

# Memo



From: Linette Rhodes

Date: 7/10/2018

Re: HOME and CDBG funded Development RFP- DRAFT

The City of Madison Community Development Division (CDD) is preparing to conduct a development-focused funding process, making available Community Development Block Grant (CDBG) and HOME Investment Partnerships Program (HOME) funds to housing developers and non-profit owners and operators of community facilities.

The 2018 process will allocate funds in accordance with the Council- adopted and HUD- approved, City of Madison 2015-2019 Consolidated Plan. The focus of funds made available during this request for proposals (RFP) process will focus only on the following approved Goals and Objectives:

<b>Goal Area 1- Affordable Housing</b>	
Objective 1.1	Housing Supply (Development only, no service contracts)
<b>Goal Area 3- Strong &amp; Healthy Neighborhoods</b>	
Objective 3.2	Capital Improvements for Community Organizations

A summary of major changes proposed in the DRAFT 2018 RFP from the 2015-2016 Goals and Objectives are as follows:

<b>2015-2016 Goal and Objectives</b>	<b>Proposed 2018 Request for Proposals</b>
<ul style="list-style-type: none"> <li>Criteria for eligible applicants not included</li> </ul>	<ul style="list-style-type: none"> <li>Criteria for eligible applicants included</li> </ul>
<ul style="list-style-type: none"> <li>Criteria for eligible properties not specified</li> </ul>	<ul style="list-style-type: none"> <li>Criteria for eligible properties and targeted map specified</li> </ul>
<ul style="list-style-type: none"> <li>Project preferences not identified</li> </ul>	<ul style="list-style-type: none"> <li>Project preferences identified</li> </ul>
<ul style="list-style-type: none"> <li>Maximum amount for residential development set at \$54,000 per unit</li> </ul>	<ul style="list-style-type: none"> <li>Maximum amount for residential development increased to \$75- \$90k per unit, based on need.</li> </ul>
<ul style="list-style-type: none"> <li>Maximum loan amount for community facilities set at \$150,000</li> </ul>	<ul style="list-style-type: none"> <li>Maximum loan amount for community facilities increased to \$400,000 or CLTV of 115%</li> </ul>

Time line for the 2018 Request for Proposals:

July 12 <sup>th</sup>	Draft RFP to CDBG Committee
July 18 <sup>th</sup>	Resolution to issue RFP entered into Legistar
July 24 <sup>th</sup>	Resolution for RFP Introduced to Council
July 30 <sup>th</sup>	Resolution for RFP to Finance Committee**
August 2 <sup>nd</sup>	Resolution for RFP to CDBG Committee
August 7 <sup>th</sup>	Resolution for RFP seeks approval by Council
August 8 <sup>th</sup>	Release Date of RFP
September 19 <sup>th</sup> at Noon	Applications Due (6 weeks)
October 3 <sup>rd</sup>	Presentations to CDBG Committee
October 17 <sup>th</sup>	Staff Review Due
October 24 <sup>th</sup>	Funding Recommendations Resolution due to Legistar
October 30	Funding Recommendations Introduced to Council
November 1 <sup>st</sup>	Funding Recommendations discussed/approved by CDBG Committee
November 26 <sup>th</sup>	Funding Recommendations discussed/approved by Finance Committee
December 4 <sup>th</sup>	Funding Recommendations discussed/approved by Council

\*\*There is only one Finance Committee meeting in August. CDD staff will need to request that the Resolution be taken up by the Finance Committee prior to the CDBG Committee.

# Section 1 SCOPE OF WORK- DRAFT

## 1.1 Purpose

The purpose of the Community Development Program is to help to make Madison “a more viable urban community by providing decent housing, a supportive living environment and enhanced economic opportunities for low- and moderate-income persons (defined as individuals/households whose incomes do not exceed 80% of the area median income).” The Program aims to aid and support the efforts of non-profit organizations, businesses, neighborhood groups, labor unions, funding partners, volunteers, other governmental entities and the general community to plan, develop and invest in projects which contribute to the goals and objectives set forth in the City’s Consolidated Plan. The Consolidated Plan is a longer-term (5-year) planning document formulated by the City’s CDBG Committee, the Mayor, and Common Council in consultation with Madison citizens. Its content also reflects and reinforces the City’s broader goals and objectives articulated within its Comprehensive Plan and related neighborhood plans.

## 1.2 Primary Goals and Objectives

The City of Madison’s approved 2015-2019 Consolidated Plan, which articulates the community development goals on which the City intends to focus its federal entitlement funds (CDBG/HOME/ESG), is the foundation upon which this funding process was developed. The City of Madison Community Development Division (CDD) Goals and Objectives, as adopted by the Common Council on April 29, 2014, outlines specific goals and objectives intended to guide the use of identified financial resources administered by CDD. The three primary goal areas for federal funds are Goal 1-Affordable Housing, Goal 2-Economic Development and Employment Opportunities, and Goal 3-Strong and Healthy Neighborhoods. This RFP focuses only on the following approved Goal and Objectives:

- *Goal Area 1. Affordable Housing:* Provide decent, safe, sanitary and affordable housing opportunities for low-and moderate-income households in order to enhance household, neighborhood and community stability.

- *Objective 1.1 Housing Supply*  
Preserve, improve and expand the supply of affordable housing for homeowners and renters.

- *Goal Area 3. Strong & Healthy Neighborhoods:* Strengthen neighborhoods through strategic investments in physical assets and amenities like neighborhood centers, community gardens or other community facilities, as well as other planning and revitalization efforts.

- *Objective 3.2 Capital Improvements for Community Organizations*  
Create or improve safe, accessible, energy efficient and well-maintained community and neighborhood facilities.

## 1.3 Requirements for Affordable Housing

### **GOAL ONE: AFFORDABLE HOUSING**

*Provide decent, safe, sanitary and affordable housing opportunities for low- and moderate-income households in order to enhance household, neighborhood and community stability.*

#### OBJECTIVE: Housing Supply

Preserve, improve and expand the supply of affordable housing for homeowners and renters.

#### **Requirements**

##### *Eligible Applicants*

In order to be considered for financing, applicants must meet the following requirements:

- a) Demonstrate that the project is economically viable and the borrower(s) have the economic ability to repay the funds;
- b) Demonstrate that the developer will include a minimum of 5% of the total development costs in equity or a first mortgage;
- c) Not-for-profit corporations are eligible to apply. The corporation must be a 501(c)(3) or 501(c)(4) tax exempt organization;
- d) For-profit corporations are eligible to co-apply with a not-for-profit corporation. The non-profit corporation must have a majority ownership interest in the property;
- e) Have an active registration on the System for Award Management website. Registration for the SAM website can be found at <https://sam.gov/portal/SAM/#1>

##### *Eligible Activities*

- a) Increase the supply of safe, quality, affordable rental units;
- b) Preserve existing income- and rent-restricted rental housing to ensure long-term affordability and sustainability;
- c) Improve the existing rental housing stock in targeted neighborhoods through acquisition/rehab to create long term affordability and sustainability;
- d) Expand homeownership opportunities through acquisition/rehabilitation and new construction of single family properties.
- e) Maintain affordability of housing stock through energy efficiency and/or accessibility improvements.

### *Eligible Properties*

- a) The property must be located in the City of Madison;
- b) Projects may not exceed a total secured loan-to-value ratio greater than 115% from all sources. Projects in areas of priority to the City, including Neighborhood Resource Team (NRT) areas, may be allowed up to 125% secured loan-to-value ratio. Projects where a community land trust serves as owner of the underlying land will be permitted to meet a higher ratio of 125% secured funds-to-value ratio for the entire project of land and property;
- c) The CDD will not consider investments in projects that convert owner-occupied units to rental units;
- d) The property must pass an environmental review conducted by CDD prior to receiving a formal commitment of federal funding;
- e) New construction and adaptive reuse housing must meet all applicable state and local codes, ordinances, and zoning ordinances at the time of project completed. All housing must meet the accessibility standards of the Fair Housing Act and Section 504 of the Rehabilitation Act of 1973;
- f) Proposals must demonstrate strong connections with or proximity to key amenities such as employment opportunities, public transit, a full service grocery store, health facilities, schools, parks, and other basic amenities;
- g) If considering new construction, CDD recommends the developer confirms zoning with the Planning Division prior to submitting an application;
- h) If the developer does not have site control at the time of application, a targeted or defined area within the City of Madison must be identified.

### *Targeted Areas*

CDD seeks to geographically target the development of housing to incentivize new development in areas of the City with strong connections with or proximity to key amenities such as employment opportunities, public transit, a full service grocery store, health facilities, schools, parks, and other basic amenities. CDD also aims to achieve a wider dispersion of affordable rental housing throughout the city and discourage development of additional income- and rent-restricted units in areas with high concentrations of poverty and/or assisted housing. At this time, CDD supports the development of owner-occupied projects citywide.

The 2018 Affordable Housing Targeted Area Map is included in this RFP as Attachment A. A larger version of the map may be printed from the link at: Community Development Division Funding Opportunities Website. A searchable version of the map where proposers can enter specific addresses may be found on the City's Open Data Portal. (remember to add links)

Proposals must be located in the targeted areas listed below. A limited number of new construction projects will be considered by CDD outside of Eligible or Preferred Areas but only if the development is part of a larger revitalization plan to stabilize or improve areas of priority to the City such as Neighborhood Resource Team areas.

Type of Development	Location
New Construction of Rental Housing	Must be located in Eligible or Preferred Areas
Acquisition &/or Rehab of Rental Housing	Must be located in Targeted Rehab Areas
Construction, Acquisition &/or Rehab of units that will serve a vulnerable population <sup>1</sup>	Must be located in Eligible or Preferred Areas
Construction or Acquisition/Rehab for Homeownership properties	Citywide

*Preferences*

In addition to the conditions of eligibility listed above, preference will be given to:

- a) Projects that are “shovel ready”, meaning that work will begin within six months of receiving financial commitment.
- b) For-profit corporations co-applying with not-for-profit corporation that have a General Partner Purchase Option or Right of First Refusal.
- c) Agencies serving vulnerable populations that can leverage their own supportive services dollars.
- d) Projects proposed by Community Housing Development Organizations (CHDOs).
- e) Proposals that present a Tenant Selection Plan (TSP that embraces the CDD’s TSP Best Practices outlined in Attachment B).

*Federal Requirements*

1. All projects must comply with the relevant funding source requirements. The CDD will require that HOME-funded projects comply with the regulations in 24 CFR Part 92, HOME Investment Partnership Program, as amended, and that CDBG-funded projects comply with the regulations in 24 CFR Part 570, Community Development Block Grant, as amended. These federal regulations include, but are not limited to, the following:
  - a) Acquisition, construction, and/or rehab of rental housing must maintain rent at or below the HOME rent levels.
  - b) At least 90% of the HOME-assisted units in a rental project must assist households earning at or below 60% Area Median Income (AMI) at the time of initial occupancy or investment. The remaining 10% of funds must assist households earning at or below 80% AMI.
  - c) An agency designated as a developer cannot provide direct down payment assistance to individual homeowners purchasing the property unless it is a

---

<sup>1</sup> Vulnerable population , including, but not limited to, young children, youth, elderly, and people with disabilities

certified Community Housing Development Organization (CHDO) with the CDD or has both Developer and Sub-recipient contracts for each housing project, as applicable.

- d) All new homebuyers receiving a CDD loan will be required to attend a CDD-approved homebuyer education class. Homebuyers will be required to submit a homebuyer education certificate of completion to the CDD prior to closing.
- e) Development of owner-occupied housing cannot exceed the HOME purchase price or value limit designated by the Federal Department of Housing and Urban Development (HUD).
- f) Homeownership dwellings must be transferred to owner-occupied status within nine (9) months of construction completion.
- g) Developers must comply with CD Division Underwriting Guidelines for all loans provided to owner-occupied dwellings.
- h) Housing (after rehab) must meet the Community Development Division Rehabilitation Standards and all applicable City minimum housing standards and building codes.
- i) HOME projects require a minimum of 25% matching funds made from nonfederal sources. Forms of eligible match are defined under 24 CFR 92.220.
- j) HOME-funded projects will be subject to a Period of Affordability (POA), the length of which is based upon the amount of HOME funds the City has invested in the property and the use of the funds. The POA will be reflected in the LURA recorded in first position ahead of the first mortgage.

#### *Financing Terms and Amounts*

The CDD shall secure funding for capital costs with a promissory note and a mortgage in the form of a non-recourse loan, and a Land Use Restriction Agreement (LURA) if required by a funding source. Funds will be provided in the form of a long-term deferred loan payable upon sale, transfer, or change in the use of the property. The promissory note will require one of the following loan terms, to be requested at the time of project application:

**Option 1:** Zero percent, long-term deferred loan payable upon sale, transfer, or change in the use of the property. The promissory note will require repayment of either a percent of the appraised value after-rehab or construction based on the amount of the CDD funds invested in the property or a percentage of the net proceeds, whichever is less.

**Option 2:** Long-term deferred loan, plus 2% accrued simple interest, payable upon sale, transfer, or change in the use of the property. Repayment will be equal to the amount of the CDD funds invested plus 2% simple interest accrued over the life of the loan.

- A minimum of 85% of all funds received shall be loaned for capital costs, as defined by the CDD, to include acquisition and construction-related costs. A maximum of 15% of CDD funds received may be applied to developer fee or soft costs (e.g. closing costs, design, engineering costs). No more than 10% of the total CDD received can be applied toward the developer fee.
- Based on previous experience, CDD anticipates offering gap financing awards that range up to \$75,000- \$90,000 per unit of affordable housing. The amount of subsidy offered will

reflect the extent to which proposals match the City’s overall goals, objectives, and preferences as described in this RFP; the extent to which all other available financing sources are pursued; and the availability of funds. Final approval of funds will be subject to subsidy layering/underwriting and a HOME cost allocation analysis, if applicable.

- In addition to direct subsidies offered as part of this RFP, applicants may also be eligible for a waiver from payment of Park Impact Fees for development of new low-cost housing units.
- The City may alter the terms and conditions of its loans from those described above if it deems that is necessary to maximize the expansion of affordable housing units or incentivize the responsiveness to the stated preferences.

## 1.4 Scoring Criteria for Affordable Housing

The CDD will evaluate each proposal based on the project’s contribution to increase the affordable housing stock, project’s financial need, leverage of other resources, developer capacity, project readiness, type of project (acquisition, rehab or new construction) and availability of resources to determine the appropriate level of funding.

Scoring Criteria	Points Available
<b>1. OVERALL QUALITY</b> Development concept and plan, number of units, types of units, unit mix and income targeting, in-unit and property amenities, sensitivity to neighborhood context, proposal vision and goals, anticipated market demand, readiness to proceed, and compliance with eligibility requirements.	<b>30 points</b>
<b>2. RESPONSIVENESS</b> Level of responsiveness and extent to which proposal addresses overall City goals, objectives, and preferences as described in this RFP. Evidence of site control; absence of known environmental issues that might significantly delay the project; likelihood of project meeting zoning requirements and securing City permits and/or approvals; level of Alder support; and level of neighborhood support.	<b>20 points</b>
<b>3. FEASIBILITY</b> Development pro forma details reasonable sources and uses of funds and includes all project costs. Operating budget details reasonable costs and cash flow over the period of affordability. Financial structure included maximized available resources, financial strength of proposal, financial strength of applicant, and includes reasonable assumptions and projections.	<b>20 Points</b>
<b>4. CAPACITY, EXPERIENCE AND QUALIFICATIONS</b> Demonstrated capacity to produce a high-quality product – based on successful history of developing affordable housing, including the incorporation of HOME and CDBG regulations in developments and performance on past CDD-assisted projects.	<b>20 points</b>
<b>5. PROPOSED SITE</b> Proximity to public transit, schools, employment opportunities, groceries, and other key amenities and/or benefit to surrounding neighborhood.	<b>10 points</b>
<b>Total Points Available</b>	<b>100 points</b>



## 1.5 Requirements for Strong and Healthy Neighborhoods

### **GOAL THREE: STRONG & HEALTHY NEIGHBORHOODS**

*Strengthen neighborhoods through strategic investments in physical assets and amenities like neighborhood centers, community gardens or other community facilities, as well as other planning and revitalization efforts*

#### **OBJECTIVE: Capital Improvements for Community Organizations**

Create or improve safe, accessible, energy efficient and well-maintained community and neighborhood facilities. Community and neighborhood facilities help bring people of diverse backgrounds together or serve as neighborhood focal points. The facility should help residents develop skills or take advantage of opportunities that will strengthen neighborhoods.

#### **Requirements**

##### *Eligible Applicants*

In order to be considered for financing, applicants must meet the following requirements:

- a) Demonstrate that the project is economically viable and the borrower(s), if applicable, will have the economic ability to repay the funds;
- b) Not-for profits corporations are eligible to apply. The corporation must be a 501c 3 or 4 tax exempt organization;
- c) Demonstrate that the developer will include a minimum of 5% of the total development costs in equity or a first mortgage;
- d) Have an active registration on the System for Award Management website. Registration for the SAM website can be found at <https://sam.gov/portal/SAM/#1>

##### *Eligible Activities*

- a) Acquisition, construction, reconstruction or rehabilitation of community facility. In undertaking these activities, design features and improvements that promote energy efficiency may be included.
- b) Improvements to existing neighborhood centers to increase the efficient use of energy or expand capacity of programming at the neighborhood center.
- c) Projects must demonstrate coordination with other community groups, service providers, and the support and participation of neighborhood residents.
- d) Projects must demonstrate that they meet the CDBG National Objective that at least 51% of their participants are low-and moderate-income individuals.

##### *Ineligible Activities*

- a) Funds may not be used to pay for the operation, repair or maintenance of community facilities.
- b) Buildings or portions thereof, used for general conduct of government cannot be assisted.

#### *Preferences*

- a) In the interest of promoting longer-term maintenance and planning, the City will limit agencies to one application per property in a 10-year period.
- b) Projects should not exceed a total secured loan-to-value ratio greater than 115% from all sources.

#### *Financing Terms and Amounts*

The CDD shall secure funding for capital costs with a promissory note and a mortgage in the form of a non-recourse loan. Funds will be provided in the form of a long-term deferred loan payable upon sale, transfer, or change in the use of the property. The promissory note will require one of the following loan terms, to be requested at the time of project application:

**Option 1:** Zero percent, long-term deferred loan payable upon sale, transfer, or change in the use of the property. The promissory note will require repayment of either a percent of the appraised value after-rehab or construction based on the amount of the CDD funds invested in the property or a percentage of the net proceeds, whichever is less.

**Option 2:** Long-term deferred loan, plus 2% accrued simple interest, payable upon sale, transfer, or change in the use of the property. Repayment will be equal to the amount of the CDD funds invested plus 2% simple interest accrued over the life of the loan.

- A minimum of 85% of all funds received shall be loaned for capital costs, as defined by the CDD, to include acquisition and construction-related costs. A maximum of 15% of CDD funds received may be applied to developer fee or soft costs (e.g. closing costs, design, engineering costs). No more than 10% of the total CDD received can be applied toward the developer fee.
- Neighborhood centers assisted with a CDD loan for capital improvements must execute an option to purchase the property with the City or an agreement to identify another acceptable operator if performance standards are not met.
- For agencies renting space, the City may provide up to \$25,000 as a ten-year forgivable loan, unless the property owner will secure the loan with a mortgage on the property. Agencies renting space will be asked to provide a ten-year lease from the owner instead of a mortgage on the property.

- The maximum cumulative amount that will be provided per property is \$400,000, or \$25,000 for property that is leased. The amount of subsidy offered will reflect the extent to which proposals match the City’s overall goals, objectives, and preferences as described in this RFP; the extent to which all other available financing sources are pursued; and the availability of funds.

## 1.6 Scoring Criteria for Strong and Healthy Neighborhoods

Scoring Criteria	Points Available
<p><b>1. OVERALL QUALITY</b> Development concept and plan, sensitivity to neighborhood context, proposal vision and goals, anticipated market demand, readiness to proceed, and compliance with eligibility requirements.</p>	<b>30 points</b>
<p><b>2. FEASIBILITY</b> Development pro forma details reasonable sources and uses of funds and includes all project costs. Operating budget details reasonable costs and cash flow. Financial structure included maximized available resources, financial strength of proposal, financial strength of applicant, and includes reasonable assumptions and projections.</p>	<b>20 Points</b>
<p><b>3. CAPACITY, EXPERIENCE AND QUALIFICATIONS</b> Demonstrated capacity to produce a high-quality product – based on successful history of past performance, qualifications or experience.</p>	<b>20 points</b>
<p><b>4. IMPACT</b> How many low-to-moderate persons or households will directly benefit from the proposed project and to what extent will these targeted beneficiaries be served.</p>	<b>20 Points</b>
<p><b>5. RESPONSIVENESS</b> To what extent does this proposal show evidence of thorough planning, which incorporates coordination with existing agencies, volunteers, and resources.</p>	<b>10 points</b>
<b>Total Points Available</b>	<b>100 points</b>

## Section 2 GENERAL CRITERIA & CROSS-CUTTING REQUIREMENTS

The CDD will require projects to meet these national, state and local cross-cutting regulatory requirements, where applicable:

1. Serve low- and moderate-income (LMI) persons.
2. Take affirmative steps to contract with minority, women, and disadvantaged business enterprises (M/W/DBEs).
3. Comply with the goals and requirements of the City's Section 3 Program, which seeks to extend employment, training and contracting opportunities to low- and moderate-income people and businesses.
4. Promote affirmative action, non-discrimination and equal opportunity for all citizens.
5. Comply with physical accessibility standards.
6. Minimize negative environmental impacts, and comply with environmental review requirements.
7. Comply with Federal Fair Labor Standards, and local Living Wage requirements.
8. Affirmatively further fair housing, housing diversity, and housing choices.
9. Reduce lead paint hazards using certified inspectors, supervisors, workers and companies, as well as established lead safe work practices when required.
10. Reduce hazards caused by asbestos and asbestos-containing materials and/or remove asbestos and asbestos-containing materials using a certified asbestos abatement supervisor and a certified asbestos worker.
11. Minimize both the direct and indirect displacement of persons and/or businesses. Where appropriate, the CDD will adhere to the State and Uniform Relocation Act procedures.
12. Design program operations to safeguard vulnerable populations, such as young children and frail elderly people.
13. Avoid conflict of interest situations, and comply with anti-lobbying requirements.  
Note: If a group is seeking approval of a development that has over 40,000 gross square feet of non-residential space, or a residential development of over 10 dwelling units, or if a group is seeking assistance from the City with a value of over \$10,000 (this includes grants, loans, TIF or similar assistance), then the group is likely to be subject to Madison's lobbying ordinance, sec. 2.40 MGO. The group is required to register and report its lobbying. Please consult the City Clerk for more information. Failure to comply with the lobbying ordinance may result in fines of \$1,000 to \$5,000.

14. Adhere to the constitutional and regulatory provisions of separation of church and state and avoidance of public funding of inherently religious activities.

DRAFT