

**COMMUNITY PLANNING AND DEVELOPMENT  
COMMUNITY DEVELOPMENT LOAN GUARANTEE  
2017 Summary Statement and Initiatives  
(Dollars in Thousands)**

COMMUNITY DEVELOPMENT LOAN GUARANTEE	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2015 Appropriation .....	...	\$3,000	...	\$3,000	\$2,983	\$204 <sup>a</sup>
2016 Appropriation .....	... <sup>b</sup>	...	...	...	...	4,727 <sup>a</sup>
2017 Request .....	... <sup>b</sup>	...	...	...	...	<u>5,000<sup>a</sup></u>
Program Improvements/Offsets .....	...	...	...	...	...	+273

a/ Obligations and outlays of discretionary appropriated funds only—does not include mandatory re-estimates.

b/ No credit subsidy budget authority has been requested since the program moved to a fee-based program.

**1. What is this request?**

HUD requests \$300 million in loan guarantee authority for fiscal year 2017 for the Community Development Loan Guarantee program, also known as the Section 108 program. The requested loan guarantee commitment level is based on recent loan guarantee levels and the projected needs of communities in 2017.

With the November 2015 implementation of the congressionally-approved fee structure for the Section 108 program, HUD again requests \$0 in credit subsidy in 2017 to support this program. Instead of appropriated credit subsidy, HUD will support the program through the imposition of a fee on borrowers, equal to 2.59 percent on the principal amount of the loan for fiscal year 2017.

The Budget also proposes permanent legislative changes to the Housing and Community Development Act of 1974 to align to the new fee structure.

**2. What is this program?**

The Section 108 program guarantees loans that offer variable- and fixed-rate financing for up to 20 years to finance certain CDBG eligible activities, including economic development activities, public facilities and improvements, housing rehabilitation, land acquisition, and related activities. Although some CDBG eligible activities cannot be financed under Section 108 (such as program

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administration and public services), the CDBG activities that can be financed through Section 108 account for approximately 70-75 percent of the total CDBG expenditures. Enhanced economic development data for consolidated planning, made possible through the recent Consolidated Plan improvements, will help grantees understand how this financing can be used most efficiently.

Entitlement communities are eligible to apply for Section 108 loan guarantees equal to 5 times their most recent CDBG award, and communities in non-entitlement areas may receive loan guarantees, in the aggregate, equal to 5 times the state's grant under the CDBG program. As permitted in recent appropriations, several states have applied directly for Section 108 funding to be distributed to communities in non-entitlement areas to create a loan portfolio of job creation projects.

Since 1977, HUD has issued 1,933 commitments totaling more than \$9.3 billion (through September 30, 2015). When HUD guarantees a Section 108 loan, it provides a full faith and credit guarantee to the lender, thereby ensuring timely payment of principal and interest and favorable interest rates. HUD has never paid a claim from a holder of a guaranteed obligation as a result of a default, due in part to the availability of CDBG funds for repayment if planned repayment sources are insufficient.

The loans guaranteed under Section 108 are privately financed. HUD has developed a productive partnership with financial institutions who implement a flexible financing structure while providing states and local governments with low-cost financing.

### **3. Why is this program necessary and what will we get for the funds?**

In today's economic climate, finding private investment sources for economically distressed areas is a difficult charge. States and local governments face daunting challenges in addressing their community and economic development needs. Their ability to respond to these needs has been hampered by budgetary constraints at all levels of government. CDBG funds are useful, but for many cities, they are not enough to support the large-scale development desperately needed by their communities. To fund these long-term projects, private investment is critical, and Section 108 of the Housing and Community Development Act enables communities to leverage the CDBG program to obtain federally guaranteed loans large enough to pursue substantial physical and economic revitalization projects. These projects create jobs, renew entire neighborhoods, and provide critical affordable housing to low- and moderate-income families.

Communities across the country turn to the Section 108 loan guarantee as a source of funds for these crucial projects. Currently, Section 108 is supporting 683 outstanding loans in communities across the country, with a total loan balance of \$1.66 billion. Section 108-assisted projects approved in 2014 and 2015 are projected to create 5,187 jobs based on \$233 million in loan guarantees. Not only can a grantee carry out a larger program with the Section 108 financing than it would otherwise, but it can more efficiently use the grant funds it receives. This efficiency is achieved by financing revenue generating activities (e.g., economic development) with

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a guaranteed loan and applying the future revenue to repayment of the debt. Grant funds can then be redeployed to non-revenue generating activities.

Under the requested funding level in the fiscal year 2017, the Section 108 program would continue to fulfill its role as a highly valuable financing tool for the large-scale community and economic development activities being carried out by local governments that are vital to the improving the opportunities of their residents. The requested funding level would ensure the expanded availability of low-cost, flexible financing for community and economic development projects throughout the country as local governments continue to struggle with financing development needs.

To assist governments with the conversion to a fee-based financing mechanism, HUD allows Section 108 borrowers to include the fee in the guaranteed loan amount, as is permitted under other federal guarantee programs (e.g., the SBA 504 program). In November 2015, HUD issued the necessary rules to implement the fee based structure in fiscal year 2016 after carryover credit subsidy amounts were exhausted.

### Outcomes Associated with fiscal year 2017 Section 108 Requested Funding:

- The Section 108 program would finance job-creating projects that could be expected to create or retain at least 5,000 jobs resulting from economic development investments financed by loans guarantees.
- Section 108 financing for economic development purposes would leverage approximately \$4.62 of additional funds for every \$1 of Section 108 loan funds, based on prior experience.
- The program would be expected to finance the rehabilitation and construction of more than at least 10 public facilities and provide assistance to between 20 and 25 economic development activities.

### Project Examples:

#### Memphis, TN

The City of Memphis borrowed \$4 million in Section 108 funds to assist in renovation of the former Sears Crosstown Distribution Facility, a 10-story, 1.5 million square-foot structure dating to the 1920's. The Section 108 funds were a critical component of the financing for the \$194 million project as the program's flexible financing terms enabled the developer to access more than \$16 million in New Markets Tax Credit equity. Eight partners have committed to leasing approximately 60% of the space and the developer will build 260 apartments, and proposes to use the remaining rentable area for educational, residential retail, and office space. Overall, the city estimates that the project will create more than 800 jobs.

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### Pleasanton, CA

The City of Pleasanton received \$1.25 million in Section 108 funds to assist the Axis Community Health Project in the renovation of a vacant 24,188 square foot warehouse into a community health center. The health center will serve low-income and uninsured residents of the Tri-Valley area, which also includes the cities of Livermore, Dublin, and the County of Alameda. The Section 108 loan provides a crucial source of funding that will allow Axis to double its capacity by adding an additional 25 to 40 examination rooms. The additional capacity will help meet a rapidly growing need for medical services for low-income patients. Axis currently provides services at six locations, including this Project.

### *Proposed IT Enhancements to Improve Program Performance (Fiscal Year 2017 DME)*

### Grants System Consolidation

Grants management (including Section 108 loan guarantees) involves internal controls and enhancements to management integrity by separating the program policy duties and responsibilities from grantee selection duties. It also improves management efficiencies by streamlining procedures, facilitating implementation of best practices, and improving internal controls.

In an effort to enhance this activity, HUD will develop an enterprise grants management solution that reaches across multiple program areas, by analyzing common business processes, leveraging mature technologies, and reducing duplicative and redundant systems to decrease costs and infrastructure complexity.

This move to centralize grants management aligns with the HUD Target Enterprise Architecture. Grants management plays a critical role in HUD's Technology Enterprise Roadmap by providing the current and future architecture (Business and Technical) for grants management capabilities, milestones for enhancements, technical dependencies, and timelines for system retirement. This investment will help address audit findings and mitigate future audit risk, support analysis of grant programs and finances, and facilitate proactive, data-driven management decisions.

## **4. How do we know this program works?**

HUD's Office of Policy Development and Research (PD&R) conducted a study, completed in September of 2012, that examined how the Section 108 Loan Guarantee program has been used as a source of financing for local economic development, housing rehabilitation, public facilities, and large-scale physical development projects, and what resulted from these investments, which are designed to benefit low- and moderate-income persons. This study also examined whether Section 108 funds were uniquely suited to the funded activities or whether other programs could do the job.

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The study indicated, among other things, that:

- Section 108 is an important source of funds. Up to three-quarters of the recipients that participated in the study said that projects would not have happened had the Section 108 financing been unavailable.
- Those borrowers who leveraged other funding sources (private, federal, state, and local) with Section 108 funds, on average, secured \$4.62 of additional funds for every \$1 of Section 108 loan funds.
- Nearly all recipients that had time to reach results had positive outcomes to report.
- No other community and economic development funding sources are able to duplicate the financing Section 108 provides.
- The jobs created by Section 108 were found to be created with, on average, much less funding than the CDBG program requires for a program to be considered an effective economic development activity. With \$26,000 of Section 108 loans yielding a full-time equivalent job, these loans create jobs at nearly twice the rate required for CDBG economic development activities.

Borrowers participating in the PD&R study noted that Section 108:

- Works well in their communities;
- Leads to job creation and retention, increases income for residents, forms a broader tax base, and enhances social and cultural amenities;
- Provides low cost financing with great flexibility in structuring loan terms; and
- Without Section 108, other funds could not be leveraged for very large projects.

Grantees participating in the study provided additional details on the economic power of job creation projects. For example, one grantee stated that, based on a 3-year ramp-up of 3,000 employees, it anticipates an annual direct economic impact of \$246.5 million and an indirect economic impact of \$135.9 million in year 3. The grantee anticipates a cumulative economic impact of over \$764.7 million.

## 5. Proposals in the Budget

Conform amendments to permanently authorize current program operations. The proposed general provision permanently amends Section 108 of the Housing and Community Development Act of 1974 (42 U.S.C. 5308) to align the statute to current program operations:

- Makes permanent a longstanding provision that allows HUD to issue loan guarantees to States on behalf of non-entitlement communities;
- Removes the aggregate limitation on outstanding guarantee obligations that has long been superseded by appropriations language; and
- Removes the prohibition on fees (superseded by appropriations language in 2014 and 2015). (Sec. 211)

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Summary of Resources by Program  
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2015 Budget Authority</u>	<u>2014 Carryover Into 2015</u>	<u>2015 Total Resources</u>	<u>2015 obligations</u>	<u>2016 Budget Authority</u>	<u>2015 Carryover Into 2016</u>	<u>2016 Total Resources</u>	<u>2017 Request</u>
Loan Guarantee Subsidy	...	\$3,000	\$3,000	\$2,983	...	...	...	...
Loan Commitment Level .	[\$500,000]	...	[500,000]	...	[\$300,000]	...	[\$300,000]	[\$300,000]
Total .....	[500,000]	3,000	3,000	2,983	[300,000]	...	[300,000]	[300,000]

NOTE: The 2017 Budget continues the fee-based program established in previous appropriations acts and requests \$300 million in loan guarantee commitment authority with \$0 in credit subsidy.

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Appropriations Language**

The fiscal year 2017 President's Budget includes proposed changes in the appropriation language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

**[(INCLUDING RESCISSION)]**

Subject to section 502 of the Congressional Budget Act of 1974, during fiscal year [2016] 2017, commitments to guarantee loans under section 108 of the Housing and Community Development Act of 1974 (42 U.S.C. 5308), any part of which is guaranteed, shall not exceed a total principal amount of \$300,000,000 [, notwithstanding any aggregate limitation on outstanding obligations guaranteed in subsection (k) of such section 108]: *Provided*, That the Secretary shall collect fees from borrowers[, notwithstanding subsection (m) of such section 108,] to result in a credit subsidy cost of zero for guaranteeing such loans, and any such fees shall be collected in accordance with section 502(7) of the Congressional Budget Act of 1974[: *Provided further*, That all unobligated balances, including recaptures and carryover, remaining from funds appropriated to the Department of Housing and Urban Development under this heading are hereby permanently rescinded]. (*Department of Housing and Urban Development Appropriations Act, 2016.*)