

COUNTY OF MILWAUKEE
Inter-Office Communication

DATE: May 22, 2020

TO: Supervisor Marcelia Nicholson, Chairwoman, Milwaukee County Board of Supervisors

FROM: Shakita LaGrant, Interim Director, DHHS and Department on Aging
*Prepared by James Mathy, Housing Administrator, Housing Division and
Aaron Hertzberg, Director of Economic Development, DAS*

SUBJECT: **An informational report from the Interim Director, Department of Health and Human Services (DHHS), regarding the Section 108 Loan Program within the Department of Housing and Urban Development (HUD)**

Issue

In April 2020, the Milwaukee County Board approved a resolution requesting an informational report relating to the potential County utilization of the federal Department of Housing and Urban Development's (HUD) Section 108 Loan Guarantee Program.

Background

The HUD Section 108 Loan Guarantee Program permits Community Development Block Grant (CDBG) recipients to leverage their annual grant allocation to access low-cost, flexible financing for economic development, housing, public facility, and infrastructure projects at an amount up to five times the most recent grant amount and may lend the money directly or via a third-party. In 2020, the full CDBG allocation was \$1,686,898 making Milwaukee County's eligibility for the 108 Program approximately \$8.4 million. HUD allows various uses of these funds to include:

- Real estate purchases
- Rehabilitation of public real estate property
- CDBG-based housing rehabilitation
- Public works and public facilities improvements or installation

Enacted by Congress in 1974, HUD's Section 108 Loan Guarantee program is the loan guarantee provision of the Community Development Block Grant (CDBG) program. The Section 108 program is a financing tool that allows communities and states to expand the size of their CDBG programs. It allows communities to transform a small portion of their CDBG funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects that can renew entire neighborhoods. HUD's Financial Management Division within the Office of Community Planning and Development administers the program.

HUD finances Section 108 obligations through underwritten public offerings, and an interim lending facility, established by HUD, provides financing between public offerings. Through the Section 108 loan mechanism, HUD guarantees a loan between the private sector lender and a state or local government borrower. The guarantee is backed by the full faith and credit of the United States. The public offering, coordinated by the Financial Management Division, specifies the terms of Section 108 loan repayment, which may include a maximum repayment period of 20 years. HUD can structure the principal amortization to match the needs of the project and borrower. The local government may relend the funds, which must be repaid, to third parties to undertake eligible CDBG activities (typically economic development) or use the funds to implement eligible CDBG activities directly. CDBG allocations are pledged as security for the loan to the local government, enabling HUD to guarantee the loan. The grantee can repay the loan with CDBG funds, program income, and/or other revenues.

There are some inherent risks to Milwaukee County making a future decision to begin a Section 108 loan program. If a particular project would fail that was funded through this mechanism, Milwaukee County could be liable to pay back that loan through its future CDBG allocations. This is more complicated for Milwaukee County due to its Urban County designation. If a project failed in one particular municipality, each municipality would see a reduction in the CDBG funds that are typically allocated to them. The Housing and Economic Development Divisions would recommend a future conversation with the Intergovernmental Cooperation Council (ICC) to discuss this possibility.

Milwaukee County does have a history of developing business related loan programs. Through a previous County Board action (File No 11-601), Milwaukee County set aside past revenues to invest those dollars in economic development-related activities. This led to the creation of Milwaukee County's Economic Development Loan Fund (File Nos. 12-985 and 13-231) which is managed by the Milwaukee Economic Development Corporation (MEDC). The Portfolio Management Agreement incorporated into the Administrative Agreement appoints MEDC to oversee the management of the County's Revolving Loan Fund program subject to the terms and provisions of the Agreement. This involves the responsibility for both the fiscal and loan administration components of the fund in addition to the responsibility of ensuring full compliance

by borrowers receiving loans from the fund. The original County contribution to this fund was \$1 million. Although the fund had been fully utilized, due to the repayment of past loans, there is \$500,000 available for small businesses to immediately access. Milwaukee County has requested an update on the status of lending from MEDC for presentation to the County Board in the July cycle.

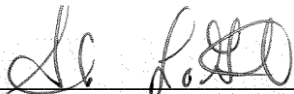
It is important to note that there has been a large influx of funds available to businesses through the CARES Act. Milwaukee County will have an additional \$250,000 in small business loans available as early as July 1, 2020 through the County's direct allocation of CDBG funds. The City of Milwaukee and the City of West Allis are also offering similar programs this summer.

Next Steps

The Housing and Economic Development Divisions are recommending that Milwaukee County continue to discuss the possibility of a Section 108 loan program in the future. At a later date, the merits of the program as well as its risks should also be discussed with the ICC. A second recommendation would be to ensure the spend down of funds that are currently available through the County's existing Economic Development Loan Fund as well as CARES Act funding prior to the start of additional loan programs. Over time, lessons learned by new programs funded through the CARES Act will better position Milwaukee County to potentially pursue future loan programs.

Recommendation

This report is informational, and no action is required.



Shakita LaGrant, Interim Director
Department of Health and Human Services & Department on Aging

cc: County Executive David Crowley
Mary Jo Meyers, County Executive's Office
Sup. Felesia Martin, Economic & Community Development Chair
Julie Landry, Director, DAS
Kelly Bablitch, County Board
Steve Cady, Research Director, Comptroller's Office
Pam Matthews, Budget Analyst - DAS