LEVERAGING HUD PROGRAMS

From Blight to Bright
Annual Housing Conference
November 1, 2019
Today’s Topics

- HOME & OZs
  - Example: Poughkeepsie, NY
- SECTION 108
- CDBG & 108 IN OZs
- TAKING ADVANTAGE OF OZs
- PROJECT EXAMPLES:
  - HIGH POINT, NC
  - ROCHESTER, NY
Leveraging ratio for HOME rental units completed in 2018-2019 - 8.70
Leveraging for HTF rental units completed to date - 4.33
Overall leveraging ratio for all units completed in FY 2018 - 5.65
Overall leveraging ratio for FY 2019 - 6.20
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HOME and Opportunity Zones

Anti-displacement tool

Additional leverage
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Anti-displacement tool

Additional leverage
Poughkeepsie, NY: Fallkill Commons on Rose St.

New Construction of 78 units

In an Opportunity Zone

50% targeted to special populations

$4.4 million LIHTC awarded

$157,000 HOME
HUD’s Section 108 Loan Guarantee Program

Provides loan guarantees

CDBG Program Framework

Offers recipients a means of accessing the capital markets
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CDBG Program Framework

Offers recipients a means of accessing the capital markets
What makes Section 108 an attractive financing tool?

- Wide Range of Uses
- Low-cost Financing with Flexible Terms
- Various Sources of Repayment + Collateral
- Availability of Funds
Specific Project
Requires specific project detail for financial underwriting by HUD Headquarters

Loan Fund
Application describes types of activities the community will fund

Ideal for targeting resources to a specific geographic area or advance specific development goal
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Flow of Funds: Project by a 3rd Party

1. Advance Request & Loan Documents
2. Note with Federal Guarantee (Guarantor)
3. Lender (Investor)
4. Borrower (Grantee or DPA)
5. Repayment
6. Advances

3rd Party business or developer
Interim Financing: Variable interest rate financing based on the 3-month LIBOR (London Inter-Bank Offered Rate + .2%)

Permanent Financing: Competitive fixed interest rate financing available through HUD’s public offering.
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Permanent Financing: Competitive fixed interest rate financing available through HUD’s public offering.
Combining Section 108 Other Financing

Section 108 (and CDBG) can be used to fund mixed-use development

Low-Income Housing Tax Credit (LIHTC) and New Market Tax Credit (NMTC) financing sources can work well with Section 108

Opportunity Zones often have similar demographics to national objective requirements
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Using Section 108 maximizes the impact of grant funds

Combined CDBG + 108 Funding for Projects

Average Annual CDBG Allocation (Section 108 Borrowers) over the last 20 years

> $10

< $4 million
Where are the OZs in Your Community?
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How Section 108 and CDBG Can Be Used in OZs

- As a resource to prepare sites to attract OZ investment
- As a resource to supplement OZ equity in a real estate project
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Resource to complement OZ projects
State and local governments should take an active approach to directing Opportunity Fund investment.

**Identify available sites** and properties in Opportunity Zones

Look for ways to **complement** Opportunity Zone projects

**Identify and plan** for infrastructure to be rehabilitated

**Streamline local government processes**
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How Can Local Governments Take Advantage of OZ’s?

Build an attractive financing stack

Work with local government partners to create federal funding packages to fill gaps in Opportunity Zone project financing

Introduce additional tax incentives, tax increment financing and other financing strategies to encourage targeted investment in Opportunity Zones
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Rochester, NY: College Town

14-acre brownfield remediation project

Mixed-use development that includes residential and office space, retail and restaurant space, parking and a grocery store.

330 full-time jobs
### Sources:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>Section 108 Loan</td>
<td>$20,000,000</td>
</tr>
<tr>
<td>US Bank Financing</td>
<td>36,500,000</td>
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<tr>
<td>University of Rochester</td>
<td>16,160,000</td>
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<tr>
<td>City Grant (CIP Funds)</td>
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<tr>
<td>NY State Grant</td>
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<tr>
<td>Sales Tax Exemption</td>
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<td>Brownfields Grants</td>
<td>2,000,000</td>
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<tr>
<td>Rochester Gas &amp; Electric Utility Grant</td>
<td>650,000</td>
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<tr>
<td>Private Equity</td>
<td>5,600,000</td>
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<tr>
<td><strong>Total Sources:</strong></td>
<td><strong>$91,940,000</strong></td>
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### Uses:

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<tr>
<th>Use</th>
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<tr>
<td>Hard Construction Costs</td>
<td>$76,590,000*</td>
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<tr>
<td>Indirect Construction Costs</td>
<td>11,000,000*</td>
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<tr>
<td>Section 108 Debt Service Reserve</td>
<td>900,000*</td>
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<tr>
<td>Utilities/Streets/Right of Way</td>
<td>3,450,000</td>
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<tr>
<td><strong>Total Uses:</strong></td>
<td><strong>$91,940,000</strong></td>
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* Section 108 Uses
High Point leveraged a small annual CDBG allocation of less than $100,000 into $694,000 in Section 108 Loan Guarantee financing for the affordable housing project.
Phase 1 – Public Infrastructure & Site Improvements

<table>
<thead>
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<th>Sources</th>
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<tr>
<td>Section 108</td>
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<table>
<thead>
<tr>
<th>Uses</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Acquisition</td>
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<tr>
<td>Site</td>
<td>$45,000</td>
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<tr>
<td>Improvements</td>
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<tr>
<td>Total Uses</td>
<td>$694,000</td>
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</tbody>
</table>
Phase 2 – Development of New Affordable Housing

**Uses:**

- Construction: $6,140,614
- Acquisition: $694,000
- Land Improvements: $348,900
- Soft Costs: $899,547
- Development Fees: $1,092,000
- Rent and Operating Reserves: $260,712
- Total Uses: $9,435,773

**Sources:**

- Bank Loan: $1,228,117
- Rental Production Program Loan: $800,000
- Note issued to Borrower from Buildable Site: $694,000
- Federal LIHTC: $6,713,656
- Total Sources: $9,435,773
Want more information?

Joey Baietti: Joseph.a.Baietti@hud.gov

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