



Finance Committee

Review of Community Development Block Grant Loan Portfolio

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Title

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Recommended Action

Committee Recommendation:

Not referred to a committee.

City Manager Recommendation:

Receive a report on the City's Community Development Block Grant (CDGB) Loan Portfolio and discuss ways to manage program income.

Report

Issue:

Whether to discuss how the City should manage its CDBG loan portfolio and how program income from loans receivable should be incorporated into CDBG strategic planning?

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Presenter(s):

Anna Schlecht, Community Service Programs Manager

Background and Analysis:

History of CDBG Funding Since 1982, the City of Olympia has received more than \$13 million in federal CDBG funds. Nearly 40% of these total CDBG funds were invested in housing rehabilitation loan projects that generate program income. While some of this program income is received in the form of monthly payments, the majority of Program Income is generated by property sales of these secured loans. The current outstanding balance of this CDBG loan portfolio is \$4,918,867.

Annual CDBG Allocations As part of the CDBG Annual Action planning process each year, staff present an estimate of what the anticipated CDBG program income will be, allowing the Council to allocate both new annual CDBG entitlement funds along with anticipated program income. In the

most recent Program Year 2016 (September 1, 2016 - August 31, 2017), City staff estimated there would be \$150,000 in program income, which was presented as follows:

\$340,892 - Annual CDBG Entitlement Funds
\$150,000 - Estimated Program Income
\$490,892 - Total Program Year 2016 Funds

Recent Trends Over the past 10 years (2005 - 2015), the City has received a total of \$2,797,840 with a yearly average of \$254,349. As stated above, the majority of these CDBG repayments come from property sales. As shown in **Attachment #1**, the repayment trends appeared to follow the economic patterns of the recession, going sharply downward to \$93,578 in 2010, then coming back up significantly to \$456,797 by 2015. This appears to mirror the growing strength of an improved real estate market, and the most recent increase suggests that a large number of CDBG loan repayments were part of a high volume of overall property sales. Staff has speculated that program income volumes will come back down to a more predictable level once a certain volume of property sales have cleared the market.

Projections: Going forward, there are a number of factors that will make it difficult to analyze program income and offer projections with any certainty, summarized as follows:

Market Volatility The housing market continues to be affected by a number of economic factors that directly impact property sales, primarily property values, interest rates and the availability of loan funds. CDBG Program Income appears to be reduced in relation to these market pressures.

Reduction of CDBG Loan Portfolio: Starting in 2010, the City changed course and stopped investing the majority of CDBG funds as housing rehabilitation loans, instead investing CDBG funds into grants and contracts for services. This policy shift has effectively reduced the underlying principal by reducing the outstanding balance of the portfolio from loans receivable.

Impact of Future CDBG Allocations: City allocation decisions of future CDBG entitlement grants will also impact the portfolio value. The volume of grants and contracts for sale directly reduce the value of the loan portfolio.

Given the complexity of these factors, staff has continued to monitor actual program income receipts and to offer conservative estimates of CDBG program income to be considered in the CDBG Annual Action Plan public process.

Regulatory Implications: CDBG funds must be spent down in a timely fashion, both new annual CDBG entitlement monies and Program Income. Accurate estimates of CDBG Program Income help to allocate funds to priority programs and projects that will expend funds quickly. There are federal “**Spend-down**” regulations that require the City to “spend down” or expend CDBG funds in a timely fashion to ensure that 1.5 times the current annual entitlement grant is expended by the 10th month of the program year. That means the City must spend down to \$511,338 by June 30, 2017. Staff closely monitor the progress of CDBG expenditures. If necessary, staff will return to Council to amend the CDBG Annual Action Plan to shift funds to programs and projects that will be spent in a timely fashion.

Neighborhood/Community Interests (if known):

All neighborhoods and other community stakeholders have a vested interest in how tax-funded

CDBG Program Income is managed.

Options:

Receive a report on the City's Community Development Block Grant (CDGB) Loan Portfolio and discuss ways to manage CDBG program income.

Financial Impact:

The total value of the CDBG Loan Portfolio of loans receivable is \$4,918,867. The current average for annual CDBG Program Income is \$254,349. The most recent estimate of anticipated Program Income for the current CDBG Program Year 2016 (September 1, 2016 - August 31, 2017) was \$150,000. Actual year to date receipts of CDBG Program Income for Program Year is \$19,123.

Attachments:

CDBG Program Income Trends 2005 - 2015