

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.

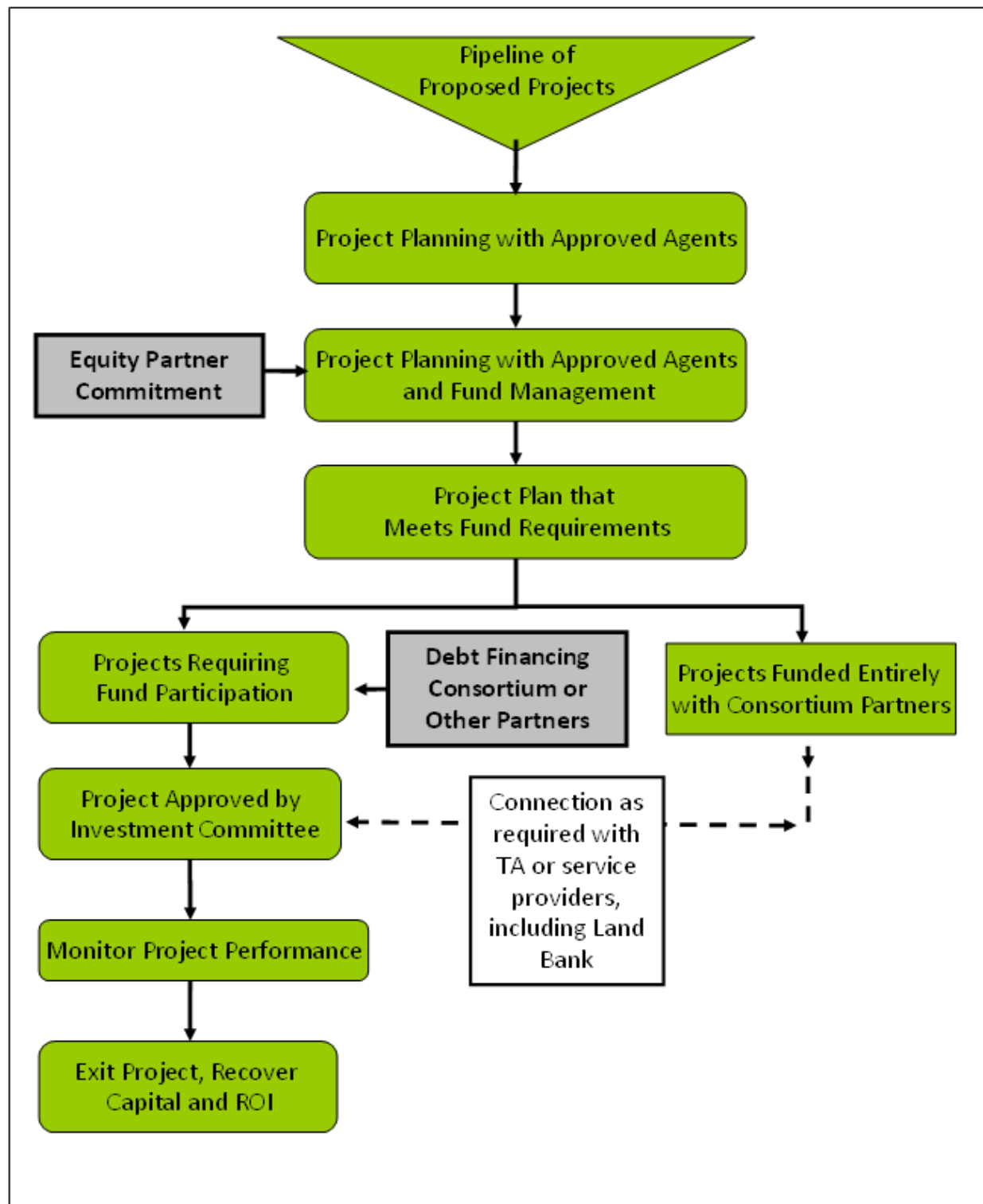
As the Fund Manager examines Project Plans it will determine if financing needs can be met entirely with conventional sources secured through the Southland Consortium or requires investment from the capital of the Southland Structured Fund. For projects that can be financed by Consortium members without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