

**COMMUNITY PLANNING AND DEVELOPMENT
COMMUNITY DEVELOPMENT LOAN GUARANTEE
2014 Summary Statement and Initiatives
(Dollars in Thousands)**

COMMUNITY DEVELOPMENT LOAN GUARANTEE	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2012 Appropriation	\$240,000	\$124,593	...	\$364,593	\$206,391	...
2013 Annualized CR	240,000	158,831	...	398,831	402,263	...
2014 Request	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	...
Program Improvements/Offsets	+260,000	-158,831	...	+101,169	+97,737	...

Credit Subsidy

	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2012 Appropriation.....	\$5,952	\$3,090	...	\$9,042	\$5,118	\$3,993 a
2013 Annualized CR.....	5,988	3,907	...	9,895	9,895	8,026 a
2014 Request.....	... b	7,890 a
Program Improvements/Offsets.....	-5,988	-3,907	...	-9,895	-9,895	-136 a

a/ Outlays of discretionary funds only—does not include mandatory re-estimates.

b/ No subsidy is requested for fiscal year 2014 as the program moves to a fee-based subsidy.

1. What is this request?

In fiscal year 2014, HUD requests a loan guarantee authority level of \$500 million for the Community Development Loan Guarantee program, also known as the Section 108 program. HUD does not request an appropriation for a credit subsidy to support the Section 108 program, but instead proposes statutory changes that would enable HUD to charge borrowers a fee to make Section 108 a zero credit subsidy program.

The Section 108 program provides federal guarantees to private lenders to assist communities in undertaking large community or economic development projects. Section 108 assisted projects approved in 2011 and 2012 are projected to create more than 11,700 jobs based on \$484 million in loan guarantees. Section 108's utility as a job generating tool is magnified because many of these

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economically distressed localities lack alternative sources of financing for community and economic development projects. The proposed funding level will allow CDBG Entitlement communities, non-Entitlement local governments participating through the State CDBG program, and Insular Areas to access financing through this program.

The funding level proposed in the fiscal year 2014 Budget would allow the Section 108 program to 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 condition of their residents. This funding level will 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 will 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). It will also permit the fee to be paid with pledged CDBG funds.

Outcomes Associated with fiscal year 2014 Section 108 Funding:

- The Section 108 program finances job-creating projects that are expected to create or retain 12,000 jobs resulting from economic development investments financed by loans guarantees through the program in fiscal year 2014.
- Section 108 financing for economic development purposes will leverage approximately \$4.62 of additional funds for every \$1.00 of Section 108 funding, based on prior experience.
- The program is expected to finance the rehabilitation and construction of more than 17 public facilities and provide assistance to between 40 and 50 economic development activities.

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 offers 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

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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 five times their most recent CDBG award, and communities in non-entitlement areas may receive loan guarantees equal to five times the state's grant under the CDBG program.

Since 1977, HUD has issued 1,876 commitments totaling over \$8.9 billion. The total outstanding guaranteed loan balance as of September 30, 2012 is approximately \$2.2 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.

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

Fifteen FTEs are requested for Section 108 Loans, which is the same as the fiscal year 2012. For fiscal year 2014, the total S&E funding is approximately \$1.94 million, an increase of \$34 thousand compared to fiscal year 2012. For personnel services, Section 108 is requesting \$1.92 million, an increase of approximately \$33 thousand due to the rising cost of salary and benefits. With this request more than doubling the availability of loans, HUD will monitor activity in this account and use the history of this program to review staffing levels for future years.

Section 108's fiscal year 2014 non-personnel services budget request is \$23 thousand, an increase of \$1 thousand compared to fiscal year 2012.

Workload by Function

The below workload by function distribution is an estimate as the majority of CPD employees work on several programs. The FTE distribution is consistent with fiscal year 2012.

- 15 FTE are allocated to Section 108 loan management, the same as fiscal year 2012.

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3. Why is this program is 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. Grant funding for the CDBG program has been reduced, while the need for resources CDBG provides is greater than ever. 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 667 outstanding loans in communities across the country, with a total loan balance of \$2.2 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 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:

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.

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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 guarantees totaling \$15,153,000 to finance a portfolio of job creating economic development projects targeted to small and medium size businesses. The projects in the portfolio will create 1,120 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.

Since fiscal year 2002 when the appropriation availability was increased from 1 year to 2 years, the Section 108 Program has carried forward a portion of the credit subsidy. The carryover from fiscal year 2011 to fiscal year 2012 was approximately 50 percent of the fiscal year 2011 appropriated amount. This is due primarily to the application cycle for Section 108, which tends to be later in the fiscal year, often because of the need for localities to accumulate funds from multiple sources. Other than small amounts that were insufficient to fund applications, the Section 108 program has never had funds expire; all funds have always been used.

It is important to understand that Section 108 financing for economic development purposes is almost always sought to fill the gap between the financing needed for a project and the financing available from other sources. If that gap cannot be filled by Section 108, the project is not likely to be undertaken because few financing alternatives exist. Although a community could devote most or all of their CDBG grant funds to the project, many projects are too large to make that use of grant funding feasible. Even if grant funds were used, however, the result would be that other community development activities could not be undertaken with grant funds. The availability of Section 108 financing is particularly crucial in meeting gap financing needs for communities that are severely impacted by budgetary shortfalls and borrowing constraints. For example, the State of California has eliminated their redevelopment agency financing, leaving communities with few options—they need to fund economic development projects to survive, but lack the financing they need to fund this development.

4. How do we know this program works?

HUD's Office of Policy Development and Research (PD&R) has 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

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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 funding.
- 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.

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HUD's Information Technology Portfolio Improvements

To improve collection of information related to program outcomes, the Department is modifying the Integrated Disbursement and Information System (IDIS) to incorporate the use of Section 108 funds. HUD expects these modifications to be effective in the second half of fiscal year 2013. This IDIS modification will enhance the Department's ability to collect information on outcomes and will greatly improve the grantee's reporting on the use of the Section 108 funds (including outcomes). Please see the HUD's Information Technology Portfolio justification for more details.

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

<u>Budget Activity</u>	<u>2012 Budget Authority</u>	<u>2011 Carryover Into 2012</u>	<u>2012 Total Resources</u>	<u>2012 obligations</u>	<u>2013 Annualized CR</u>	<u>2012 Carryover Into 2013</u>	<u>2013 Total Resources</u>	<u>2014 Request</u>
Loan Guarantee Program	<u>\$240,000</u>	<u>\$124,593</u>	<u>\$364,593</u>	<u>\$206,391</u>	<u>\$240,000</u>	<u>\$158,831</u>	<u>\$398,831</u>	<u>\$500,000</u>
Total	240,000	124,593	364,593	206,391	240,000	158,831	398,831	500,000

NOTE: Budget authority represents the total volume of loans supported. The 2013 Senate mark changes the Section 108 Program to a zero-subsidy, fee-based program.

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Appropriations Language**

Below is the italicized appropriations language for the Community Development Loan Guarantee account.

Subject to section 502 of the Congressional Budget Act of 1974, during fiscal year 2014 commitments to guarantee loans under section 108 of the Housing and Community Development Act of 1974, 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: 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, and such fees such be collected in accordance with section 502(7) of the Congressional Budget Act of 1974.

Note.—A full-year 2013 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Resolution, 2013 (P.L. 112–175). The amounts included for 2013 reflect the annualized level provided by the continuing resolution.