning Group, and is consistent with the Southeast District Council delineation.

The east and west boundaries of the northerly extension encompass the commercial areas on the west and east sides of Rainier Avenue South and Martin Luther King Jr. Way South. The boundary does not include single-family zoned areas beyond the commercial corridors.

Additionally, this Amendment adjusts three segments of the Investment Area's eastern boundary to be more closely contiguous with the boundaries of the Neighborhood Revitalization Strategy Area (NRSA). The NRSA is a designation approved by the U.S. Department of Housing and Urban Development. Alignment of boundaries is important for two reasons. First, the designation enables a NRSA to take advantage of additional flexibilities in the use of CDBG monies. Because this Community Development Program will be capitalized largely by CDBG dollars, it is critical that the Investment Area boundaries are as similar as possible to the NRSA boundaries. Second, the NRSA designation is based on an area having a significant percentage of low- and moderate-income households in the selected Census block groups. The average percentage across all the block groups must meet a minimum threshold. Including block groups with relatively low percentages of low- and moderate-income households reduces the average, and vice versa.

Figure 1. Investment Area for the Rainier Valley Community Development Program

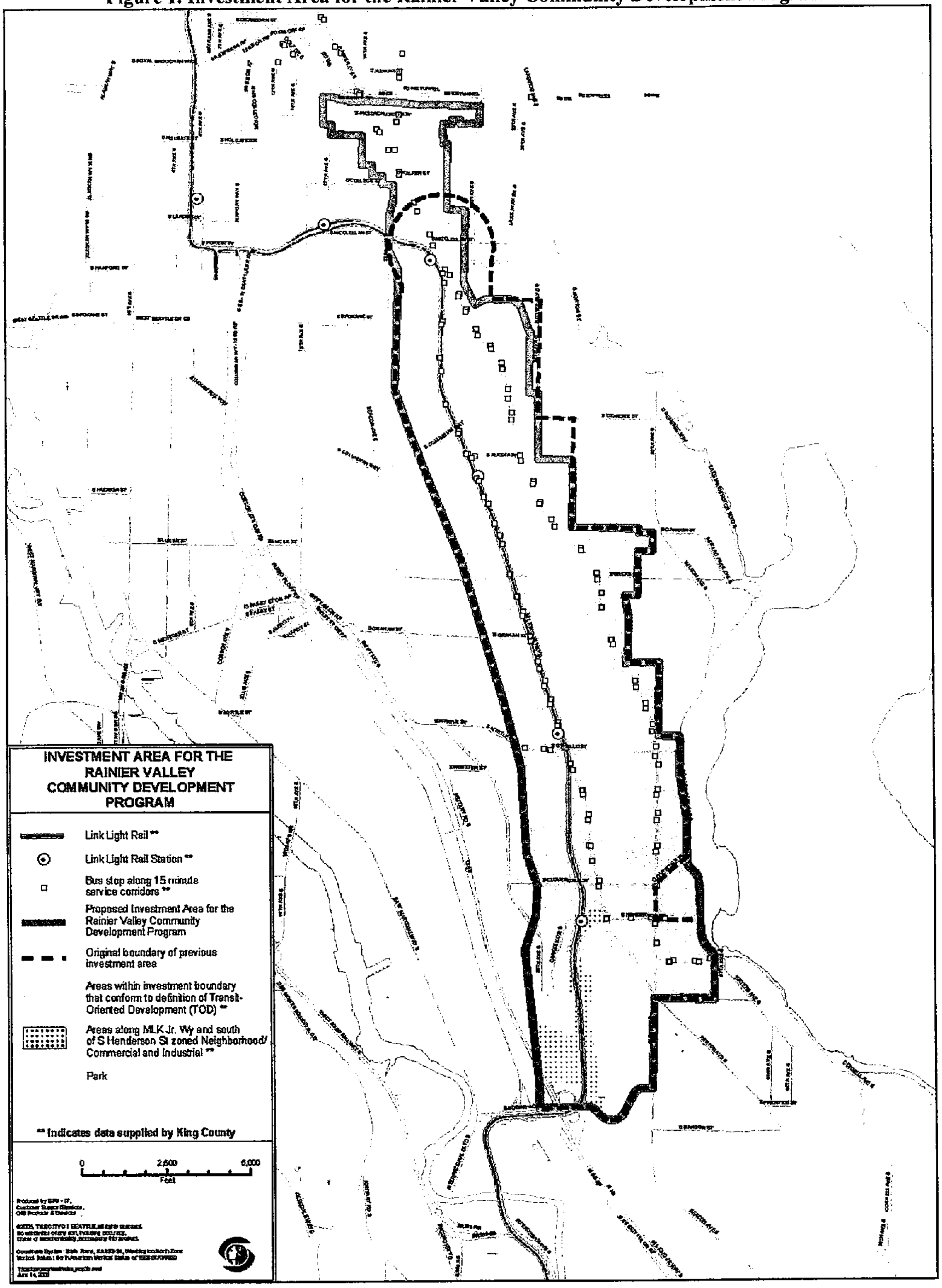
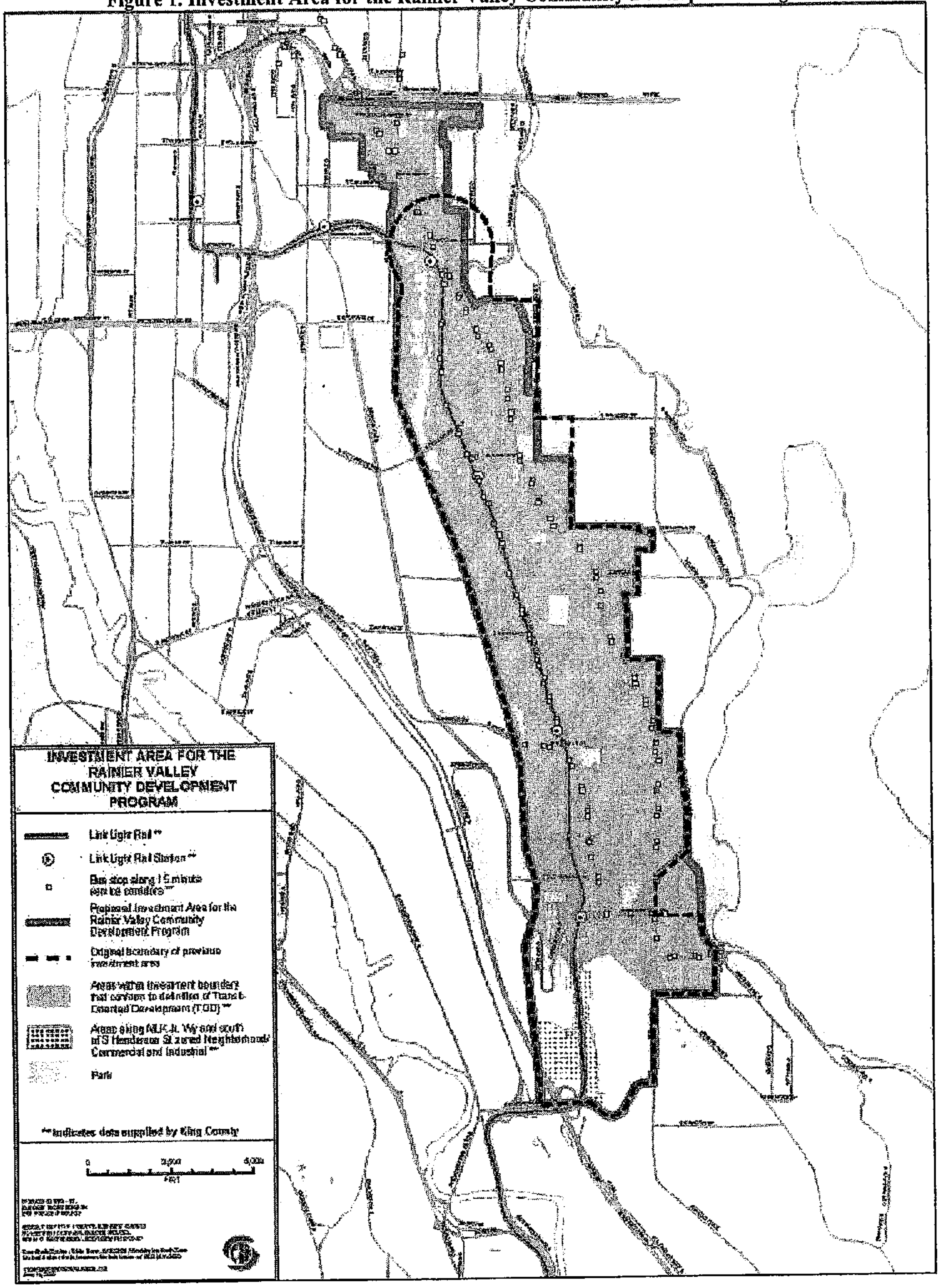


Figure 1. Investment Area for the Rainier Valley Community Development Program



The three NRSA-related adjustments to the Investment Area boundary are also reflected in Figure 1. Along the southeastern boundary of the Investment Area in Rainier Beach, one block group is added which expands the boundary, as indicated by the dashed line. The block group is bounded by South Henderson Street, Rainier Avenue South, Seward Park Avenue South and Cloverdale Place South. This block group has a significant percentage of low- and moderate-income households, at 64.9%. The portions of the area along Rainier Avenue South and South Henderson Street are also zoned Neighborhood Commercial and may present potential opportunities for investment by the Fund.

In addition, two block groups and part of a third block group that are currently in the Investment Area as defined in the 2002 Operating Plan, are removed. The first block group is bounded by South Alaska Street, South Genesee Street, 38th Avenue South and 42nd Avenue South. This area has a relatively low percentage of low- and moderate-income households, at 31.9%, and is zoned single-family. The area includes the Rainier Community Center, playfields, and single-family homes.

The other area to be deleted is along 38th Avenue South between South Dakota Street and South Horton Street. The adjustment consists of moving the boundary one block west along 38th Avenue South between South Dakota and South Horton Street. The area to be deleted is zoned entirely single-family and includes a relatively low percentage of low- and moderate-income households, at 19.6%. North of South Court Street, the adjusted boundary would follow the diagonal contour of York Road South, to its intersection with South Horton Street.

As stated in the 2002 Operating Plan, businesses and projects located outside the Community Development Investment Area but within one or two blocks may be eligible for community development funding, if, in the RVCDF's estimation, the benefits from the project/business accrue to Rainier Valley residents and the project meets the funding criteria established in Section 4.4. The foregoing adjustments apply only to the Community Development Program investment area and do not affect the "Supplemental Mitigation" program area as defined in the 2002 Operating Plan.

In preparing this Amendment, there was deliberation regarding where, within the Investment Area, projects would be eligible for the various Community Development Program products, specifically the real estate investment products. One consideration was how investment of funds in different neighborhoods would support transit-oriented community development (TOD). The City, Sound Transit and King County worked together to develop a joint definition of TOD. That definition is included in Appendix A. The areas within the Investment Area that conform to the definition of TOD are shown in Figure 1. Additionally, there are areas along Martin Luther King Jr. Way south of South Henderson Street that do not conform to the definition of TOD, but should be eligible for the Fund's real estate investment products. This area includes properties that are currently zoned for neighborhood-commercial and industrial purposes. This area is also shown in Figure 1.

Another consideration was to insure that real estate investment supports commercial, multi-family, and mixed-use developments in locations consistent with local land use and zoning regulations. To see how current Rainier Valley zoning designations relate to the Community Development Investment Area, refer to Appendix D.

It is intended that approval of this OPA includes approval of the Community Development Investment Area map shown in Figure 1. This includes approval of the TOD boundaries shown on the map, regardless of potential future changes in transit routes or route frequency in the Rainier Valley.

4.2. Community Development Goals

The following goals have been developed for the Community Development Program. They were derived from the various Rainier Valley community planning efforts described in section 3.2.1 and Appendix B. Community Development Program activities are intended to accomplish the following:

- Support projects that benefit low- and moderate-income residents, businesses, and institutions in the Rainier Valley.
- Use community development funds as a catalyst for fostering commercial and residential development in the Rainier Valley.
- Improve Rainier Valley's physical environment by enhancing the commercial and multi-family residential building stock.
- Encourage local ownership of properties and businesses.
- Increase employment opportunities through the strengthening of Rainier Valley businesses.
- Augment the supply of affordable housing to limit the potential for displacement caused by rising living costs associated with increased public and private investment.

4.3. Loan and Grant Products

Based on the assessment of community needs described in Section 3, the Community Development Program is structured according to two lines of business: Business Development and Real Estate Development.

For the initial lending and granting of public funds for community development purposes (whether sourced from City funds or revolved supplemental mitigation advances), the Program will target 25% of monies to Business Development and 75% to Real Estate Development. Achieving this target distribution will be measured not on a year-by-year basis, but over the multi-year period of the initial disbursements of public funds (2005 to 2012). For subsequent use of loan repayments, the allocation between the two lines of business will be adjusted by the RVCDF if needed to reflect market demand and community development opportunities.

The product descriptions below include representative terms for each loan and grant product. The terms are targets selected to help achieve the community goals for which the product is intended; however, in practice the terms may be adjusted based on the realities of the lending marketplace at the time the loan is negotiated.

4.3.1. Business Development

This line of business offers products for the purpose of providing working capital, purchasing equipment, improving or expanding the place of business, or (for incentive loans) purchasing the place of business. Business Development offers three products: Business Interest Subsidy Grant, Business Incentive Loan, and Façade Improvement Grant. A general description of each product is provided below. Details on the terms of each product are included in Appendix C.

Business Interest Subsidy Grant

The Business Interest Subsidy Grant addresses an existing gap by enhancing the access of Rainier Valley businesses to loan products currently offered by community-based lending organizations. This product targets borrowers who are less experienced, have poorer credit, and/or inadequate personal assets that could be used as "collateral." The purpose of this grant is to provide an opportunity for those businesses to improve their operations. The grants can be used for working capital or for machinery and equipment.

RVCDF will market the product to eligible businesses and will partner with an existing organization that currently provides a business loan product. The partner organization will originate the loan using its own monies, and the RVCDF will provide a commitment to pay half of the borrower's annual interest costs on the loan. Projections assume an average business loan provided by the partner organization of $50,000 for a typical term of 10 years, with a total interest rate up to 15% annually. However, the partner organization's actual interest rates and loan terms may vary. The effect of the grant would be to lower the interest cost to the borrowing business and provide additional lending capacity in the Rainier Valley. Each individual transaction will be approved by the RVCDF Board

Business Incentive Loan

Loan terms offered by commercial banks often limit creditworthy Rainier Valley businesses' ability to expand or improve their business operations. The Business Incentive Loan is intended to fill this gap. The purpose of the loan is to entice creditworthy businesses to start up, expand, or locate within the Community Development Investment Area, or to improve their existing plant and equipment. The loan can be used for working capital, purchasing equipment, improving or expanding the place of business, or purchasing the place of business. This loan is not intended to be used for refinancing of existing debt, unless that refinancing is part of a business expansion or relocation. There will be an initial target limiting working capital to no more than twenty percent (20%) of the total loan amount, but the amount of working capital included in the loan will be based on underwriting and credit risks specific to each transaction. The RVCDF will have the option of subordinating the business incentive loan to a primary loan or offering the incentive loan as a side-by-side loan with one from a partnering commercial bank.

To make the product attractive to borrowers, it features better-than-market terms that include a longer amortization period and lower interest rate than would be offered by commercial banks. The average loan size is assumed to be $200,000 with a typical term of 15 years, but the loan may range from $50,000 to $500,000 or higher depending on the specific transaction and the life of the asset being financed. For floating rate loans (loans with interest rates that vary over time), rates will range from prime minus 1% to prime plus 1%. For fixed rate loans, interest rates will range from the prime rate to prime plus 2%.

Façade Improvement Grant

The Façade Improvement Grant addresses the gap in funding for physical rehabilitation of storefronts, and helps reduce the impediments in efficient delivery of existing funds for this purpose. The Façade Improvement Grant supports physical rehabilitation of business facilities by expanding the reach and enhancing the delivery of the City's current program. The grant is intended to augment the existing Good Neighbor Program which provides City of Seattle funds administered by SEED. The current program presents several opportunities for enhancement: marketing the program, supporting project design technical assistance, providing a match, or expanding the existing program to target specific blocks or areas. The grants will range up to $25,000.

4.3.2. Real Estate Development

The Real Estate Development line of business includes loans and grants on income-producing property.

An income-producing property is one that generates revenue to the property owner whether in the form of lease rents or income from property resale. The Real Estate Development line of business targets real estate projects that need additional incentive in the form of more attractive loan terms. The intent is to lower the effective cost of development by reducing the cost of loans that owners need to obtain to finance their developments. By lowering the cost of such loans, the Fund can help developer-owners achieve project feasibility despite the relatively lower rental rates characteristic of the Rainier Valley. Types of projects may include commercial developments (income-producing property, commercial condominiums or commercial live-work units), multi-family residential developments (townhouses, condominiums, or apartments), and mixed-use developments. Loans may be used for site acquisition and/or real estate development.

The Real Estate Development business line offers five products: Real Estate Financing Loan, Site Assembly Interest Subsidy Loan, Site Assembly Loan for For-profits, Site Assembly Loan for Non-profits, and Façade Improvement Grant (This product is the same as that described in the Business Development line of business). A general description of each product is provided below. Selected terms to be used as targets for each product are included in Appendix C.

Real Estate Financing Loan

The Real Estate Financing Loan helps to provide gap financing, a significant barrier to feasible real estate development in the Rainier Valley. The product is designed to fill the gap in available subordinate debt (that is, debt that is secondary to the existence of other primary debts in the project's financing package).The Real Estate Financing Loan forms the core of the Real Estate Development business line. The loan can be used for real estate development, including site acquisition.

The real estate loan offers long-term amortization and a low interest rate. The average loan size is projected to be $2,000,000 with a typical amortization of 25 years and a typical term of 10 years. Interest rates will be negotiated based on market and project risk factors with an approximate target of 2%. There will be a minimum equity requirement, which will be negotiated. The real estate financing loan will target 80% loan-to-value ratio as established by appraisal; this may be adjusted upward or downward depending on risk. Factors in assessing risk include: personal guarantees, outside collateral, participation in cash flow, proceeds in refinance and sale, and the degree to which the project achieves pre-leasing.

In return for the favorable terms associated with this product, the Fund will participate in cash flow as well as in the proceeds from any sale or a refinancing of the property. Project cash flow will accrue to the Fund after the borrower first receives a preferred return on investment (ROI) to be targeted at 10%. After this 10% return to the borrower, the cash flow and proceeds of sale or refinance will be shared at a distribution of 70% to the borrower and 30% to the Fund. This distribution is also subject to negotiation based on the level of project risk and availability of project collateral. The loan lowers the developer's cost of capital and allows the developer to achieve a market return before needing to share cash flow with the Fund. The goal is to provide a fair return to the borrower while allowing the Fund to modestly participate in any above-market returns from the project.

Site Assembly Interest Subsidy Loan

This product helps to address the impediment of high carrying costs for land using currently available loan products. The product supports site acquisition and land assembly and is available for non-profit developers. The Fund will help non-profit developers by assuming some of the cost of assembling land in the Rainier Valley. RVCDF will partner with an organization that already funds site acquisition for non-profit developers. The partner organization will provide a loan for site acquisition, and the Fund will provide an interest-free loan for up to 50% of the interest costs of the primary loan. This percentage is not fixed and terms will be negotiated. If the prospective project proceeds to construction, the Fund is repaid its loan by the borrower no later than construction financing. If the project does not proceed, the Fund will be paid from the sale of the property, to the extent there are proceeds from a sale, unless otherwise pre-agreed with the RVCDF.

Site Assembly Loan for For-profits

Both Site Assembly Loan products address the overall financing gap for site assembly. This product fills a market gap by easing the annual carrying costs of land with interest-only payments. As with the site assembly interest subsidy loan, the purpose of this product is to help carry the cost of assembling land. However, in this case, the Fund provides the capital (i.e. is the lender). The average loan size is expected to be $1,000,000 with a typical term of four years. Loan payments will be interest-only for the loan term with full repayment upon closing of the project financing or loan maturity. For for-profit borrowers, the interest rate will range from the prime rate to prime plus 2%. Loans up to 80% of project value will be considered, contingent on guarantees of personal and corporate assets.

Site Assembly Loan for Non-profits

The purpose of the Site Assembly Loan for non-profit borrowers is the same as described above for for-profit borrowers. However, some of the loan terms differ. For non-profit borrowers, the Fund will finance site assembly only in combination with another local non-profit lender. The Fund will take an equal position in sharing collateral, that is, if liquidation occurs the Fund will share the collateral equally with the other lender. The RVCDF will provide an incentive interest rate target of prime minus 2 ½ % to reduce the overall interest expense to non-profits for carrying land assembly costs. Interest may also be deferred for the term of the loan, based on underwriting.

Façade Improvement Grant

This product is the same as described in Section 4.3.1, but would be used within the Real Estate business line specifically to complement real estate financing loan packages on existing building upgrades.

4.4. Funding Criteria

This section describes funding criteria. Specifics on eligible borrowers and eligible projects are described for each line of business. The criteria include both required criteria and desirable criteria. Required criteria must be met for RVCDF issuance of a loan or grant. Some required criteria apply to all types of transactions, while others only apply to selected transaction types (for example, business loans for acquisition of land and buildings). Desirable criteria are non-required criteria that will be used to help distinguish among competing applications. Projects do not need to meet any or all the desirable criteria; however, meeting one or more of the desirable criteria will strengthen an application.

4.4.1. Business Development

Eligible Borrowers

Eligible borrowers or grantees are business owners having a place of business in the Community Development Investment Area or business owners (including start-ups) seeking to establish a place of business in the Community Development Investment Area (map shown in Section 4.1).

Eligible Projects

Required Criteria

General Criteria (all Business Development transactions):

- Place of business to benefit from the loan must be located within the Community Development Investment Area.
- For the initial disbursement of funds, projects must be eligible CDBG activities and meet federal guidelines for providing benefit to low- and moderate-income households and neighborhoods, which may include the creation of new jobs in the Rainier Valley.[2]
- Projects must meet state constitutional lending of credit requirements, if applicable.[3]

Working Capital Loans:
- No additional criteria.

Equipment Loans:
- No additional criteria.

Loans on Land and Buildings:
- Project must be consistent with any applicable Neighborhood Plan adopted by the City Council.

Desirable Criteria Providing Additional Focus

Projects meeting the desirable criteria will generally receive more favorable consideration to the extent that they demonstrate the following:

General Criteria (all Business Development transactions):
- Creates new jobs in the Rainier Valley above and beyond that specified by CDBG requirements.
- Increases financial assets for Rainier Valley residents and businesses.
- Diversifies the mix of retail goods and services in the Rainier Valley.

Additional desirable criteria for loans on land and buildings:

- Projects that have any of the following public amenities (same as items referenced in 4.4.2.):
  1. Dedication of indoor or outdoor space for public use;
  2. Pedestrian enhancements, such as overhead weather protection, blank façade limitations, and façade transparency;
  3. Application of "Crime Prevention Through Environmental Design (CPTED) principles; or
  4. Other transit-oriented and pedestrian-oriented design elements responsive to neighborhood preferences as identified in the applicable City-approved Neighborhood Plan, Design Guidelines (Neighborhood and/or City) and/or Station Area Plan.
- Commercial space (not used by the borrower for his/her own business purpose) is leased to non-chain, non-franchise businesses.[4]

[2] This requirement applies only to use of CDBG funds or CDBG program income, and should not apply to use of loan repayments received by the RVCDF. Details on CDBG requirements are described in Appendix E.
[3] This requirement applies only to General Funds disbursed in the first use as Community Development loans and grants and to revolved Sound Transit/King County funds in perpetuity. It does not apply to CDBG funds or money derived from CDBG funds. Details on requirements are described in Section 7.2.
[4] "Non-chain, non-franchise" is intended to encourage the growth of locally-owned, community-oriented businesses that add diversity and interest to the goods and services available in the Rainier Valley.

4.4.2. Real Estate Development

Eligible Borrowers

Eligible borrowers or grantees include for-profit and non-profit entities. The intent of the Real Estate Development line of business is not only to support developers of new projects, but also to encourage existing property owners in the Rainier Valley to rehabilitate, improve or expand their properties when doing so supports the Community Development Goals described in Section 4.2.

Eligible Projects

Required Criteria

General Criteria (all Real Estate transactions):

- Projects must be located within the Community Development Investment Area.
- Additionally, projects must either:
  1. Conform to the definition of transit-oriented development (TOD)[5] or
  2. For projects along the Martin Luther King Jr. Way corridor south of South Henderson Street to the southern border of the Investment Area, must be within the existing Neighborhood Commercial or Industrial zones (see Map in Section 4.1.).
- Projects must conform to all applicable land use, building code, design, and planning requirements at the time of application for RVCDF assistance.
- Projects must be consistent with any applicable City-approved Neighborhood Plan, Design Guidelines (Neighborhood and/or City) and/or Station Area Plan.
- Community Development Program funds will not supplant other comparable resources available to the project.
- For the initial disbursement of funds, projects must be eligible CDBG activities and meet federal guidelines for providing benefit to low- and moderate-income households, which may include the creation of new jobs in the Rainier Valley.[6]
- For revolved funds, housing projects shall continue to provide affordable housing. For the purposes of this Community Development Program, the definition of "affordable" shall be as cited in the Code of Federal Regulations (24 CFR 570.208, 2005 Edition), generally defined as: at least 51% of housing units in the project occupied by households at or below 80% of area median income with affordable rent/sale price as established by City of Seattle guidelines.[7]
- Projects must meet state constitutional lending of credit requirements, if applicable.[8]

Specific Criterion for Existing Buildings:

- Expansion or rehabilitation must either result in a net increase in permanent jobs, or materially contribute to the improved physical appearance and/or public safety of the neighborhood, or both.

Specific Criterion for New Residential Development Projects:

- If the funds are to be used for new construction activities on new multi-family residential projects or on the housing portion of new mixed-use development projects, the project must carried out by a community-based development organization (CBDO) under U.S. Department of Housing and Urban Development (HUD) regulations. This requirement applies only to the use of CDBG funds

[5] See Appendix A. Definitions and Map in Section 4.1.

[6] This requirement applies only to use of CDBG funds or CDBG program income, and should not apply to use of loan repayments received by the RVCDF. Details on CDBG requirements are described in Appendix E.

[7] This criterion is intended to secure long-term commitments to preserve housing affordability over time.

or CDBG program income, and should not apply to use of loan repayments received by the RVCDF.

Desirable Criteria Providing Additional Focus

Projects meeting the required criteria will generally receive more favorable consideration to the extent that they demonstrate the following:

- For projects containing residential rental units, the inclusion of units occupied by households with a range of household incomes at or below 60% of area median income.
- Include any of the following public amenities (same as items referenced in 4.4.1.):
  1. Dedication of indoor or outdoor space for public use;
  2. Pedestrian enhancements, such as overhead weather protection, blank façade limitations, and façade transparency;
  3. Application of "Crime Prevention Through Environmental Design (CPTED) principles; or
  4. Other transit-oriented and pedestrian-oriented design elements responsive to neighborhood preferences as identified in the applicable City-approved Neighborhood Plan, Design Guidelines (Neighborhood and/or City) or Station Area Plan.
- Commercial space (not used by the borrower for his/her own business purpose) is leased to non-chain, non-franchise businesses.[9]
- Support one or more of the following existing and emerging neighborhood business districts in the Community Development Investment Area:

  Rainier Beach/South Henderson Street. Recent years have seen steady economic investment in Rainier Beach, including redevelopment of an anchor supermarket and the entry of another major grocery, drugstores, and small businesses. Neighborhood residents have identified increasing retail services and multi-family owner-occupied housing as neighborhood priorities. Rainier Beach is closely associated with the Rainier Beach/South Henderson Street light rail station, linked via South Henderson Street, and is a major hub for bus service along Rainier Avenue.

  Othello/New Holly. This neighborhood node has been growing in economic activity. It has long been anchored by the residential community of Holly Park and in recent years has seen investment from private investors, as well as through the Seattle Housing Authority, who is undertaking a major redevelopment of Holly Park into a mixed-use, mixed-income active residential community. The area includes the Othello/New Holly light rail station and offers near-term potential for multiple mixed-use developments.

  MLK at Graham/Orcas. This portion of Martin Luther King Jr. Way is home to a diverse array of businesses, many of whom are refugee and immigrant-owned. The intersection of MLK Jr. Way and South Graham Street includes commercial activity at each corner, and South Graham Street is an important access point into and out of the Rainier Valley due to its direct connection west to the I-5 freeway. Significant portions of this node are being impacted by light rail construction.

  Columbia City/South Edmunds Street. This historic commercial and residential district has been steadily undergoing revitalization over the past decade. This is an opportunity for the Fund to support the economic momentum in this neighborhood, created by the efforts of many community individuals and organizations. The plans for this neighborhood identify a need for encouraging residential and commercial development in Columbia City, while limiting the extent of

[8] "Non-chain, non-franchise" is intended to encourage the growth of locally-owned, community-oriented businesses that add diversity and interest to the goods and services available in the Rainier Valley.

competing commercial development in the adjacent light rail station area. Columbia City is closely connected via South Edmunds Street to the Columbia City/South Edmunds Street light rail station and is a major hub for bus service along Rainier Avenue.

Mount Baker/South McClellan Street. The North Rainier area, the "gate" to the Rainier Valley from the north, is a hub of economic activity and a prime candidate area for catalyst development projects. The existing concentration of commercial activity and the proximity of employment centers offer the potential for additional retail, professional, and multi-family home ownership projects. The Mount Baker/South McClellan Street light rail station is associated with this neighborhood node.

5. IMPLEMENTATION

5.1. Product Delivery Considerations

Potential delivery options were analyzed for each grant and loan product for which delivery options could be identified. A number of factors were considered in analyzing and selecting the preferred delivery option for each product.

It is deemed very important that the Board of the RVCDF, as a community-controlled financial institution, retains final decision making control on all transactions. At the same time, Board decision making must be supported with the appropriate level of technical expertise and with processes and systems that ensure accountability and tracking of funds. Additional factors in the analysis included product delivery methods that could be implemented simply and with minimal delivery costs, and ease of coordination among funders.

Consideration was also given to the utilization of existing organizational capacities, of both RVCDF and potential third-party service providers, and whether a delivery option helped build long-term RVCDF capacity. In particular, it was seen as beneficial to take advantage of existing relationships which the RVCDF has built in the community. Finally, the analysis of options looked at the current activities of the RVCDF staff on supplemental mitigation and outreach that will continue through the completion of light rail construction.

5.2. Product Delivery Methods

After careful analysis of the factors described above, a two-phased approach was structured for product delivery, with an initial "transition period" that will extend from 2005 to the end of 2007, and a "steady-state period" after 2007, when light rail construction is scheduled to be completed and supplemental mitigation activities will begin to phase out. The following section describes the delivery methods for each product in each of these two periods.

5.2.1. Business Development

Business Interest Subsidy Grant

As described earlier, the RVCDF will provide a grant to a cooperating lender to defray approximately half the annual interest costs of a business loan. The lender will originate the loan out of its funds, and the RVCDF will provide a commitment to the lender for half the loan's interest costs. Each individual transaction will be approved by the RVCDF Board, with only very limited RVCDF staff effort required for coordination with the cooperating lender. This product will be delivered in the same way both before and after 2007.

Business Incentive Loan

<u>Assumptions</u>

The following assumptions informed the choice of delivery method for the Business Incentive Loan. From 2005 through 2007 the volume of supplemental mitigation advances and activity will remain relatively high and constant, keeping existing RVCDF staff fully occupied. The underwriting required for the business incentive loan focuses on significant repayment risk and collateral concerns and may be different than that required for supplemental mitigation advances. Additionally, there is interest on the part of existing non-profit lenders to assist the RVCDF in the start-up of this product.

Delivery Method

A phased staffing approach will be implemented. From 2005 through 2007, underwriting and packaging for the loan will be contracted out to existing non-profits. The RVCDF will facilitate a competitive selection process, issuing a Request for Proposals (RFP) to select one or more non-profit lenders. Marketing for the loan product will be carried out by existing RVCDF staff. The RVCDF Board will retain its role as the final decision maker regarding loans. Loan repayments will return to the Fund.

During this period the non-profit lender under contract will also work with RVCDF loan program officers to provide training in underwriting for this product. For back room servicing, which includes tasks such as collection of payments, payment of taxes, insurance, property inspections and monitoring, it is projected that the volume of loans will be relatively small in the transition period, so workload requirements will be nominal. The RVCDF Executive Director will determine the most efficient and effective means of providing for back room servicing.

As supplemental mitigation activities ramp down in 2007, the RVCDF Board will decide whether to continue contracting out the delivery of this product, or to provide underwriting services by RVCDF staff.

Rationale

Contracting out the delivery of this product will allow the RVCDF to focus its current staff capacity on its supplemental mitigation activities. Contracting out also combines the business underwriting skills of existing non-profit lenders with the RVCDF's knowledge of the community and outreach expertise. Finally, this approach keeps open the option of conducting the underwriting in-house after 2007.

Façade Improvement Grant

The Fund will leverage another provider, Southeast Effective Development (SEED), who currently administers façade improvement grants in the Rainier Valley through its Good Neighbor Program. The grant could provide support in a variety of ways: program marketing, supporting additional project design technical assistance, providing a funding match requirement, or expanding the existing program to target specific blocks or areas. RVCDF staff will work with SEED to determine the most effective way to provide RVCDF's grant support. This product will be delivered in the same way both before and after 2007.

5.2.2. Real Estate Development

Site Assembly Interest Subsidy Loan

The Site Assembly Interest Subsidy Loan for non-profits will be made by a cooperating lender. RVCDF will contract with a lending organization that already funds site acquisition. The Fund will provide an interest-free loan to the non-profit borrower in an amount equal to half of interest expenses for an average four year term. This is not a fixed percentage. If the project proceeds to construction, the Fund is repaid its loan by the borrower. If the project does not proceed, the CDF will be paid from the sale of the property, to the extent there are proceeds from a sale. This product will be delivered in the same way both before and after 2007.

Site Assembly Loans and Real Estate Financing Loan

Assumptions

The following assumptions informed the delivery method chosen for the Site Assembly Loans and Real Estate Financing Loan. Numerous non-profit and for-profit developers have expressed interest in applying to the Community Development Program for real estate financing and site assembly loans. At the same time, the skills set needed to analyze, negotiate and underwrite real estate transactions are significantly different than the skills required to conduct business lending due to the difference in required collateral, repayment sources and developer qualifications. The City of Seattle's Office of Housing (OH) has made an offer to share its project underwriting information with the RVCDF when a developer applies concurrently to both the RVCDF and OH at the same time for funds for housing developments. Similarly, the City's Office of Economic Development has offered to share underwriting information with the RVCDF when a borrower applies to both the RVCDF and OED for funds for commercial developments. At the same time, the competitive nature of real estate financing makes it difficult to find a non-profit lender who could provide underwriting for the RVCDF without a potential perceived conflict of interest.

Delivery Method

In 2005, the RVCDF will hire a part-time consultant to: 1) help create the systems to implement the real estate loan products, including creation of a loan committee with appropriate technical expertise, 2) assist in drafting a job description for a loan officer that includes the skills set and experience needed to successfully operate the real estate loan products, 3) assist in discussions/negotiations with borrowers who are preparing to apply to the Fund, 4) provide training for the RVCDF board, and 5) assist with the hiring of the real estate loan officer. In early 2006, the RVCDF will hire a real estate loan program officer to manage and conduct the underwriting for its real estate loan products. The RVCDF will also utilize the Office of Housing's assistance with project underwriting when a developer is applying concurrently to both the RVCDF and to OH for housing funding, and OED's assistance to provide underwriting when a developer is applying to both the RVCDF and OED for economic development funding. For non-profit borrowers of the site assembly loan, the RVCDF will develop a joint loan underwriting and servicing process with the other community lending partner. The RVCDF Board will retain final authority to approve each loan transaction.

Rationale

This approach is an optimal match within the context of available Community Development Program resources from 2005 through 2007. During this period, available revenues are limited so the number of real estate loans the Fund will be able to complete is low. However, with the anticipated level of interest in this product from the community, there will be a need to set up the systems early so that RVCDF can begin negotiating with potential developers in 2005 and 2006 and ultimately ensure a successful program.

5.3. Internal Staffing

The product delivery methods described in section 5.2 influence the RVCDF's required internal staffing configuration. Staffing levels may also change over time as volume and type of loan activity evolve, and as light rail supplemental mitigation activities ramp down in 2007. Projections indicate that the following required staffing levels and skills sets are necessary to support the Community Development Program. Final staffing levels and configuration may vary as the RVCDF and its partners gain experience with the loan and grant products.

It is anticipated that in-house staff will be required for the following functions:

- Executive Director
- Loan Program Officer(s)
- Business Assistance/Outreach
- Office Manager
- Pre-Apprenticeship Contract Monitor

To carry out the product delivery approach described in the previous section, it is anticipated that the RVCDF will have the following in-house staffing levels:

For 2005, RVCDF staff will consist of the Executive Director, two program officers for SMA activities, one business assistance/outreach officer, one office manager, and one pre-apprenticeship contract monitor. This is the RVCDF existing budgeted staff, and no new staff will be hired. Two service contracts will be negotiated: one for underwriting services for the Business Incentive Loan, and one for part-time assistance to set up the systems for the real estate loan products.

For 2006, RVCDF will consist of the Executive Director, two program officers for SMA activities, one business assistance/outreach officer, one office manager, and one pre-apprenticeship contract monitor. Additionally, one new staff will be hired: the full-time real estate loan program officer. The real estate loan products support contract will be terminated, while the contract for underwriting services for the Business Incentive Loan will continue.

For 2007, RVCDF will consist of the Executive Director, two program officers for SMA activities, the real estate loan program officer, one business assistance/outreach officer, one office manager, and one pre-apprenticeship contract monitor. The contract for underwriting services for the Business Incentive Loan will continue.

After 2007, RVCDF will consist of the Executive Director, the real estate program officer, a combined business lending/outreach function and one office manager. Depending on the RVCDF Board's decision, the underwriting for Business Incentive Loans may continue to be contracted out or may be brought in-house.

The following table summarizes the anticipated RVCDF staffing levels described above.

Table 1. RVCDF Staffing Levels 2005 – 2008

	2005	2006	2007	After 2007
Executive Director	1	1	1	1
Program Officers for SMA Activities	2	2	2	0
Business Assistance/ Outreach Officer	1	1	1	0
Office Manager	1	1	1	1
Pre-Apprenticeship Contract Monitor	1	1	1	0
Real Estate Program Officer	0	1	1	1
Combined Business Lending/Outreach Function	0	0	0	1
Total Staff	6	7	7	4
Service Contracts	• Underwriting for business incentive loan • Setting up real estate lending	• Underwriting for business incentive loan	• Underwriting for business incentive loan	• TBD

A summary of skills sets for each staff function follows. The descriptions are intended to provide general guidance regarding the necessary job skills. Specific duties may vary.

5.3.1. Executive Director

The Executive Director serves as the chief staff member, provides leadership, and is the organization's main 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 RVCDF 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; accounting and financial management functions.[10]

5.3.2. Program Officer(s)

From 2005 to 2008, the number of program officers will vary. However, the basic responsibilities of the program officer(s) will include the following:

For grant and loan products provided directly by the RVCDF, the program officer screens requests, markets loan products to potential new borrowers, presents proposals for review by the RVCDF Board and Grants and Loans Committee, negotiates and closes all transactions, maintains data and files relating to all applications and transactions, and monitors and services the loan portfolio.

For loan products provided in conjunction with partner organizations, the program officer(s) will conduct any required RFP process, evaluate and make recommendations to the Executive Director and the Board regarding potential partner organizations, support contract negotiations with the partner organization, and coordinate product implementation between the RVCDF and the partner organization.

The Contract Monitor for the Pre-Apprenticeship Program will oversee the activities of this program under the guidance of the Executive Director and the RVCDF Board. The staff position will exist through 2007, when the four-year Pre-Apprenticeship Program will be completed.

5.3.3. Business Assistance/Outreach Officer

The Business Assistance and Outreach Officer will augment the outreach work conducted by the loan program officers. This role is particularly important in the Rainier Valley due to the diverse composition of the community. For the Community Development Program to be effective, it must be carried out in a culturally-appropriate way. One way to accomplish this is to have an outreach function in addition to the Loan Program Officers that can offer the time and extra effort necessary to work with potential clients from different ethnicities and cultures. In 2008, this role may shift to become a combined business lending/outreach function, depending on the RVCDF Board's decision regarding the delivery of the business incentive loan.

5.3.4. Office Manager

The Office Manager will be responsible for overall administrative management of the RVCDF office. The Office Manager assists the Executive Director on outreach and communications, coordinates with other community groups, answers inquiries about the Fund or RVCDF, and generally staffs the office. The Office Manager assists the Director in staffing the RVCDF Board, communicating with funders, maintaining corporate records, responding to all inquiries for applications, and maintaining office operations.

5.4. Operations

This section outlines the practices and procedures the RVCDF will exercise in receiving and evaluating applications for funding. RVCDF will use best practices within the lending industry and will rely on

[9] The RVCDF will contract out to support the accounting, budgeting and financial management functions.

recommendations from a Loan Committee consisting of technical experts. The Board will make final decisions on allocation of funds. The City of Seattle and Sound Transit will provide additional monitoring and oversight of the operations of the RVCDF as detailed in Section 6.

Transparent Loan Application Process

Access to the Community Development Program is open to any individual or entity who meets the criteria described in section 4.4. In conducting the application process, the RVCDF will strive to balance the need for flexibility in order to satisfy the opportunistic nature of development, and the need for clarity and openness of process to provide certainty to potential borrowers and partners. The RVCDF will ensure that the criteria and procedures for the loan application process is openly communicated to the public. The RVCDF will provide public notice of funds availability. Operating polices will be completed that provide detail on product underwriting, financial management, investment management, personnel, and conflict of interest. These policies will be available for public review, and they will form the basis of an open and transparent loan application process.[11] Additionally, a Loan Committee, described below, will be established to provide professional advisory expertise on funding proposals.

Loan Committee

The purpose of the Loan Committee is to provide an objective financial review of specific funding proposals and to ensure technical rigor in funding decisions. The Loan Committee will be appointed by the RVCDF Board and consist primarily of professionals with skills in the business and real estate financing fields. These individuals, with expertise in the types of lending the RVCDF will conduct, will provide advice and assistance to the RVCDF Board to ensure appropriate financial and risk assessment of funding requests. The Committee may also include a representative(s) from the RVCDF Board. The Loan Committee will conduct its technical analysis and make a recommendation to the RVCDF Board for each funding proposal. The RVCDF Board will then make the final funding decision on all proposals.

Coordination with Other Lending Organizations

Whenever possible, RVCDF will coordinate its activities with other lending organizations. This coordination may include: alignment of dates for funding availability, use of common funding application materials, and sharing of applicable information on projects that may be seeking funds from multiple sources. In particular, applicants for real estate loans for projects that include housing development may be requesting funds from several organizations within the network of public funders of affordable housing, making the need for coordination especially strong. At the same time, it is recognized that the Fund may have a program mission that is different from that of other lending organizations. Hence, it is important that the RVCDF coordinate with but not be driven by or become mutually dependent on funding decisions of other organizations.

[10] Application contents pertaining to individual financial information are confidential and will not be publicly available.

5.5. Implementation Tasks

The RVCDF will complete the following tasks to implement the Community Development Program:

2005

- Augment underwriting policies and procedures as needed for new loan and grant products.
- Negotiate terms and conditions of contractual agreement with City of Seattle.[12]
- Augment existing operating procedures as needed for new products.
- Implement RFP process for underwriting services for Business Incentive Loan.
- Select third-party partner to provide interim underwriting services for Business Incentive Loan product.
- Implement RFP process for consultant services to set up systems for real estate products.
- Establish Loan Committee for Community Development Program.
- Augment existing outreach plan to include the Community Development Program.
- Develop Notice of Funds Availability or other notification process to announce availability of Community Development Program funds to potential customers.
- Initiate proactive marketing effort for new products.

2006

- Hire a real estate loan program officer.
- Continue proactive marketing effort for new products.

2007

- RVCDF Board decides whether to continue contracting for underwriting services for Business Incentive Loan or whether to provide that function in-house.

[11] See Section 6 for additional detail.

6. GOVERNANCE AND OVERSIGHT

The Rainier Valley Community Development Fund (RVCDF) organization will manage its City-funded loans and their proceeds in trust on behalf of the Rainier Valley Community as defined by the Community Development Investment Area described in Section 4.1. In its responsibility as Trustee, the RVCDF will hold only **legal title** to loan assets and Revolved Money, and shall use them as instruments to accomplish the public purposes identified in the Community Development Program ("CDP") as specified in this Plan, consistent with the terms of the contracts entered into by the City and the RVCDF to implement the Plan. The RVCDF may collect and re-lend or grant money consistent with the CDP, subject to the rights of the City upon certain events under the terms of the Trust Agreement, as generally described later in this Section.

Consideration of the governance structure included analysis of several alternative legal relationships that will define the relationship between the RVCDF and the City. A summary of that analysis is included in Appendix G. The criterion used to evaluate the alternatives includes:

- Support the creation of a community-controlled Fund,
- Assure the permanent commitment of the funds (both the initial allocations and the revolved funds) for Community Development Program purposes in the Rainier Valley,
- Create an accountability mechanism that enables the prompt protection of the CDP funds.

The following sections describe the oversight and governance roles of the RVCDF Board and funder agencies to promote the achievement of established goals for the Community Development Program.

6.1. RVCDF Board Governance

In overseeing the implementation of the Community Development Program, the RVCDF Board will make all final decisions regarding use and management of funds for the program, including the use of principal repayments and interest earned from loans and from idle funds. The Board will maintain the roles and responsibilities it currently fills in managing the Supplemental Mitigation Account (SMA) and Pre-apprenticeship activities, and will assume additional roles in its management of the Community Development Program (CDP). The Board's roles and responsibilities include:

- Overseeing use and management of all Fund monies;
- Approving and overseeing the annual budget;
- Hiring, evaluating and supervising the RVCDF's Executive Director;
- Assessing and approving the process by which all payments, advances, grants and loan write-ups, recommendations, and disbursements to fund prospective customers are made;
- Overseeing final design and implementation of the Community Development Program and the pre-apprenticeship training grant program;
- Overseeing the development of community outreach strategies;
- Overseeing compliance with all service and funding contracts;
- Reviewing and updating financial management, product underwriting, and personnel policies;
- Overseeing the monitoring and evaluation of third-party service contracts;
- Securing any additional funds for use by the RVCDF; and
- Setting the future direction of the Trust Assets consistent with the CDP and approving the RVCDF's business plan.

The RVCDF Board will also carry out the following oversight functions specific to the Community Development Program:

- Selecting third-party service providers and approving associated contracts;
- Ensuring that program implementation is consistent with the Operating Plan and Operating Plan Amendment;
- Overseeing adjustments to funds allocations among lines of business within the Community Development Program;
- Overseeing changes in the terms of Community Development products and the mix of products offered; and,
- Monitoring the efficacy of the Community Development Program in achieving its mission and stated community goals.

6.2. *Oversight by Funding Agencies*

6.2.1. City of Seattle

Upon approval of the Community Development Program (CDP) by City Council ordinance and prior to signing of contracts for the use of city CDBG and general funds, the City of Seattle and the RVCDF will consummate a Trust Agreement that details the powers and responsibilities of the City of Seattle and the RVCDF as summarized below. The City will use annual contracts to direct the use of public funds appropriated to execute the CDP. The Trust Agreement will establish the obligations of the RVCDF as Trustee and will govern both the management of assets created by the use of City CDBG funds and subsequent uses of Revolved Money. It is anticipated that both the Trust Agreement and the first year funding agreements will be completed by the end of 2005.

The City of Seattle's primary oversight focus will be to monitor the activities of the RVCDF for consistency with the CDP and with the terms of contracts with the City. For loans and grants made directly with Community Development Block Grant (CDBG) money, the City, based on information provided by the RVCDF, will determine whether proposed activities meet the eligibility criteria for CDBG money. The City will rely on the RVCDF to determine the terms and conditions of the specific program actions within the scope of CDBG rules and contracts.

Changes to the Operating Plan Amendment

As detailed below in Table 2, the level of City concurrence needed to change the content of the Operating Plan Amendment depends on the scope of the proposed change. City concurrence for some changes is not required when the changes affect only uses of Revolved Money.

Table 2. City Concurrence Needed for Changes to the Operating Plan Amendment

Description of Change	Use of CDBG Funds	Use of Revolved Money
1. Change in terms of specific products.	No City concurrence needed so long as the change is consistent with CDBG rules and contracts.	No City concurrence needed
2. Change to cumulative allocation of 75% of CDP Money for real estate development and 25% for business development as detailed in Section 4.3.	Approval required from the Office of Economic Development or other designated department. OED must brief City Council on changes prior to issuing approval to RVCDF.	No City concurrence needed

3. Material change in the type or delivery of products.	Approval required from the Office of Economic Development or other designated department. OED must brief City Council on changes prior to issuing approval to RVCDF.	Approval required from the Office of Economic Development or other designated department. OED must brief City Council on changes prior to issuing approval to RVCDF.
4. Any change in Required Funding Criteria or a material change to Desirable Funding Criteria as described in Section 4.4	Approval required from the Office of Economic Development or other designated department. OED must brief City Council on changes prior to issuing approval to RVCDF.	Approval required from the Office of Economic Development or other designated department. OED must brief City Council on changes prior to issuing approval to RVCDF.
5. Elimination or addition of a Community Development line of business.	Council approval	Council approval
6. Change in mission or objectives of the Community Development Program as defined in this Operating Plan Amendment.	Council approval	Council approval

Compliance and Performance

The RVCDF, under the management of its Board of Directors, will be primarily responsible for requiring that its borrowers, grantees, contractors and employees comply with program standards, applicable federal requirements, and legal restrictions on the use of public funds. The City will monitor the performance of the RVCDF in ensuring such compliance and in achieving the program objectives of the CDP. This role is outlined below in Table 3.

Table 3. Summary of the City of Seattle's Roles in Overseeing RVCDF Performance

Compliance Issue	Use of CDBG funds	Use of Revolved Money
Performance monitoring	• Review and approval of individual program actions for eligibility, and federal environmental review prior to release of funds. • Annual review of performance and CDBG compliance. • Onsite financial reviews conducted annually for years 2005 – 2007 and at least once every three years thereafter through 2013. • Annual review of audited financial statements. • Annual review of CBDO status.	• Annual report on the use of CDP funds, compliance with the Community Development Program, City contracts, and the Trust Agreement. • Annual review of audited financial statements. • Right to inspect records on request
Expenses for delivery of services associated with the CDP	Negotiated and monitored through the annual contracts between the RVCDF and the City.	Review of annual report on the use of CDP funds and annual audited financial statements
Recourse for ineligible use of funds	City will have various contractual remedies, including withholding disbursement under existing contracts, and recovery of money used for ineligible purposes. In addition, through 2012 or until such time as the City has obligated all general and CDBG funds to be provided to the Fund, the City may reduce or discontinue its annual contracts with the RVCDF. In addition, in case of uncured, willful, or repeated ineligible uses, the City	

	may designate a substitute Trustee for management of Revolved Money and other Trust Assets.
Status of Funds in the event of the dissolution of the RVCDF	The City will designate another organization(s) to implement the Community Development Program which has: a proficiency in implementing similar programs; a demonstrated history and familiarity with, and commitment to the Rainier Valley; and a local governance structure that is inclusive of Rainier Valley residents and businesses. The organization(s) will take title to Revolved Money and other Trust Assets as Successor Trustee, to be used for Community Development Program purposes in the Rainier Valley.

Trust Agreement

The purpose of the Trust Agreement is to implement the intent that the Revolved Money and loan assets remain community-controlled and self-sustaining for the general welfare and benefit of the Rainier Valley community. The Trust Agreement will also establish standards of performance for the Trustee and the terms and conditions under which the City can designate a replacement Trustee. The key parties to the Trust Agreement are defined below:

- **Grantor (Trustor)**: The City of Seattle
- **Trustee:** The Rainier Valley Community Development Fund or any Successor Trustee or Co-trustee so designated by the City.
- **Beneficiary:** The Rainier Valley Community as defined by the Community Development Investment Area in Section 4.1.

Basic Terms of the Trust

The Trust Agreement will specify that all CDBG funds provided to the Trustee that are used for loans, and all earnings, repayments, proceeds and reinvestments, direct and indirect, generated by those funds ("Trust Assets," more specifically defined in Appendix A), will be assets of the Trustee, **held in trust** for the Rainier Valley Community. [13] The Trustee shall hold only **legal title** to those assets, and shall use them only for Community Development Program ("CDP") activities of the types specified in the Trust Agreement, as it may be amended. The Trustee may collect, re-lend and grant money consistent with the CDP and the Trust Agreement, unless and until the Grantor designates a Successor Trustee or imposes restrictions under circumstances defined in the Trust Agreement, as generally described later in this Section.

The Trust Agreement will also include the following provisions:

- *Separate Trust Account:* The Trustee will institute and maintain controls and procedures to identify Trust Assets and keep them separate from other Trustee assets. A separate Trust Account, or accounts as may be necessary, will be used for loans, grants and program delivery costs as defined in the CDP and the Trust Agreement. The Trust Assets are not to be subject to the claims of general creditors of the Trustee. In addition, the Trustee, or any Successor Trustee, will require underlying borrowers to make their payments directly to the bank holding the Trust Account(s).
- *Holding of Promissory Notes:* Each original promissory note from a borrower, made payable to the order of the Trustee and indorsed by the Trustee in blank, will be delivered to and held by the City until the loan is paid in full. The purposes are to protect against any possible loss or

[12] Research with the National Community Capital Association suggests that the Trust structure is consistent with the RVCDF's potential interest in becoming a Community Development Financial Institution (CDFI).

unauthorized disposition, and to enable the City to transfer the notes to any Successor Trustee. The City will not have the right to transfer the notes to itself or to collect payments for itself.

- *Deeds of Trust:* Deeds of trust on real estate granted by borrowers to secure the loans will name the beneficiary as the Trustee, specifically citing the Trust Agreement between the City and the Trustee.
- *Charitable Trust:* The agreement with the Trustee will expressly provide that the Trustee holds the Trust Assets as trustee of a **charitable trust** within the meaning of Washington law, RCW Ch. 11.110.

Performance Criteria of the Trustee

The Trustee is required to manage the Trust on behalf of the Rainier Valley Community according to the following performance criteria:

- *Legal Status:* The Trustee shall: (1) maintain its status a 501(c) (3) charitable organization, (2) retain its status as a non-profit corporation legally organized and operating under the laws of the State of Washington, and (3) meet HUD guidelines for a Community Based Development Organization (CBDO) as established in 24 CFR Part 570 through the period of allocation of CDBG funds from the City to the CDP.
- *Sustainability of the Fund:* The City and Rainier Valley community have established a goal of creating a self-sustaining fund that actively invests in the Rainier Valley for the general welfare and benefit of the Rainier Valley community. In support of this goal, the Trustee shall operate under the following terms and conditions:
  - For each of the years 2005 through 2012, all Revolved Money collected in the prior calendar year (including principal, interest and fees) will be reserved in the Trust Account for activities consistent with the Community Development Program. Program delivery costs for the CPD during these years are restricted to costs not to exceed corresponding salary and operating expenses identified in Schedule F of Appendix F. At the discretion of the Office of Economic Development (OED) or any other City Department designated by the Mayor and to the extent agreed to in the annual contract with the City, the Trustee may: (1) exceed the operating expenses identified in Appendix F, and/or (2) use City general funds, CDBG and Revolved Money to pay for its program delivery costs.
  - For 2013 and each subsequent year, the Trustee will ensure that at least 70% of Revolved Money collected in the prior calendar year (including principal, interest and fees) will be reserved in the Trust Account for loans for activities consistent with the Community Development Program.
  - For 2013 and subsequent years, the Trustee may allocate up to 30% of total Revolved Money for the prior calendar year to disbursement of grants authorized under the CDP and/or to pay for CDP program delivery costs of the Trustee. The Trustee will have discretion to allocate these funds among loans, grants, and eligible costs in any given year as it deems appropriate, based on an evaluation of demand for grant funds in the community and the need to support ongoing program delivery costs; however, Trust Assets shall not be used to cover costs for the organization not properly allocable to the CDP.
- *Fiduciary Responsibilities:* The Trustee shall maintain strong accounting, financial management, and underwriting practices that meet or exceed industry standards for Community Development Financial Institutions. The Trustee shall maintain rigorous safeguards against any conflicts of interest and any personal benefits to directors, officers or related persons in connection with loans, grants or contracts involving Trust assets. At a minimum, the Trustee will annually submit the following documentation to help the City evaluate its performance:

- An aging report detailing the status of all outstanding loans, including identification of which loans are current and which are in default;
- An annual audit that: (1) meets or exceeds federal standards for an A-133 audit, (2) reports separately on the financial status of the Trust and all other activities of the Trustee organization, and (3) confirms loan loss reserves maintained in a separate account as projected in the Community Development Program or as adjusted by mutual consent of the Trustee and the City based on actual portfolio performance in fulfillment of the Community Development Program.

Because of the purposes of the CDP, the Trustee would not have the same duty to assure preservation of principal or security of income, or to diversify, as might be the case for a trustee investing solely for financial returns to beneficiaries; however, the Trustee would exercise reasonable prudence in the making and administration of loans, consistent with achieving the purposes of the CDP.

- *Mixing of Assets:* The Trustee may make side-by-side loans using Trust Assets and other assets only if the Trust's loans are on no less favorable terms and rank at least equally as to security, and all payments are allocated pro-rata between the funding sources.
- *Contract Compliance:* Breach or default by the Trustee under the Trust Agreement or any related contract between the Trustee and the City for execution of the CDP will be considered non-performance under this paragraph.

Remedies for Non-Performance and Right to Cure

Upon the Trustee's failure to meet any of the performance criteria (listed in the previous section entitled "Performance Criteria of the Trustee) the Trustee shall have a right to cure any breach of the Trust Agreement or any related contract between the Trustee and the City before the City may replace the Trustee, except in the case of "triggering events" listed below. The City may initiate a cure process that obligates the Trustee to resolve the City's concern or submit a remedial plan of action satisfactory to the City. The intended effect of this provision is to insure that the Trustee has the right to cure issues of non-performance before the City may replace the Trustee, except in the case of "triggering events" listed below, but does not require the City to initiate a cure process on all performance issues. The City must initiate such a cure process by written notification to the Trustee. The Trustee shall have at least 30 days to respond to such a requirement upon written notification by the City of its concern.

After written notification initiating the cure process, the City shall have the right to appoint a Co-trustee on an interim basis and/or freeze the assets in the Trust Account by notice to the financial institution holding the Trust Account. The written consent of the interim Co-trustee would be required for all actions concerning the trust, with such exceptions as may be specified in the City's notice. The interim Co-trustee would not have the power to take any action without the consent of the Trustee. The term of any interim Co-trustee, and of any freezing of the Trust Account, would expire in 60 days, unless the City then has given notice of a triggering event, as described below, or the continuation of the Co-trustee is a condition of City approval of a remedial plan of action. The interim Co-trustee will remain in place until appointment of a Successor Trustee takes effect, or until any dispute as to a triggering event is resolved (using the dispute resolution procedures described later in this section), or until any conditions of a remedial plan for removal of the Co-trustee are satisfied.

In the event that the non-performance was associated with Trustee action that involved the use or disposition of Trust Assets contrary to the Trust Agreement, the City shall have the right to require the Trustee to reimburse its Trust Account from other sources of funds.

Triggering Events and Subsequent Actions

The Trustee's failure to cure a matter of non-performance in a timely manner after written notice, in a manner satisfactory to the City, or its failure to perform any term of a remedial plan of action approved by the City, would be a "triggering event." Other "triggering events" would be:

- The dissolution, winding up or liquidation of the organization serving as Trustee;
- Its resignation as Trustee (or removal by court order);
- Bankruptcy, insolvency or receivership of the organization serving as the Trustee;
- Debarment of the organization serving as the Trustee from eligibility for federal funds;
- Cessation of CDP operations;
- Fraudulent conduct by the Trustee; or,
- Multiple instances of non-performance of a similar nature each of which causes the City to give notice and require a cure.

The City shall notify the Trustee after it determines that a triggering event has occurred. At any time after such written notification, the City would have the right to designate a Successor Trustee, approved by the City Council by ordinance or resolution. When designation of a Successor Trustee takes effect, all powers and rights of the Trustee with respect to the Trust Assets would cease, and the Trustee (and interim Co-trustee, if applicable) would be obligated to transfer all such assets to the Successor Trustee. The designation of a Successor Trustee would be effective thirty days after written notice unless the Trustee elects mediation as described below. If the Trustee elects mediation within 30 days, the effectiveness of the designation of a permanent Successor Trustee would be deferred until the dispute over the alleged triggering event is resolved. The Trustee would not be obligated to transfer Trust Assets to a Successor Trustee if the parties agreed on a resolution by which the Trust Assets would remain with the Trustee.

As an alternative to designating a Successor Trustee, after a triggering event the City could also appoint a permanent Co-trustee that would have various powers, and whose written approval would be needed for certain actions, as designated by the City. The dispute resolution provisions outlined in the following section are also available to the Trustee under this circumstance.

Dispute Resolution

Instead of the dispute resolution procedures in the Washington Trust and Estates Dispute Resolution Act, the following would apply after notice of a triggering event:

- **Mediation:** Upon notice from the City that a triggering event has occurred, the RVCDF (or any Successor Trustee), if it disputes that a triggering event has occurred, would have the right to request mediation, within thirty days of the City's written notice. At the timely written request of the Trustee mediation is mandatory. The mediation session would occur within sixty days after the written request for mediation.
- **Mandatory Binding Arbitration:** In the event the mediation fails to resolve the dispute, the RVCDF has the right to pursue arbitration. At the written request of the RVCDF the parties agree that arbitration is mandatory and its conclusions binding. Arbitration shall commence within 90 days after the completion of mediation.
- **Judicial Review:** Either party would have the right to file an action in King County Superior Court to enforce the arbitration decision. Either party would have the right to file a court action in King County Superior Court within 90 days of the arbitrator's decision, and to appeal that decision only on grounds specified in the Washington Arbitration Act, RCW Ch. 7.04, or any successor statute (including Ch. 433, Laws 2005). The party requesting judicial review must improve its position at the Superior Court level, or be responsible for the other party's attorney fees and costs.

Interim Judicial Relief

During mediation or arbitration and pending any judicial review, either party could seek a temporary order from the Superior Court, or from the arbitrator if applicable, to preserve the Trust Assets or to provide for the ongoing ordinary activities of the Trust, which could include the designation of a single interim Trustee. The parties will agree in the trust agreement that if the Trustee and interim Co-trustee are at an impasse, a single interim Trustee should be appointed pending resolution of any dispute over a notice of a triggering event.

Obligations of Successor Trustee or Co-Trustee

In the event the City appoints either a Co-trustee or a Successor Trustee the terms and conditions described in the CDP and the Trust Agreement shall apply.

6.2.2. Sound Transit

Sound Transit's primary oversight responsibilities for the Community Development Program will be as follows:

- Sound Transit will be responsible for the oversight of Sound Transit funds remaining, if any, after the cessation of supplemental mitigation activities. This would include funds originally allocated by Sound Transit but revolved into the Community Development Program via loan repayments

6.2.3. King County

King County's primary oversight responsibilities for the Community Development Program will be as follows:

- King County will attend RVCDF Board meetings periodically, as it is doing currently. King County will have no contractual relationship with the RVCDF through the Operating Plan Amendment.

7. CAPITALIZATION AND FINANCIAL FORECAST

7.1. Capitalization

The $50 million Community Development Fund is being capitalized through annual appropriations of public funds through 2012. The sources of funds include the City of Seattle, King County and Sound Transit. The public financial resources include approximately $7.2 million from Sound Transit/King County, and $42.8 million from the City of Seattle, of which $35.0 million are expected to be federal Community Development Block Grant (CDBG) dollars and $7.8 million are expected to be General Fund dollars.

The $7.2 million will be provided by Sound Transit as directed in the Downtown Seattle Transit Tunnel agreement. The tunnel agreement notes that Sound Transit's light rail project would recognize benefits and savings from joint operations in the tunnel as agreed to by King County. The agreement directs payments of $7.2 million over seven years from Sound Transit to the Community Development Fund's supplemental mitigation account to be used "to support components of transit-oriented development (TOD) projects within the Rainier Valley that serve to increase transit ridership." Since the Operating Plan Amendment assumes an accelerated payment schedule for these funds and their use for supplemental mitigation, the three-party Downtown Seattle Transit Tunnel agreement will be administratively amended to reflect this. Funds for TOD projects will be provided instead through the funds contributed by the City of Seattle.

The $7.8 million in General Funds and $35 million of CDBG monies from the City of Seattle are funds that will be appropriated annually to the RVCDF and disbursed *at the time* that projects to be funded are identified and approved by the RVCDF Board and the City of Seattle. These funds will not be pre-allocated to the RVCDF in a lump-sum payment. The amount, timing and conditions of appropriations to the Community Development Program will be detailed in the annual funding agreements between the RVCDF and the City.

Table 4 below summarizes the yearly flow of appropriations to pay for the activities of the Fund.

Table 4. Summary of yearly capital contribution to the Fund ($ millions)

	2004[14]	2005	2006	2007	2008	2009	2010	2011	2012	Total
Sound Transit[15]	$5.00	$2.20								$7.20
City of Seattle-CDBG	$4.31	$2.50	$2.50	$4.35	$4.33	$4.33	$4.23	$4.23	$4.21	$34.99
City of Seattle-General Fund	$0.69	$1.63	$1.50	$1.70	$1.30	$0.99				$7.81
Public Grants Contributed	$10.00	$6.33	$4.00	$6.05	$5.63	$5.32	$4.23	$4.23	$4.21	$50.00

Of the total $50 million Fund, up to $21.5 million will be used on supplemental mitigation activities, and $2 million has been earmarked for a four-year pre-apprenticeship program, per the 2002 Operating Plan. The remainder (at least $19.5 million) will be available for the Community Development Program.

In addition to the $19.5 million initially earmarked for the Community Development Program, any residual funds not used for supplemental mitigation activities, any funds repaid from supplemental

[13] The figures for 2004 include funds for 2002 through 2004.

[14] Funds provided by Sound Transit through the Downtown Seattle Transit Tunnel Agreement.

mitigation advances (unless recommitted for supplemental mitigation), and any interest earned on community development loan payments, will also be applied to pay for the Community Development Program, under the restrictions and considerations described below. Additional detail on fund capitalization and annual cash flows is included in Appendix F.

7.2. Restrictions on Uses of Funds

The Fund is comprised of public financial resources from different origins (King County/Sound Transit, CDBG, and City General Funds), and certain restrictions apply to each source. The following section summarizes some of the restrictions and considerations that apply to each fund source.

Community Development Block Grant (CDBG) Funds

- Use of CDBG monies must meet a CDBG national objective, be consistent with the eligible CDBG activity as approved in the City's annual Action Plan element of its Consolidated Plan and must follow regulations of the U.S. Department of Housing and Urban Development. Appendix E provides additional information on HUD guidelines and requirements; however, the RVCDF must consult and follow the applicable regulations, as in effect from time to time, principally in 24 Code of Federal Regulations (CFR) Part 570.

- Article 8, Section 7 of the Washington state constitution prohibits gifts and loans to private persons or entities except for the support of the poor and infirm. This provision does not apply to CDBG monies because the City is acting as a conduit for these federal dollars to implement national objectives under federal regulations. CDBG funds may be used for a broad range of loans, grants or contractual payments to private persons and entities.

City of Seattle General Funds

- City General Funds are restricted in two basic ways: they must be used in a manner consistent with applicable law (including the state constitution and statutes and City Charter), and they must be used consistent with the City budget and other applicable ordinances.

- Article 8, Section 7 of the Washington state constitution applies to General Funds. This provision prohibits gifts and loans to private individuals or entities except for the necessary support of the poor and infirm.

- The financial projections for the Community Development Program indicate that the non-CDBG costs that will be incurred for the four-year job apprenticeship program and the RVCDF's program delivery costs through 2012 will use nearly all of the $7.8 million of General Funds included in the $50 million.[16]

Revolved Sound Transit/King County Funds

- Sound Transit/King County funds must be consistent with Sound Transit's statutory authority, which requires that "agencies providing high capacity transportation services, in cooperation with public and private interests, shall promote transit-compatible land uses and development." This restriction applies in perpetuity.

[15] General Funds can be used for other general government purposes, but as mentioned above, there are restrictions on their use. In addition, there are more restrictions on the use of CDBG funds for program delivery purposes.

- In practice, this means that these funds must be used for either 1) mitigation of Sound Transit light rail impacts to property owners and tenants, or 2) for transit-oriented development (TOD). Sound Transit/King County funds used for supplemental mitigation advances that are re-committed for supplemental mitigation, meet the first criterion. Supplemental mitigation advance repayments that are not re-committed for supplemental mitigation, must meet the second criterion.

- With regard to the second criterion, transit-oriented development (TOD) is not defined by statute. For the purposes of this Community Development Program the definition of TOD is one that has been jointly developed by the transit staff/divisions of the City of Seattle, Sound Transit, and King County, and with which the Operating Plan Amendment Steering Committee concurs. The definition is described in Appendix A.

- Examples of uses for which Sound Transit/King County funds might be used include: public amenities that would be used by transit riders; planning and financing costs of transit-related low-income housing; payments to fund (publicly owned) utility and street infrastructure that would otherwise have to be paid by private developers as a prerequisite to obtaining permits. If the uses listed above are included in real estate development projects, they may be considered for funding under the real estate financing loan product.

- Use of Sound Transit/King County Funds must also be consistent with Article 8, Section 7 of the Washington state constitution, as described in the preceding section on City of Seattle General Funds.

7.3. General Allocation of Funds by Program Area

As described in section 4.4 the initial lending and granting of public funds for community development purposes will target 25% of monies to Business Development and 75% to Real Estate Development. For subsequent use of loan repayments, the allocation between the two lines of business will be adjusted by the RVCDF if needed.

7.4. Financial Projections

Financial projections for the Community Development Program are included in Appendix F. The projections include:

- Cash Flow Summary
- Terms of Loan and Grant Products
- Loan Product Amortization Schedules
- Summary of Capital Draws
- CDF Operating Projections, and
- Multiple worksheets detailing the lending activities of the Fund.

Explanatory notes for each table are included in the Appendix.

Projected demand for Community Development Program products was estimated based on the experience of the National Development Council, the lead consultants for the financial analysis, as well as the expertise of members of the two Technical Advisory Committees which the RVCDF convened as part of the process of drafting this Operating Plan Amendment. One committee focused on real estate products and the other focused on the business products. These practitioners shared their professional observations that demand for the loan and grant products will almost certainly exceed the available supply of resources. At the same time, it is impossible to pre-determine the specifics of future markets. Likely, future cash flows will differ from the forecast presented here; however, the financial analysis does offer a general picture of projected finances for community development activities.

Projections have been developed for the years 2004 through 2013. There are several benchmark periods within that time period. Supplemental mitigation activity is projected to ramp down in 2007 so 2008 represents the first year when the RVCDF is significantly more focused on its community development products. Public funds are projected to end in 2012, so 2013 represents the first year in which the activities of the Community Development Program are funded solely from the revenues generated by the Program. To analyze program sustainability, specific attention has been paid to 2013 to gauge the likely success of the Fund in generating sufficient revenues from lending activity to continue community development activities and to fund adequate operations to support that program work. In 2013, the Fund is projected to generate enough resources to pay for program delivery costs and fund about $2.8 million of additional Community Development Program activity. The financial forecast in Appendix F projects that this level of activity can be sustained indefinitely from that period on as ongoing loan payments are revolved for future lending.

Table 5. Yearly Cash Flows ($ millions)

	2004[17]	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Total Revenues	$10.02	$10.93	$4.90	$6.54	$6.51	$7.70	$6.05	$7.31	$7.73	$3.81	$65.43
Total Expenses	$5.54	$10.22	$4.90	$6.44	$6.37	$7.52	$5.95	$7.24	$7.58	$3.77	$65.53
Net Cash Flow	$4.48	$0.71	$0.00	$0.10	$0.14	$0.18	$0.10	$0.07	$0.15	$0.04	<$0.10
Interest on Idle Funds		$0.06	$0.01	$0.01	$0.01	$0.02	$0.01	$0.02	$0.02	$0.01	$0.15
Fund Balance	$4.48	$0.77	$0.01	$0.11	$0.15	$0.20	$0.11	$0.09	$0.17	$0.04	$0.05

From 2004 to 2013, it is projected that the Fund will generate over $65 million in revenues with the bulk, $50 million, coming from public grants. The balance is generated from the program's loan products. Over the same period, the Fund is projected to spend approximately $8 million (13%) on operating expenses, over $15 million (25%) on supplemental mitigation activities, $2 million (3%) on apprenticeship utilization activity, and over $38 million (58%) on community development activities ($1.24 million for grants and $37.1 million in loans). The balance of expenditures, for loan loss reserves[18] and reimbursement for unpaid legal costs, yields a balance of $44 thousand that carries over into 2014.

Within the Business Development line of business, over $320,000 will be made available to business district façade improvement efforts. The remaining grant funds, approximately $805,000, will be used to inject additional capital into the community via the Business Interest Subsidy Grant. These grant funds will leverage over $1.965 million in loan capital to Rainier Valley businesses, benefiting an estimated 40 businesses. Loan activity for the Business Incentive Loan is projected to total $7.84 million and is estimated to benefit an additional 42 Rainier Valley businesses.

The Real Estate Development line of business will assist non-profit and for-profit developers to assemble sites and develop commercial and/or mixed use projects. Similar to the Business Development line of business, a portion of the Fund will be used to leverage other community lending, in particular for non-

[16] The figures for 2004 include funds for 2002 through 2004.

[17] Loan loss reserves are projected at 2 to 3 percent for Real Estate Loan products and the Business Incentive Loan. There is no loan loss reserve for the Business Interest Subsidy Grant and the Façade Improvement Grant because the Fund support will be in the form of grants.

profit site assembly. The $0.45 million in projected funding will leverage $3.75 million of additional loan capital to non-profits benefiting an estimated 4 non-profit development projects. The balance of the Real Estate Development line of business, approximately $28.5 million, will support other development efforts including 4 additional site assembly efforts and direct investment into 10 projects. The Real Estate Financing product is intended to fill the financing gap after other debt and private equity sources. The Fund is projected to loan $21.54 million to real estate projects totaling $107 million in total project costs.

In the final analysis of Fund activities from 2004 to 2013, public investments will total $50,000,000. An additional $15,424,526 will be generated from Community Development Program activities. Overall, over $3.20 is leveraged for every $1 of Fund resources.

Finally, to confirm the flexibility of the financial model, a number of sensitivity studies were conducted to gauge the model's viability. Variables tested included: interest earnings were reduced by 50%, loan losses were doubled, and grants were doubled. With those significant impacts to the model, in 2013, the Fund still generates approximately $2.1 million for Community Development Program activities (compared to $2.8 million under the base case assumptions) plus the necessary resources to support program delivery costs. The analysis shows that there is margin for adjustments to the loan terms without hindering the Fund's ability to fulfill its community mission.

The sensitivity analysis showed one variable, however, to be significant. The analysis looked at the impact of the Fund not disbursing loans at the projected levels. The volume of loans was reduced by 50%. This assumption resulted in the greatest reduction in funding available for ongoing Community Development Program activities, $1.6 million, by 2013. Combining lower loan activity with any of the factors presented in the previous section: lower interest earnings, higher loan losses or increased grant funds, would significantly reduce the ability of the Fund to sustain its Community Development Program. Overall, the analysis shows that it is critical to the Fund's financial sustainability to maintain projected levels of loan activity and to complete well-assessed loan transactions resulting in repayments that will enable ongoing community development activity.

7.5. Sustainability

An important principal guiding the creation of the Community Development Program is that it be self-sustaining. The RVCDF has established the goal that funds disbursed for the Community Development Program will largely consist of revolving loans that will enable the program to sustain itself and serve as a lasting legacy to benefit the Rainier Valley community. CDBG revolved funds will become an asset of the Community Development Program that can be reinvested in the community as opposed to revert back to the City of Seattle in the form of program income, as CDBG monies normally would.

Operationally, sustainability also means the financial condition wherein total RVCDF revenues, exclusive of capital allocations and service fees from the City of Seattle and Sound Transit, meet or exceed the RVCDF's total operating expenditures.

A financial forecast has been developed to provide a financial benchmark against which to assess long-term sustainability of the programs. The primary determinants of sustainability are:

(1) the mix between grant products and products providing a financial return;
(2) the financial terms of the loan and equity investment products;
(3) the schedule of transactions and repayment;
(4) loan losses; and
(5) the operating costs of the Fund.

A mix of product delivery options was selected that maximize benefit to the community while leveraging the most cost-effective delivery methods and a schedule of terms and loan repayments that enables the Fund to be self-sustaining. The financial analysis shown in Appendix F describes how sustainability is achieved over the initial years of program implementation.

As stated previously, for analyzing sustainability, particular interest has been paid to financial projections in 2013. This is the first year in which all of the revenue used by the program is generated by lending activity. Under the current projections, 2013 revenues can fund over $2.8 million of Community Development Program activity, along with the operating costs to support this level of activity. This annual figure is relatively sustainable into the future as more loans continue to be repaid. Additionally, there has been analysis to consider the effects of reduced income through reduced loan volume, lost interest, higher loan losses and increased grants. While these factors do reduce funds available to the program, the analysis still shows the generation of at least $1.6 million for community development activities in 2013. As long as the Fund can maintain adequate levels of loan activity, the analysis suggests that the Fund will be sustainable with the recommended mix of products.