

**RECOMMENDED CHANGES FOR CDBG PROGRAM AND TIFS FOR  
FY 2015**

CDBG funding has been decreasing and HUD is considering changes in how entitlements are figured, which could result in large decrease and/or loss of funding for Rapid City. In order to make the best use possible of the funding we have we should consider targeting the funds to the highest priority issues identified in the Consolidated Plan.

Currently the City identifies many high priority issues in the consolidated plan in many areas of concern, i.e.

- Housing – single family ownership; transitional; emergency shelter for families, rentals with supportive services; assisted living; permanent housing for chronic inebriates, etc.
- Social services – mental health; substance abuse; youth programs; elderly programs; reentry assistance; etc.
- Public Facilities – handicap accessibility, energy efficiency, expansion, fire suppression systems, etc.

**Recommendation One:** The City should focus funding on highest priority needs with higher dollar amounts on fewer projects instead of diluting results with smaller amounts of money on more projects.

- CDBG Policy change for Requests for Proposals
  - Current Policy:
    - Currently we solicit applications for any CDBG eligible activity that meets one of the many high priority issues identified in the Consolidated Plan.
  - Recommended change:
    - Specify in RFP what specific types of projects we are willing to fund that will meet the City's highest priorities at this time.
    - Identify not more than 3 projects in each category
      - Public Service
      - Housing
      - Public Facility
      - Economic Development
    - Can be accomplished with Council approval of a policy/procedure change to the CDBG program.

***Why we should do this:***

- There is no focused effort to direct funds to highest needs, so some of the most important needs never get addressed.
- Over the next few years it is expected that funding will be reduced for CDBG, HOME, and Emergency Shelter programs making it more important to focus funds for greater outcomes.

- Focused collaborative efforts that meet the high priority needs of the Community, HUD Consolidated Plan and City Comprehensive Plan will leverage efforts and reduce duplicative funding (Vucurevich Foundation, United Way, etc.).

**Recommendation Two:** Creation of a new “Investment” Committee made up of citizens from the community instead of Council and staff.

- Committee would consist of 5 members with 2 alternates.
- Committee would review applications for CDBG and City Investment (formerly known as Subsidy) funds.
- The committee would use a points system to evaluate applications for a more uniform comparison.
- Committee would submit recommendations to the Council for approval.

***Why we should do this:***

- This change would remove politics from the decisions and increase knowledge of the Block Grant process and eligible activities by providing more stable committee (not turning over every year or two);
- Having community people who are involved in serving low income people will help direct decisions to greatest needs.
- Committee would also oversee the Strengthening Families Task Force to further strengthen collaborative efforts for bigger impacts.

**Recommendation Three:** The City should promote permanent affordability of properties assisted with CDBG funds by supporting the Dakota Land Trust.

- If property is purchased for homeownership using CDBG funds over a certain amount (i.e. \$25,000 or lot value) that property should be required to be placed in the Dakota Land Trust

***Why we should do this:***

- Placing property in the land trust ensures the sustainability of housing stock that is affordable to persons in the lowest income brackets.

**Recommendation Four:** Approval of TIF’s for housing development should be contingent on developers assisting in the development of affordable housing for low income people.

For example: In order to qualify for a TIF:

- Require Developers to provide either a percentage of the lots/apartments in a new development at a reduced price for persons making less than 80%, 50% or 30% of area median income; or
- Require Developers to contribute a certain amount of dollars per unit *not provided* into a Housing Trust Fund to be used to developing affordable housing for those with extremely low incomes.

- Examples
  - Other areas of the country require 10-25% of new units to be priced to meet incomes for 80% of Area Median Income, usually through a price reduction on the lot cost.
    - New phase subdivision for 50 units, 5-12 lots should be designated for low income, i.e. Lot price reduced by \$10,000 to low-income buyer.
    - If developer wants no low-income housing in his development he could be required to “pay” an equivalent amount into a housing trust fund for developing /purchasing housing for persons making less than 30% of Area Median Income.
  - Or provide an incentive for developers to support affordable housing development for households below 80% of area median income.
    - If developer reduces cost of lot by \$10,000-\$15,000 for a low income homebuyer the City will pay him back \$10,000 of the infrastructure costs (he has to provide receipts for cost totaling \$10,000 and documentation showing sale to LMI home buyer) at \$1,000 per year for ten years. City is paying it back from receipts from the property taxes earned on new properties. Payments start 1 year after the closing on the property to a qualified LMI buyer.

***Why we should do this:***

- There is little or no incentive for developers to build/rehab low-income housing due to lower profit margins.
- Use of a TIF is advantageous for a developer.
- If a developer is to benefit from the use of a TIF for housing or economic development , the City should also realize a benefit that helps provide much needed affordable housing .

**Recommendation Five:** Create a low interest revolving loan fund to assist low income homeowners with sidewalk repairs, tree removal, etc.

- Provide seed money for a revolving loan account
- Create a Public/Private funded account that uses the interest generated plus any loan repayments annually to provide loans
- Work with PW to target specific neighborhoods each year to have a greater visual impact on
  - Code issues
  - Beautification issues
  - Infrastructure issues
  - Home repair issues

**Why we should do this:**

- Sidewalks throughout the City are deteriorating and shifting causing safety issues for pedestrians and bikers.
- While it is the homeowners' responsibility to maintain sidewalks, many low-income people do not have the resources, or access to them, to pay for repairs, resulting in City abatements.
  - No- or low-interest loans from a revolving account would allow owners to make the repairs and the City to recover the funds for reuse for additional ongoing needs.

**Recommendation Six:** Consider allowing Community Development applications for other funding opportunities as they present themselves.

**Additional Funding Opportunities**

**1. The SD Housing Opportunity Fund (SDHOF)** is part of a five-pronged economic development initiative passed by the legislature that will receive funding through the Building South Dakota Fund. The Housing Opportunity Fund will provide financing for the construction or rehabilitation of rental or homeowner housing, the preservation of existing affordable homes, home repair to increase accessibility and efficiency, homelessness prevention activities, as well as investing in community land trusts. The Housing Opportunity Fund will receive 25% of Building South Dakota Fund resources, and will be administered by the South Dakota Housing Finance Authority. The fund will target housing for working people. Any for-profit entity, nonprofit entity, tribal government, housing authority, political subdivision of this state or agency of such subdivision, or agency of this state is eligible to apply for funding. First applications for funding are due to SDHDA by October 1, 2013. More information on the program can be found in the Housing Opportunity Plan.

The remaining funds will be distributed per the eligible activity as follows:

- Rental Housing 40 percent
- Homeownership 40 percent
- Programs 20 percent

**Application Cycle(s) and Deadlines**

Applications for the initial application cycle are due September 1, 2013, with the next regularly scheduled application deadline being February 28, 2014. Thereafter SDHDA will hold one application cycle annually, with applications due the last business day of February.

**Example:** Community Development could apply for down payment and closing cost assistance for homeownership loans. Advantage to community is that if a government entity administers the funds they can be considered to be the buyer's own funds for qualifying, allowing them to purchase a home

sooner. If a non-profit administers them, they cannot be considered as part of the buyer's own required investment (5-10% down required).

## **2. Section 108 CDBG Funding**

The City may borrow up to five times the current annual CDBG allocation for use for housing or economic development projects. The City 2013 allocation is \$443,111. Section 108 amount available would be \$2,215,555.

- Section 108 is a loan to the city with a 20 year term.
- Interim borrowing interest rate is determined at time of application and is based on the London Interbank Offered Rate (LIBOR) plus 20 basis points (0.2%) November .24 +.2 = .44%
- Permanent financing is based on US Treasury yields of similar maturity. November 20 year Treasury rate 3.87%. An additional small basis point spread is added to the Treasury yield depending on maturity to determine actual rate.
- Future CDBG funding allocations serve as the collateral for the loan, however additional collateral may be required, depending on the project and amount borrowed.
- City is responsible for repayment even if no CDBG funds are received in the future.
- Projects must meet CDBG national objectives for serving low-income people.
- Pre-submission review of HUD Denver office required before submission to HUD in D.C. for approval.
- funding is not given to City upfront in lump sum
  - Each project is reviewed separately by HUD
- City provides oversight of the project.

Section 108 funds could be a very good tool for the City. Section 108 funding can be used as incentive to achieve difficult to fund housing projects or to encourage new business or expansion of an existing business that will create more jobs for people without degrees of higher learning.

**To set up the program the City would have to have a “ready to go” project/applicant.**

**At that time, Council would have to decide:**

- Is this a one project application or a revolving loan fund application?
- How much we are willing to borrow? The full 5 X our CDBG allocation?
- Is the City willing to put up additional collateral if required? If so, what collateral (also dependent on what HUD will accept).
- Would we loan all of it to one agency, or limit the amount per project?
- How much would/could we add to cover our cost of oversight of the funds? (Partially dependent on what HUD allows.)
- What type of projects would we be willing to use the money for;
  - All that are eligible?
  - Those that we want to put emphasis on, like SROs?, etc.)