COMMUNITY DEVELOPMENT COMMITTEE AGENDA
A meeting of the Community Development Committee will be held at 3:00 p.m., Thursday, August 18, 2022 via Conference Call at 1-929-205-6099, Access Code: 759694505. The agenda will be as follows:

- **Invocation**

  a. **Public Participation**

     *Any person who speaks at a Community Development meeting shall conduct himself or herself in a manner appropriate to the decorum of the meeting and is asked to observe Section 2-28 (a) of the Code of the City of Charleston, Rules of Decorum. Violation of the Rules of Decorum may result in the forfeiture of audience before the Committee and/or removal from the meeting.*

     Citizens may request to speak at the meeting virtually by telephone or leave comments for the Committee by completing the form at [http://innovate.charleston-sc.gov/comments/](http://innovate.charleston-sc.gov/comments/). If requesting to speak by telephone, please provide your name and telephone number. **Requests to speak at the meeting and comments must be received by 12:00 p.m., Wednesday, August 17th.**

- **b. Approval of Minutes**

  1. July 21, 2022

- **c. Old Business**

  None

- **d. New Business:**

  1. City of Charleston Department of Housing and Community Development & U.S. Department of Housing and Urban Development – Section 108 Financing Tool for the acquisition and development of affordable and workforce housing (Power Point Presentation).

  2. City of Charleston Department of Livability – Vacant Building Update (Power Point Presentation).

4. City of Charleston Department of Planning, Preservation and Sustainability – Presentation: Amendments to the Height District Requirements.

Miscellaneous Business

Adjourn

In accordance with the Americans with Disabilities Act, people who need alternative formats, ASL (American Sign Language) Interpretation or other accommodation please contact Janet Schumacher at (843) 577-1389 or email to schumacherj@charleston-sc.gov three business days prior to the meeting.
Section 108 Loan Guarantee Program

PRIMER

Jorge L. Morales, CPD Specialist
Loan Origination Team Lead

https://www.hudexchange.info/programs/section-108/
Section 108 Loan Guarantee Program

Topics

- The Basics
- Section 108 & IDIS
- Resources
- Financing Process
- Source of Capital
Section 108 Loan Guarantee Program

- Provides loan guarantees, not grants
- Employs the framework of the CDBG Program
- Offers recipients a means of accessing lower interest rates
- Low-cost, non-competitive money available on a rolling basis
- Managed by the Financial Management Division at HUD HQ (Paul Webster, Director)
Section 108 Loan Guarantee Program
What makes Section 108 an attractive financing tool??
Section 108 Loan Guarantee Program

Section 108 Application Process

- Notify HUD Field Office & HQ
- Complete pre-submission requirements (including CP)
- Revise Application as needed
- Concurrent review by HUD FO/HQ
- Submit Application
- HUD approves application & issues offer of commitment
Section 108 Loan Guarantee Program

Who has access to Section 108 funds?

- Subrecipient entities (e.g. economic development or public housing authorities, community development corporations, non-profits), and
- Other partners may receive Section 108 funds directly from HUD if they are a designated public agency (DPA) of the CDBG Entitlement grantee

* Non-entitlement communities in Hawaii and Insular Areas receive CDBG funds as well
Section 108 Loan Guarantee Program

Borrowing Capacity

Annual CDBG Allocation
Max available borrowing capacity
Outstanding 108 commitments
Outstanding 108 loan balance

Available borrowing capacity

$3,000,000
$3,000,000 x 5 = $15,000,000
- $800,000
- $2,000,000

= $12,200,000

Or you can just look on our website here:
Section 108 Loan Guarantee Program
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
What types of Section 108 projects?

<table>
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<tr>
<th>Economic Development</th>
<th>Central Business District Support</th>
<th>Retail/Office and Manufacturing</th>
<th>Small Business Financing</th>
<th>Business Retention</th>
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<tbody>
<tr>
<td>Housing</td>
<td>Loan Funds for Third Party Developers</td>
<td>Adaptive Reuse</td>
<td>Mixed-Use</td>
<td>Rehab of private housing stock and public housing</td>
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<td>Public Facilities</td>
<td>Community Centers</td>
<td>Park Upgrades</td>
<td>Hospitals</td>
<td>Public Bldgs serving Residents</td>
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<td>Infrastructure</td>
<td>Water &amp; Sanitation</td>
<td>Streets, Curbs and Gutter Improvements</td>
<td>Broadband Line Extensions</td>
<td>Devastated Landscapes</td>
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</table>

Source: Code of Federal Regulations (CFR) §570.703 Eligible Activities
What is the scope of Section 108 projects?

- Solar Panel Systems
- Rehab of Affordable Housing
- Remediation and New Construction
- Sidewalk and Curb Improvement
- Construction of Community Centers
- Acquisition and Clearance
- Park Upgrades
- Cooperative Development
- Multi-use Anchor

Incremental Improvements Substantial Project Transformational Initiative
Section 108 Loan Guarantee Program

Stages for Section 108 Deployment

Preparation/Pre-development

- Acquisition
- Demolition
- Site prep & remediation
- Relocation costs

Implementation

- Construction
- Machinery & equipment
- Working capital
- Infrastructure + improvements
Section 108 Loan Guarantee Program

Two Sets of Requirements

Program Requirements

Financial Requirements
Section 108 Loan Guarantee Program

Two Sets of Requirements

Program Requirements

Financial Requirements
Section 108 Loan Guarantee Program

Two Sets of Requirements

Program

Financial Requirements

Standard CDBG Requirements
Section 108 Loan Guarantee Program

Two Sets of Requirements

Program

Standard CDBG Requirements
1. Eligible Activity - 24 CFR 570.703

Financial Requirements
Section 108 Loan Guarantee Program

Public Benefit Standards

**Individual Standard:**
- May not exceed $1,000 per person to which goods or services are provided
- OR
- May not exceed $50,000 per permanent full-time-equivalent (FTE) job created or retained

**Aggregate Standard:**
- Provide goods and/or services to at least one person per $350 of CDBG funds
- OR
- At least one permanent FTE job per $35,000 of CDBG funds

**Important notes:**
- Compliance with the individual public benefit standard is determined at the time of Section 108 application
- Some activities may be excluded from the aggregate standard
Section 108 Loan Guarantee Program

**Program**
- Standard CDBG Requirements
- Eligible Activities / National Objective / Public Benefit Standards
- **Crosscutting Requirements**
  - Environmental Review
  - Uniform Administrative Requirements
    - (2 CFR 200) etc.
  - Davis Bacon wage requirements
  - Procurement
  - Relocation (URA)
  - Fair Housing & Lead-Based Paint

**Two Sets of Requirements**

**Financial Requirements**
Section 108 Loan Guarantee Program

Two Sets of Requirements

Financial Requirements

Program Requirements
Section 108 Loan Guarantee Program

Two Sets of Requirements

Program Requirements

Financial

1. Repayment
2. Collateral
3. Underwriting
Section 108 Loan Guarantee Program

Two Sets of Requirements

Program Requirements

Financial

Repayment
CDBG (including expiring funds)
Third party loan proceeds
Parking revenue
Tax increment financing revenue

Collateral
Section 108 Loan Guarantee Program

Two Sets of Requirements

Program Requirements

Financial

Repayment

Collateral
Pledge of current and future CDBG
Additional collateral
  Property lien
  Full faith and credit
  Debt service reserve
Section 108 Loan Guarantee Program
Two Sets of Requirements

Financial
- Repayment
- Collateral

Underwriting - Financial Risk
Is the risk acceptable?
Section 108 Loan Guarantee Program

Section 108 IDIS Guidance

• Loans are set up by FMD upon approval of 108 commitment.

• Borrowers need to set up a project and the activities to be funded by the loan similar to how CDBG activities are set-up.
  • Borrowers need to indicate the activity is funded by Section 108 loan when initially creating the activity in IDIS.

• Vouchers to drawdown the funds for Section 108 activities require added approval by HQ/FMD.

• Section 108 program income (SI) differs from CDBG program income (PI). SI must be reported in IDIS. It must be used to satisfy debt service first (unless otherwise approved of by HQ). Following loan repayment, it will convert to PI for general CDBG use.
Section 108 Loan Guarantee Program

Section 108 Loan Documents

Standard Section 108 loan documents for initial advance include:

- Contract for Section 108 Loan Guarantee Assistance
- Variable/Fixed Rate Note
- Any collateral documentation perfecting HUD’s interest
- Legal opinions
- Advance request
Section 108 Loan Guarantee Program

Section 108 Loan Documents

Contract for Section 108 Loan Guarantee Assistance (Contract)
- Between HUD and the Borrower (grantee; if DPA, grantee is party to the Contract; if non-entitlement, UGLG and State are parties)
- Defines programmatic and financial requirements for the loan
- Describes the collateral being pledged for the loan
- Lists all the documentation that is required for the collateral and what documents (if any) must be sent to a document custodian

Variable/Fixed Rate Note (VFR Note)
- Defines the borrower’s financial commitment and repayment terms of the loan
- Designed to convert into fixed (permanent) rate during public offering
- Guaranteed by HUD through federal pledge of full faith and credit
Section 108 Loan Guarantee Program

Borrower Legal Opinion(s)
• The borrower’s legal counsel reviews the loan documents and makes a legal claim of the borrower’s authority to pledge grant funds and other collateral

Additional collateral documents
Differs depending on the type of collateral pledged to the loan
• Typically need to be kept with a document custodian (a third-party financial institution that maintains the documents for the life of the loan)

Advance Request
• Document borrowers use to request funds from the lender
Section 108 Loan Guarantee Program
Financing Process (Borrower or DPA)

1. Draft Contract, loan documents
2. Signed loan documents and collateral documentation
3. Note, Guarantee, HUD legal opinion, advance request
4. Loan Funds
5. Repayments

Fiscal Agent/Lender

HUD (FMD)

Borrower

Texas Attorney General Requirement
Section 108 Loan Guarantee Program
Financing Process (Third Party)

1. 
2. Signed loan documents and collateral documentation
3. Note, Guarantee
4. Loan Funds
5. Repayments
6. Repayments
7. Repayments

Fiscal Agent/Lender

Borrower

HUD (FMD)

3rd Party Developer

3rd Party Loan
Section 108 Loan Guarantee Program
Source of Capital & Interest Rates

**Interim Financing:** Variable interest rate financing based on the 3-month T-bill Auction Rate (91 Day, 13 week) + 35 basis points (.35%)
- May be prepaid at any time without penalty, in whole or in part
- Can be converted to fixed rate permanent financing in the next public offering

**Permanent Financing:** Competitive fixed interest rate financing available through HUD’s public offering
- Occurs every few years (last public offering March 2019)
- Option exists to pre-pay/defease and refinance loan, with certain restrictions
Combining Section 108 with Other Financing Sources
Section 108 Loan Guarantee Program

How does Section 108 fit into the financing for a project?

STANDALONE  COMBINED  GAP
Combining Section 108 with Other Federal Financing

- New Market Tax Credits
- Historic Tax Credits
- Low-Income Housing Tax Credits
- Opportunity Zones
- 7(a) Loans
- 504 Loans
- EDA Public Works & Economic Adjustment Assistance
- BUILD Grants
- TIFIA
- Revolving Loan Funds
- Brownfields Remediation Financing
- WIFIA
Section 108 Loan Guarantee Program
Combining Section 108 with Other Federal 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 options exist

- There are limitations on using Section 108 funds with federal tax-exempt financing; HUD can work with communities to avoid conflicts (OMB Circular A-129)
Section 108 Loan Guarantee Program
Opportunity Zones: Streamline Reporting 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.
Section 108 Loan Guarantee Program
Opportunity Zones: Streamline Reporting 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
Section 108 Loan Guarantee Program

Resources Available
Section 108 General Resources

HUD has created resources on HUD Exchange to assist potential borrowers with developing 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]
- Join our mailing list to get email updates! [Link]

Many other resources are available on HUD.gov and HUDexchange.info

Note: FMD is willing to provide 1-on-1 Technical Assistance during any project cycle stage for interested applicants.
Section 108 offers in-depth, tailored Technical Assistance

- Walk-through eligibility requirements
- Offer suggestions and share examples of similar projects

- Provide Joint Technical Assistance with Field Offices
- Identify appropriate sequencing and deal structure

- Help to clarify outstanding issues related to underwriting
- Share guidance and best practices on documentation

- Identify additional collateral
- Advise on loan proceeds and disbursements

- Ongoing guidance on compliance and reporting
- Dynamic ability to amend project terms to meet borrower’s needs

FMD is willing to provide 1-on-1 Technical Assistance during any project cycle stage for interested applicants.
Adaptive Reuse + Mixed-Use Example

The Hotel Grim Lofts Project

Texarkana, TX $1.429M
- Funds used to redevelop the historic Hotel Grim, an eight-story, 103,200 square-foot structure built in 1925.
- The redevelopment will be a mixed-use, mixed-income historic preservation project.
- The redeveloped property will include 98 housing units and approximately 5,000 square feet of commercial space on the first level.

Image Source: txktoday.com
Business Loan Fund

Family Business Loan Program

Austin, TX $8M
- Provided small business loans to family-owned businesses in economically distressed areas.
- Converted to Austin Economic Injury Bridge Loan Program in response to COVID-19.
- Provides short-term working capital until the SBA disaster relief assistance became available.
Grocery Store

HEB Grocery Project

Houston, TX $5.062M
- Funds loaned to HEB for acquisition and construction.
- The store is 72,000 sq. ft. and located in an underserved community.
- The store increased access to healthy foods for 65,000 people.

Image Source: houstontx.gov
Section 108 Loan Guarantee Program

Want more information?

Jorge Morales, MA: Jorge.L.Morales@hud.gov

Section 108 Program:
https://www.hudexchange.info/programs/section-108/