Using HUD 108 for Job Creation and Economic Inclusion

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Benefits of HUD 108

- HUD 108 has a favorable interest rate
- HUD 108 has the ability to adjust repayment periods to match cash flow
- When carefully used, a City can increase their ability to move projects forward
- When coupled with a Neighborhood Revitalization Strategy Area, paperwork is reduced and funds are targeted to areas that need them most
Weaknesses of HUD 108

- It’s a loan from the Federal Government backstopped by future Block Grant Allocations
- Risk of future CDBG can cause elected officials to be wary of using HUD 108
- There are a lot of regulations that developers and businesses are unfamiliar with
- With regulations, comes paperwork
- The process is time consuming
Setting up a HUD 108 Program

- If you already originate loans- nothing to add
- If this is new to you, you’ll need
  - Staff to underwrite loans - finance background
  - Underwriting Guidelines for staff
  - A Lawyer to complete documents between you and HUD and you and the Borrower
  - A Loan Committee (volunteers - bankers, business persons, accountants)
  - Staff to bill for the loans & wire payments to HUD
Setting up a HUD 108 Program

- Your HUD office should be able to connect you with a Community with a successful program
- Borrow their documents, get their loan Committee makeup, pick their brains!
- Once you have a strategy & guidelines
  - Talk to your elected officials about what these funds could do to help your community
  - Explain how you will make sure they can be paid back with no impact to CDBG
City NRSA Strategy

Three Prong HUD NRSA Strategy:

- Evergreen Cooperatives
  - Working with non-profit partner, Cleveland Foundation
  - Addresses socio-economic benefit for the most distressed areas and populations (ex-felons)

- Supporting Existing Small Businesses with Storefront and Economic Development Lending

- Health-Tech Corridor Attraction
  - Public Private Partnership of Universities, Hospitals, Businesses, Community Development Corporations and Philanthropy
  - Working together to bring in businesses
  - Multiple Success Stories
  - Now formally branded, marketed and staffed
Neighborhood Revitalization Strategy Areas

Proposed Neighborhood Revitalization Strategy Areas

- Central NRSA
- East NRSA
- West NRSA
- South NRSA
Projects

▪ It’s harder to get banks to invest in these neighborhoods
▪ Strong public-private partnership supports City efforts
▪ HUD 108, New Markets Tax Credits help overcome obstacles to financing
▪ Take advantage of vacant & underutilized land in close proximity to Anchor Institutions
▪ Creation of “post-incubator” space to retain and attract emerging companies
Using HUD 108

- HUD 108 MUST be paid back to the Federal Government

- Needs to be highly secured
  - Debt Reserve using HUD 108
  - Strong Collateral
  - Guaranty of High Net Worth individual
  - Positive Arbitrage (Charge more interest than you owe to HUD)

- Doing several low-risk projects allows us to take more risk on a few economic inclusion projects
The Health Tech Corridor- Before
Dunham Square LLC dba Midtown Technology Center
Dunham Square LLC dba Midtown Technology Center

- Funded in 2009
- 128,000 sq ft Flex space to support 7 Incubators at capacity
- 150 New Jobs to be created - Currently at 245 jobs!
- Part of the Health-Tech Corridor
- HUD 108 Leveraged NMTC
- No bank financing available - City and State only
Dunham Square LLC dba Midtown Technology Center

$10,700,000  HUD 108 (EZ)

$  240,000  City of Cleveland Vacant Property Forgivable Loan

$  4,153,500  New Market Tax Credit Equity

$  1,600,000  Equity

$16,693,500  Total Project

- Debt reserve funded by HUD 108 for HUD 108 is $321,000

- Personal Guaranty of Developer

- City charging .2% additional interest
Pierre’s Expansion

Build on what you have....

6200 Euclid Avenue - Expansion of an Ice Cream Making Company already in the NRSA
6200 Euclid LLC-dba Pierre’s Ice Cream

- Funded 9-19-10
- 75 year central NRSA company
- Could not get a Bank Loan
- 35,000 sq ft expansion to retain 50 jobs
- $6,900,000 HUD 108
- $2,136,754 Equity from Company
- Company was considering a move to Phoenix
6555 Carnegie
Midtown Tech Center 3

- Property was 75% Vacant for years
- Delivers new space to growing Health Tech Corridor (HTC)
- Anchor Strategy - uses power of Hospitals & Universities to attract businesses
- Corridor was 86% leased in 2 years- showing growing demand
6555 Carnegie
Midtown Tech Center 3

- $4,000,000 HUD 108
- $500,000 EDA Loan
- $3,550,000 New Market Tax Credit Low Interest Loan
- $381,200 Deferred Developer Fee
- $514,274 Equity
- $8,945,474 Total Project

- Home to Radio One- largest Minority Owned Media Company in U.S.
- Post Incubator Space includes Abeona, a fast growing gene therapy company
Dave’s Supermarket

- Food Desert
- Adjoining new Women and Children’s Clinic (University Hospitals) will write prescriptions for fresh food for low-income patients
- Helps build a neighborhood around the Health Tech Corridor- 1st Apartment Building, and 1st Hotel are also under construction
Dave’s Supermarket

- Will create 110 Jobs
- Closing October 31, 2017

$ 2,200,000  HUD 108
$ 600,000  HHS Grant
$ 5,700,000  New Market Tax Credit
  ($17 M Allocation)
$ 500,000  State Energy Loan
$ 600,000  State Stormwater Loan
$ 1,000,000  County Loan
$ 10,200,000  Leveraged Debt
$ 20,800,000  Total Project
Link 59

- Tech and Post Incubator Space
- Will create 260 New Jobs
- Under Construction
- Will be 60% Leased at Opening
Large brownfield remediated by the City
Cost of land when acquired was < $20,000 an acre 15 years ago when City acquired
$120,000 sales price per acre did NOT cover the cost of remediation - but returned to productive use

$ 10,000,000    HUD 108
$  3,000,000    BEDI Grant
$  2,400,000    Equity
$ 15,400,000    Total Project
Economic Inclusion Projects

- Finding funding to address issues such as jobs for the formerly incarcerated & that provide a path to prosperity
- Helping keep companies in a neighborhood, rather than chasing the next incentive
- Often these projects are higher risk and HUD 108 can only fund with a strong reserve fund
- Use a HUD 108 Debt Reserve, Interest Rate Arbitrage to create a growing reserve
Evergreen Cooperative Laundry-

- Funded 8-12-09

- Leveraged:
  - $1,500,000  HUD 108
  - 750,000  Shorebank
  - 1,326,500  Evergreen Fund

- New Market Tax Credits:
  - $1,3753,500  Equity

- Non-Leveraged:
  - $250,000  Commonwealth RLF Fund
  - $200,000  EDA Title IX Working Capital
  - $173,500  Shorebank Enterprises
Evergreen Cooperative Laundry

- 29 Jobs Created
- 90% Minority
- 44% Empowerment Zone
- 62% Formerly Incarcerated
- Section 3 over 60%
- "Green"- Environmentally friendly laundry
Green City Growers Cooperative

- 6 acre greenhouse
- Grows lettuces and basil
- 42 new FTE jobs created
- Employees become worker-owners
- Largest customers are local institutions & businesses
Green City Growers BEDI

- Another Evergreen Cooperative
- City acquired land using URA – 10 houses on 10 acres
- Project purchased land from City at FMV per appraisal
- HUD 108 and BEDI funded
- Note: Retrospectively, in the future I would not put so much HUD 108 into one economic inclusion project
- We have done a workout on this project and the reserves saved the project
Green City Growers Cooperative

- $ 8,000,000  HUD 108
- $ 220,900  City Grant for Planning
- $ 400,000  Deferred Developer Fees
- $ 150,000  Predevelopment Grant
- $ 4,700,000  New Market Tax Credit Equity
- $ 2,000,000  HUD Brownfield Economic Development Initiative Grant
- $ 200,000  EDA Working Capital
- $1,400,000  Evergreen Fund
- $17,070,900  Total Project
HUD 108

- HUD 108 has helped us to stimulate investment
- HUD 108 leverages private investment - we need less HUD 108 per project since the recession
- Processing time is longer than most loans & you must educate the borrower on 106 review, Section 3 and Federal Prevailing Wages
- Sell HUD 108 with its flexibility and low interest rate
  Example- you could provide subordinated debt with 3 years interest only, which could help a developer complete a project
- Used with an NRSA cuts down on paperwork
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