

January 6, 2012

## **Request for Proposals Southland Community Development Fund Fund Management & Administration**

Due date: February 17, 2012

### Outline

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### **I. Introduction**

#### **A. Sponsorship and Mission of the Fund**

This Request for Proposals is being issued by the South Suburban Mayors and Managers Association (SSMMA) in order to select a Fund Manager to organize and manage a financing facility including a structured fund and an investment consortium that will make loans and equity investments (hereinafter referred to as “the Fund”). The Fund will have the following mission: *In conjunction with other sources of investment, provide capital that is sufficiently flexible and substantial to execute Transit-Oriented Development and Cargo-Oriented Development projects that fulfill the sustainable development plans of Chicago’s south suburban communities.*

Chicago’s south suburban region (also known as the Southland) contains 22 towns with unemployment levels exceeding the federal threshold for economic distress; the region also contains prosperous communities and significant assets which can provide the basis for area-wide redevelopment. SSMMA is a regional council of 42 governments that has adopted a comprehensive strategy for sustainable development known as the Chicago Southland Green TIME Zone. (TIME is an acronym for Transit, Intermodal, Manufacturing and Environment.) This strategy is featured at [www.chicagosouthlandcdc.org](http://www.chicagosouthlandcdc.org). It capitalizes on the area’s abundant freight and passenger transportation assets and prioritizes two types of land development:

- Cargo-oriented developments (COD) – the development of manufacturing and logistics businesses at locations with excellent access to railroads, expressways, intermodal freight terminals, complimentary nearby businesses and large pools of workers that allow for more efficient goods movement
- Transit-oriented developments (TOD) – the development of pedestrian-friendly community centers that integrate mixed-income housing, retail and offices near public transportation, a form of development that improves access to jobs and amenities and reduces household transportation costs

SSMMA is serving as the primary point of contact and facilitator in the process of selecting a suitably qualified Fund Manager, and it is assisted in this role by a Community Development

Fund Working Group composed of representatives of Southland municipalities, not-for-profit organizations working in partnership with SSMMA on the Green TIME Zone initiative, and advisors from Southland and Chicago regional public agencies and financial institutions who are volunteering their time for this work. The Fund will be: (a) managed by a qualified Fund Manager selected based on the Threshold Requirements and selection criteria described herein and (b) a legal entity separate from SSMMA.

### **B. Steps to Date in the Formation of the Fund**

SSMMA and its partners have secured millions of dollars in public funds, conducted in-depth planning, improved sites, reformed local ordinances, and established working alliances with development area stakeholders to advance each of the types of sustainable redevelopment pursued through the Green TIME Zone strategy. However, a number of high-potential projects are stalled by the lack of flexible capital to leverage much larger public and private investments. Capital is required to obtain control of crucial development sites as a prerequisite to securing public funds for brownfield remediation, intensive planning and infrastructure improvements and to close financing gaps in development projects that are funded through a combination of public and private investments.

Since 2007 the SSMMA has worked with a coalition of not-for-profit supporters led by the Center for Neighborhood Technology (CNT) and the Metropolitan Planning Council (MPC) to help its communities capitalize on their assets and launch sustainable redevelopment.

Achievements to date from these efforts include:

- Mapping and analysis of more than 20 high-opportunity sites for TOD or COD
- Over \$25 million in private investments, including the expansion of the Canadian National intermodal terminal
- Over \$15 million in public investment for market analyses, brownfields remediation, and affordable housing focused on transit access

In March 2011 SSMMA received a \$2.35 million HUD Sustainable Communities Challenge Grant for expertise and seed capital to create an acquisition fund and land bank to further Green TIME Zone initiatives by:

- Taking and clearing title on individual parcels
- Aggregating small parcels into development sites of significant size
- Coordinating environmental reviews and remediation
- Marketing development sites
- Aligning public and private financial resources and providing the gap financing to make TOD and COD projects work.

At least \$1.5 million of the HUD Sustainable Communities Challenge Grant will be used as seed capital for the Fund. The Fund must leverage these grant dollars on at least a 3:1 basis with other investments to establish a pool of \$6 million to meet its obligations under the HUD grant. The HUD award authorizes the use of its capital for TOD projects that are entirely residential or incorporate housing is a component. HUD also recognizes that the financing entity to be formed with its grant will also engage in COD projects, and a pending request to HUD asks for the flexibility to use HUD capital for COD as well as TOD projects.

With support from its coalition partners SSMMA seeks to expand the Fund to a \$15 million capital pool making catalytic investments for modest returns, which will leverage over \$50 million in conventional private investments. The Fund must be in place by October 31, 2012, and funding needs to be deployed by March 2014 or it will be reallocated by HUD for other purposes.

### **C. Initial Proposals for the Structure of the Fund**

During 2011 SSMMA and its supporting organizations convened an Advisory Committee that included fifteen individuals who were all experienced managers of financial service organizations including banks, consultant firms, and Community Development Financial Institutions (CDFIs) in metropolitan Chicago. This committee met four times between May and November 2011 and developed a set of recommendations in regard to how the Fund might be structured and operated most effectively to achieve the goals of SSMMA. To gain additional local advice about the creation of the Fund SSMMA also convened an Oversight Committee including representatives of SSMMA member municipalities and businesses with financial or development expertise that operate in the Southland. The Oversight Committee met twice between October and December 2011; it reviewed the recommendations of the Advisory Committee and largely approved these recommendations with some refinements and additional recommendations. Through this process SSMMA has developed a set of fundamental ideas about the how the Fund should be structured and operated. These ideas are recorded in the document “*Fundamental Structural Proposals for the Southland Community Development Fund*”, which is Attachment A to this RFP. While many questions must still be resolved to establish the Fund as a functioning entity, these proposals provide a starting point for its creation.

## **II. Scope of Work**

The selected Fund Manager will be responsible for: raising the capital required to operate a viable Fund; establishing a corporate structure for the Fund; managing all aspects of the Fund; and reporting to the Fund’s investors and stakeholders. Specifically, the Fund Manager will be expected to undertake the following activities and any other functions required to establish and manage an organization that viably provides financing to fulfill the mission of the Fund. Respondents to this RFP will propose a Scope of Work for executing these responsibilities. In this Scope respondents will explain how they will carry out the responsibilities outlined in this paragraph and in the following points in accordance with the proposals provided in Attachment A to this RFP. To the extent that a respondent maintains that the mission of the Fund could be achieved more effectively by departing from these proposals, the respondent will explain its reasons for disagreement and state alternative proposals that will guide its Scope of Work.

### **A. Develop a Business Plan and Prospectus**

Develop a business plan and documents required for fundraising, including a prospectus or private placement memorandum that outlines a proposed investment strategy for the Fund, types of capital to be raised, proposed underwriting guidelines, projects to be financed, financing terms, and potential range of financing structures to be utilized by the Fund, as well as practices that will ensure transparency in Fund policy and public review of Fund performance with public input into the direction of the Fund. The Fund’s business plan must include a strong focus on

asset-based community development and incentive structures to ensure the success of TOD and COD projects in communities where some existing site conditions discourage development, taking into consideration the need for the Fund to be financially viable and provide a return to its investors while being open and responsible to the public. The Fund Manager should work closely with SSMMA and the Community Development Fund Working Group to create the business plan and prospectus, including underwriting guidelines and objectives for the projects to be financed.

### **B. Propose the Fund's Structure and Operating Guidelines**

Develop a detailed organizational structure and set of operating guidelines that will enable the Fund to invest capital in keeping with its mission. The Fund's structure should incorporate all the proposals presented in Attachment A to this RFP or alternative proposals designed to achieve the goals of the Fund more effectively, with an explanation as to why the applicant's proposals are preferred. The Fund Manager should also propose more detailed operating guidelines that are consistent with the structural principles of the Fund and necessary for the Fund's effective performance. This proposed structure and set of operating guidelines is recognized as a prerequisite for raising and capital, with the understanding that it will be finalized with investor input as discussed in section II.D. below. The Fund Manager's proposed structure and guidelines should be adopted initially with the approval of SSMMA in consultation with the Community Development Fund Working Group and after incorporation by the directors of the new Fund organization.

### **C. Raise Capital**

#### *1. Structured Fund*

Identify sources of investment and secure investments for a structured fund that will be a core component of the Southland Community Development Fund. Communications should be pursued with public sector bodies and agencies, foundations, financial institutions, and other sources of capital to achieve this goal.

#### *2. Investment Consortium*

Establish an investment consortium that will be a core component of the Southland Community Development Fund. The consortium should be comprised of financial institutions that support the mission of the Fund and wish to allocate capital on terms consistent with their standard business practices, in projects recommended by the Fund. These may be projects in which the Southland's structured fund is making an investment and wishes to secure other sources of financing or projects identified in the course of the Fund's operations that contribute to the sustainable development of the Southland but do not need the special assistance provided by a structured fund investment.

#### *3. Project Financing*

Explore and align financing from a wide range of sources that will be packaged with capital from the Southland Fund's structured fund and/or investment consortium in order to complete the financing needed for desirable TOD and COD projects in the Southland. Sources of financing that will be secured for use in this way include, as may be appropriate for particular projects: 1) low-income housing, new markets and other types of tax credits, 2) direct loans from financial lenders, 3) tax increment financing (TIF), either directly from TIF revenues or via municipal

bonds, 4) any other appropriate types of municipal bonds, and 5) other types of bond financing secured by appropriate liens from projects being contemplated by the Fund.

#### **D. Design and Manage Fund Operations to Achieve Projected Outcomes**

- With input from investors in the Fund, advise the Fund's directors and upon approval implement decisions regarding the Fund's structure and operating procedures including:
  - Precise terms defining risk, return on investment and other issues for the capital of different classes of investors in the Southland Fund's structured fund
  - Precise terms of participation in the Southland Fund's investment consortium
  - Term sheets for different types of financial products available through the Fund
  - Policies regarding how the Fund will relate to parties with which it works regularly
  - A structure of revenues from fees, interest, and earnings from investments that will ensure that Fund operations can become self-supporting over time.
- Design and manage a system by which proposals for investments or loans from the Fund will conform to a standard project plan so that they may readily be evaluated in terms of their community impact and financial soundness.
- Work closely with the housing and economic development staff of SSMMA and with other community partners to evaluate proposed TOD and COD projects and creatively structure ways that these projects can be financed either entirely through existing conventional resources or through the leveraging of conventional financing mechanisms with the resources of the Fund.
- Provide for transparency in the Fund's operations and for regular public review and input in regard to Fund policies.
- Invest the Fund's capital flexibly and prudently to ensure that it fulfills its mission particularly in regard to projects that require land assembly. By March 1, 2014 close loans or investments that fully deploy at least \$1.5 million in capital by HUD matched with at least \$4.5 million in matching non-federal public or private investments in projects that fulfill the mission of the Fund.
- Assume management responsibilities for the Fund which will include duties to :
  - Report regularly to the Fund Investment Committee and Governing Board
  - Analyze the Fund portfolio and recommend strategic and policy actions to improve Fund performance
  - Hire and supervise any workers or contractors engaged by the Fund
  - Conduct strategic planning continuously improve performance and sustain the Fund as an organization

The Fund Manager may initially work under a contract with SSMMA that will be succeeded by a contract with Fund after the organization is incorporated.

### **III. Proposal Selection Process, Timetable & Requirements**

Proposals will be reviewed and considered by the Community Development Fund Working Group described in Section I. Consortia or partnerships of different organizations that might

bring in different strengths towards the successful management of a Fund are encouraged to apply and submit joint proposals.

**A. Timetable.**

- Release of RFP: January 6, 2011
- Proposers' Meeting: January 17, 2012
- Written Questions due to SSMMA: January 24, 2012
- Questions & Answers e-mailed to all Proposers: January 31, 2012
- Written Proposals due: February 17, 2012
- Interviews of Short-List: within the dates of February 23 to 29, 2012
- Decision & Selection by: March 8, 2012

**B. Proposal Requirements.**

1. Six (6) paper copies of the proposal printed double-sided should be sent for delivery by 3:30 p.m. CST on February 17, 2012 to the attention of:  
Edward Paesel  
Executive Director  
South Suburban Mayors and Managers Association  
1904 W 174<sup>th</sup> Street  
East Hazel Crest, IL 60429
2. An electronic copy of the proposal should also be sent by electronic mail by 3:30 p.m. on February 17, 2012 to [reggie.greenwood@ssmma.org](mailto:reggie.greenwood@ssmma.org) .
3. The Proposal should be printed double-sided and contain the following information in the following sequence:
  - a. **One-page Cover Letter**, including:
    - Proposer's primary contact name, title, mailing address, email address and telephone number
    - Location of the office(s) of individuals assigned to the Fund project
  - b. **Table of Contents**
  - c. **Executive Summary.** The Executive Summary should summarize key aspects of the proposal, including the Proposer's background, history of relevant experience particularly in the Chicago region and experience in the development and management of comparable funds in other regions, date of formation, key considerations and structuring ideas for the Fund. If a consortium or partnership of organizations is presenting the proposal, a discussion of each party's role in performing duties of the Fund Manager should be provided, including an explanation of how simple and direct accountability for performance will be assured. The Proposer should also confirm the conflicts of interest and insurance and indemnification statements found in Section V.A and V.B.
  - d. **Proposer's Qualifications.** In this section, the Proposer should demonstrate its experience and financial capability to manage the Fund, including:
    - A summary of the Proposer's background, experience, and current information to demonstrate that the Proposer meets the Threshold

Requirements stated in Section IV.A. of this RFP and that it has the capability to successfully undertake the Scope of Work.

- Current information. Proposer must provide information on its current activities or funds that it is currently managing to address each of the following items:
  - List of existing projects similar to or eligible for what is being contemplated in the Southland Community Development Fund,
  - List of funding sources available to the Proposer, respective committed amounts and timeframe for each commitment
  - Sample schedule of loan or investment costs, including interest rates or return on investment as well as commitment and closing fees for the types of loan products or investments that the Proposer estimates might be appropriate for the Fund
  - Description of the Proposer's existing real estate-related loan and investment portfolio, including: (1) types of loans or investments (i.e. acquisition, predevelopment, minipermanent, construction, etc.); (2) number of loans or investments; the number of housing units (including income restricted housing units), businesses, and acres of property involved in these projects; and total \$ amount loaned or invested in each type of project; (3) percentage by type of current and delinquent loans as well as investments and the status of investments in regard to realization of expected returns; (4) Planned expansion of the portfolio in regard to: number of loans or investments; the number of housing units (including income restricted housing units), businesses, and acres of property involved in planned projects; and the projected total \$ amount to be loaned or invested in each type of project
  - A summary of the organization and staffing for the Proposer's existing loan or other financial service programs
- Four references from appropriate and relevant clients, sponsors, or investors into at least two different funds or financing facilities that Proposer is either currently managing or has managed in the past, including at least one reference each from a public entity, a philanthropic entity and a financial institution. For each reference, please provide contact name, title, organization, a description of the nature of the Proposer's working relationship with each reference, telephone number and e-mail address.
- At least two, and up to four references from borrowers that have repaid loans originated or underwritten by the Proposer or co-investors that have completed projects with the proposer that are as similar as possible to the loans or investments being contemplated by the Fund.
  - If the proposer is a consortium or partnership in which more than one organization, the points of information listed above should be provided for each member of the consortium that would be responsible for aspects of the management of the Fund's loan and investment portfolio.
- e. Discussion of key issues that the Proposer would consider important in designing, raising capital and structuring a Fund given: (i) HUD's requirement that the portion of its grant allocated for capital be leveraged at least 3:1 and ready to be deployed by October 31, 2012 and the expectations of SSMMA and its supporters to establish a

- larger fund. Proposals should include a discussion of whether and how the Proposer thinks the matching funds can be raised in the current economic environment, (ii) the real estate context of the Chicago Southland, and (iii) potential strategic options given lessons learned from the experiences to date from acquisition funds established over the past five years in other parts of the country. This discussion could include options for consideration in terms of fund structure, types of projects to be financed, other sources of capital (for example ARRA funding through specific public agencies or New Markets Tax Credits) to be leveraged on a project by project basis either as take-out financing or co-investment funds, and a proposed strategy for accessing this capital (e.g. Redevelopment Agencies), and type and cost of financing that the Fund could provide based on clearly enumerated assumptions and scenarios. In this section, Proposer should estimate the potential cost of capital of various sources of capital it anticipates bringing into the Fund and estimate the interest rate(s) that might be charged to borrowers or the return on equity investments from the Fund based on the type of lending products or equity investments Proposer anticipates providing through the Fund.
- f. Describe the Proposer's approach, staffing, timeline and milestones to undertake the Scope of Work and meet a potential deadline of October 31, 2012 for establishment of the Fund and March 1, 2014 for fully investing HUD capital with matching funds.
    - Include brief biographies of the key staff who will be leading and implementing the Scope of Work
  - g. Propose a budget for each milestone of the Scope of Work. SSMMA has up to \$100,000 that could be available towards the cost of setting up and fully capitalizing the Fund in the first year. Identify any anticipated sources of outside funding that would be required to help cover the Fund's operating costs and for accessing these funds.
  - h. In the budgeting process propose a schedule of revenues from fees, interest payments, return on investment, and other earned sources of income that will make the Fund self-supporting overtime.
  - i. Also in the budgeting process propose a schedule and formula through which the Fund Manager will be compensated on a performance basis.
  - j. One-page descriptions of at least three analogous projects or funds in which the Proposer has been involved, including its role, and contact name, title, organization, telephone number and email address for associated references provided in response to Section III. B. 3 d. (ii) of the: 1) sponsoring public agencies, 2) lead philanthropic investor and 3) lead commercial investor in each project.
4. A copy of the Proposer's most recent and prior two fiscal years' audited financial statements, including the Notes to Financial Statements.
  5. Identify by name, case and court jurisdiction any pending litigation in which Proposer is involved or judgments against Proposer in the past five years. Describe size and scope of any pending or threatening litigation against the Proposer or Proposer's principals.

#### **IV. Selection Criteria**



Proposers and their proposals will be evaluated based on the following criteria and point-allotment. Proposers who do not meet the Threshold Requirements will not be considered unless they are part of a consortium or collaboration that is jointly submitting a single Proposal.

**A. Threshold Requirements**

In order to be eligible for consideration, Proposers must meet the following threshold requirements:

1. The Proposer must have at least three years of experience managing a loan fund or financing facility that is either similar to the one being contemplated in this Request for Proposals or includes loans or equity investments similar to the types of loans and investments being contemplated by the Fund. Proposer must have experience structuring multi-use loans, which include significant affordable housing components and involve multiple investors or funders – including public agencies, foundations and commercial sector investors - into the Fund.
2. The Proposer must demonstrate knowledge of, or at the very least, familiarity with, the take-out financing options most commonly used or available by Chicago region non-profit housing developers. This includes knowledge not only of evolving lender and investor underwriting and tax issues, but also of the way the competitions work for 4% and 9% Tax Credits and scarce state and local resources including the Section 8 project-based voucher program. Given the current challenging situation with respect to Low-Income Housing Tax Credits, Proposer should also demonstrate a familiarity with other options that might be viable sources of long-term financing for affordable rental housing in the Chicago region. The Proposer should also demonstrate familiarity sources of state and federal funding and financing that may be available for COD projects.
3. The Proposer must demonstrate its experience and track-record in managing such a fund or underwriting loans, preferably in the Chicago region, that are somewhat similar to what is being contemplated for the Fund by being able to provide at least four references from (i) appropriate and relevant clients or sponsors, investors into funds that it is managing (including at least one reference from a public entity, a philanthropic entity and a financial institution), and (ii) at least two borrowers or co-investors.
4. The Proposer must demonstrate an appropriately experienced management team and organizational capacity to undertake the Scope of Work.
5. The Proposer must demonstrate ability to meet the deadline of October 31, 2012 for establishing the Fund with a minimum fund total of \$6 million and a proposed fund of \$15 million.
6. False, misleading, incomplete or deceptively unresponsive statements in connection with a proposal shall be sufficient cause for rejection of the proposal.

**B. Proposer’s Qualifications, Performance History and Relevant Experience (40 points)**

Since this is an ambitious, multi-faceted undertaking, an important criterion for selection is relevant experience in raising the different types of capital that will be required for a Fund and successfully underwriting loans and making investments that are most similar to those being contemplated for the Fund. Collaborations or partnerships between different types of lending and fund management entities are encouraged, so long as the relationships and assignment of responsibilities among partners is clear.

**C. Proposer’s Approach and Ideas for the Development and Operation of the Fund (35 points)**

Another important criterion for selection will be demonstration of Proposer’s knowledge and understanding of the range of development strategies, financing approaches and underwriting considerations for a Fund, particularly addressing the issues raised in the requirements for the Scope of Work in Section II and in Sections III.B.3.(e)-(f) and IV.A.(2).

**D. Proposer’s Approach and Ideas for the Financial Viability of the Fund (25 points)**

A final critical selection factor is the Proposer’s ability to plan and implement realistic short-term and long-term strategies for ensuring the financial viability of the Fund, particularly addressing the issues raised Sections III.B.3.(g)-(i), including a program for deriving income from the Fund’s transactions without seriously impeding deal flow and provisions for the Fund Manager’s compensation.

Total points: 100

**V. Other Requirements**

**A. Indemnification**

The selected Proposer will be required to comply with the indemnification provisions outlined in this section.

The selected Proposer or Fund Manager shall be required to indemnify and hold harmless SSMMA, members of the Community Development Fund Working Group, and their commissioners, directors, officers, agents, and employees from any and all claims, demands, suits, loss, damages, injury, and/or liability (including any and all costs and expenses in connection therewith), incurred by reason of any negligent or otherwise wrongful act or omission of the Fund Manager, its officers, agents, employees and subcontractors, or any of them, under or in connection with this Agreement; and the selected Fund Manager shall be required to agree at its own cost, expense and risk to defend any and all claims, actions, suits, or other legal proceedings brought or instituted against SSMMA, members of the Community Development Fund Working Group, and their commissioners, directors, officers, agents, and employees, or any of them, arising out of such negligent or otherwise wrongful act or omission, and to pay and satisfy any resulting judgments.

Without limiting Proposer’s indemnification of the SSMMA and organizations and individuals supporting its efforts in regard to the Fund, Proposer shall procure and maintain at its own expense comprehensive general liability, property and other insurance reasonably requested for the time period during which time Proposer is serving as Fund Manager for the Fund. The selected Proposer shall procure, maintain and provide to the SSMMA proof of insurance coverage for all the programs of insurance along with associated amounts specified herein. Comprehensive and professional liability insurance coverages should have a single limit of at least \$1 million for each occurrence and at least \$2 million general aggregate coverage. Such insurance shall be secured from carriers admitted in Illinois, or authorized to do business in Illinois. Such carriers shall be in good standing with the Illinois Secretary of State’s Office and

the Illinois Department of Insurance. Such carriers must be approved by the Illinois Department of Insurance and must be included on the Illinois Department of Insurance List of Eligible Surplus Line Suppliers.

Said insurance shall be in a form acceptable to SSMMA. In the event such insurance does provide for deductibles or self-insurance or if such insurance is inadequate, Proposer agrees that it will defend, indemnify, and hold harmless the SSMMA and organizations and individuals supporting its efforts in regard to the Fund and their officials, representatives, employees, and agents in the same manner as they would have been defended, indemnified, and held harmless if full coverage under any acceptable policy had been in effect.

**B. Conflicts of Interest**

Proposer certifies that no employee of SSMMA or any organization supporting its work in regard to the Fund whose position in the respective organizations enables him/her to influence the selection of a Fund Manager for this RFP, or any competing RFP, nor any spouse or economic dependent of such employee, shall be employed in any capacity by a Proposer or have any other direct or indirect financial interest in the selection of a Fund Manager.

The selected Proposer or Fund Manager will be required to covenant that it has no interest and shall not acquire any interest, direct or indirect, which would conflict in any manner or degree with the performance of services required under the Fund Manager Agreement (the “Agreement”). The Fund Manager will further be required to covenant that in the performance of the Agreement no person having any such interest shall be employed. The selected Fund Manager will be required to certify that it has made a complete disclosure to the SSMMA and the organization that shall be established to operate the Fund of all facts of which it is or should be aware bearing upon any possible interest, direct or indirect, which it believes any member, officer, agent or employee of SSMMA or any organization supporting SSMMA’s work in regard to the Fund, presently has, or will have in the Agreement, or in the performance thereof, or in any portion of the profits thereunder. Willful failure to make such disclosure, if any, shall constitute grounds for cancellation and termination hereof by the SSMMA or Fund Advisory Committee.

Attachment A

To the Request for Proposals for the Southland Community Development Fund Manager

***Fundamental Structural Proposals for the Southland Community Development Fund  
from Chicago Area and Southland Financial Advisors***

**Introduction**

The South Suburban Mayors and Manager's Association (SSMMA) convened the Financial Advisory Committee for the Southland Community Economic Development Fund (the Southland Fund, or the Fund). The committee included fifteen individuals who were all experienced managers of financial service organizations including banks, consultant firms, and Community Development Financial Institutions (CDFIs) in metropolitan Chicago. This committee met four times during 2011 to consider recommendations for fundamental decisions regarding the Southland Economic Development Fund. On November 15 the Committee met for the fourth time and approved the recommendations summarized on the following pages.

SSMMA also convened the Oversight Committee for the Southland Fund. This committee included representatives of SSMMA member municipalities and businesses with financial or development expertise that operate in the Southland. The Oversight Committee met twice between October and December 2011; it reviewed the recommendations of the Financial Advisory Committee and largely approved these recommendations with some refinements and additional recommendations.

The following document summarizes fundamental proposals for the structure of the Southland Fund which these two committees have developed through consensus. These proposals are meant to provide a starting point in the determining the structure of the Fund, and they will be used initially to inform a Request for Proposals for a professional Fund Manager that will direct the capitalization and operation of the Fund. The structure and operating guidelines of the Fund will be refined and detailed by the Fund Manager with input from prospective investors in the Fund, and will finally be approved by the Board of Directors of SSMMA and the Directors of a new not-for-profit organization that will be created to operate the Fund.

**Clarification of the Southland Fund and Land Bank's Distinct Development Paths**

Discussions of the Southland Fund have included consideration of a Land Bank, which SSMMA is working concurrently to establish. Proposals for the Southland Fund and the Land Bank are related in that SSMMA and south suburban communities have envisioned these new institutions meeting linked aspects of the Southland's redevelopment challenges, and development of a Land Bank is a funded activity under SSMMA's HUD Sustainable Community Challenge Grant, as is the formation of the Southland Fund. However, the development of the Southland Fund and the Land Bank are distinct in ways that discussions of the Financial Advisory Committee and Oversight Committee have helped to clarify. In essence the Southland Fund is focused entirely on the accomplishment of self-contained

development projects that will provide a predictable rate of return for their investors. The Land Bank may acquire properties for a broad range of reasons, including some properties that will be the sites of viable development projects and others that will be acquired to eliminate blight or for other community development purposes that will not directly yield a predictable return to investors. Accordingly, the Land Bank structure is being developed along a parallel track with advice from the Center for Community Progress, the nation's foremost authority on land banks. The proposals stated in this document refer to the Southland Fund particularly and not to the Land Bank.

The Southland Fund and Land Bank will have a collaborative working relationship along several dimensions. Both organizations are dedicated to the redevelopment of south suburban communities by implementing the Green TIME Zone strategy. When the Southland Fund needs to assemble land to execute a project, the Land Bank may hold and maintain this land through a contractual relationship. The two organizations may share resources provided through SSMMA. The policy making bodies of both organizations will represent the collective interests of south suburban communities. However, each organization will be structured to perform its distinctive functions, and the development paths of the Southland Fund and Land Bank will be independent.

### **Purpose and Mission**

The Southland's Community Development Fund should be structured to provide the most effective way of carrying out its Mission. The Fund's Mission in turn is to perform a particular function in advancing SSMMA's community and economic development initiatives.

The purpose of SSMMA's varied community and economic development activities is to make Chicago's southern suburbs more prosperous, with an improving natural environment and quality of life, so that south suburban residents enjoy a broadening range of practical options for employment, travel, housing, and neighborhood amenities. In keeping with the Southland's Green TIME Zone redevelopment strategy, these goals are pursued by capitalizing on the Southland's principal assets:

- Transit Oriented Development (TOD) building on the region's rich rail and bus transit infrastructure and on the traditional Main Street and street grid patterns, downtown commercial and residential concentrations, and anchoring institutions that are found in a number of south suburbs and contribute to a location-efficient community environment.
- Cargo-Oriented Development (COD) which uses the region's major freight transportation facilities and infrastructure as magnets for the retention and attraction of logistics and industrial businesses, growing employment centers for Southland communities.
- Emergent Green Manufacturing, especially in transportation and renewable energy equipment, that is building the Southland's existing industrial clusters and reaching out to the region's workforce development programs in order to train local workers for the next generation of jobs.
- Preservation and improved access to a high-quality natural environment, which is fostered by the compact development patterns of TOD and COD and enhanced by projects to improve water

quality, increase energy efficiency, eliminate pollution, clean up brownfields, and expand bike and walking trails.

***Mission: In conjunction with other sources of investment, provide capital that is sufficiently flexible and substantial to execute TOD and COD projects that fulfill the sustainable development plans of Chicago's south suburban communities.***

This mission statement may be unpacked to consider its implications for the Southland Fund structure and operations. In its operations and investments the Southland Fund will be:

- **Place-Based:** limited to Chicago's South Suburbs and particularly to the member communities of SSMMA
- **TOD and COD Oriented:** dedicated to sustainable development and building on the transportation assets of the south suburbs in keeping with the Green TIME Zone strategy
- **Flexible:** applying investments as they may be needed to solve the site predevelopment problems or close the financing gaps of desirable projects
- **Substantial:** wielding enough capital to make a critical difference in several multi-million dollar TOD or COD projects at any given time
- **Leveraged:** using Southland Fund dollars to leverage larger public and private investments, also benefitting the Fund through the constructive scrutiny of other investors
- **Community-Based:** assisting projects that fulfill existing and emerging community development plans and incorporate genuine public involvement

**How the Southland Fund may obtain and deploy capital from the grants and investments of supporting institutions**

The Financial Advisory Committee and Oversight Committee have discussed two alternative models for conveying significant amounts of capital into feasible projects in the south suburbs.

*Alternative One; Structured Fund*

This model, which has been used to establish loan funds for affordable housing in TOD projects in the San Francisco Bay Area, Denver, and Minneapolis-St. Paul and in other community development funds, involves three basic categories of investors, each with its own terms regarding risk and return on investment.

- **Grant investors:** Highest risk position, no ROI requirement other than preservation of capital
- **Mission-oriented investors:** Second risk position, ROI requirement well below market rate
- **Market-oriented investors:** Third risk position, ROI variable or somewhat below market rate

These three generic categories define a continuum of high-to-low risk for the preservation of capital and low-to- high ROI. Within this continuum, individual investors may negotiate terms so long as they are acceptable to the management of the structured fund and the other investors.

In the operation of a structured fund each investment incorporates a blend of dollars from the three classes of investors, according to a preset formula. Each investment is approved by an investment committee in which investors in the structured fund have predominant representation (discussed below in regard to project governance). Upon approval by the committee each investor writes a check to the structured fund, for its percentage according to formula, and the Fund administers the loan\investment for this project. Upon recovery of investment in each project investors will have the option of rolling the recovered capital into new Southland Fund investments or withdrawing the capital.

The primary benefit of a structured fund is that it provides capital at below market rates of interest or ROI and possibly with a more aggressive risk profile or more patience than conventional financing. Structured fund investments may provide the means to assemble land, subsidize costs not covered by government programs, or otherwise reduce the costs of capital so that a deal works financially. The primary limitation of a structured fund is the scale of financing made available. For a structured fund to provide meaningful advantages the amount of dollars in the first or second risk positions must be a significant percentage of the capital pool. For example in the San Francisco Bay Area's Transit-Oriented Affordable Housing (TOAH) Fund a \$10 million grant provides the first position basis of a total \$50 million structured fund. For the Denver Central Corridor Funders Collaborative a \$1.5 million grant provides the first tier of a \$15 million structured fund.

In the budget for HUD's Sustainable Communities Challenge Grant, approximately \$1.7 million is allocated as capital to leverage additional investments at a ratio of 3:1 or higher. The presumed use of these funds is to form the high-risk tier of a structured fund, although the grant is written broadly enough that the grant dollars might be used differently so long as the leverage ratio is achieved. If the HUD grant is used as the high-risk tier of a structured fund, it might support total capitalization of \$8 to \$15 million, depending on the Southland Fund's ability to attract additional first-tier capital or generous investments in a second-tier risk position. A capital pool of this scale would allow the Southland Fund to be involved in 4 to 8 meaningful TOD or COD investments at any given time. This would have a powerful demonstration impact on the south suburbs, although it would hardly meet existing needs for redevelopment in dozens of transit station areas and thousands of acres of vacant industrial land with strong COD potential.

Another limitation of a structured fund is that it could take a year from SSMMA's present position to develop agreements with potential investors and launch the fund. The HUD grant is to be fully deployed by March 2014; so effective work to establish a structured fund needs to begin immediately.

#### *Alternative Two: Investment Consortium*

An alternative or complimentary model for bringing investments to the south suburbs that members of the Advisory Committee have discussed is an investment consortium. In this model a group of established lenders, including banks and Community Development Financial Institutions (CDFIs), each with an area of expertise in a stage or particular type of financing, considers each proposed project. They either reject the project or decide how certain members may be effective in financing it, possibly

with consortium members financing different aspects or stages of the project. Consortium members make their individual agreements with the project principal or loan applicant.

The consortium model has several advantages. Since the financing institutions are making deals that fall within their ordinary course of business, the amount of capital potentially available is open ended and could amount to tens of millions of dollars. Also because investment or lending commitments are made on a case-by-case basis, detailed agreements regarding relative levels of risk and ROI do not need to be structured in advance. As a result, a consortium could be established relatively quickly. The major limitation of the consortium model is that it does not create a new pool of capital available on terms more favorable than the market to serve a particular need or area. CDFI or other members of the consortium may have capital available for community development investments on especially favorable terms, provided that the needs of the project to be financed match the uses for which that capital was purposed by a foundation or Community Reinvestment Act committee.

So a consortium model could respond to the scale and timing needs of the south suburbs, although it would not produce a larger pool of capital available on terms more favorable than the market and dedicated to the same purposes as the Southland Fund. A consortium focused on the south suburbs would not depend on the \$1.7 million in Sustainable Community Grant dollars in order to operate, although these grant dollars could be co-invested with monies directed through a consortium, provided that adequate leverage was available in those deals. The operation of an effective consortium would require dedicated professional effort in the packaging of deals and the coordination of participating financing institutions in a role similar to that of a Fund Manager for a structured fund.

*Proposed Alternative: Implement the Southland Fund as Both a Structured Fund and a Consortium*

The basic market reality of the south suburbs is that a pipeline of potential TOD and COD deals is emerging, stimulated by the efforts of SSMMA's economic development and housing collaborative staff and SSMMA's member municipalities. Many of these projects need the assistance of a dedicated fund to leverage other financing because they have site predevelopment issues related to land assembly, brownfields remediation or infrastructure replacement in financially weak municipalities or because the limited public subsidies available do not fit the projects' financial needs. Other projects could be financed with existing mechanisms, if the creative energies of the Chicago region's financial community were focused on them.

Accordingly it appears desirable to establish the Southland Fund as both a structured fund, with resources dedicated to solving predevelopment problems and closing financing gaps, and a consortium prepared to provide the leveraged financing in two types of cases: (a) to provide the leveraged financing needed to complete funding for deals in which the Southland Structured Fund is a participant and (b) to arrange financing from existing resources for projects that do not require structured fund support. Chicago's Preservation Compact, cited as an example of the consortium approach, operates in this way with a program-related investment (PRI) fund available for projects that require it, although that PRI resource has not been heavily used. A major task of the Southland Fund will be sorting through potential



projects, determining which of these will require the support of a dedicated structured fund and which can be performed with existing financing programs.

**How the Southland Fund may invest in ways that leverage additional capital and optimize the funded projects' chances of success so that investments and anticipated ROI will be recovered**

The administrator of the Southland Fund (the Fund Manager) should not be an individual person but an organization with extensive experience and capacity in providing financing services, particularly in the area of lending and placing equity investments in projects that involve public, private, and not-for-profit participants. Before considering an investment commitment for any particular project the Fund Manager should be familiar with a pipeline of potential projects being considered for development by SSMMA staff, SSMMA member municipalities, private developers, CDFIs, and others. Relying on SSMMA's robust information management system (already under development with HUD funding) and on intensive site visits, the Fund Manager should become familiar with the geography of TOD and COD development areas in the Southland and be able to examine the site and surrounding neighborhood of any specific site at parcel-level depth.

Any project in which the Southland Fund would consider investing should have a credit worthy private investor that proposes to be an equity partner. The investor might be a development firm, a not-for-profit community development corporation, a property owner or operating business that is seeking to locate or expand on the development site.

In consultation with Southland municipal representatives, the Fund Manager should develop a template for a Southland Fund Project Plan (Project Plan) that should be required for all projects that apply for Southland Fund investment. The Project Plan should demonstrate that the project:

- Is consistent with the development plans of the municipality where the site is located, enjoys the municipality's support and ensures public participation in planning, per a policy established by SSMMA
- Is consistent with environmental objectives and standards established by SSMMA in keeping with the Green TIME Zone regional plan
- Makes commitments to engage qualified local and disadvantaged workers and businesses as employees or contractors
- Utilizes applicable public sector development incentives
- Arranges property management and liability coverage for the site during the development period
- Presents sound financial projections that demonstrate achievement of critical ratios, e.g., loan (and or outside equity) to value, debt coverage, and return on investment, as may be determined by the Fund Manager in consultation with the Investment Committee (as discussed re the Governance Structure proposal in this document)
- Provides for foreseeable contingencies

If the Project Plan requests the Southland Fund to be an equity partner through the Structured Fund it should also:

- Explain why equity as opposed to debt financing is needed
- Define a necessary but limited role for the Southland Fund's capital
- Provide a clear exit strategy for the Southland Fund's investment

The Fund Manager may work with promising applicants in developing their Project Plans or authorize qualified organizations such as Southland area banks, Small Business Development Centers, or CDFIs to do so.

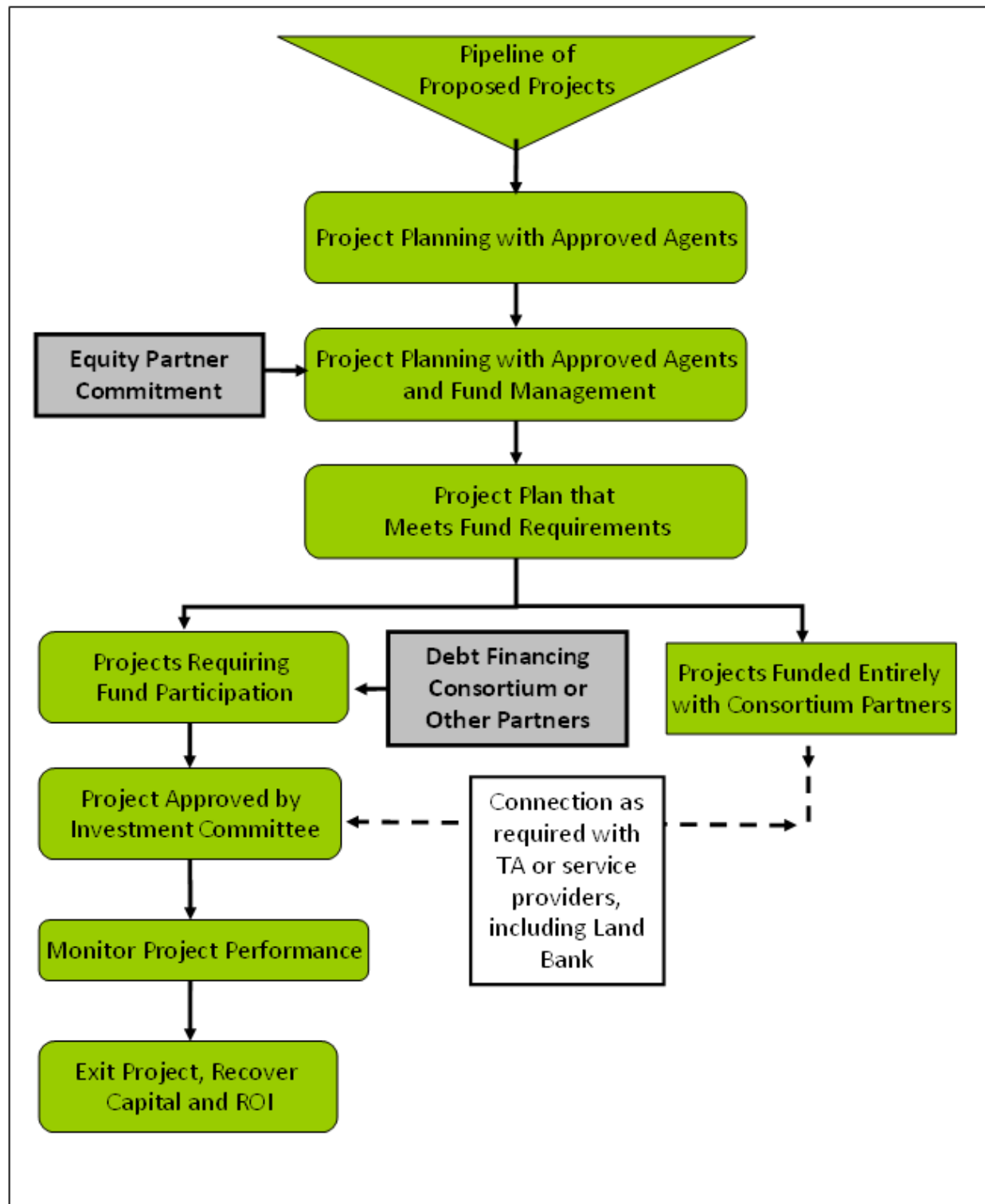
As the Fund Manager examines Project Plans it will determine if financing needs can be met entirely with conventional sources secured through the Southland Consortium or requires investment from the capital of the Southland Structured Fund. For projects that can be financed by Consortium members without Fund capital, the Fund Manager should:

- Coordinate Consortium members' processing of the project, arranging the financing package that is most appropriate for the project and supportive of its long-term success
- Monitor project performance
- Connect the project principals with appropriate technical assistance and service providers

For projects that require capital investment from the Southland Structured Fund the Fund Manager should:

- Present the Project Plan to the Investment Committee of the Southland Structured Fund
- Upon Investment Committee approval close the loan or investment agreement , which may be contingent on the provision of leveraged financing from other sources
- Monitor the performance of the project connecting principals with technical assistance and services; in cases where the holding and maintenance of property is a required service the Land Bank may be a service provider
- Service the loan or collect scheduled equity withdrawals
- Execute the exit strategy and recovery of capital and return on investment

## Southland Community Development Fund Project Funding & Development Process



**How the Southland Fund may invest flexibly to resolve the problems of site predevelopment, which may involve assembling land or filling gaps left by the inflexibility public funding**

For potential investments with strong Project Plans, Southland Structured Fund dollars may be used at any stage of the development process and to cover any aspect of project costs provided that the use of funds makes sense in the context of the Project Plan, is matched by comparable commitments of the project partners, and contributes to the achievement of strong financial results. Because the Fund is designed to address predevelopment problems it will commonly be used for purposes of land assembly and site preparation. When the Southland Fund becomes involved in a project at such an early stage the market analysis and partner commitments that support the Project Plan must provide assurance that the planned end use of the project site will be achieved. When a change of property ownership is required:

- A contractual arrangement with the property owner will be preferred to assuming title unless the project entails a compelling reason for ownership by the Southland Fund or a project partner. (Ownership of the land to qualify for public brownfields funding may be such a reason.)
- When title to land must be transferred to a new entity, ownership by the Land Bank, the municipality in which the site is located, or another project partner assumes title is preferred to ownership by the Southland Fund.
- If the Southland Fund must take title to property to carry out a project, the Fund would have a contractual arrangement with the Land Bank, the local municipality or another trusted agent to provide coverage of liability, security, and maintenance of the property during the period of Southland Fund ownership.

The Southland Fund is designed to make a critical difference in the development process. It will not customarily be used to fund the operations of an existing business. However, funding for a new or expanding business may be considered if such business development plays a key role in the achievement of a TOD or COD project.

Capital from the Southland Structured Fund might be used in variety of situations in which public sector financing may be too inflexible to meet a development need or timing requirement and/or private equity or debt financing might need enhancement. For example, the Southland Fund investments might cover brownfield assessments or limited remediation if the alternative were to wait more than twelve months for a possible public grant, site improvements in advance of TIF or municipal bond payments, subsidies for workforce housing that would leverage larger investments in employer assisted housing, possible soft costs such as site design, environmental enhancements such as green infrastructure for storm water management or green building design. The burden of a prospective equity partner or loan applicant of the Southland Fund in regard to such gap closing investments would be to show that funding was not available from another source, would make a material contribution to the financial

performance of the project (possibly through timely completion), or would not harm financial performance while contributing to the social objectives of the project.

### **How the Southland Fund may competitively evaluate and prioritize proposed projects**

The Southland Structured Fund may adopt a modified first-come-first-serve policy by which the Project Plans presented within a given time frame will be considered competitively. In the likely event that the Southland Fund's resources are oversubscribed in any period by qualified Project Plans, the Southland Fund will prioritize projects based on a combination of community impact and the quality of proposals as business propositions.

- The community impact of TOD projects will be examined through the use of an analytical tool developed by SSMMA's Housing and Community Development Collaborative in partnership with CMAP.
- The community impact of COD projects will be examined through the use a tool for estimating job creation and environmental quality benefits to be developed by CNT and CMAP.
- Projects will be ranked in terms of assurance of the realization of financial projections estimated by the Fund Manager.
- Final guidelines for the prioritization of projects will be determined by the Fund's Board of Directors and applied to investment decisions by the Investment Committee and Fund Management.

### **How will the Southland Fund generate program-related income and become self-supporting**

As a strategic decision the Southland Fund should be paid for its work so that it becomes self-sufficient when it reaches a breakeven level of activity . Potential sources of income include:

- Fees for the development of Project Plans to be considered in requests for funding
- Service fees from Consortium members for the origination of loans
- Earnings from equity investments
- Origination fees, servicing fees, and interest from loans

The Fund Manager should be tasked with the development of a fee structure, earnings expectations, and a general revenue and expense structure as part of its development of a Prospectus and Business Plan.

### **Fund Governance**

Once the Fund's core functions have been defined, it will be incorporated as a new not-for-profit organization. The form of not-for-profit incorporation will be determined after legal consultation.

The Southland Fund's governance will need to maintain a balance between the legitimate interests of Southland municipalities in controlling development within their communities and investors in assuring the preservation of their capital. Both groups would appoint representatives to the Southland Fund's

governing bodies, establishing a rotation of representatives among their members so that the size of decision making bodies remains small enough to be manageable. Third parties with expertise and broad concern for the success of the Southland Fund (e.g., academics or not-for-profit organizations) may help to lubricate more particular interests in an effective governance structure.

Two governing bodies are proposed for the Southland Fund:

- A **Board of Directors** would determine Southland Fund policies and exercise legal authority for the not-for-profit corporation. It might consist of 9 members including:
  - 4 representatives of Southland communities
  - 3 representatives of investors
  - 2 disinterested experts
- An **Investment Committee** would approve individual equity investments or loans of Southland Fund capital and might consist of 7 members including:
  - 4 representatives of investors
  - 2 representatives of Southland communities
  - 1 disinterested expert

The Executive Director of SSMMA should be an additional member of both the Board of Directors and the Investment Committee. In addition to SSMMA's Executive Director, the Board of Directors and the Investment Committee should have at least one overlapping member at all times. These provisions should help to prevent any potential polarization of the governing bodies of the Fund and keep both bodies oriented to a holistic perspective for the welfare of the Southland and the Fund.

In order to maintain decision making bodies of effective size, all of the investors, community leaders, and supporters who will make creative contributions to the success of the Southland Fund will not all serve in governance of the Fund at any given time. To ensure that the contributions of a wide range of stakeholders are always part of the stream of ideas about the Southland Fund's improvement, a permanent Advisory Committee with broader membership should be formed and meet regularly to discuss and develop ideas for the improvement of the Fund.

### **Role of the Fund Manager**

As noted earlier, the Fund Manager should not be an individual person but an organization with extensive experience and capacity in providing financing services, particularly in the area of loan fund operations and lending in projects that involve public, private, and not-for-profit participants. The Fund Manager will initially be engaged through a contract with SSMMA. After the Southland Fund corporation is formed and its governance is in place, the Fund Manager's contract will be transferred to that organization. Basic functions of the Fund Manager in the ongoing operation of the Southland Fund are discussed in preceding sections of this document. The Fund Manager should also perform important tasks in launching the Southland Fund.

### Business Plan Development and Capitalization

In communication with SSMMA and organizations that support its development efforts the Fund Manager should develop the Southland Fund Prospectus. Along with presenting a compelling case for participation to prospective investors the Prospectus should provide a basic business plan for the Southland Fund including an organizational budget and long-term financial plan.

The Fund Manager should also plan and lead the Southland Fund's campaign to secure optimum capitalization by meeting with prospective investors and securing their participation. These discussions will undoubtedly generate suggested refinements and adjustments in the Southland Fund's proposed structure. The Fund Manager will discuss these ideas of with SSMMA Management and the Southland Fund's Board of Directors as it is formed and effectively broker a more detailed final structure for the Southland Fund.

### Completing the Structure of the Southland Fund

The Fund Manager will advise the Southland Fund's Board of Directors on significant detailed issues regarding the Fund's structure and operating procedures:

- **Terms for Investor Classes in the Structured Fund:** The Fund Manager will propose to the Board of Directors precise terms defining risk, return on investment and other issues for the capital of different classes of investors in the Southland Fund's structured fund.
- **Product Term Sheets:** The Fund Manager will propose to the Board of Directors and Investment Committee conditions for types of equity investments and loans that the Southland Fund will make. After approval by the decision making bodies, the Fund Manager will publish term sheets describing the Southland Fund's different types of financial products, noting such matters as:
  - Requirements for Project Plans, including acceptable: amounts of leverage, critical ratios in project financial projections, standards for exit strategies
  - The approved purpose or eligible use of the product
  - The size range of loans or investments that might be made
  - The allowed duration of loans or investments
  - Requirements for Payment: fees for service and interest on loans
- **Relationships:** The Fund Manager may propose policies regarding how the Southland Fund will relate to parties with which it works regularly such as CDFI's or banks that prepare Project Plans for and underwrite Southland Fund investments or the Land Bank that may play a role in holding property during the development process.
- **Management Actions:** The Fund Manager organization will perform duties that will support the Board of Directors in guiding the Southland Fund's development as an organization:

- Report regularly to the Fund Investment Committee and Governing Board
- Analyze the Fund portfolio and recommend strategies and policies to improve Fund performance
- Engage and supervise any workers or contractors employed by the Fund
- Conduct strategic planning for the continuously improving performance and continuation of the Fund as an organization

#### Fund Manager Compensation

The compensation of the Fund Manager should be based largely on its performance. In the selection process candidates for the Fund Manager role should propose bases for their compensation based on their success in performing the role including:

- Securing investments in the Structured Fund and participation in the Investment Consortium
- Placing capital in deals that execute the mission of the Fund by providing a combination of strong leverage from other investments, security in preservation of capital and achievement of ROI objectives, and community benefit through TOD or COD projects
- Realization of the business plans of deals in which the Fund's resources are invested