

#18.13



City of Detroit

CITY COUNCIL

ANGELA WHITFIELD CALLOWAY, JD
COUNCILMEMBER I DISTRICT 2

POSITION STATEMENT COUNCIL MEMBER CALLOWAY OPPOSES ADDITIONAL SECTION 108 LOANS TO DEVELOPERS

Statement:

The City of Detroit experienced a poor Section 108 repayment record that impacted its ability to effectively use CDBG funds. There is no reason to believe that future Section 108 loans to developers will have a different result. Under the circumstances, Council Member Angela Whitfield Calloway will oppose additional Section 108 loans to developers.

Background:

Until recently, the City of Detroit had few tools to attract and support developers. One of the few tools available was under Section 108 which allowed loans to private developers. The Department of Housing and Urban Development (HUD) would forward funds to the City of Detroit. These funds would be loaned to developers to promote investment in the city. The developer would use the Section 108 loan as part of its project financing allowing the project to proceed. The developer would make loan repayments to the City of Detroit which would allow the City of Detroit to repay HUD. The Section 108 loan between HUD and the City would be secured by the City of Detroit's CDBG funds.

Unfortunately, not all developments were successful.

The Book Cadillac I and II project loans of \$18,000,000 were settled for \$10,000,000 resulting in a loss of \$8,000,000.

The Fort Shelby project loans of \$18,700,000 were settled for \$2,000,000 which resulted in a loss of \$16,700,000.

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The Garfield II project loans of \$8,245,000 were settled for \$1,700,000 which resulted in a loss of \$6,545,000.

These three projects resulted in the total loss of \$31,245,000 that was secured by CDBG funds. This impacted the City of Detroit's ability to use funds for neighborhood programs and developments.

Analysis:

The past use of Section 108 loans resulted in losses. The problem does not rest with HUD or the City of Detroit, but with the developments that failed to anticipate cost overruns and failed to generate the revenue needed to pay back the loans to the City of Detroit. There is no reason to believe that future Section 108 loans will have a different success rate.

Downtown, Midtown, Corktown, and Eastern Market neighborhoods are "hot" real estate markets. The need for Section 108 loans to promote development in already "hot" markets may not be necessary. Clearly, most developers would like access to Section 108 loans but in "hot" markets the loan may not be needed since private financing may be available.

The role of government may be better served by avoiding Section 108 loans to developers and concentrating limited CDBG funds to the primary mission of supporting community-based programs and neighborhood development.