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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: October 4, 2023

RE: **Section 108 Loan Report**

To help City Council and citizens understand the U.S. Department of Housing and Urban Development (HUD) Section 108 Loans in the City of Detroit, Council Member Mary Waters requested the Legislative Policy Division (LPD) to respond to a series of questions related to the Section 108 Loan Program.¹ In addition, Council President Mary Sheffield, for the purpose of edifying the public, has also requested that LPD provide a report on the Section 108 Loan Program based on a set of requests of information.

Based on LPD's request, the Housing and Revitalization Department (HRD), with the aid of the Office of Chief Financial Officer (OCFO), provided initial responses to Council Member Waters' set of questions and to Council President Sheffield's set of requests for information, which we have included in this report. However, the responses from HRD led us to develop another series of clarifying questions. HRD has also replied to those questions, and we have included the subsequent responses as well.

However, before enumerating the questions, requests, and responses, LPD feels it's important to first provide a background on Community Development Block Grant (CDBG) funding in Detroit, background on Section 108 Loans, history of Detroit's use of Section 108 Loans, context of Section 108 loans, and LPD analysis, observations, and conclusions regarding the Section 108 Loan program.

¹ The U.S. Department of Housing and Urban Development's (HUD) Section 108 program is the loan guarantee provision of the Community Development Block Grant (CDBG) program. It provides an upfront source of community and economic development financing. Eligible activities under the Section 108 program fall into one of four broad categories: *Economic development. *Public facilities and infrastructure. *Housing rehabilitation. *Debt servicing and related fees.

Background on CDBG Funding in Detroit

Community Development Block Grant (CDBG) is a federal program dating back to 1974. Overall, CDBG provides annual grants on a formula basis to states, counties, and cities to develop viable urban communities by providing 1) decent housing and a suitable living environment, and 2) by expanding economic opportunities, principally for low- and moderate-income persons.

The City has received CDBG funds since the mid-1970s. Since the 1970s, the City has primarily used CDBG funds for the following:

- Administrative staffing to administer the CDBG funded programs.
- Housing rehab and development.
- Neighborhood Opportunity Fund distributed to area nonprofits.
- Various City projects and initiatives, such as youth summer jobs, recreation center rehab, etc.

Additionally, in the past, the City also set aside a larger percentage of CDBG funding for the following which it spends little to no CDBG funding on today:

- Demolition and boarding.
- Urban renewal area projects (such as Forest Park and Jefferson Chalmers), including the operation of Citizen District Councils which existed in most urban renewal areas.
- Various economic development projects, including land acquisition, relocation, and infrastructure improvements.
- Business area improvements throughout the City including new sidewalks, curbs, lighting, etc.

Detroit receives an annual allocation for CDBG funding based upon a HUD formula, which includes population, need, etc. In the 1980s, the City received about \$50 million in CDBG funds; in the 1990s and early 2000s, the City received closer to \$60 million. However due to adjustment to the allocation formula and loss of population, the City now receives annually about \$35 million. This is a substantial reduction of about \$25 million over the past 15 years, resulting in less funds for distribution.

Background on Section 108 Loans

As reported on the Housing and Urban Development (HUD) website, the Section 108 Loan Guarantee Program provides CDBG recipients (cities) with the ability to leverage their annual CDBG grant allocation to access low-cost, flexible financing for economic development, housing, public facility, and infrastructure projects.

The program allows local governments to leverage portions of their CDBG funds into federally guaranteed Loans. Local governments borrowing funds guaranteed by HUD through the Section 108 Program **must pledge their current and future CDBG allocations as security for the Loan.**

HUD indicates that such public investment is often needed to inspire private economic activity, providing the initial resources or simply the confidence that private firms and individuals may need to invest in distressed areas. Section 108 Loans offer local governments a tool to catalyze private economic activity in underserved areas or to fill a financing gap for an important redevelopment project.

HUD states Section 108 assistance can be deployed in two ways:

- Directly by the community to carry out an eligible project, or
- Indirectly by granting the funds to a developer to undertake an eligible project.

LPD staff reached out to HUD staff to further clarify how Section 108 loans work, including HUD's willingness to allow municipalities to use CDBG entitlement dollars to pay off Section 108 loans. A HUD staff member responded with the following points:

- Federal regulations allow borrowers (i.e., Detroit) to use CDBG funds to pay the principal and interest of Section 108 loans.
- The community is primarily responsible for making a threshold decision as to the level of financial risk it's willing to assume when considering whether to apply for a Section 108 loan guarantee.
- Risk assessment is part of the financial underwriting performed by the community, which includes mandatory citizen participation, making the proposed application available to affected citizens for review and comment, and final approval by the applicant's governing body.
- Cities can choose to repay Section 108 loans with non-CDBG funds but must identify repayment sources. If the community intends to repay the Section 108 loan with non-CDBG sources, it should carefully assess the risk that the intended repayment sources will not materialize in the amounts expected (note: Detroit in the past has not fully followed this path, especially given the difficulty of doing economic development deals in the past, which will be explained further in this report).
- Once an application is submitted to HUD it is also reviewed to determine whether HUD's guarantee is an acceptable risk to the Federal government. That determination cannot be based on the assumption that future years' CDBG funds will be available to cover Section 108 payments through the full term of the guaranteed loan. Therefore, HUD requires Section 108 borrowers to furnish additional security in the event CDBG funds are not available for repayment.
- From a policy standpoint, HUD notes, while projects may not generate cash flow sufficient to fully repay a Section 108 loan, it does not mean that the projects will not produce the benefits expected (e.g., jobs, public facilities, affordable housing).
- It's also worth noting that since Section 108 program is subject to CDBG program guidelines, the projects financed with guaranteed loans could have been funded directly with CDBG funds.

History of Detroit's Use of Section 108 Loans

Detroit has utilized Section 108 Loans since the mid-1980s. All Section 108 Loans had to be approved by the Administration, City Council, and HUD. The loans each have repayment schedules up to a 20-year repayment period, which includes principal and interest payments. Oftentimes with the repayment schedule, the initial repayments don't start for several years, in order for the project to be finished and up and running. Each year, loan recipients would make full repayments, interest payments only, or no payments at all. Some loans are paid back prior to the terms of the loan, while some loan repayment periods are extended.

Each year for the past 30 plus years, the City sets aside the various Section 108 Loan repayment amounts in the City's CDBG budget for expenditures - whether the groups are making repayment or not. For those groups that make repayments, the money received is counted as program income in the following year. **If a group cannot make a repayment, then the CDBG funds must cover the nonpayment.**

Attachment I is a table showing a summary of past and present Section 108 Loans. The City's use of Section 108 Loans can generally be divided into three phases described below.

For the first phase, the mid 1980s through early 1990s, the City gave Section 108 Loans for larger transformational economic development projects, such as the Jefferson Conner project for the Chrysler Plant and for Central Industrial Park for the GM Assembly Plant.

Starting in the mid-1990s (the second phase), the City gave a Section 108 Loan to attract a private company, Caraco Pharmaceuticals, to the Research Park area. Shortly thereafter, the Riverbend Plaza on E. Jefferson, Garfield Lofts on Woodward Ave., Michigan Repack in Eastern Market, and Stuberstone Lofts in Midtown all received loans. These loans ranged from small to larger loans. At the time, it appears only Caraco and Riverbend were making their full repayments, and the others were making no or partial payments.

Then starting in 2000 (the third phase), the City gave substantial loans to a variety of projects in and around downtown. Some projects had multiple Section 108 Loans for different phases. The City gave larger loans ranging from \$10 to \$20 million for bigger projects, all of which have large annual repayment schedules for 20 plus years.

As of today, there are 8 active Section 108 Loans remaining, which will be described in more detail during the questions and responses enumerated later in the report..

Over the years, at various times, both HUD and City Council have raised concerns about the City's Section 108 program. In 2003, City Council passed a resolution stating, "that the Detroit City Council supports using 108 Loans to foster economic development, particularly neighborhood community-based development projects, that are owned and operated by Detroiters, and employ its citizens, especially youth, in meaningful, productive, and creative enterprises." It appears afterwards, the City made a greater effort funding projects developed by Detroiters.

Also in 2003, HUD raised concerns about the viability of the projects, job creation, and debt ratio. HUD was concerned the City lacked experienced staff to operate the program. In response, the City's Planning and Development Dept. hired additional staff to better evaluate the Section 108 Loans and began forwarding requests to the Detroit Economic Growth Corporation for review as well.

The Duggan Administration, since taking office in 2014, has not issued any new Section 108 Loans. The Administration has focused on negotiating settlement agreements with developers, refinancing, collateralizing, and paying down the City's required principal and interest payments on loans payable to HUD.

Context of Section 108 Loans

LPD staff spoke with the developer community involved with Section 108 Loans; LPD summarized the comments below to provide context and understanding for how and why the loans were issued:

- The loans were one tool the City used/promoted to encourage economic development.
- Very few local or outside developers were investing in the City in the 1990s and early 2000s.
- The loans were a valuable funding source, often provided before other existing State programs such as OPRAs, brownfields, etc.

- Section 108 Loans replaced other federal funding sources no longer available, such as Urban Development Action Grants (UDAGs).
- None of the projects could be done with a regular conventional loan.
- There existed very few other resources to fill funding gaps.
- At the time (the mid-1990s to 2000s), Detroit’s real estate market was depressed - worse than other major US cities; Section 108 Loans allowed projects to proceed.
- The City pushed Section 108 Loans, in part, because the City received a substantial CDBG allocation in the late 1990s and early 2000s.
- For the Section 108 Loans, the City did the underwriting; the City was working to spur economic development; the City hoped the projects would be successful and the repayments made, but there were risks.

Current Section 108 Loan repayments schedule

The table below lists the current Section 108 Loan repayments scheduled for the 2023-24 fiscal year.

Section 108 Loans	Funding Amount
Book Cadillac (Principal)	\$716,000
Book Cadillac (Interest)	\$33,267
Fort Shelby (Principal)	\$1,500,000
Fort Shelby (Interest)	\$171,615
Garfield II - Note 1 GREP (Principal)	\$780,000
Garfield II - Note 1 GREP (Interest)	\$62,991
Garfield II - Note 2 - East Forest Arts (Principal)	\$150,000
Garfield II - Note 2 - East Forest Arts (Interest)	\$29,941
Garfield II - Note 3 - Sugar Hill (Principal)	\$230,000
Garfield II - Note 3 - Sugar Hill (Interest)	\$174,946
Garfield II - Note 4 - Geothermal (Principal)	\$100,000
Garfield II - Note 4 - Geothermal (Interest)	\$19,146
Mexicantown (Principal)	\$360,000
Mexicantown (Interest)	\$5,460
Woodward Garden (Principal)	\$642,000
Woodward Garden (Interest)	\$236,481
Section 108 Total	\$5,211,847

The following is a summary of observations and conclusions from LPD staff:

- The \$5.2 million allocation for Section 108 Loans in the table above accounts for 15% of the City’s 2023-24 CDBG allocation, which is a significant portion of CDBG.
- The Administration has not issued new Section 108 Loans, with a focus on resolving the repayment problem.
- It does appear some developers knew about the program and applied for multiple projects or City staff steered the program toward certain developers. Or those particular developers were the few doing projects in the City.

- One could argue whether or not the Section 108 Loans did in fact support projects that in turn encouraged other investment.
- In the 1990s and early 2000s, Section 108 Loans were a valuable funding source to spur economic development, when there wasn't much investment in the City, private loans were difficult, and few other funding sources existed.
- The Section 108 Loans are guaranteed by HUD using the CDBG entitlement; the loans use public investment to spur private economic activity in distressed cities. It can be argued, the City and HUD recognized that many of these projects couldn't receive traditional financing and therefore were classified as "marginal" projects that would not be always self-supporting.
- Since Mayor Duggan has been in office, no new Section 108 loans have been issued since it appears that the Duggan administration recognized the poor history of repayment regarding the Section 108 loans, and the fact that there were few to no other economic tools available to incentivize economic development in the City (for ex., TIFs, tax incentives, Motor City Match for smaller neighborhood developments, etc).

Questions from Council Member Waters on the City of Detroit's HUD Section 108 program:

Council Member Waters' Question 1: How many Detroit developers, over the past 10 years, have received section 108 loans from HUD?

HRD's response: *No developers have received Section 108 loans since the start of Mayor Duggan's term in 2014. The last loan was issued in 2009.*

LPD's follow up question to HRD's above response: **HRD says that the last Section 108 loan was issued in 2009. However, according to the City's Annual Comprehensive Financial Report (ACFR) as of June 30, 2014 (Attachment II), the last Section 108 loan for the Woodward Garden Project 2 was issued in April 2012. Do you agree with the 2012 issuance?**

HRD's response: *An important point of general clarification: The City's HUD Section 108 program includes two components: 1) loans from HUD to the City (Loans Payable from the City's perspective, requiring regular principal and interest payments by the City); and 2) loans from the City to developers (Loans Receivable from the City's perspective, because the developer agrees to pay debt service to the City). Generally, each Loan Receivable is tied to a specific Loan Payable to HUD. Payment of debt service on the City's Loans Payable to HUD may include payments received from the developers on Loans Receivable but is also secured by the City's CDBG commitment.*

The issuance referenced in the ACFR in April 2012 was an amendment to the original Woodward Gardens HUD loan to allocate the balance of funds to the third phase, Woodward Gardens 3.

For additional context: the Woodward Gardens Block Development Project is a multi-phase development for which the City received a HUD Section 108 Loan Guarantee (Loan Payable) in the amount of \$19,000,000 on January 4, 2008 ("Original HUD Contract"). By April 2012, \$7,050,000 had already been designated for Phase I, and \$6,197,000 was already designated for Phase II. On April 20, 2012, the City and HUD amended the Original HUD Contract by entering the First Amendment to Contract for Loan Guarantee Assistance dated April 20, 2012 (the "HUD Contract Amendment") in order to allocate the remaining balance of \$5,753,000 to Phase III of the project. (LPD's note: Both the \$7,050,000 and \$6,197,000 Section 108 Loans associated with the Woodward Garden phase I and II, respectively, have been paid off. Only the \$5,753,000 Section 108 Loan associated with Woodward Garden phase III is still outstanding.)

Please note that as previously detailed in our response to question 9, a portion of the Garfield loan proceeds was originally unspent and eventually awarded through a competitive application process to POAH and Develop Detroit for the Sugarhill development. This modification occurred in 2020; however, the original HUD Section 108 loan still dates back to 2009, which represents the latest date that a new Section 108 loan was issued by HUD.

Council Member Waters’ Question 2: How many Detroit companies that already received 108 loans have paid them back in full in the last 10 years?

HRD’s response: *Currently 15 loans have been paid off either by full payments or by settlement agreements.*

LPD’s follow up question to HRD’s above response: **HRD indicates that 15 have been paid off either by full payments or by settlement agreements. However, the ACFR as of June 30, 2014 shows there were 16 outstanding Section 108 loans, and this number reduced to eight based on the June 30, 2023 Section 108 debt service payment schedule (Attachment III). Note: The Woodward Garden Project 2 Section 108 loan on this schedule was fully paid off on April 28, 2023). Please explain.**

HRD’s response: *The 2014 AFR noted active loans at that time, prior to that memo 7 additional loans had been satisfied since the City began issuing this debt in 1981.*

Council Member Waters’ Question 3: How many Detroit companies that received 108 loans are currently in default?

HRD’s response: *No formal default letters have been issued on current active loans. There are 4 active loans listed below that have not fulfilled loan payments obligations and do not have a settlement agreement in place. The remaining active loans have all reached settlement agreements with the city. The Housing and Revitalization Department, Corporation Counsel and OCFO Debt Management are currently working to re-start discussions with the borrower for Mexicantown and establish repayment structures.*

Project Name	Originated Principal
Garfield II Note 2 (East Forest Arts)	\$2,058,000
Garfield II Note 3 (Sugar Hill)	\$6,697,000
Mexicantown	\$7,789,000
Woodward Gardens III	\$5,753,000
Total	\$22,297,000

LPD’s follow up question to HRD’s above response: **HRD does not associate a debt service reserve in place for the Garfield II Note 3 (Sugar Hill) Section 108 loan. However, according to HRD’s response to CM Johnson’s question on the status of Section 108 loans dated July 7, 2023 (Attachment IV), there is a debt service reserve in place for this loan. Please confirm that this is the case.**

HRD’s response: *The response to CM Waters’ question included a table with a list of active loans. The following are all true of Sugar Hill: 1) It remains an active Loan Payable to HUD, and an active Loan Receivable from the City to the developer. 2) The developer makes payments towards the balance of their loan with the City 3) There is also a debt service reserve in place for the Loan Payable to HUD, which HUD required as part of the 2020 modification. To clarify, the debt service reserve is meant as collateral*

for the City's Loan Payable to HUD to protect against the possibility that the developer does not pay the Loan Receivable to the City. The language in response to CM Waters' question regarding the debt service reserve in the narrative preceding the table has been removed below to help clarify.

Council Member Waters' Question 4: Have any Detroit companies in default of 108 loans received any tax abatements from the City of Detroit? For example, Brownfields , OPRA , or NEZ.

HRD's response: *While no borrowers are currently in default, the following active loans received tax abatements:*

- o *Garfield II, Note 3 (Sugar Hill) - PA 210 CRA (Active)*
- o *Woodward Gardens III - PA 146 OPRA (Active)*

Council Member Waters' Question 5: Are there any Detroit companies currently receiving 108 loans and CDBG funds that are in default with any other loan they might have received?

HRD's response: *While not in default, Garfield II Note 3 (Sugar Hill) has 108 and CDBG funding. They are past due but actively making payments.*

Requests for information from Council President Sheffield on the City of Detroit's HUD Section 108 program:

Council President Sheffield's Request No. 1: Projects since 2013 that have received Section 108 Loans.

HRD's response: *N/A*

Council President Sheffield's Request No. 2: The loan amounts each project has been allocated and received.

HRD's response: *Below are the loans which are still active (meaning the City still needs to complete payoff of these loans to HUD) listed with the total originated amount.*

Project Name	Section 108 funds received
Book Cadillac II	\$10,700,000
Fort Shelby	\$18,700,000
Garfield II Note 1 (GREP)	\$6,522,000
Garfield II Note 2 (East Forest Arts)	\$2,058,000
Garfield II Note 3 (Sugar Hill)	\$6,697,000
Garfield II Note 4 (Geothermal)	\$1,723,000
Mexicantown	\$7,789,000
Woodward Gardens III	\$5,753,000
Total	\$59,942,000

Council President Sheffield's Request No. 3: Repayment status of each project.

HRD: *Below is a list of the City's active Section 108 loans for which payments are still due to HUD. These debts are expected to be fully satisfied with HUD over the next 8 years with a combination of borrower payments, existing debt service reserves, and CDBG allocation. For payments due in FY23-24, repayment sources will also include \$961,663 in unspent Section 108 loan proceeds never drawn down by the*

developer, which the City is obligated to use for repayment (see City Council resolution from 6/27/23 Formal Session item 18.13 for more information).

For developer loan payments due to the City, settlement agreements are in place with the borrowers for 4 of the 8 loans, where the City is still responsible for repaying the balance of the loans to HUD. Debt service reserves to fund remaining debt service are in place for 2 of the loans. The Housing and Revitalization Department, Corporation Counsel and OCFO Debt Management are currently working to re-start discussions with the borrower for Mexicantown and establish repayment structures.

LPD’s follow up question to HRD’s above response: HRD’s response indicates that the principal balance as of August 4, 2023 for Garfield II Note (GREP) is \$1,952,000. The balance for this loan should really be \$1,523,000 as of August 4, 2023, correct?

HRD’s response: *This is correct and has been corrected in the responses below.*

Project Name	Originated Principal	Balance Due from Developer to City as of 8/4/23 # <i>(includes principle and interest)</i>	Balance Due of City Debt Obligation with HUD as of 8/4/23	Maturity Date
Book Cadillac II*	\$10,700,000	\$0	\$891,000	8/1/2025
Fort Shelby* ^	\$18,700,000	\$0	\$5,500,000	8/1/2026
Garfield II Note 1 (GREP)*	\$6,522,000	\$0	\$1,523,000	8/1/2025
Garfield II Note 2 (East Forest Arts)	\$2,058,000	\$2,315,618	\$1,008,000	8/1/2026
Garfield II Note 3 (Sugar Hill)	\$6,697,000	\$2,691,408	\$5,353,000	8/1/2029
Garfield II Note 4 (Geothermal)*	\$1,723,000	\$0	\$573,000	8/1/2029
Mexicantown	\$7,789,000	\$8,516,486	\$28,000	8/1/2024
Woodward Gardens III	\$5,753,000	\$2,585,846	\$3,437,000	8/1/2031
Total	\$59,942,000	\$16,109,358	\$18,313,000	--

Current loan balance, pending final review

^ Same Debt Service Reserve in place to fund remaining debt service

* Settlement agreements are in place

LPD’s second follow up question to HRD’s above response: Regarding the column “Principal Balance Due from Developer to City as of 8/4/23”, what source of funds did the City use to loan these dollars to the developers of the Garfield II (East Forest Arts), Garfield II Note 3 (Sugar Hill), Mexicantown, and Woodward Gardens III projects? Does the City have separate loan agreements for these loans? Are these City loans delinquent? Please provide a debt service schedule that includes maturity date for these City loans.

HRD’s response: *The source of funds for these loans made from the City to the developer (Loans Receivable from the City’s perspective) were the loan proceeds from the loans made from HUD to the City (Loans Payable from the City’s perspective).*

Yes, the Loans Receivable are each distinct loan agreements. All loans have past due amounts and are technically delinquent but are making some payments or in discussions on repayment structure (see original question 3). The table below describes the debt service requirements for the Loans Receivable for each active loan.

Project	Maturity Date	Debt service requirement for Developer	Interest rate	Notes
Fort Shelby	N/A	None	N/A	Settlement Agreement
Book Cadillac II	N/A	None	N/A	Settlement Agreement
Garfield II (East Forest Arts)	08/01/2026	Monthly P&I of \$6,492.86 + annual "NOI payment" of 25% of any net operating income in excess of \$100K	2%	Loan agreement amended in 2016
Garfield II (Sugar Hill)	08/01/2040	Annual Payments of greater of 25% of operating cash flow and \$2,500.	1.8% for the first 10 years, 0% for the remainder of term	Loan agreement amended in 2020
Garfield II- (Geothermal)	N/A	None	N/A	Settlement Agreement
Garfield II(GREP)	N/A	None	N/A	Settlement Agreement
Mexicantown	08/01/2024	\$4,189,000 initial lump sum principal payment. \$390,000 initial annual principal payment, with a variable payment structure + variable rate interest due twice/year	HUD variable rate	Twice-year payments (February & August). Loan was structured to match City Section 108 note with HUD.
Woodward Gardens III	08/01/2031	\$242,000 initial annual principal payment, increasing 5% annually + variable rate interest due twice/year	HUD variable rate	Twice-year payments (February & August). Loan was structured to match City Section 108 note with HUD.

Council President Sheffield's Request No. 4: Developments that were approved for Section 108 Loans but never completed.

HRD's response: *The City originally awarded a Section 108 Loan in the amount of \$6.7MM to Zachary and Associates back in 2009 for the construction of a five-level parking structure with 210 parking spaces, located on the Garfield site. The project never broke ground and none of the \$6.7MM in Section 108 funds were drawn down. The Section 108 proceeds would eventually be taken from Zachary and Associates and made available to a new development team with a viable project. Through a competitive application process, the Section 108 proceeds, in the amount of \$6.7MM, were eventually awarded to the development team of Preservation of Affordable Housing (POAH) and Develop Detroit (DD), who formed POAH DD Sugar Hill, LLC, through a modification of the original loan in 2020.*

Council President Sheffield's Request No. 5: Eligible uses for Section 108 Loans.

HRD's response: *Per (24 CFR 570.703), activities eligible under Section 108 include:*

- o Acquisition of real property*
- o Rehabilitation of publicly owned real property*
- o Housing rehabilitation eligible under CDBG*
- o Construction, reconstruction, or installation of public facilities (including street, sidewalk, and other site improvements)*
- o Related relocation, clearance, demolition, remediation, and site improvements*
- o Loan to for-profit businesses for economic development purposes*
- o Payment of interest on the guaranteed loan and issuance costs of public offerings*
- o Debt service reserves*
- o Finance fees*
- o Public works and site improvements in colonias²*
- o In limited circumstances, affordable housing construction*

For purposes of determining eligibility, the CDBG rules and requirements also apply. All projects and activities must either principally benefit low- and moderate-income persons, aid in the elimination or prevention of slums and blight or meet urgent needs of the community.

Council President Sheffield's Request No. 6: The City's ability to revoke unused or misappropriated Section 108 Loans.

HRD's response: *All Section 108 funds expended have been used towards eligible activities upon completion. There are some unspent loan proceeds that were committed through loan agreements but never drawn by developers. These loan dollars are still owed to HUD by the City and the City is obligated to use them for repayment to HUD. All remaining unspent loan proceeds, totaling \$961,663, were appropriated in June 2023 and will be used towards payment of HUD debt service for FY 23-24 (see City Council resolution from 6/27/23 Formal Session item 18.13 for more information-LPD note: see Attachment V for copy of this resolution).*

Additional follow-up Questions from LPD:

LPD's additional question 1: **As of June 30, 2014, the City had 16 outstanding Section 108 loans, with the last one being issued in 2012. Since 2014, no additional Section 108 loans have been issued. Please explain why the administration has chosen not to issue any more Section 108 loans since 2014.**

² Colonias some are incorporated communities under the control of the city, some are unincorporated under control of the county, and others may be in extra jurisdictional territories of cities which share some level of control with the county.

HRD’s response: *Since 2015, the administration has been focused on its responsibilities in addressing performance issues with the inherited portfolio of Section 108 loans issued by previous administrations and getting the existing portfolio into compliance with HUD. This has included negotiating settlement agreements with developers, refinancing, collateralizing, and paying down the City’s required principal and interest payments on our Loans Payable to HUD.*

LPD’s additional question 2: **Is the administration amenable to issuing Section 108 loans in the future for small to large economic developments in the City of Detroit? If so, what underwriting criteria would the administration use for evaluating these loans?**

HRD’s response: *Now that the current portfolio is fully collateralized and as the City gets closer to satisfying its Loans Payable to HUD for those issued prior to 2014, the HRD is amenable to considering a new Section 108 loan program in the future. The next step will be a conversation with HUD to determine what steps the City must take to be deemed eligible to restart new loans under the Section 108 program. Any new Section 108 program will prioritize financial feasibility or deals that demonstrate an ability to repay CDBG. Specifics of the program, including eligible project types and underwriting criteria, will be based on market analysis and Section 108 regulations for eligible uses.*

LPD’s additional question 3: **Since 2014, eight of the 16 outstanding Section 108 loans were paid off by June 30, 2023. Please provide the percentage by sources (CDBG funds, settlement income, and borrower repayments) that make up the repayments of these eight Section 108 loans.**

HRD’s response: *The table below indicates the information that HRD and OCFO Debt Management have been able to compile repayment amounts by source for these eight loans. Please note that the City lacks full documentation of payments made prior to 2015 due to incomplete record-keeping by the previous administration. Notes on the data informing each source are included in the gray cells below each source listed.*

Source:	Settlement income	Borrower repayments	CDBG	Total payments
<i>Notes on source:</i>	<i>Confirmed in City records and IDIS</i>	<i>From archived summary document of historical borrower payments</i>	<i>Calculated based on total payments due less other sources</i>	<i>From Debt Management report on outstanding and closed debt service</i>
Ferry Street Inn		\$38,662.00	\$1,798,555.00	\$1,837,217.00
Garfield I (56 lofts & Rite Aid store)	\$1,300,000.00		\$386,669.58	\$1,686,669.58
New Amsterdam (120 condos & townhomes)	\$6,000,000.00		\$962.33	\$6,000,962.33
Stuberstone Lofts			\$284,851.55	\$284,851.55

Vernor Lawndale (rehab Oddfellows Hall into residential mixed-use)		\$574,919.00	\$991,545.65	\$1,566,464.65
Book Cadillac 1	\$6,413,807.50		\$2,135,800.52	\$8,549,608.02
Woodward Gardens I (2021)		\$1,596,171.00	\$6,864,539.98	\$8,460,710.98
Woodward Gardens II		\$1,129,478.00	\$7,157,344.78	\$8,286,822.78
Total	\$13,713,807.50	\$3,339,230.00	\$19,620,269.39	\$36,673,306.89
Percentage by payment source	37.4%	9.1%	53.5%	100.0%

LPD note: As can be seen in the above chart, for the eight Section 108 Loans identified above, the source of repayments were: 37.4% from settlement amounts, 9.1% from borrower repayments, and 53.5% from CDBG guarantee entitlement funds.

LPD's additional question 4: Was developer collateral (real estate, letters of credit, equity, corporate and personal guarantees, machinery and equipment, accounts receivable, pledges such as debt service, management, and developer fees), if any, used to help pay off any of the eight Section 108 loans between 2014 and 2023? If so, please provide the percentage of the collateral source(s) of the total sources to pay off these loans.

HRD's response: No developer collateral was used for payoff. Note that the debt service reserves that are in place for Sugar Hill and Fort Shelby are the City's collateral for the Loan Payable to HUD, not the developer's collateral for the Loan Receivable.

LPD's additional question 5: Of the eight remaining outstanding Section 108 loans as of June 30, 2023, four are under a settlement agreement. Is the principal balance of these four Section 108 loans based on the settlement agreement? Will CDBG funds be used to pay off the remaining debt service payments on these four loans?

HRD's response: The principal balance owed to HUD (Loans Payable) is based off the original HUD Section 108 loan which have not been modified. The settlement agreements with developers did not impact the outstanding principal that the City owes on these 4 loans. The 4 loans will need to be repaid with CDBG funds; however, the Fort Shelby loan does have a \$2 million debt service reserve which will be used to pay the last \$2 million principal payment in August 2026 (Fiscal Year 2027).

LPD's additional question 6: Of the eight remaining outstanding Section 108 loans as of June 30, 2023, two have debt service reserves in place to fund remaining debt service. What funds were used to establish these debt service reserves? Will these debt service reserves cover both remaining principal and interest payments due on these loans? Please provide the amount of debt service reserves for these two loans.

HRD: The Sugarhill debt service reserve was established with CDBG Funds. The original debt service reserve established in August 2020 was \$5.7 million. Since then, the City has been able to draw it down and will finish the August 2023 draw shortly, which will bring the reserve down to \$4.8 million.

The Fort Shelby debt service reserve was funded by a settlement agreement with the developer and the General Retirement System (GRS), which had the first mortgage position. The City received \$2 million from the settlement which was placed in the debt service reserve. The GRS also posted funds into a debt service reserve to act as collateral for the full Fort Shelby amount; however, GRS' debt service reserve will not be used to repay principal and will stay with the GRS as they are able to decrease the debt service reserve annually as the City makes principal payments using CDBG funds. The City will be able to use its \$2 million reserve to make the final payment in August 2026.

LPD's additional question 7: Of the eight remaining outstanding Section 108 loans as of June 30, 2023, three do not have a settlement agreement or debt service reserves in place. Are these loans considered delinquent? If so, is the City using CDBG funds to pay the debt service on these loans? Does the City look to seek a settlement agreement or establish debt service reserves to pay off these loans? Is there any developer collateral available to help pay off these loans?

HRD's response: No formal default letters have been issued on current active loans. There are 4 active Loans Receivable that have not fulfilled their loan payments to the City obligations and do not have a settlement agreement in place. While the borrowers do have past due balances, 3 of the 4 are actively making payments towards their balance. The Housing and Revitalization Department, Corporation Counsel and OCFO Debt Management are currently working to re-start discussions with the borrower for Mexicantown and establish repayment structures.

The City, however, is not delinquent on debt service payments to HUD for Loans Payable. All loans have funds allocated toward payments of principal and interest due to HUD. These debts are expected to be fully satisfied with HUD over the next 8 years with a combination of borrower payments, existing debt service reserves, and CDBG allocation.

LPD's additional question 8: On April 28, 2023, the City fully defeased³ the outstanding Woodward Gardens Project II note in the amount of \$3,039,000, which included debt service requirements through June 30, 2028. Please described what sources were used to totally defease this loan.

HRD's response: Defeasance was completed with CDBG.

LPD's additional question 9: According to HRD's response to CM Johnson's question on the status of Section 108 loans dated July 7, 2023 (Attachment IV), HRD mentioned that Council recently approved a resolution where \$961,663 of unspent Section 108 loan proceeds that were never drawn down by the developer will be used in FY 2024 to pay down outstanding Section 108 loans (fifth attachment to this email, representing resolution approved by Council). Please provide which of the outstanding loans this will the \$961,663 be applied to, and whether there are other potential unspent Section 108 loan proceeds that can be used to further pay off outstanding Section 108 loans.

HRD's response: The \$961,663 will be allocated across the Garfield, Woodward Gardens, and Book Cadillac notes. There does remain \$100,000 of unspent loan proceeds from the Michigan Repacking loan which was appropriated to establish a debt service reserve on the Geothermal Loan, which was executed in August 2023. At the time of appropriation, it was envisioned that the debt service reserve would be \$673,000, but due to delays the City made a principal payment due August 1, 2023. So we were required only to establish a reserve of \$573,000, leaving \$100,000 remaining. This \$100,000 will be spent to pay fees, and the remaining should be used to pay off other outstanding Section 108 loans. There are no remaining unspent loan proceeds that need to be appropriated.

³ Defeased is a term that means nullified, terminated, or removed as a liability.

LPD’s additional question 10: Attachment VI is the HUD CDBG Performance Profile for the City of Detroit for 2017 and 2019. In 2017, approximately 42% of total CDBG expenditures represented repayment of Section 108 loans. In 2019, about 80% of total CDBG expenditures represented repayment of Section 108 loans. Please explain.

HRD’s response: *The PY 2019 report reflecting the \$100 million+ in CDBG expenditures for the Section 108 program does not reflect actual expenditures but is a result of a reorganization by HUD in their IDIS system. In 2019, HUD created new identification voucher numbers against the old section 108 loan identities to incorporate them into their IDIS system as a one-time update. These voucher transactions were not real just an internal notation in the system. The total amount of these vouchers was \$98,189,000.*

*Actual FY20 debt service was \$5,682,238, comprised of \$4,581,000 in principal and \$1,101,238 of interest. This is reflected in the IDIS PR05 report for PY 2019 which shows all of the actual draws for the Section 108 activities. These numbers also tie to the City’s FY’20 ACFR reports, and more detail is provided in the **FY20 O4 OCFO Financial Report**.⁴ Page 7 shows all debt service of the City, and pages 19-22 report the HUD Section 108 debt service.*

LPD’s additional question 11: What was the lien position (priority) of the 8 Section 108 loans that were paid off since 2014, and for the remaining 8 Section 108 loans that are still outstanding as of June 30, 2023?

HRD’s response:

Project Name	Lien Priority
Book Cadillac II	First
Fort Shelby	Second
Garfield II Note 1 (GREP)	First
Garfield II Note 2 (East Forest Arts)	First
Garfield II Note 3 (Sugar Hill)	First
Garfield II Note 4 (Geothermal)	First
Mexicantown	First
Woodward Gardens III	First
Ferry Street Inn	First
Garfield I (56 lofts & Rite Aid store)	First
New Amsterdam (120 condos & townhomes)	First
Stuberstone Lofts	First
Vernor Lawndale (rehab Oddfellows hall into residential mixed-use)	First
Book Cadillac 1	First
Woodward Gardens I	First
Woodward Garden II note 2	First

Please contact us if we can be of any further assistance.

⁴ [City of Detroit - OCFO \(detroitmi.gov\)](http://CityofDetroit-OCFO(detroitmi.gov))

Attachment I

Table showing a summary of past and present Section 108 Loans

Project	Location	Loan Amount	Date Loan Awarded	Developer
Completed Loans				
Book Cadillac I	220 Michigan Ave.	\$7,300,000	3/20/2006	Ferchill Group
Caraco Pharmaceuticals		\$6,105,000	1998	Caraco
Chrysler Project	Jefferson & Conner	5,700,000	1980s	
Central Industrial Park (Poletown Plant land acquisition, relocation, etc)	I-94 & Mt. Elliott	\$20,865,000	1980s	
Ferry Street Inn		\$2,900,000	7/14/1998	UCCA/Sue Mosey
Garfield I (56 lofts & Rite Aid store)	Woodward & Garfield	\$3,060,000	7/26/2005	Jonna Company/Ernie Zachary
Michigan Repacking		\$1,375,000		
New Amsterdam (120 condos & townhomes)	6200 Second & 41-47 Burroughs	\$9,700,000	5/3/2000	Jonna Company/Ernie Zachary
Riverbend Plaza II	E. Jefferson & Coplin	\$1,600,000	9/13/1994	Michael Curris
Stuberstone Lofts		\$360,000		loan never disbursed
Vernor Lawndale (rehab Oddfellows hall into residential mixed-use)	8701 W. Vernor	\$1,800,000	5/17/2000	Southwest Detroit Business Assoc.
Woodward Garden I note 1 (rehab Garden Theater, Blue Moon Café, & parking deck)	Woodward & W. Alexandrine	\$7,050,000	7/7/2006	George Steward/Michael Byrd
Woodward Garden II note 2		\$6,197,000	7/7/2006	George Steward/Michael Byrd
Active Loans				
Book Cadillac		\$10,700,000		Ferchill Group
Fort Shelby (hotel, condo, & conference center)	525 W. Lafayette	\$18,700,000		Emmitt Moten
Garfield II note 1		\$6,522,000	9/28/2004	Jonna Company/Ernie Zachary
Garfield II note 2 (E. Forest Arts Project)		\$2,058,000		George N'Mambi
Garfield II note 3 (Sugar Hill Arts)		\$6,697,000		Ernie Zachary/Mike Prochaska
Garfield II note 4 Detroit Geothermal		\$1,723,000		Ernie Zachary/Mike Prochaska
Mexicantown (Mercado & Welcome Center)	Bagley between 20 & 21st	\$7,789,000	3/8/2004	Mexicantown CDC/Matt Huber
Woodward Garden III	Woodward & W. Alexandrine	\$5,753,000	7/7/2006	George Steward/Michael Byrd

Attachment II

**List of Outstanding HUD Section 108 Loans as of June 30, 2014 from City of
Detroit's Annual Comprehensive Financial Report**

City of Detroit, Michigan
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2014

(e) **Notes and Loans Payable**

The City issues installment notes and loans to provide funds for various public improvement projects.

The following is a schedule of notes payable at June 30, 2014:

	<u>Issue Date</u>	<u>Range of Interest Rates</u>	<u>Maturity Date</u>	<u>Balance June 30, 2014</u>
Governmental Activities				
<i>Non-Major Funds:</i>				
(All notes are secured by future Block Grant revenues)				
Ferry Street Project	06/12/08	4.14 to 4.62 %	08/01/14-18	\$ 1,635,000
Garfield Project	06/12/08	4.14 to 4.33	08/01/14-15	525,000
Stuberstone Project	06/12/08	4.14 to 4.48	08/01/14-16	90,000
Vernor Lawndale Project	09/14/06	5.07 to 5.74	08/01/14-25	1,340,000
New Amsterdam Project	08/01/02	5.43 to 6.12	08/01/14-22	7,750,000
Mexicantown Welcome Center Project	09/14/06	5.07 to 5.70	08/01/14-24	3,210,000
Book Cadillac Project	09/14/06	5.07 to 5.77	08/01/14-26	7,300,000
Book Cadillac Project Note II	06/12/08	4.14 to 5.38	08/01/14-27	9,984,000
Garfield II Note 1	09/14/06	4.14 to 5.30	08/01/14-25	6,372,000
Garfield II Note 2	09/14/06	5.07 to 5.77	08/01/14-26	2,058,000
Garfield II Note 3	09/16/09	LIBOR + 0.2	08/01/14-29	1,473,000
Garfield II Note 4	09/16/09	LIBOR + 0.2	08/01/17-29	6,697,000
Fort Shelby Project	06/12/08	4.14 to 5.34	08/01/14-26	17,750,000
Woodward Garden Project 1	06/12/08	4.48 to 5.05	08/01/16-21	7,050,000
Woodward Garden Project 2	07/21/10	2.66 to 4.35	08/01/16-28	6,197,000
→ Woodward Garden Project 2	<u>04/20/12</u>	LIBOR + 0.2	08/01/16-31	<u>5,753,000</u>
Total Notes Payable				<u>\$ 85,184,000</u>

The following is a schedule of loans payable at June 30, 2014:

	<u>Issue Date</u>	<u>Range of Interest Rates</u>	<u>Maturity Date</u>	<u>Balance June 30, 2014</u>
Governmental Activities				
Downtown Development Authority	1991-1997	—	—	\$ 33,600,000
Loan Payable IBM Schedule - 001	11/20/12	12.03%	12/1/16	<u>3,093,164</u>
Total Loans Payable				<u>\$ 36,693,164</u>

The City entered into a \$33.6 million loan payable with the Downtown Development Authority, listed in the preceding table, a discretely presented component unit. The loan was used to cover costs related to the Cobo Hall Expansion Project and operations of the Downtown People Mover System. The loan is unsecured and bears no interest and was to be repaid by the City as general operating funds become available to the extent not otherwise adjusted and/or discharged pursuant to the Plan of adjustment confirmed in the Bankruptcy Case.

Attachment III

June 30, 2023 HUD Section 108 Loan debt service payment schedule, prepared by
the Office of the Chief Financial Officer

City of Detroit - HUD Notes Debt Service Requirements

ISSUE NAME:
REPAYMENT SOURCE:
ORIGINAL PAR:
DATED DATE:
PRINCIPAL DUE:
INTEREST DUE:
INTEREST RATE:
MATURITY DATE:
INSURANCE:
CALL PROVISIONS:
Fiscal Year Ending
June 30,
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032

#REF!
PAID DURING FISCAL YEAR
#REF!

Garfield II Project Note 1 ¹			
HUD 108 Note	Principal	Interest	Total
Section 108 Loan Guaranty Block Grant Funds	720,000	82,370	802,370
\$6,522,000	-	41,335	41,335
March 26, 2019 (Refunding)	521,000	34,385	555,385
Annual: August	1,002,000	13,717	1,015,717
Semi Annual: August/February	-	-	-
4.33% to 5.30%	-	-	-
August 1, 2025	-	-	-
Noninsured	-	-	-
None	-	-	-
\$ 3,452,000	\$ 199,186	\$ 2,414,808	
1,929,000	109,749	2,038,749	
\$ 1,523,000	\$ 89,437	\$ 376,059	

Garfield II Project Note 2			
HUD 108 Note	Principal	Interest	Total
Section 108 Loan Guaranty Block Grant Funds	140,000	33,688	173,688
\$2,068,000	150,000	29,941	179,941
March 26, 2019 (Refunding)	240,000	24,776	264,776
Annual: August	320,000	17,194	337,194
Semi Annual: August/February	448,000	6,406	454,406
5.09% to 5.77%	-	-	-
August 1, 2026	-	-	-
Noninsured	-	-	-
None	-	-	-
\$ 1,298,000	\$ 112,005	\$ 1,410,005	
140,000	33,688	173,688	
\$ 1,158,000	\$ 78,317	\$ 1,236,317	

Notes:

1. On April 26, 2023, funds to prepay the Garfield II Note 1 Project were placed in escrow and the Note was partially defeased in substance. Specifically, the City made payment to HUD's Trustee to defease the full \$780,000 of the August 1, 2023, maturity and partially defease \$429,000 of the August 1, 2024, maturity. The trustee pays the debt service from the escrow until final payment on 8-1-24.
2. Also on April 28, 2023, the City fully defeased the outstanding Woodward Gardens Project II Note in the amount of \$3,039,000. From the City's perspective, the principal amount is considered defeased in substance on the date the City made payment.

City of Detroit - HUD Notes Debt Service Requirements

ISSUE NAME:	
REPAYMENT SOURCE:	
ORIGINAL PAR:	
DATED DATE:	
PRINCIPAL DUE:	
INTEREST DUE:	
INTEREST RATE:	
MATURITY DATE:	
INSURANCE:	
CALL PROVISIONS:	
	Fiscal Year Ending
	June 30,
	2023
	2024
	2025
	2026
	2027
	2028
	2029
	2030
	2031
	2032

#REF!
PAID DURING FISCAL YEAR
#REF!

Garfield II Project Note 4 (Geothermal)			
HUD 108 Note			
Section 108 Loan Guaranty Block Grant Funds			
\$1,393,000			
May 28, 2015 (Refunding)			
Annual: August			
Semi Annual: August/February			
.28% to 3.35%			
August 1, 2029			
Noninsured			
None			
Principal	Interest	Total	
100,000	21,771	121,771	
100,000	19,146	119,146	
100,000	16,321	116,321	
100,000	13,421	113,421	
100,000	10,396	110,396	
100,000	7,271	107,271	
100,000	4,071	104,071	
73,000	1,223	74,223	
-	-	-	
-	-	-	
\$ 773,000	\$ 93,620	\$ 866,620	
100,000	21,771	121,771	
\$ 673,000	\$ 71,850	\$ 744,850	

Garfield II Project Note 3 (Sugar Hill)			
HUD 108 Note			
Section 108 Loan Guaranty Block Grant Funds			
\$6,697,000			
May 28, 2015 (Refunding)			
Annual: August			
Semi Annual: August/February			
.93% to 3.35%			
August 1, 2029			
Noninsured			
None			
Principal	Interest	Total	
220,000	180,861	400,861	
230,000	174,946	404,946	
260,000	168,021	428,021	
400,000	158,416	558,416	
600,000	143,216	743,216	
900,000	119,741	1,019,741	
1,400,000	82,816	1,482,816	
1,793,000	30,033	1,823,033	
-	-	-	
-	-	-	
\$ 5,803,000	\$ 1,058,046	\$ 6,861,046	
220,000	180,861	400,861	
\$ 5,583,000	\$ 877,186	\$ 6,460,186	

Notes:

- On April 28, 2023, funds to prepay the Garfield II Note 1 Project were placed in escrow and the Note was partially defeased in substance. Specifically, the City made payment to HUD's Trustee to defease the full \$780,000 of the August 1, 2023, maturity and partially defease \$429,000 of the August 1, 2024, maturity. The trustee pays the debt service from the escrow until final payment on 8-1-24.
- Also on April 28, 2023, the City fully defeased the outstanding Woodward Gardens Project II Note in the amount of \$5,039,000. From the City's perspective, the principal amount is considered defeased in substance on the date the City made payment.

City of Detroit - HUD Notes Debt Service Requirements

ISSUE NAME:	
REPAYMENT SOURCE:	
ORIGINAL PAR:	
DATED DATE:	
PRINCIPAL DUE:	
INTEREST DUE:	
INTEREST RATE:	
MATURITY DATE:	
INSURANCE:	
CALL PROVISIONS:	
Fiscal Year Ending	
June 30,	
2023	
2024	
2025	
2026	
2027	
2028	
2029	
2030	
2031	
2032	

#REF!
PAID DURING FISCAL YEAR
#REF!

Woodward Garden Project 3			
HUD 108 Note			
Section 108 Loan Guaranty			
Block Grant Funds			
\$5,753,000			
May 28, 2016 (Refunding)			
Annual: August			
Semi Annual: August/February			
.83% to 3.55%			
August 1, 2031			
Noninsured			
None			
Principal	Interest	Total	
325,000	124,870	449,870	
342,000	116,101	458,101	
359,000	106,197	465,197	
377,000	95,521	472,521	
396,000	83,822	479,822	
417,000	71,116	488,116	
438,000	57,431	495,431	
460,000	42,609	502,609	
483,000	26,451	509,451	
507,000	8,999	515,999	
\$ 4,104,000	\$ 733,117	\$ 4,837,117	
\$ 325,000	\$ 124,870	\$ 449,870	
\$ 3,779,000	\$ 608,247	\$ 4,387,247	

ALL			
Principal	Interest	Total	
4,271,000	850,403	5,121,403	
3,698,000	654,947	4,352,947	
4,124,000	496,386	4,620,386	
5,024,000	385,244	5,409,244	
4,644,000	272,440	4,916,440	
2,006,000	198,428	2,204,428	
1,938,000	144,318	2,082,318	
2,326,000	73,865	2,399,865	
483,000	26,451	509,451	
507,000	8,999	515,999	
\$ 30,230,000	\$ 3,138,558	\$ 32,132,179	
\$ 8,519,000	\$ 940,918	\$ 9,459,918	
\$ 21,711,000	\$ 2,197,640	\$ 22,672,261	

Notes:
 1. On April 28, 2023, funds to prepay the Garfield II Note 1 Project were placed in escrow and the Note was partially defeased in substance. Specifically, the City made payment to HUD's Trustee to defease the full \$780,000 of the August 1, 2023, maturity and partially defease \$429,000 of the August 1, 2024, maturity. The trustee pays the debt service from the escrow until final payment on 8-1-24.
 2. Also on April 28, 2023, the City fully defeased the outstanding Woodward Gardens Project II Note in the amount of \$3,059,000. From the City's perspective, the principal amount is considered defeased in substance on the date the City made payment.



Attachment IV

HRD's response to Council Member Johnson's question on the status of Section
108 Loans dated July 7, 2023



Housing and Revitalization
Department

Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 908
Detroit, Michigan 48226

Phone: 313.224.6380
Fax: 313.224.1629
www.detroitmi.gov

July 7, 2023

Detroit City Council
Coleman A. Young Municipal Center, 13th Floor
Detroit, MI 48226

RE: Response to Councilmember Johnson's 6/27/23 memo on City's HUD Section 108 Loans

Honorable City Council:

HUD's Section 108 Loan Guarantee Program allows grantees of Community Development Block Grant (CDBG) funds, like the City of Detroit, to leverage their annual grant allocation to access financing for economic development and other CDBG-eligible activities. The grantee may then issue loans to third party developers to fund eligible projects. The HUD loans are secured with the grantee's annual allocation of CDBG.

At the start of Mayor Duggan's term in 2014, the Administration inherited a HUD Section 108 Loan portfolio of 16 non-performing loans to third party developers totaling \$88,310,000 in outstanding debt. Since then, the Housing and Revitalization Department, Corporation Counsel and OCFO Debt Management have worked jointly to negotiate settlements with the borrowers and establish repayment structures. As of June 2023, the total outstanding principal balance has been reduced to \$21,711,000 with 8 of the original loans now fully satisfied with HUD. While repayment has been largely through the City's CDBG allocation, repayment sources have also included settlement income and borrower repayments.

Below is a list of the City's active Section 108 loans for which payments are still due to HUD. These debts are expected to be fully satisfied over the next 8 years with a combination of borrower payments, existing debt service reserves, and CDBG allocation. For payments due in FY23-24, repayment sources will also include \$961,663 in unspent Section 108 loan proceeds never drawn down by the developer, which the City is obligated to use for repayment (see City Council resolution from 6/27/23 Formal Session item 18.13 for more information). Settlement agreements are in place with the borrowers for 4 of the 8 loans, where the City is still responsible for repaying the balance of the loans to HUD. Debt service reserves to fund remaining debt service are in place for 2 of the loans.

Project Name	Originated Principal	Principal Balance Remaining	Maturity Date
Book Cadillac II*	\$10,700,000	\$1,607,000	8/1/2025
Fort Shelby* ^	\$18,700,000	\$7,000,000	8/1/2026
Garfield II Note 1 (GREP)*	\$6,522,000	\$1,523,000	8/1/2025
Garfield II Note 2 (East Forest Arts)	\$2,058,000	\$1,158,000	8/1/2026

Garfield II Note 3 (Sugar Hill) ^	\$6,697,000	\$5,583,000	8/1/2029
Garfield II Note 4 (Geothermal)*	\$1,723,000	\$673,000	8/1/2029
Mexicantown	\$7,789,000	\$388,000	8/1/2024
Woodward Gardens III	\$5,753,000	\$3,779,000	8/1/2031
Total	\$59,942,000	\$21,711,000	--

**Settlement agreements reached*

^ Debt Service Reserve in place to fund remaining debt service

Please reach out to my office should you have any additional questions.

Respectfully submitted,

DocuSigned by:

E17650515DAF4C9...
Julie Schneider

CC: K. Vickers
J. Naglick
K. Bain
C. Raimi

Attachment V

City Council resolution to request to appropriate Section 108 Loan proceeds from
6/27/23 Formal Session item 18.13



**Housing and Revitalization
Department**

Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 908
Detroit, Michigan 48226

Phone: 313.224.6380
Fax: 313.224.1629
www.detroitmi.gov

June 9, 2023

Detroit City Council
1340 Coleman A. Young Municipal Center
Detroit, MI 48226

RE: Request to Appropriate Section 108 Loan Proceeds

Dear Honorable City Council,

Housing and Revitalization Department (“HRD”) currently has a total of \$961,663.06 held in several subaccounts at Huntington Bank within the (“Section 108 Loan Repayment Account”). The \$961,663.06 dollar amount reflects unused prior Section 108 loan proceeds received from the U.S. Department of Housing and Urban Development (“HUD”) which remain after developers fully drew down the funds needed for their respective projects. These remaining loan proceeds are from Section 108 funded projects where the City’s corresponding debts to HUD have not yet been satisfied. HUD has directed the City of Detroit to spend these funds on repaying debt service on the respective Section 108 loans and HRD desires to use the funds within the Section 108 Loan Repayment Account to pay debt services due to HUD. The specific loan repayment accounts and balances at Huntington Bank which comprise the \$961,663.06 are:

HUD 108 Woodward Gardens II Loan Repayment Account	\$7,634.07
HUD 108 Woodward Gardens III Loan Repayment Account	\$8,255.21
HUD 108 Book Cadillac II Loan Repayment Account	\$305,621.91
HUD 108 Garfield II Note 1 Loan Repayment Account	\$192,127.19
HUD 108 Garfield II Note 2 Loan Repayment Account	\$71,113.45
HUD 108 Garfield II Note 3 Loan Repayment Account	\$331,857.78
HUD 108 Garfield II Note 4 Loan Repayment Account	\$45,053.45

Total Amount in Loan Repayment Account:

\$961,663.06

HRD hereby respectfully requests that your honorable body adopt the following resolutions to appropriate \$961,663.06 from the Section 108 loan proceeds in the Loan Repayment Accounts to repay debt service. A waiver of reconsideration is requested.

Respectfully submitted,

DocuSigned by:

A1E218A6ECAA417

Kelly Vickers
Chief Development and Investment Officer,
Housing and Revitalization Department

RESOLUTION

BY COUNCIL MEMBER _____

WHEREAS, the City of Detroit is in possession of \$961,663.06 Section 108 loan proceeds (“**Section 108 Loan Proceeds**”) from the U. S. Department of Housing and Urban Development (“**HUD**”), related to Section 108 loans made by the City of Detroit to various developers pursuant to the HUD Section 108 loan guaranty program, which Section 108 Loan Proceeds remain after developers fully drew down the funds needed for their respective projects. The Section 108 Loan Proceeds are currently held in the various Section 108 Loan Repayment subaccounts with Huntington Bank (“**Loan Repayment Account**”).

WHEREAS, the City’s debts to HUD under the Section 108 loan guaranty program which the Section 108 loan proceeds were originally related to, have not yet matured and are still being paid.

WHEREAS, the Housing and Revitalization Department (“**HRD**”) will use these funds to repay debt service due to HUD, as Section 108 loan payments are due.

NOW, THEREFORE, BE IT RESOLVED, that \$961,663.06 from the Section 108 Loan Repayment Account be appropriated to Appropriation No. 13529; and further

RESOLVED, that HRD is hereby authorized to expend \$961,663.06 from Appropriation No. 13529 to repay Section 108 debt service; and further

RESOLVED, that HRD is hereby authorized to pay principal and interest due on the HUD Section 108 Notes as such payments become due from the Loan Repayment Accounts; and further

RESOLVED, that the City’s Chief Financial Officer, or their authorized designee, is hereby authorized to increase Appropriation No. 13529 by \$961,663.06 to repay debt service from Appropriation No. 13529; and be it finally

RESOLVED, that the City’s Chief Financial Officer, of his authorized designee, is hereby authorized to accept and process all documents consistent with the authorizations and approvals grant herein.

A WAIVER OF RECONSIDERATION IS REQUESTED.

Attachment VI

HUD CDBG Performance Profile for the City of Detroit for 2017 and 2019



U.S. Department of Housing and Urban Development
 Office of Community Planning and Development
 Integrated Disbursement and Information System
CDBG Community Development Block Grant Performance Profile

DATE: 03-21-19
 TIME: 16:00
 PAGE: 1

PR54 - DETROIT, MI

Program Year From 07-01-2017 To 06-30-2018

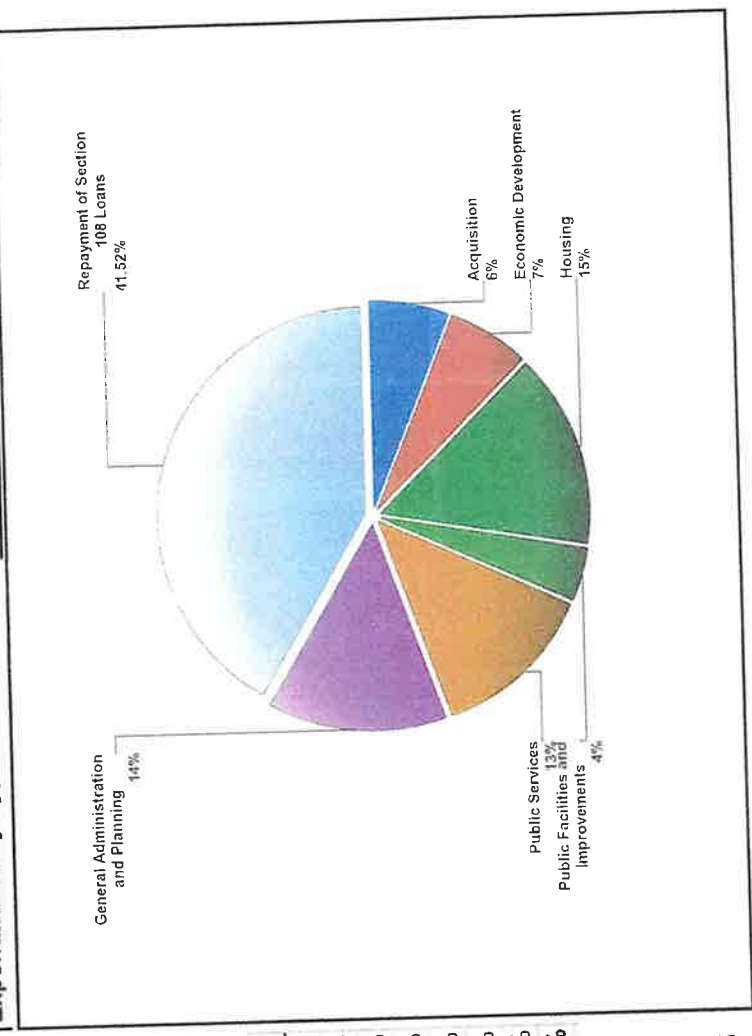
Program Year 2017 Funds

2017 CDBG Allocation	\$31,291,891.00
Program Income Received During Program Year 2017	\$127,741.16
Funds Returned to Local Program Account During Program Year 2017	\$0.00
Total Available¹	\$31,419,632.16

Expenditures²

Type of Activity	Expenditure	Percentage
Acquisition	\$2,879,548.07	6.08%
Economic Development	\$3,106,737.96	6.56%
Housing	\$7,155,739.85	15.10%
Public Facilities and Improvements	\$1,976,382.70	4.17%
Public Services	\$6,022,769.49	12.71%
General Administration and Planning	\$6,564,723.86	13.86%
Repayment of Section 108 Loans	\$19,670,007.77	41.52%
Total	\$47,375,909.70	100.00%

Expenditures by Type of Activity (%) **Expenditures by Type of Activity (\$)**



Timeliness

Timeliness Ratio - unexpended funds as percent of 2017 allocation

1.45

Program Year 2019 Funds

2019 CDBG Allocation	\$34,516,333.00
Program Income Received During Program Year 2019	\$27,927.05
Funds Returned to Local Program Account During Program Year 2019	\$0.00
Total Available¹	\$34,544,260.05

Expenditures²

Type of Activity	Expenditure	Percentage
Acquisition	\$333,005.36	0.26%
Economic Development	\$347,754.72	0.27%
Housing	\$6,778,889.63	5.23%
Public Facilities and Improvements	\$5,871,298.42	4.53%
Public Services	\$5,676,835.05	4.38%
General Administration and Planning	\$6,063,141.32	4.68%
Other	\$740,292.95	0.57%
Repayment of Section 108 Loans	\$103,704,057.9	80.07%
Total	\$129,515,275.4	100.00%

Timeliness

Timeliness Ratio - unexpended funds as percent of 2019 allocation 1.64

Expenditures by Type of Activity (%) Expenditures by Type of Activity (\$)

