

# MEMO

To: CDBG Committee

From: Pam Rood, Community Development Grants Supervisor

Date: November 30, 2009

Subject: Preliminary 2011-2012 Framework Discussion

To begin the 2011-2012 funding process, the CDBG staff began by discussing the 2011-2012 Framework. This document will detail the activities the CDBG Committee will fund over the next 2 years. The staff have initially identified broad topics throughout the document that need either further discussion or revision. Attached you will find this information. At the CDBG Committee meeting we will begin to discuss these issues and any additional recommendations that you may have.

The Framework timeline is as follows:

- December CDBG Committee Meeting – begin Framework discussion
- January CDBG Committee Meeting – review Framework draft
- February CDBG Committee Meeting – Framework public hearing
- Special February CDBG Committee Meeting – February 18, 2010 – Approve the Framework
- Council approval in February or March

Thank you for your assistance as we begin to develop the 2011-2012 Framework.

## Preliminary Framework Discussion

### Housing

- **Residential shared appreciation policy**

The recent shared appreciation discussions at the CDBG Committee meetings did not include the residential component of this policy. Given the previous discussions and recent policy change, it seems warranted to review this policy and determine whether shared appreciation should remain in effect for homebuyers or whether an alternative option should be developed to better serve City of Madison residents. Shared appreciation is currently in place for all downpayment assistance loans regardless of whether they are provided through a funded agency or through the American Dream program.

The shared appreciation policy requires that at the time of repayment, the homebuyer must repay the loan plus a proportional share of equity. The homebuyer is required to have an appraisal done at their expense to determine the repayment amount. During times of growth, the City has seen substantial returns in repayments. However during times of housing value decline with no equity growth, the repayment becomes the amount of the loan.

For homebuyers and lenders the shared appreciation policy is very confusing. Homebuyers want to know up front what they are required to repay. With this policy we are not able to provide this information. In addition, lenders will not always endorse our programs because of the unknown repayment. As a result, the shared appreciation policy has often deterred residents from using our programs especially the American Dream downpayment program. Homebuyers are also paying a substantial percentage of their equity when the maximum amount of funds is invested in their property.

An alternative approach to shared appreciation may be to include a low interest rate to the loan. In this case, the City will be guaranteed a return on their investment when the loan is repaid. In addition, the homebuyer will know the repayment amount at the time of closing. This will also save the homebuyer money because they will not be required to get an appraisal at the time of sale to determine the shared appreciation repayment amount.

- **Investment limits per property**

Determine an adequate investment limit per property for both homeownership and rental. Also determine whether the energy stimulus or other funds should be included in the limits. Additional research will be needed to calculate a limit that meets the current affordable housing needs.

- **Energy efficiency standard**

Encourage energy efficiency standards in affordable housing. Options to consider include providing additional funds above the investment limit to ensure energy efficiency or mandate that all loans have an energy efficiency standard. This will require looking at the amount and type of the loan. For example, is an energy efficiency requirement feasible with an average American Dream \$8,000 loan.

- **Foreclosure response**

Determine whether additional CDBG funds should be allocated to address this community problem. Currently CDBG-R funds are being used to fund a .5 FTE through Dane County Housing

Authority to staff the Dane County Task Force and provide additional services. The CDBG Office is also staffing the Dane County Task Force Steering Committee as well participating in sub-committee activities. In addition, NSP funds are being administered through the CDBG Office and are being used by non-profits to purchase foreclosed properties. These properties will be rehabilitated and sold as affordable housing units.

- **Over concentration of funding in a particular area**

Determine whether limits should be placed on the number of rental units or homeownership properties that are assisted in a particular area. Currently the limit in place is for newly constructed rental housing projects. The limit is a total of 16 or fewer units unless it's located in an area which does not have a high concentration of lower income housing, are part of a larger neighborhood revitalization effort or the housing developer demonstrates that a smaller scale project that otherwise meets the objectives within the Framework would not be economically feasible.

### **Business Development**

- Expand the current business development strategy to increase job creation efforts and business development. Possible expansion efforts may include the development of targeted type (sectors of the economy-green businesses or other types) and size businesses (small businesses with less than 100 employees-economic gardening concept). Should we allocate additional funds for this purpose? Should our role with existing efforts be more assertive? In addition, how should we increase the collaboration with the Office of Business Resources? Additional research will be needed in this category to determine appropriate business assistance levels especially given the change in the economy. In addition, energy conservation standards should be incorporated into these efforts when possible.

### **Neighborhood Strategy Areas**

- Re-evaluate the current neighborhood planning process to determine whether these efforts can be more strategic, implemented in a shorter timeframe and have a greater impact on the target neighborhood. In addition, review how the strategic areas are identified and what role the new neighborhood indicators project plays in this process. A key factor in the neighborhood planning process is the ability to leverage funds from other departments to complete identified projects.

### **Funds**

- Determine the priorities within each fund as well as the timelines to apply for funds. Currently projects are funded as they come to the CDBG Committee. Review this process to ensure that the process is strategic and funding the identified priorities.

### **Energy Efficiency Standards**

- Determine the level of energy efficiency strategies to be incorporated into the CDBG funded activities.

### **Other**

- **Direct Funding to For Profit Businesses**

Determine whether the CDBG Office should fund for profit businesses directly. Historically, the CDBG Office has directly funded non-profit agencies. CDBG Office funds have been used to provide loans to businesses however they have been made through both the MDC and WWBIC

programs. With the expansion of the business development goal, additional businesses will be indirectly funded by the CDBG Office. In addition, the CDBG Office can look at additional ways that non-profits can collaborate with for profit businesses. By adding for profit businesses directly to the competitive process, the pool of funds for non-profits will become that much more limited. Staff continue to support the practice of funding non-profits.

- **Loan vs. Grant**

Historically loans have been used for both non-profits and residents who are interested in using CDBG funds other than those that receive funds from the 2 year funding cycle. This practice continues to keep the CDBG programs operating. As loans are paid back the funds are recycled for the next buyer or non-profit. If grants were used the CDBG Office would not have the ability to fund the number of programs that it currently does.

- **Priorities and Preferences**

Determine how to articulate the priorities and preferences of the Framework. The intent of the Framework is to detail what the CDBG Committee intends to fund over the next 2 years. Currently, there are several priorities and preferences throughout the document. As a result, the areas of importance are not clear.

- **Allocation Percentages**

Determine whether the previous allocation percentages are relevant to the goals and priorities set by the CDBG Committee. The chart on page 12 of the current Framework outlines the allocation percentages.