

**COMMUNITY PLANNING AND DEVELOPMENT
COMMUNITY DEVELOPMENT LOAN GUARANTEE
2016 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>
2014 Appropriation	\$3,000	\$3,755	...	\$6,755	\$2,826 ^a	\$945 ^a
2015 Appropriation	3,000	...	3,000	3,000 ^a	4,550 ^a
2016 Request	<u>...</u> ^b	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u> ^a	<u>4,750^a</u>
Program Improvements/Offsets	-3,000	...	-3,000	-3,000	+200

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

b/ No subsidy is requested for fiscal year 2016 as the program moves to a fee-based subsidy.

1. What is this request?

In fiscal year 2016, HUD is requesting \$300 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 again requesting \$0 in credit subsidy in 2016 to support this program. Instead of requesting a credit subsidy, HUD will support loans in 2016 through the imposition of a fee assessed on borrowers, continuing the policy from the fiscal years 2014 and 2015 Appropriations Acts. While the requested level is \$200 million less than the loan guarantee level provided in 2015, HUD feels that the \$300 million request more accurately reflects the projected needs of communities in 2016 given recent loan guarantee commitment levels for the program.

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 2013 and 2014 are projected to create more than 6,000 jobs based on \$300 million in loan guarantees. The Section 108 Program's impact 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 Community Development Block Grant (CDBG) Entitlement communities, non-Entitlement local governments participating through the state CDBG program, and Insular Areas.

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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?

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 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 1,912 commitments totaling approximately \$9.2 billion. 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?

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.

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 750 outstanding loans in communities across the country, with a total loan balance of \$1.82 billion. 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.

Under the requested funding level in the fiscal year 2016, 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 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 will issue the necessary rules to implement the fee based structure and intends to implement the fee during fiscal year 2015 when carryover credit subsidy amounts are exhausted.

Outcomes Associated with fiscal year 2016 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.

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Project Examples:

Los Angeles, CA

The City of Los Angeles used \$6,583,000 of a Section 108 loan pool to fund the 6.6-acre Juanita Tate Marketplace / Slauson - Central Project. The project is built on a brownfield site of a former scrap yard and recycling facility in south Los Angeles. As the result of careful planning, the former brownfield site was converted into a new shopping center with approximately 77,095 square feet of leasable retail space. The project opened in April 2014 and includes major retail tenants such as Northgate Gonzales Market, CVS, Chase Bank, and Starbucks, in addition to providing several other smaller retail spaces for other tenants. The shopping center has over 400 parking spaces and has created more than 200 permanent jobs.

Covington, KY

The City of Covington received approval of a \$4 million Section 108 loan guarantee commitment to establish an economic development loan pool. Of the approved amount, \$3 million will be used to make economic development loans to both micro and small business while the remaining \$1 million will be available for rehabilitation of publicly owned real property. The projects will be located primarily in Covington's Neighborhood Revitalization Strategy Area in the downtown area.

Plans to Improve this Program via IT Investment

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 has increased transparency and accountability in grantee financial management, enabled CPD staff to more effectively and efficiently manage and monitor loans, and streamlined the reporting process in order to ensure the availability of high-quality performance data.

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 included in the Budget

General Provision, Section 211: 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;

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- 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).

Since the Section 108 program is part of the CDBG program, it should be noted that many CDBG grantees that have opted to make use of HUD's Section 108 loan guarantee program use CDBG funds to repay the loan. This is particularly true in instances where the assisted activity is a public facility/infrastructure project that does not generate revenue or program income that can be used to repay the loan. From the period fiscal year 2008 through fiscal year 2013, a recent HUD analysis estimates that 42 percent of annual Section 108 debt service was paid with CDBG funds. This includes planned and unplanned uses of CDBG for Section 108 debt service purposes. Enactment of restrictions on using CDBG funds to repay Section 108 loans, as included in the House appropriations bill for fiscal year 2015, would result in the Federal Government incurring significant losses on Section 108 loans. Borrowers that used Section 108 loans to finance public facility/infrastructure projects furnished additional collateral (e.g., local funds), but that collateral was given to cover the contingency that future appropriations would not be made (not that CDBG funding would be approved but not be available for debt service).

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

<u>Budget Activity</u>	<u>2014 Budget Authority</u>	<u>2013 Carryover Into 2014</u>	<u>2014 Total Resources</u>	<u>2014 Obligations</u>	<u>2015 Budget Authority</u>	<u>2014 Carryover Into 2015</u>	<u>2015 Total Resources</u>	<u>2016 Request</u>
Loan Guarantee Subsidy	\$3,000	\$3,755	\$6,755	\$2,826	...	\$3,000	\$3,000	...
Loan Commitment Level	<u>[-150,000]</u>	...	<u>[-150,000]</u>	...	<u>[-\$500,000]</u>	...	<u>[-500,000]</u>	<u>[-\$300,000]</u>
Total	3,000	3,755	6,755	2,826	[500,000]	3,000	3,000	[300,000]

NOTE: Budget authority represents the total credit subsidy for loans supported. The 2015 appropriations Act moved the Section 108 Program to a fee-based program. The 2016 Budget continues the fee-based program, and requests \$300 million in loan guarantee commitment authority with \$0 in credit subsidy.

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Appropriations Language**

The fiscal year 2016 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.

Subject to section 502 of the Congressional Budget Act of 1974, during fiscal year ~~[2015]~~ 2016, 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, notwithstanding any aggregate limitation on outstanding obligations guaranteed in subsection (k) of such section 108]~~ *\$300,000,000*: *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. (*Department of Housing and Urban Development Appropriations Act, 2015*)