

**COMMUNITY PLANNING AND DEVELOPMENT
COMMUNITY DEVELOPMENT LOAN GUARANTEE
2015 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>
2013 Appropriation	\$5,952	\$3,907	-\$311	\$9,548	\$5,680	\$2,100 ^a
2014 Appropriation/Request	3,000	3,755	...	6,755	6,455	8,574 ^a
2015 Request	<u>...</u> ^b	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>5,626^a</u>
Program Improvements/Offsets	-3,000	-3,755	...	-6,755	-6,455	-2,948

a/ Outlays of discretionary funds only—does not include mandatory re-estimates.
b/ No subsidy is requested for fiscal year 2015 as the program moves to a fee-based subsidy.

1. What is this request?

In fiscal year 2015, HUD is requesting \$500 million in loan guarantee authority for the Community Development Loan Guarantee program, also known as the Section 108 program. With the implementation of the Congressionally approved fee structure for the Section 108 program, HUD is requesting \$0 in credit subsidy to support this program. Instead of requesting a credit subsidy, HUD will support loans in 2015 through the imposition of a fee assessed on borrowers, as provided in the 2014 appropriations bill. HUD will be able to guarantee up to 3.33 times the amount that could be guaranteed in fiscal year 2014 through supporting the program through fees.

The Section 108 program historically has provided federal guarantees to private lenders to assist communities in undertaking large community or economic development projects. Section 108 assisted projects approved in 2012 and 2013 are projected to create more than 8,800 jobs based on \$437 million in loan guarantees. Section 108's utility as a job generating tool is magnified because many of these economically distressed localities lack alternative sources of financing for community and economic development projects. The proposed funding level would maintain access to financing through this program for CDBG Entitlement communities, non-Entitlement local governments participating through the state CDBG program, and Insular Areas.

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Salaries and Expenses (S&E) and Full-Time Equivalents (FTE) Request

A total of 15 FTEs are requested for HUD management and oversight of this program, which is the same staffing level as the fiscal year 2014. For fiscal year 2015, the total S&E funding is approximately \$1.989 million, which includes \$1.966 million for personnel services and \$23 thousand for non-personnel services.

More details on the S&E request are provided in S&E justification for the Office of Community Planning and Development.

Impact of Requested Funding

Under the requested funding level in the fiscal year 2015, 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. In fiscal year 2013, HUD issued \$230.895 million in loan guarantee commitments which will directly create 4,446 jobs. 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 would allow 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). HUD is working to implement the fee based structure by the end of fiscal year 2014.

Outcomes Associated with fiscal year 2015 Section 108 Requested Funding:

- The Section 108 program would finance job-creating projects that could be expected to create or retain 12,000 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 17 public facilities and provide assistance to between 40 and 50 economic development activities.

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2. What is this program?

In today's economic climate, finding private investment sources for economically distressed areas is a difficult charge. 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 their CDBG funds into 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.

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 administration and public services), the CDBG activities that can be financed through Section 108 account for approximately 60 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 in fiscal year 2013 to be distributed to communities in non-entitlement areas to create a loan portfolio of job creation projects.

Since 1977, HUD has issued 1,898 commitments totaling approximately \$9.2 billion. The total outstanding guaranteed loan balance as of September 30, 2014 is projected to be approximately \$2.1 billion, which is backed by both the recipients' current and future CDBG grants and the community's other collateral, including real property or tax increments. 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.

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Community Development Loan Guarantee - Summary	Actual 2013	Estimate 2014	Estimate 2015
	(Dollars in Thousands)		
Number of Loan Commitments.....	19	36	58
Average Loan Size.....	\$12,152	\$8,600	\$8,600
Loan Guarantee Commitment Limitation Used/Available.....	\$230,895	\$263,871	\$500,000
Subsidy Rate	2.46	2.56	0.0
Fees.....	0.0	0.0	2.42

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

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. Often, the annual CDBG allocation alone is not sufficient to complete crucial large-scale community and economic development projects that communities desperately need. In those instances, the Section 108 Loan Guarantee Program enables CDBG grantees to borrow up to 5 times their current CDBG allocation to finance economic development, public facilities and housing activities consistent with CDBG program requirements.

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 625 outstanding loans in communities across the country, with a total loan balance of \$2.1 billion. The Section 108 Program’s ability to marshal significant resources facilitates targeted and effective investment by communities in housing and community and economic development projects. 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 a guaranteed loan and applying the future revenue to repayment of the debt. Grant funds can then be redeployed to non-revenue generating activities.

Section 108 is an ideal financing source for community and economic development projects that are either too large to carry out with annual grant allocations or projects that generate revenue that can be used to repay the guaranteed loan, or both. In either case, communities are able to leverage their CDBG funds and address their housing and community/economic development needs

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effectively and efficiently. In particular, the Section 108 program provides grantees with a valuable tool that creates jobs and strengthens the local tax base.

Project Examples:

Cincinnati, OH

Cincinnati received a \$37,000,000 Section 108 loan guarantee in 2013 to create a fund to finance economic and community development projects. The first loan from this fund of \$8,905,000 will finance the historic rehabilitation of twelve mixed-used buildings in Pendleton, a historic neighborhood in Cincinnati. These buildings will include residential units for occupancy by low- and moderate income persons and commercial office space. The Section 108 loan is leveraging approximately \$3.4 million Federal and State Historic Tax Credits equity and New Market Tax Credits equity for this historic complex. Other planned projects include another mixed use development in the City's Mt. Auburn neighborhood, projects that will create new jobs, homeless prevention projects, and construction of needed public facilities and improvements in underserved areas of the city.

Springfield, MA

In June 2011, a devastating tornado struck Springfield. On September 19, 2011, HUD approved the first Springfield economic development project after the tornado, a \$2,535,000 Section 108 guaranteed loan to renovate a dilapidated former Holiday Inn into a La Quinta Inn & Suites. As a significant downtown property, the hotel's renovation activity is a visible sign of the City of Springfield's physical and economic recovery, retaining and creating needed permanent jobs for residents as well as temporary construction jobs.

Charlotte, NC

The City of Charlotte used a \$10,000,000 Section 108 loan in 2009 to provide financing to a community-based development organization for a mixed-use retail and residential development located in a HUD approved Neighborhood Revitalization Strategy Area. The project comprises 98 acres for development of retail/commercial space for a grocery store, retail, office and service establishments and 940 residential units. The commercial component of the project is expected to create 270 new jobs.

Palm Beach County, FL

Since 2009, Palm Beach County has received Section 108 assistance totaling \$27,732,000 to finance a portfolio of job creating economic development projects targeted to small and medium size businesses. The projects in the portfolio will create 1,386 jobs and leverage approximately \$51,000,000 in additional investment. An example of one of the projects undertaken provides \$5,948,000 in Section 108 financing to a business manufacturing cosmetics and skin care products. This particular business expansion will create 700 jobs and leverage an additional investment of \$17,223,000.

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.

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 for, 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. Legislative Proposals

General Provisions

Section 211. This 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 of on fees (superseded by appropriations language in 2014).

6. Plans to Improve this Program via IT Investment

Starting in July 2013, HUD staff and CDBG grantees began to use the Integrated Disbursement & Information system (IDIS) to track 757 loan guarantees totaling more than \$1.2 billion under the Section 108 Loan Guarantee Program. The IDIS system is used to track and monitor the use of loan funds and repayment and collect data on program performance. The use of this system will increase transparency and accountability in grantee financial management, enable CPD staff to more effectively and efficiently manage and monitor loans, and streamline the reporting process in order to ensure the availability of high-quality performance data.

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**COMMUNITY PLANNING AND DEVELOPMENT
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Summary of Resources by Program
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2013 Budget Authority</u>	<u>2012 Carryover Into 2013</u>	<u>2013 Total Resources</u>	<u>2013 Obligations</u>	<u>2014 Budget Authority/ Request</u>	<u>2013 Carryover Into 2014</u>	<u>2014 Total Resources</u>	<u>2015 Request</u>
Loan Guarantee Subsidy	<u>\$5,641</u>	<u>\$3,907</u>	<u>\$9,548</u>	<u>\$5,680</u>	<u>\$3,000</u>	<u>\$3,755</u>	<u>\$6,755</u>	<u>...</u>
Total	5,641	3,907	9,548	5,680	3,000	3,755	6,755	...

NOTE: Budget authority represents the total credit subsidy for loans supported. The 2014 appropriations bill allowed the Section 108 Program to move to a fee-based program. The 2015 Budget continues the fee-based program, and requests \$500 million in loan guarantee commitment authority with \$0 in credit subsidy.

**COMMUNITY PLANNING AND DEVELOPMENT
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Appropriations Language**

The fiscal year 2015 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.

[For the cost of guaranteed loans, \$3,000,000, to remain available until September 30, 2015, as authorized by] *Subject to section 502 of the Congressional Budget Act of 1974, during fiscal year 2015, 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 \$500,000,000: Provided, That* [such costs, including the cost of modifying such loans, shall be defined in section 502 of the Congressional Budget Act of 1974: *Provided further, That additionally,*] the Secretary [may] *shall* collect fees from borrowers *to result in a cost of zero for guaranteeing such loans* [, notwithstanding subsection (m) of such section 108], and any such fees shall be collected in accordance with section 502(7) of the Congressional Budget Act of 1974 [: *Provided further, That the funds provided under this heading and any amounts from any such fees collected are available to subsidize total loan principal, any part of which is to be guaranteed, not to exceed \$150,000,000, notwithstanding any aggregate limitation on outstanding obligations guaranteed in section 108(k) of the Housing and Community Development Act of 1974, as amended*]. (*Department of Housing and Urban Development Appropriations Act, 2014.*)