



The NCDA Economic Development Subcommittee Meeting

January 15, 2021



Today's Topics

Section 108 Loan Guarantee Program Overview

Combining 108 with other Financing Tools

Streamlining Econ Development Requirements

Update on Budget Appropriations, Fees and LIBOR





Section 108 Overview

HUD's Section 108 Loan Guarantee Program



- Provides loan guarantees, not grants
 - Recipients can access lower interest rates
 - Low-cost, non-competitive money available on a rolling basis
- Offers 1-on-1 Technical Assistance throughout project life cycle
- Considerable flexibility on use of funds and structure of the commitment
- Employs the framework of the CDBG Program

CDBG National Objectives



Benefit to Low- and Moderate-Income Persons



Elimination of Slum & Blight



Urgent Need

Section 108 Borrowing Capacity

Annual CDBG Allocation		\$3,000,000
Max available borrowing capacity	x 5	<u>= \$15,000,000</u>
Outstanding 108 commitments	-	\$800,000
Outstanding 108 loan balance	-	<u>\$2,000,000</u>
Available borrowing capacity		= \$12,200,000

For more information on your community's current borrowing capacity, please go to:
<https://www.hudexchange.info/resource/5197/current-availability-of-section-108-financing-cdbg-entitlement-and-state-grantees/>

Approach to using Section 108

Project Specific:

- Application is for a specific project or projects
- Requires a high level of project detail & specificity for financial underwriting by HUD Headquarters

Loan Fund:

- Application describes type of loan fund projects to be funded along with the community's underwriting process
- Ideal if a pipeline of projects exist, a community is targeting resources within a specific geographic area (i.e., Opportunity Zones) or with specific development goal in mind
- Individual projects must have a Field Office determination letter to funds to be drawn



Section 108 General Resources

FMD has created resources on HUD Exchange to assist potential borrowers with formulating applications:

- Borrowing Capacity spreadsheet [*updated annually*] [Link](#)
- Application Tool [Link](#)
- Single certifications document [Link](#)
- Section 108 Application & Finance Process Infographic [Link](#)
- Project profiles for all applications approved in recent fiscal years [Link](#)

Many other resources are available on HUD.gov and HUD Exchange.

Note: FMD is willing to provide 1-on-1 Technical Assistance at any project cycle stage for interested applicants.

Combining Section 108 with Other Financing

- Section 108 (and CDBG) can be used to fund mixed-use development
 - Allocate funds to uses that meet program objectives (e.g. commercial component of the project)
- LIHTC and NMTC financing sources can work well with Section 108
 - Deferred principal and subordinated collateral positions
- There are limitations on using Section 108 funds with federal tax-exempt financing; HUD can work with communities to avoid conflicts



Limitations -Tax-Exempt Financing

HUD is subject to government-wide rules (OMB Circular A-129)

- Prohibits direct and indirect subsidy of tax-exempt bonds
- Affects repayment streams and collateral

Our office can assist with structuring projects to avoid conflicts (e.g., identifying strategies around timing or potential exceptions)

Opportunity Zones

Opportunity Zone Basics:

- Enacted as part of the *Tax Cut and Jobs Act* in 2017 ([P.L. 115-97](#)).
- **8,700 low-income/high poverty census tracts** designated by governors/DC mayor.
- 77% of the qualified Opportunity Zones are in **urban** areas and 23% are **suburban and rural**.
- 69% of Opportunity Zones qualify as **severely distressed** under CDFI Fund classification.
- Section 108 and CDBG can work well with Opportunity Zone financing to help attract OZ investment, or supplement OZ projects in OZs.

Tips/Tools for Streamlining Federal Requirements

Streamlining reporting requirements can make CDBG/Section 108 more attractive as a local/state source of leverage for Opportunity Zone projects.

- Since Opportunity Zone funding does not have any reporting or tracking requirements, streamlining any additional requirements that would come from HUD funding is key.

If a project is in a designated Opportunity Zone, it may meet the requirements to ease HUD's reporting requirements under **presumptive benefit**:

- If the poverty rate is 20%+ (not in the CBD) or 30%+ (in the CBD), all jobs created/retained will be considered LMI without requiring household income documentation.

Tips/Tools for Streamlining Federal Requirements

If a community has an Opportunity Zone, it will likely meet requirements needed to be designated a HUD **Neighborhood Revitalization Strategy Area (NRSA)**, which also permits more flexibility with HUD requirements:

- Can streamline requirements for jobs reporting (same as with presumptive benefit)
- Single family housing unit development can be aggregated for an overall 51% low to moderate income benefit, not 100%
- Can provide additional connected services (such as job training) by enabling communities to exceed CDBG public service cap in that area
- Designation lasts for 5 years and can be renewed

Opportunity Zone Investor Incentives

Temporary Deferral of Tax Liability: If capital gains are reinvested in a **QOF** within 180 days then investor can defer paying capital gain tax for those earnings **until the Opportunity Zone investment is sold** or until 12/31/26 (whichever is earlier).

Reduction in Tax Liability:

Partial Exclusion of Deferred Capital Gains: If an investor holds Opportunity Fund investments for a certain period of time, then investor gets a reduction in tax liability depending on the number of years they remain invested (at 5-year mark)

Permanent Exclusion: If an investor holds **QOF** investment for at least 10 years, it does not have to pay any capital gains taxes on income from the sale or exchange.

How Section 108/CDBG Can Be Used in OZs

As a resource to prepare sites to attract OZ investment



Identify available sites and properties in Opportunity Zones
Identify and plan for infrastructure to be rehabilitated

As a resource to supplement OZ equity in a real estate project



Build an attractive financing stack
Work with local government partners to **create funding packages** to fill gaps in OZ project financing

As a resource to complement OZ investments



Streamline local government processes
Introduce additional tax incentives, tax increment financing and other financing strategies to encourage targeted investment in OZs

HYPOTHETICAL Section 108/Opportunity Zone Project



Hotel Project

- Located in a designated Opportunity Zone
- Eligible Activity: Special economic development activity, loan to for-profit developer under 570.203(b)
- National Objective: Benefit to low- and moderate-income individuals through job creation under 570.208(a)(4)

Financing Sources

Section 108 Loan Guarantee	\$	2,000,000
Commercial Loan		19,980,202
Opportunity Fund Equity		7,568,407
Developer Equity		5,000,000
TOTAL SOURCES	\$	34,548,609

How Can Local Governments Take Advantage of OZs

Local governments can combine these efforts into an Opportunity Zone Investment Prospectuses-

- Erie, Pennsylvania: <https://www.erie.pa.us/Portals/0/Content/News/City%20of%20Erie%20Investment%20Prospectus.pdf>
- Louisville, Kentucky: <http://www.acceleratorforamerica.com/sites/default/files/inline-files/Louisville%20Prospectus%20version%2011%2010312018%200.pdf>
- Oklahoma City, Oklahoma: [http://www.acceleratorforamerica.com/sites/default/files/inline-files/OKC%20Prospectus Phase2 v10 2.pdf](http://www.acceleratorforamerica.com/sites/default/files/inline-files/OKC%20Prospectus%20Phase2%20v10%202.pdf)
- South Bend, Indiana: <https://southbend.in.gov/wp-content/uploads/2018/11/South-Bend-Prospectus.pdf>
- Stockton, California: <http://www.stockton.gov/files/StocktonOZProspectus.pdf>

Opportunity Zone Mapping Tool



POWERED BY ENTERPRISE COMMUNITY PARTNERS


The Opportunity360 team from Enterprise created the Opportunity Zone Explorer to help local officials determine which tracts in their state or region have been designated and how they relate to other federal programs and designations.

<https://www.enterprisecommunity.org/opportunity360/opportunity-zone-eligibility-tool>

Opportunity Zone Resources

There are many resources available to learn more about Opportunity Zones:

- HUD OZ [Toolkit](#) and [FAQ](#)
- CDFI Fund Opportunity Zone Program Website - <https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx>
- Novogradac Opportunity Zone Resource Center - <https://www.novoco.com/resource-centers/opportunity-zones-resource-center>
- NCSHA's Opportunity Fund Directory - <https://www.ncsha.org/resource/opportunity-zone-fund-directory/>

A photograph of the Kodak Theatre building at dusk. The building is a large, multi-story structure with a prominent entrance. The name "Kodak Theatre" is displayed in large, illuminated letters above the entrance. To the left, there is a large digital billboard for "TOAST & JAM". To the right, there is a sign for "SEPHORA". The sky is a mix of blue and orange, indicating sunset. In the foreground, there are several cars on a street, and a traffic light is visible in the upper left corner.

Kodak Theatre

NEW FLEXIBILITIES FOR CDBG-CV FUNDS

New flexibilities for \$5 billion in HUD relief funds

- Federal Register | Vol. 85, No. 162, August 2020 Notice
- States may carry out activities directly or pass funds through to local governments in both rural and urban areas throughout the state
 - Some funds must be set aside for rural areas
- Flexibilities, waivers and alternative requirements for Economic Development Activities so grantees can move quickly to help small businesses



CDBG-CV: Economic Development Activities

- Modification of Location-Based Presumption of LMI Benefit for Job Creation and Retention National Objective Criteria
- LMI Job Creation and Retention Records
- Elimination of Aggregate Public Benefit Test
- Modification of Individual Public Benefit Standards
- Opportunity Zones and Related Flexibilities for Economic Development





The map shows a grid of streets in San Antonio, Texas. Major highways 35, 37, 281, and 10 are visible. Landmarks include Pearl Brewery, San Antonio Museum of Art, Fort Sam Houston, Government Hill, Pershing Park, Pershing Elementary, Sutton Nowel, Ruth Woodward Park, Wheeler Middle School, Freeman Coliseum, Atat Center, St. Paul Square, St. Philip's College, and Lincoln Park. Parks like HemisFair Park, Alamo Dome, Pittman Sullivan Park, and Lindberg Park are also marked. A legend in the bottom right corner defines the map's color coding: light blue for Eastside Promise Neighborhood, medium blue for Choice Neighborhood, dark blue for EPN/CN Overlap, and green for Park.

Budget and Allocations, Fees, and LIBOR Update

LEGEND

- Eastside Promise Neighborhood
- Choice Neighborhood
- EPN/CN Overlap
- Park

Appropriations Budget and Allocations

Program	2020	2021
Community Development Block Grants (CDBG)	\$3,425,000,000	\$3,475,000,000
Local Governments	\$2,375,100,000	\$2,410,100,000
States	\$1,017,900,000	\$1,032,900,000
Insular Areas	\$7,000,000	\$7,000,000
Recovery Housing Program (RHP)	\$25,000,000	\$25,000,000
CDBG Section 108 Loan Guarantees*	\$300,000,000	\$300,000,000

*2.15% of the Principal Amount of the Loan, Fee To Cover Credit Subsidy Costs for FY 2021

Sunsetting of LIBOR

- May not be calculated in 2021 and beyond
- Used in calculation of Section 108 interim financing rates
- Identified an alternative reference rate: 3-month Treasury Bill Auction Rate
- Will need to determine a spread intended to hold borrowers harmless by structuring the new rate and spread to achieve parity with the LIBOR-based rate

Want more information?

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Section 108 Program:

<https://www.hudexchange.info/programs/section-108/>

