



Wisconsin Department of Administration

Division of Energy, Housing and Community Resources

CDBG - Economic Development Revolving Loan Fund Updates

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- Program History/Compliance
- Community Development Block Grant (CDBG)
Economic Development (ED) Revolving Loan
Fund (RLF) Closeout Program (CDBG-CLOSE)

Today's Status

- President Trump has twice tried to zero out the Community Block Grant Program (CDBG) in his proposed budgets.
- Twice, Congress has restored funding to the program and in fact, increased funding in the last funding bill.
- HUD would like to show Congress that continued CDBG funding is critical to states.
- However, HUD officials are concerned that many states currently have significant CDBG dollars in revolving loan funds that are not being used in communities.
- **There is currently over \$100 million dollars in Wisconsin's CDBG- ED RLFs – over half of that funding is cash on hand and not revolving.**

Program History

- In 2012, the Washington Post ran a story that was critical of HUD and the HOME/CDBG program.
- Led to increased scrutiny by the Office of the Inspector General (OIG), which led to increased scrutiny of State programs by HUD.
- In March, 2018 at a national conference of state CDBG programs, States were told by HUD program staff that the OIG would be focusing on reviewing Revolving Loan Fund (RLF) programs in 2018.
- States were strongly encouraged to review and tighten up their RLF programs, or look to close them.
 - Many states already have discontinued use of CDBG funds for economic development projects due to the ongoing complexities of overseeing local RLF funds.

Program History

- In 2012, the U.S. Department of Housing and Urban Development (HUD) monitored the State of Wisconsin CDBG-ED program and issued a number of findings.
- Since 2012, the State has diligently worked to obtain accomplishment data and close out old projects.
- Addressing outstanding audit findings has included State repayments to HUD and grant reductions.
- In 2017, HUD again monitored the State's CDBG-ED program, including the ED-RLFs, and followed up with a monitoring in May, 2018.
- The State is currently awaiting the monitoring results, but the State has been told several findings will involve the oversight of the State's ED-RLF program.

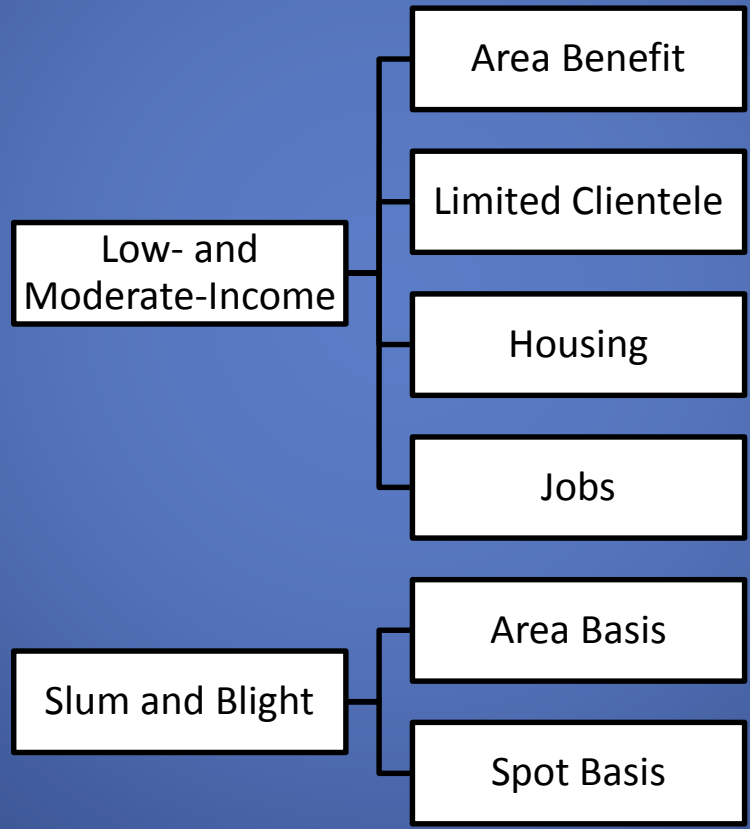
- The RLF-ED program is very challenging to operate. Many of the 130+ locally held RLFs may only make a few loans per year or less.
- Many RLFs don't routinely and consistently revolve money or do not generate enough program income annually to continue to revolve the funds.
 - This is in direct conflict with HUD's expectations that funding revolve every 12 months.
- Local governments are supposed to have the capacity and knowledge to operate their own programs in full accordance with all of HUD's rules and regulations. The State's role is to monitor compliance with federal rules and regulations.
- Many local governments have challenges correctly administering RLF-ED programs.

- HUD is aware of compliance challenges in Wisconsin and has informed the State that it will be receiving a number of findings related to recent monitoring of the RLF-ED program.
- If the State keeps the RLF program open, significant risks for local communities will continue to remain that either HUD program staff or the HUD OIG would deem projects were not revolved in accordance with all of HUD guidelines. If this were to happen penalties could be significant.
- HUD has referred the state to look at a RLF-ED close out program recently created by Illinois who faced similar issues to Wisconsin.

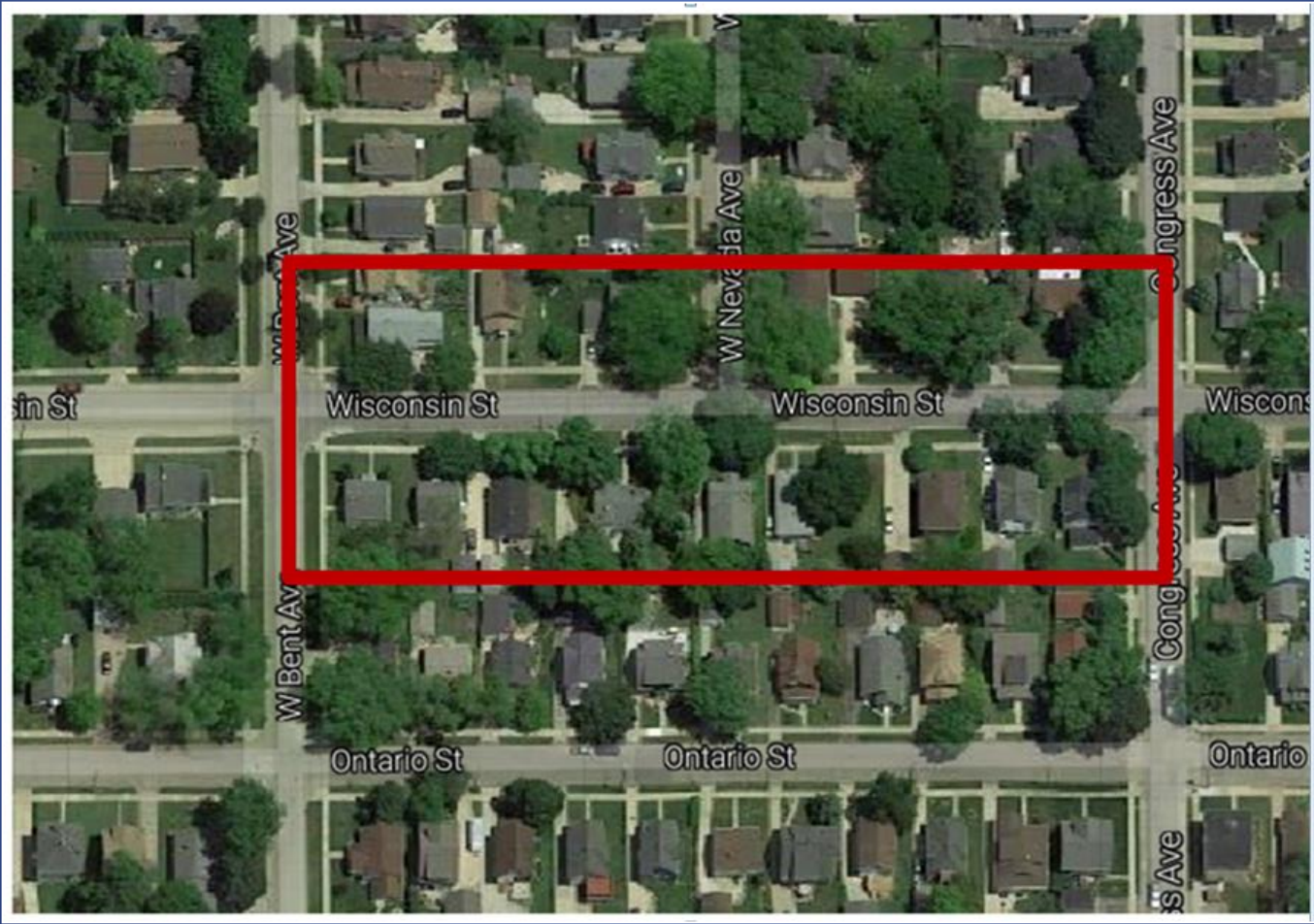
Proposed RLF-ED Closeout Program

- The State has submitted to HUD a Substantial Amendment to the State's Comprehensive Plan to create an ED-RLF closeout program (CDBG-CLOSE) similar to Illinois.
- A major benefit to the CDBG-CLOSE program is it creates flexibility that currently does not exist in the RLF program.
- RLF's that were capitalized with Pre-1992 awards can be deemed defederalized if the local unit of government can certify and document they have not received any post-1992 economic development awards.
- Under CDBG-CLOSE, funding returned to the State will be allowed to be used by communities for any eligible CDBG project.

Projects Must Meet A National Objective



Area Benefit



Proposed RLF-ED Closeout Program

- Eligible projects include:
- public infrastructure projects (i.e. roads, water, sewer, fire stations, community centers, etc.)
- housing projects
- planning projects
- public service projects (i.e. job training, food pantries, opioid treatment centers)
- economic development grants or public facility for economic development grants.
- Another benefit is that funds in CDBG-CLOSE will have no matching fund requirements, are non-competitive and can be applied for anytime for two years.

CDBG-CLOSE Program

How will this work?

- The State has submitted to HUD a Substantial Amendment to the State's Comprehensive Plan to create an ED-RLF closeout program (CDBG-CLOSE) similar to Illinois.
- Upon receiving approval from HUD, the State will establish a start date for the CDBG-CLOSE program. The target start date is October 1, 2018.

How will this work?

- At that time, local RLFs will be required to discontinue making new ED loans.
- The State will work with communities to determine the amount of funding in their closeout account.
- A final Closeout Report, similar to the semi-annual RLF reports will need to be submitted along with supporting docs to verify the closeout balance.

How will this work?

- The cash on hand balance as well as the loan receivables balance of outstanding RLF loans will be paid back to the State within two years.
- Communities that cannot repay outstanding loan balances, or decide not to payoff the balances in the two year window will assign the loan(s) back to the State. The receivable balances will not be held for the community to reuse through the CDBG-CLOSE program. The community will not collect nor have claim to the balances.

CDBG-CLOSE Program

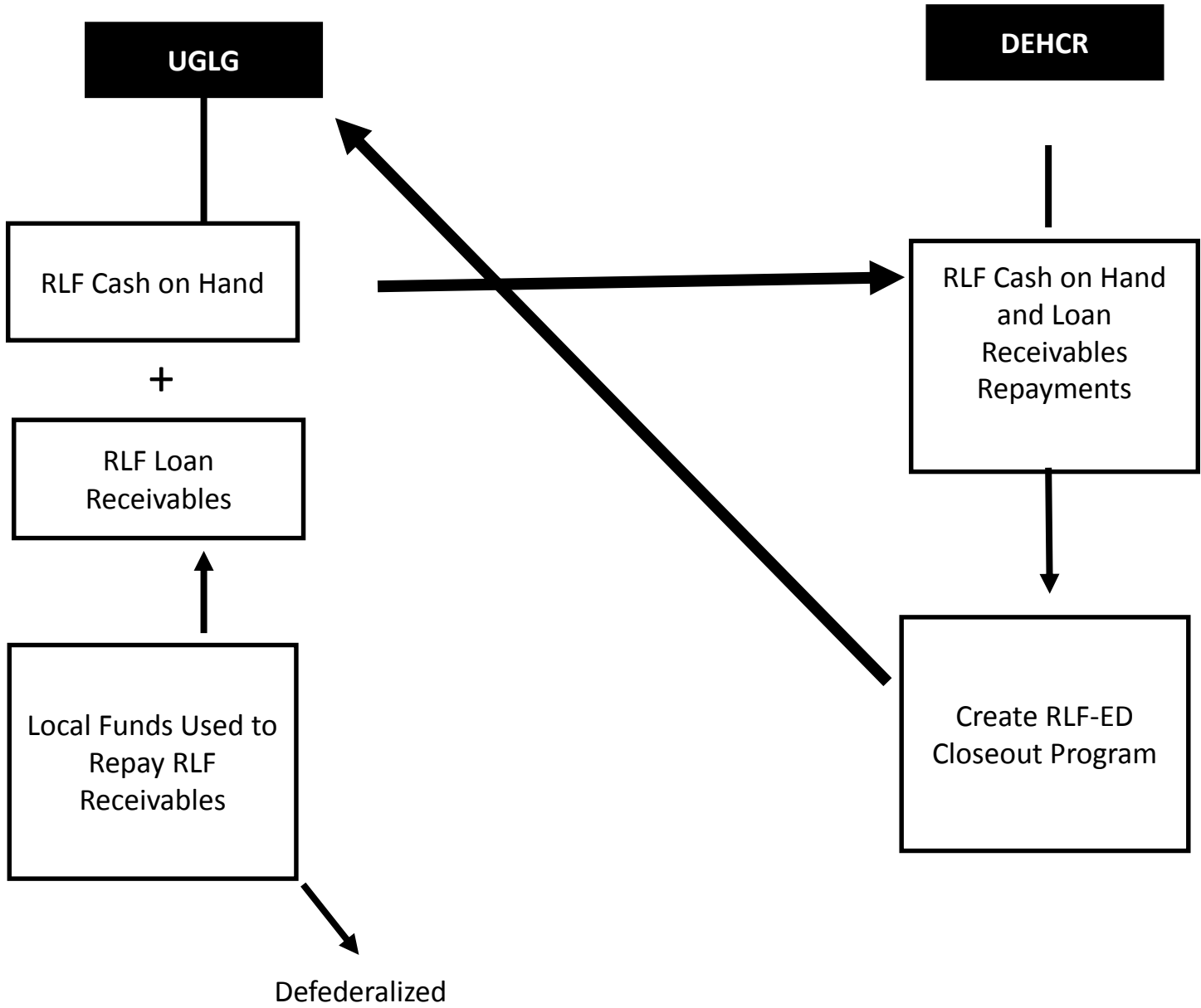
How will this work?

- Funds returned to the State, will be held specifically for that community for a period of up to two years. (Under certain circumstances, communities with large balances may be granted extensions to use the funds.)
- Local communities may apply to the State for the use of funds for any CDBG eligible projects within the two year period.
- Projects funded through CDBG-CLOSE will need to be completed in two years from the time of application.

CDBG-CLOSE Program

$$\begin{aligned} & \text{RLF Cash on Hand Bank Balance} \\ & + \text{ Current RLF Accounts Receivables } \\ & = \text{CDBG-CLOSE balance} \end{aligned}$$

Benefit: Once the State receives the cash on hand and receivables balance, any outstanding loans in the RLF portfolio would continue to be paid back to the unit of government and would no longer retain a federal identity.



CDBG-CLOSE Program Example

“City of Hope, WI”

RLF Cash Balance = \$250,000

RLF Loan Receivables = \$350,000

Amount Due from City to the State = \$600,000

City has a planned utility and street replacement project planned for next year, estimated cost is \$750,000 that may benefit >51% Low to Moderate Income (LMI) persons. City has \$400,000 saved for this project in utility accounts and was planning to borrow \$350,000 for street portion.

City files repayment of \$600,000 with the State. The State certifies that City of Hope CDBG-CLOSE Account has \$600,000 available for City to use on CDBG eligible projects.

CDBG-CLOSE Program Example

“City of Hope, WI”

City will use the following sources to repay the State:

\$250,000 Cash on Hand, and

\$350,000 in utility accounts

\$600,000 CDBG CLOSE Program Balance

Sources funding the street and utility project are:

CDBG CLOSE Program	\$600,000
Utility Account	\$50,000
<u>City of Hope</u>	<u>\$100,000</u>
Total	\$750,000

In addition, Hope retains the future repayment of principal and interest coming from the \$350,000 in Loan Receivables. A potential use of the repayments would be:

Reimburse City \$100,000 of borrowing

Reimburse Utility Accounts \$250,000

Plus interest.....

OR

Repayments used to Capitalize RLF that is now “defederalized”

Program Adjustments

Public comment has been helpful with the following changes being made to the original CLOSE proposal:

1. RLF –ED's capitalized with only pre-1992 funds can be defederalized upon approval of CLOSE program by HUD.
2. Loan losses are not deducted from an RLF's CLOSE account balance.
3. Increased number of projects from 2 to 3 and added a planning project as an optional fourth project for RLFs that buy out loan receivables.

Given the substantial amount of money in Wisconsin's RLFs, the State has chosen to be proactive in seeking HUD approval to create a closeout program that not only reduces the compliance risk for both the State and local communities but also gives greater flexibility to local communities to use the funding in their RLFs.

Questions?