



**Date:** October 30, 2014

**To:** Thomas J. Bonfield, City Manager  
**Through:** Keith Chadwell, Deputy City Manager  
**From:** Reginald J. Johnson, Director  
Department of Community Development  
**Subject:** Guidelines for DFS Funded Small Project Development and  
Neighborhood Revitalization - Revised

**Executive Summary**

In the Comprehensive Housing Strategy Status Report and updated Five-Year Funding Plan presented to Council in April, two new programs supported by Dedicated Housing Funds were proposed – Small Project Development and Neighborhood Revitalization. At that time, the Department of Community Development stated that fully articulated program descriptions and guidelines would be prepared for Council consideration and approval prior to making program funding available through the annual competitive application process.

**Recommendation**

The Department of Community Development recommends that City Council approve the application requirements and evaluation criteria for Small Project Development and Neighborhood Revitalization as set forth in the agenda memo.

**Background**

A total of \$500,000.00 in Dedicated Housing Funds for Small Project Development is included in the funding plan for FY 16. As indicated in the Status Report, an objective of the proposed program was to ensure that non-profits have sufficient access to homebuyer assistance, acquisition funds or cost write-downs to remain viable and operating at their optimal capacity. A secondary objective was to provide a mechanism for addressing the 18 properties held in the Southwest Central Durham Land Bank which were acquired with funds loaned to the Land Bank by Duke University. These objectives however are not exclusive.

A total of \$1,082,910.00 in Dedicated Housing Funds is budgeted for FY 16 to support Neighborhood Revitalization. This new program was proposed in part to support implementation efforts associated with Southeast Central Durham Choice Neighborhood Initiative which includes the redevelopment of the McDougald Terrace public housing complex. The new program also creates additional opportunities to further the objectives of the City's NECD Poverty Reduction Initiative.

**Issues and Analysis**

Because these are new programs, it is important that carefully crafted program requirements and evaluation criteria be developed and approved by Council to ensure that public resources achieve the desired outcomes. Accordingly, the following is being presented for Council consideration.

## **Program Requirements –Small Project Development**

Required Outcome: Requested funding must have the outcome of increasing the supply of affordable rental or homeownership units through new construction or the rehabilitation of existing, vacant and deteriorated property during the contract period. All homeownership units must be sold to and occupied by households with incomes at or below 80% of the area median income (AMI). For rental projects, eligible tenants are households with incomes at or below 60% AMI.

Geographic Eligibility: Projects must be located in Southwest Central Durham (SWCD), Northeast Central Durham (NECD) or Southeast Central Durham (SECD).

Eligible Uses: Funds may be used for acquisition, demolition, construction costs write-downs for new construction or rehabilitation or second mortgage loans. For homeownership development, write-downs may not be used to subsidize the sales price of units below that of comparable properties. Instead, units should be listed for sale at full market value with assistance or incentives offered to the homebuyer.

Funding Commitments: Projects that propose other funding not firmly committed at the time of application may receive a conditional award providing for a twelve month window for obtaining firm commitments. In the absence of such commitments after the twelve month period, conditionally awarded funds will be released to the fund balance.

Requirements for Market Study: Except for applications requesting second mortgage loans only, documentation of market demand for the proposed rental or homeownership units within the specific geographic location must be submitted at the time of application. Market study requirements are imposed by the now effective rules governing the Home Investments Partnerships (HOME) Program and the Department is extending those requirements to locally-funded affordable housing efforts. All market studies must submit current, verifiable documentation of demand for each tenant population to be served.

A prospective developer/sub recipient is expected to submit the following information as part of a bona fide market study:

1. Identify the market area for new rental units;
2. Provide any waiting lists or client lists, to determine needs for additional units, they may have themselves or other organizations as well;
3. Current occupancy and rent levels of developers own projects and those in the market area;
4. A comparable analysis of the occupancy and rent levels, including projected absorption rate of new units; and
5. Their plan for marketing these new units.

For rental projects, acceptable documentation would include occupancy levels in existing comparable rental projects, waiting lists, etc. An applicant may choose, but is not required to obtain an independent, third party market study.

The market study requirements for homeownership projects are more stringent. Applicants may satisfy the market study requirement by documenting a waiting list of buyers qualified for a loan and prepared to execute a purchase contract. Otherwise applicants must submit an independent, third party market study documenting demand for the proposed unit(s), at the

proposed sales price and in the specific geographic location proposed. The market study must find it reasonable to believe that a speculatively constructed homeownership unit will be sold to an income eligible buyer within six months of being completed.

Minimum Leverage: Each one dollar (\$1.00) in local funds requested must leverage not less than two dollars (\$2.00) in other investment.

Economic Sustainability: Applications requesting funding for a rental project must include a complete sources and uses summary and a pro forma which demonstrates a debt coverage ratio of not less than 1.15. The pro forma must show the funding of replacement reserves at not less than \$250 per unit annually for new construction and not less than \$350 per unit annually for rehabilitation.

#### Other Threshold Requirements

1. Evidence of site control, i.e., deed, contract of sale, option to purchase, lease with option to purchase or other form acceptable to the Department of Community Development.
2. Evidence of Zoning, i.e., letter from City/County Planning indicating that the subject property is properly zoned for the proposed use. If a variance, special use permit or exception is required, a letter from City/County Planning describing the required approval process and providing a detailed schedule for obtaining approval must be submitted.

All applications will be scored and ranked based on three factors: 1) Capacity, 2) Leveraging and 3) Project Design.

1. Applicant's demonstrated **capacity. (Maximum of 40 points)**

#### *Scoring Criteria for Rental Projects*

- a. Staff qualifications and experience in completing similar rental projects on time and within budget (0 to 20 points).
- b. Overall capacity in successfully managing comparable rental projects as evidenced by occupancy levels, maintenance and repair of existing rental units, compliance with federal requirements and record keeping and reporting (0 to 20 points).

#### *Scoring Criteria for Homeownership Projects*

- a. Staff qualifications and experience in completing home construction on time and within budget (0 to 20 points).
- b. Overall capacity and track record in successfully marketing homeownership units as demonstrated by the length of time between obtaining a certificate of occupancy and homebuyer closing (0 to 20 points).

2. Project **leveraging (Maximum of 30 points)**

#### *Scoring Criteria*

- a. Leverage exceeds 2:1, but less than 3:1 (10 points).
- b. Leverage is at least 3:1 but less than 4:1 (20 points).

- c. Leverage is 4:1 or greater (30 points).

3. Project **Design (Maximum of 30 points)**

*Scoring Criteria*

- a. Extent to which project costs on a per unit or per square foot basis are reasonable and competitive compared to similar projects funded by the City (0 to 6 points).
- b. Extent to which developer fees and soft costs are reasonable and competitive compared to comparable or similar projects funded by the City (0 to 8 points).
- c. The use or incorporation of aesthetically pleasing architectural design, quality and durable building materials, energy efficiency and green elements (0 to 8 points).
- d. Compatibility with adjacent land uses and proximity to commercial facilities and transportation (0 to 4 points).
- e. Bonus (4 points): Project is located within a one-half mile radius of a proposed rail transit station.

**Scoring Summary**

Capacity	40 Points
Leveraging	30 Points
Project Design	30 Points

**Program Requirements –Neighborhood Revitalization**

Required Outcome: Requested funding must have the outcome of increasing the supply of affordable rental or homeownership units through new construction or the rehabilitation of existing, vacant and deteriorated property during the contract period. “Stand alone” activities that are not a part of a larger approved and funded plan which creates affordable housing will not be considered. Homeownership units must predominantly be sold to and occupied by households with incomes at or below 80% of the area median income (AMI). For rental projects, at least two-thirds of the units must be occupied by households with incomes at or below 60% AMI.

Geographic Eligibility: Projects must be located in Northeast Central Durham (NECD) or Southeast Central Durham (SECD).

Eligible Uses: Funds may be used for acquisition, demolition, site preparation, infrastructure improvements, construction costs write-downs for new construction or rehabilitation or second mortgage loans. For homeownership development, write-downs may not be used to subsidize the sales price of units below that of comparable properties. Instead, units should be listed for sale at full market value with assistance or incentives offered to the homebuyer.

Funding Commitments: Projects that propose other funding not firmly committed at the time of application may receive a conditional award providing for a twelve month window for obtaining firm commitments. In the absence of such commitments after the twelve month period, conditionally awarded funds will be released to the fund balance.

Requirements for Market Study: Except for applications requesting second mortgage loans only, documentation of market demand for the proposed rental or homeownership units within the specific geographic location must be submitted at the time of application. For rental projects having 12 or more units, market studies do not have to be submitted with the

application. However, a market study substantiating the demand for the rental units must be submitted before funds can be committed. Market study requirements are imposed by the now effective rules governing the Home Investments Partnerships (HOME) Program and the Department is extending those requirements to locally-funded affordable housing efforts.

For rental projects of fewer than 12 units, acceptable documentation would include occupancy levels in existing comparable rental projects, waiting lists, etc. An applicant may choose, but is not required to obtain an independent, third party market study. For proposed projects of 12 units or more, a third party market study is required. As noted above, the market study is not required at the time of application but must be submitted to and accepted by the City of Durham prior to commitment of funds by way of loan or other agreements.

The market study requirements for homeownership projects are more stringent. Habitat for Humanity may satisfy the market study requirement by documenting a waiting list of buyers. All other applicants must submit an independent, third party market study documenting demand for the proposed unit(s), at the proposed sales price and in the specific geographic location proposed. The market study must find it reasonable to believe that a speculatively constructed homeownership unit will be sold to an income eligible buyer within six months of being completed.

Minimum Leverage: Each one dollar (\$1.00) in local funds requested must leverage not less than two dollars (\$2.00) in other investment.

Economic Sustainability: Applications requesting funding for a rental project must include a complete sources and uses summary and a pro forma which demonstrates a debt coverage ratio of not less than 1.15. The pro forma must show the funding of replacement reserves at not less than \$250 per unit annually for new construction and not less than \$350 per unit annually for rehabilitation.

#### Other Threshold Requirements

1. Evidence of site control, i.e., deed, contract of sale, option to purchase, lease with option to purchase or other form acceptable to the Department of Community Development.
2. Evidence of Zoning, i.e., letter from City/County Planning indicating that the subject property is properly zoned for the proposed use. If a variance, special use permit or exception is required, a letter from City/County Planning describing the required approval process and providing a detailed schedule for obtaining approval must be submitted.

All applications will be scored and ranked based on four factors: 1) Capacity, 2) Leveraging 3) Project Design and 4) Impact.

1. Applicant's demonstrated **capacity. (Maximum of 25 points)**

#### *Scoring Criteria for Rental Projects*

- a. Staff qualifications and experience in completing similar rental projects on time and within budget (0 to 10 points).
- b. Overall capacity in successfully managing comparable rental projects as evidenced by occupancy levels, maintenance and repair of existing rental

units, compliance with federal requirements and record keeping and reporting (0 to 15 points).

**Scoring Criteria for Homeownership Projects**

- a. Staff qualifications and experience in completing home construction on time and within budget (0 to 10 points).
- b. Overall capacity and track record in successfully marketing homeownership units as demonstrated by the length of time between obtaining a certificate of occupancy and homebuyer closing (0 to 15 points).

**2. Project leveraging (Maximum of 25 points)**

*Scoring Criteria*

- a. Leverage exceeds 2:1, but less than 3:1 (10 points).
- b. Leverage is at least 3:1 but less than 4:1 (20 points).
- c. Leverage is 4:1 or greater (25 points).

**3. Project Design (Maximum of 20 points)**

*Scoring Criteria*

- a. Extent to which project costs on a per unit or per square foot basis are reasonable and competitive compared to similar projects funded by the City (0 to 4 points).
- b. Extent to which developer fees and soft costs are reasonable and competitive compared to comparable or similar projects funded by the City (0 to 4 points).
- c. The use or incorporation of aesthetically pleasing architectural design, quality and durable building materials, energy efficiency and green elements (0 to 4 points).
- d. Compatibility with adjacent land uses and proximity to commercial facilities and transportation (0 to 4 points).
- e. Bonus (4 points): Project is located within a one-half mile radius of a proposed rail transit station.

**4. Impact (Maximum of 30 points)**

*Scoring Criteria*

- a. Project builds upon other neighborhood revitalization efforts as opposed to being a “stand-alone” project (0 to 5 points).
- b. Project results in the creation of at least 10 but fewer than 20 units which are visible from a major thoroughfare or collector street (10 points).
- c. Project results in the creation of more than 20 units which are visible from a major thoroughfare or collector street (15 points).
- d. Project results in the elimination of blighting influences (0 to 10 points).

### Scoring Summary

Capacity	25 Points
Leveraging	25 Points
Project Design	20 Points
Impact	30 Points

#### Alternatives

Any of the proposed requirements and evaluation criteria can be modified. There are two proposed requirements that the Department would like to highlight for possible discussion. The first of those is the requirement for market studies. As noted in the memo, the U.S. Department of Housing and Urban Development (HUD) has implemented changes to the HOME Investment Partnerships Program which requires market studies or assessments for any new rental or homeownership project seeking HOME funds. The Department proposes to apply this requirement to locally-funded activities as well.

The second proposed requirement is that the activity for which funding is being requested must result in the creation of new affordable housing through new construction or the rehabilitation of existing vacant units. More specifically, the requested funds must be a part of a larger and funded initiative that will result in the creation of affordable housing during the contract period vs. at some undetermined point in the future.

#### Financial Impact

There is no financial impact associated with this item. Once approved, the requirements and evaluation criteria will be incorporated into the Department's annual competitive application process and funding recommendations will be presented to Council at a future date.

#### SDBE Summary

Not applicable