



# New Cities Project Meeting

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**June 1-2, 2006  
Las Vegas, NV**



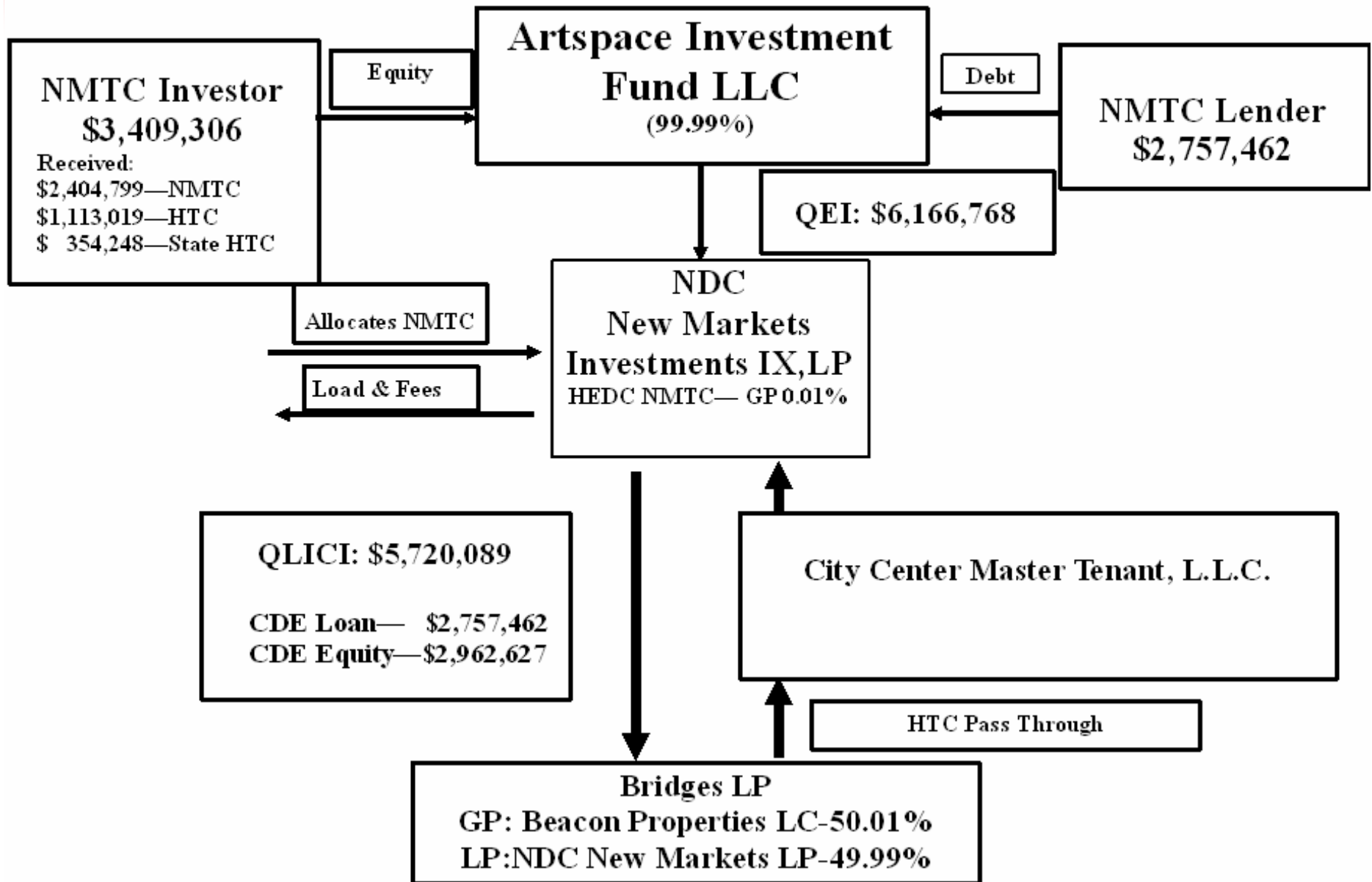
# Demystifying Federal Funding for Local Economic Development

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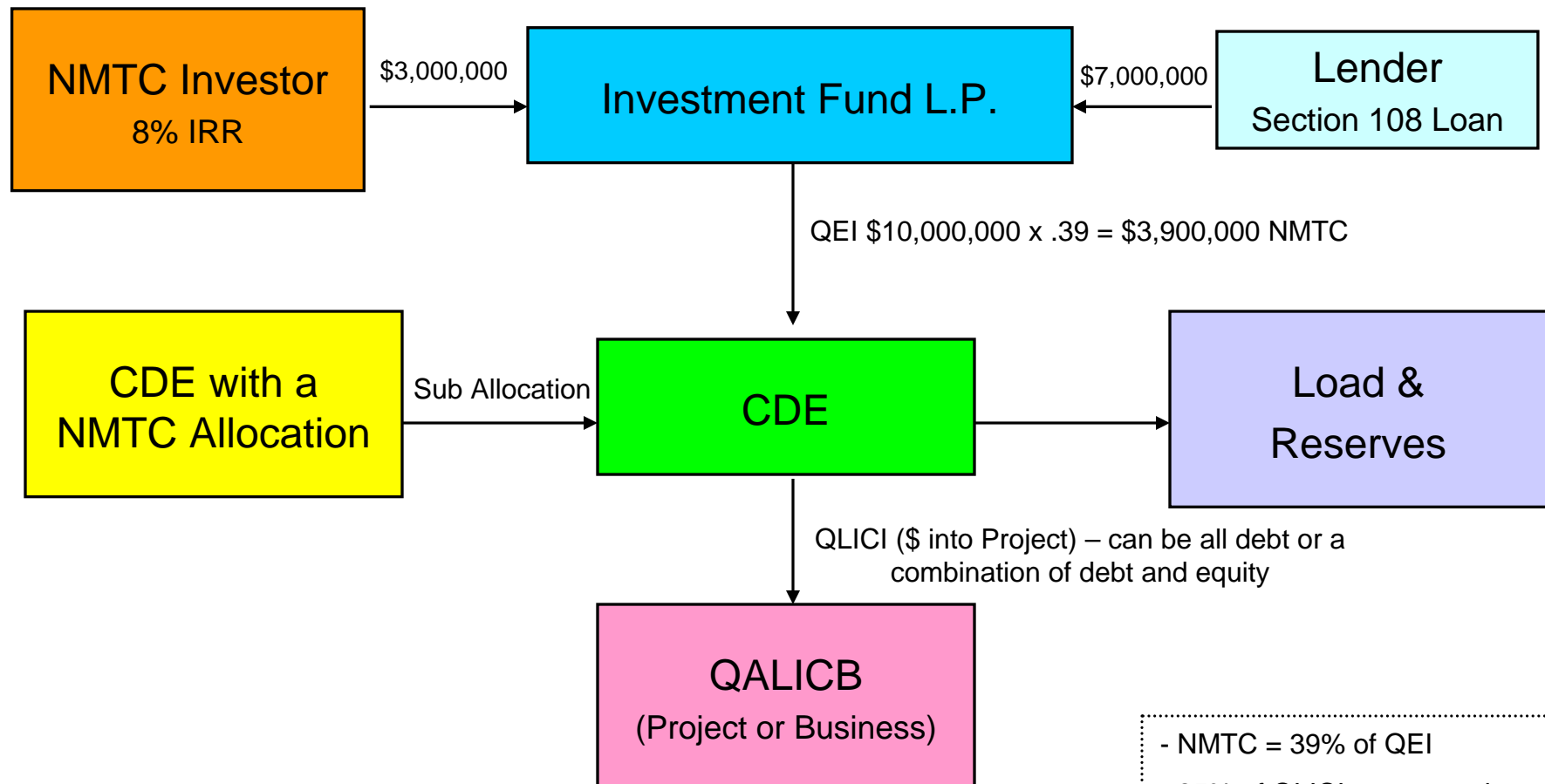
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# Artspace - City Center - Salt Lake City

## FINAL FLOW OF FUNDS



# NMTC Leveraged Equity Flow of Funds



- NMTC = 39% of QEI
- 85% of QLICI must remain invested for seven years



# HUD Section 108 Loan Guarantee Program

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- A Program of U.S. Department of Housing and Urban Development (HUD)
  - Largest economic development tool (\$480 million in 2006)
  - Significant resource for funding community development projects
    - long-term, reasonably-priced financing for targeted projects



## HUD Section 108 Loan Guarantee Program (cont.)

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- A Highly Effective Financing Tool
  - Allows Eligible Communities to expand Community Development Block Grant (CDBG) activities and impact
    - Five times annual CDBG allocations
    - Example
      - Community receives \$5.0 million in CDBG annually
      - Borrowing capacity under Section 108 of \$25 million
  - Accessible by Entitlement Communities as well as communities eligible under Small Cities
  - Long-term, flexible debt
  - Applicable to a wide range of projects: real estate, user business, public facilities, mixed-use, loan funds and housing



# Section 108 Advantages

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- Finance High Impact Projects
- Spread Capital Costs over Time
- Long-term Funds at Reasonable Fixed Rates
- Flexibility in Repayment
  - Staggered amortization
  - Provision for interest-only
- Flexibility in Structure
  - Subordinated debt instrument
  - Senior debt instrument
  - Up to 100 percent financing
- Leverage of Limited Public Dollars
- Non-Competitive and Rolling Application Process
- Do Your Homework and Submit a Good Application and Your 108 Request for Funds Will Be Approved
- Not General Obligation (GO) for Borrowing Community
- Local Decision-making



# Section 108 Loan Guarantee Program History

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- Envisioned as a Means of Assisting Communities in the Financing of Large-scale Projects
- First Used in 1979
- Originally Was Used only for Property Acquisition
- Expanded to Allow for the Financing of Economic Development, Housing Rehabilitation and other Eligible Activities
- Changes in 1990
  - Borrowing authority increased to five times the community's most recent CDBG grant
  - Term extended to 20 years
  - Non-entitlement communities were made eligible





# How the Program Works

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- Communities Have Important Development Projects which Need Long-term, Affordable Financing
  - Communities have needs that exceed resources
  - Resources are limited
  - CDBG grants are largely obligated to programmatic uses
- Private Sector Investors Are Willing to Provide Funds for Important Community Development Projects, but Are Unwilling to Bear Project Risk
  - HUD provides a vital resource: the Section 108 Guarantee



## How the Program Works (cont.)

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- Community (“Borrower”) Issues a Note
  - Through the Section 108 Loan Guarantee Program, HUD guarantees repayment of Note issued by Eligible Borrower
- Section 108 Note Is Sold through an Offering Circular to Investors (through Private Underwriters)
  - Funds from Wall Street made available to Main Street projects

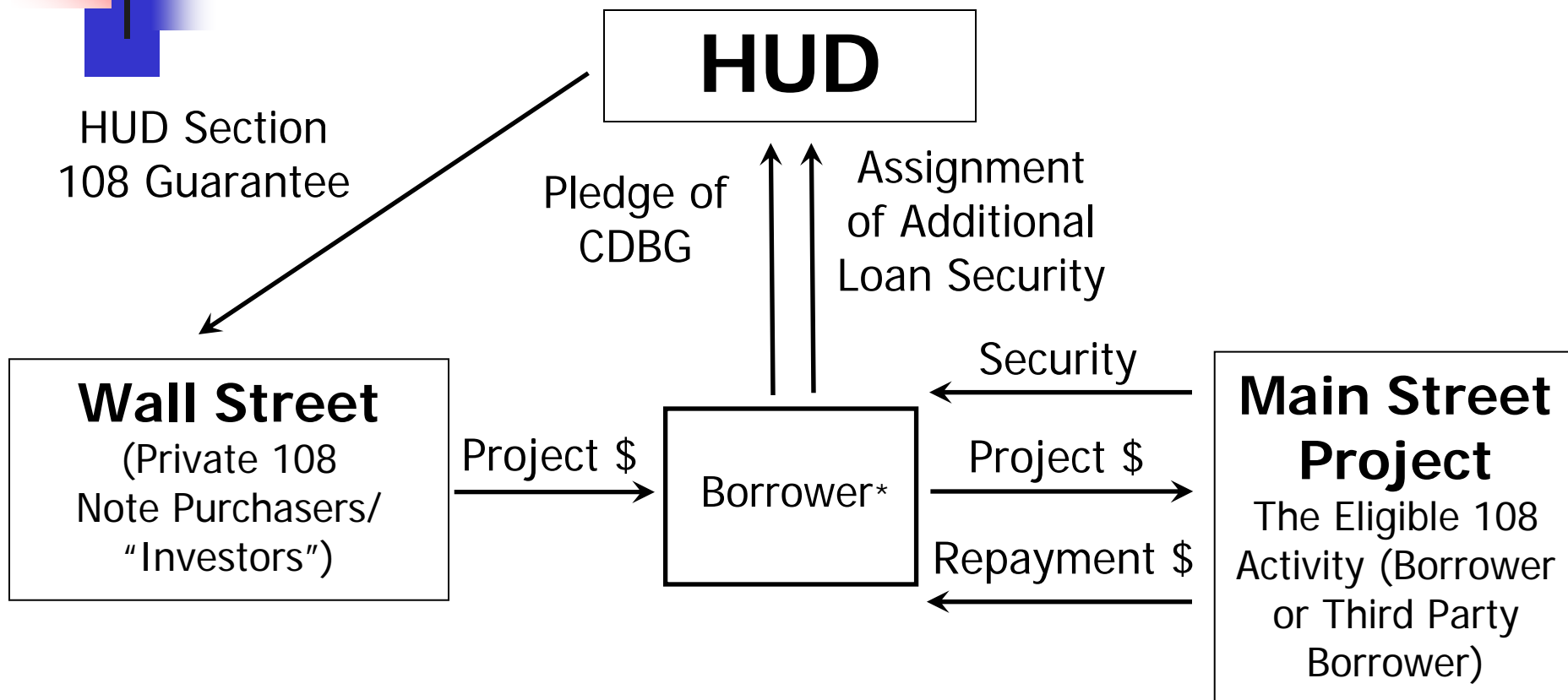


# Section 108 Flow of Funds

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- “Wall Street to Main Street”
  - Eligible Community identifies project
  - Community qualifies project
  - Community structures Section 108 loan
  - Community applies to HUD for Section 108 Loan Guarantee
  - HUD issues Section 108 Loan Guarantee
  - With HUD Section 108 Guarantee of Repayment, Investors provide dollars to Community through HUD’s fiscal agent

## Section 108 Flow of Funds (cont.)



\* "Borrower" in this case denotes all eligible community recipients



# Eligible Applicants, 24 CFR Part 570.702

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- Eligible Applicants (“Borrower”)
  - Entitlement Communities (Cities and Urban Counties) that receive CDBG funds directly
  - Non-Entitlement public entities assisted by states that administer block grants (Small Cities)
  - Eligible Designated Public Agencies identified by either of the above public entities
  - Insular areas (American Samoa, Guam, Northern Mariana Islands, and the Virgin Islands)
  - Hawaii as administered by HUD



# Repayment Sources

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- From the Revenues of the Project Financed with Section 108 Funds
- Repayments from Third Party Borrowers (if Applicable)
- Other Dedicated Revenue
  - Tax Increment Financing (TIF) revenues
  - Payments in Lieu of Taxes (PILOT) payments
  - Program Income or income from other community or economic development activities
- Backstop Pledge of Borrower's Future CDBG



# Term

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- Maximum Loan Term of 20 Years
- Based upon the Useful Life of Asset Being Financed
- Flexible Principal Payments over Term



# Rates

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- There Are Two Distinct Section 108 Funding Phases
  - Interim
    - Funds delivered to Borrower upon closing
    - Short-term funds in anticipation of permanent funding
    - Interim (short-term) investors
  - Permanent
    - Begins at the time of the HUD Section 108 note sale
    - Permanent (long-term) investors
    - Rates vary with term





## Rates (cont.)

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- Interim Rate

- 90-Day London Interbank Offering Rate (LIBOR) plus 20 basis points

- Permanent Rate

- Rates set at HUD Section 108 Guaranteed Certificate sale (not at closing)
- Interest rates vary by Note term and are slightly higher than comparable term Treasury bond rates
- Determined by the term of the Note(s)



# Compass Center





# Compass Center Project Description

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- Historic Rehab of Earthquake-damaged Building in Seattle, Washington
- New 42,000 Square Foot Building
- 78 Transitional “Carrel-type” Rooms for Homeless Men
- Commercial Kitchen/Dining Room to Serve Resident Meals and Provide Employment Training Facility
- 23 New Permanent Studio Units
- Two Floors of Support Service Space Operated by the Compass Center
- Owned by Compass Center’s Affiliated Nonprofit
- Lease the Non-residential Portions of the Compass Center



## Compass Center Project Description (cont.)

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- Uses of Funds

■ Acquisition	\$1,400,000
■ Construction	10,800,000
■ Developer fee	700,000
■ Other soft costs	1,900,000
■ Total	<u>\$14,800,000</u>



## Compass Center Project Description (cont.)

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### Sources of Funds

■ Section 108	\$1,300,000
■ FEMA	1,600,000
■ FHLB	700,000
■ State	2,000,000
■ LIHTC	2,300,000
■ RTC	1,000,000
■ City	2,300,000
■ Equity	2,800,000
■ Other	800,000
■ Total	<u>\$14,800,000</u>