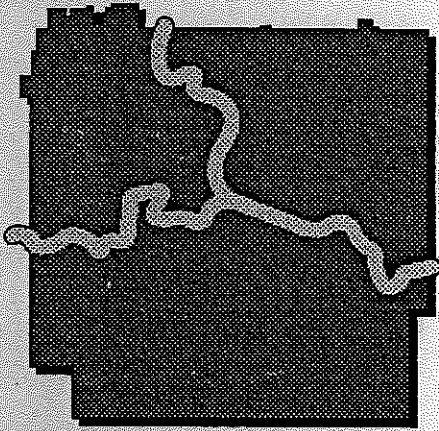




HOUSING IMPROVEMENT AND NEIGHBORHOOD REVITALIZATION

A Report Prepared for the

**Des Moines City Council and
Polk County Board of Supervisors**

By

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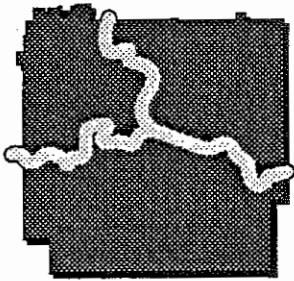
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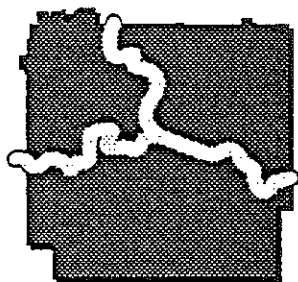
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INTRODUCTION



SUMMARY



CITY OF DES MOINES / POLK COUNTY

This report is intended to set the stage for a renewed commitment to address the housing and neighborhood revitalization needs of the City of Des Moines. It completes over seven months of work, involving meetings and discussions with a broad cross-section of the community, first to assess the existing situation and then to review proposed new directions and build a consensus behind them.

That process is central to the results presented in this report. To begin the study, meetings large and small were held with several hundred people, bringing many different perspectives to aid in developing an understanding of the Des Moines housing problem. Following the presentation of these initial findings in a preliminary report, the broad base of involvement was maintained through both individual contacts and a series of public meetings. This continuing process served also to provide an initial sense of the problems in the four areas selected for preparation of preliminary plans to illustrate the concepts recommended in this report.

The work was initiated out of a growing concern for the future of the city's neighborhoods. The symptoms were clear - a continuing loss in population as suburban growth increases, a significant amount of housing abandonment and resulting tax foreclosed property, a housing stock that has continued to deteriorate, and property taxes disproportionately high in comparison with comparably priced properties in surrounding communities.

The cumulative result is a growing lack of confidence in the future of the city's neighborhoods, especially for those closest to the downtown area. There have been some recent encouraging signs, such as an increase in the amount of new construction within the city and a growing sense of common needs as some neighborhoods begin organizing to work together. Most importantly, there is a broadly held conviction that the time has come for a new look at the problems. The city and county have joined to fund this report, and there are indications also that the business community recognizes the importance of protecting the impressive gains that have been made in the development of the downtown, by extending their concern to the surrounding neighborhoods.

INTRODUCTION

The report presents a set of proposals that define a new approach for neighborhood revitalization and the provision of housing assistance in support of it. The recommendations reflect our own professional judgment based on our work in other locations, and on what we have seen and heard over the past seven months in Des Moines.

The Housing Element of the City's Year 2000 Comprehensive Plan, prepared in 1987 under the leadership of the City Plan and Zoning Commission, represents a sound analysis of the situation and a set of objectives that are still valid. What is needed now is:

- A renewed commitment to the purposes of that Plan
- Additional private resources leveraged by the more effective use of limited public dollars
- Structural changes to create a more effective delivery system.

This report proposes the key actions needed to establish the needed focus on neighborhood revitalization and housing improvement, and move more effectively to achieve the goals set forth in the Year 2000 Plan.

If there is to be a new direction and a new sense of confidence in the city and its neighborhoods, there must be a commitment on the part of city and county elected officials and staff, the business community, and the neighborhoods to provide the leadership and the sustained involvement needed to turn things around. We have been encouraged during our time in Des Moines by a basic sense of commitment to the city. Indeed, there is some frustration and discouragement with how little seems to have been gained over the past few years. But at the same time, there is a base of determination that things can change. We believe that this report appears at a very propitious time, and that the citizens of Des Moines are ready to renew their efforts and rebuild a strong sense of confidence in the future of the city and its neighborhoods.

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Existing Situation

- During the past decade, the City of Des Moines has lost population to its suburbs; demographically, it has become older and poorer as a result of this exodus of middle income households who work in the City but choose to live elsewhere.
- The physical condition of the housing stock, especially in the City's inner ring of neighborhoods, has been declining over the past decade; deferred maintenance and abandonment are more in evidence, housing values have declined and neighborhood confidence is lacking.
- The housing "problem" is one of demand, not supply. The middle income households whom the City wishes to retain to improve its tax base can afford the existing housing stock, but don't find it as desirable as housing in the suburbs.
- The housing "problem" is also not a cost problem, but a household income and access problem. Even though much of the City's lower priced housing can be defined as "affordable", the households who want it lack sufficient access to it because of inadequate financial tools such as down payment assistance, and the lack of aggressive outreach and marketing efforts.
- Efforts to solve the problem have been fragmented and piecemeal with no coordinated, comprehensive approach or centralized leadership. The result is that the well-intentioned efforts of many concerned interests have not produced the desired results, and limited public funding resources have not been successful in leveraging needed private investment.
- The structure of the City's housing delivery system, based on 15 years of Community Development Block Grant allocations, needs to be revised, both in its decision-making process and its programmatic thrust. The Block Grant has been relied on too heavily as the primary source of funds for housing improvement.
- There is momentum building to reverse the pattern of decline and disinvestment within the neighborhoods ringing the downtown area, and more generally to strengthen the housing market throughout the City. There is a growing perception on the part of the various segments of the City & County that in order to enhance the City's economic development climate

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the inner city neighborhoods must be improved. The self-interest of more than neighborhood residents is at stake.

Major Findings

- There must be new direction and leadership from the elected leadership of the City and County, and from within the business community, which results in a serious and sustained commitment to solving the housing problem.
- The City's planning and housing delivery functions must be realigned to assure effective coordination between the planning and implementation phases of neighborhood revitalization and housing assistance.
- The City's activities must also be effectively linked with other public agencies, including the County, and other organizations providing services related to neighborhood revitalization, so that concentrated efforts will produce measurable impacts on a neighborhood-by-neighborhood basis.
- Neighborhood residents must be more involved in the creation of neighborhood-based plans as well as in the implementation of those plans.
- There is a need for additional financial resources, and for expanded implementation capability, so that the readiness of the private sector can be utilized in an effective and efficient manner. A comprehensive strategy must replace the present piecemeal approach that makes it difficult for willing private sector participants to have confidence that their efforts are making a difference.
- Owner-occupied housing is a critical component of successful neighborhood revitalization. The present cost of housing in Des Moines represents an important opportunity. It means that ownership can be more broadly affordable with appropriate financing tools and aggressive marketing and outreach approaches. Responsible ownership also means greater protection of that important element of the City's supply of affordable rental housing.
- There is related need to intervene early in the process that leads to abandonment and eventual foreclosure, providing assistance and opportunities to transfer ownership before discouraged or irresponsible owners walk away from their properties.

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Major Recommendations

The recommendations in this report are organized into four basic components:

- A new neighborhood-by-neighborhood planning process established by the City.
- In conjunction with that process, an effective means of coordinating the activities of the many public and private organizations whose participation will be needed to implement approved neighborhood plans.
- Creation of a corporate entity to channel private funding assistance, linked to the use of public funds, to activities consistent with the corporations' underwriting criteria and the city's neighborhood planning process.
- Preliminary plans for four areas, selected to illustrate the concepts recommended in this report and to provide the initial momentum for the beginning of neighborhood revitalization activity in the city.

Principles

Underlying all of the recommendations which follow is a set of principles which have evolved from experience with neighborhood revitalization in other cities.

Underlying Approach

- Strategies must be derived from an understanding of and response to the neighborhood's perceived needs.
- Strategies must build and maintain neighborhood capacity to participate in planning and implementation.
- Strategies must build confidence in the future on the part of neighborhood residents, so that their daily actions will reflect that attitude and thus reinforce the revitalization and stabilization gains which are the objective of the public sector involvement.

Neighborhood Plans

- The plans must be comprehensive, dealing with all aspects of neighborhood revitalization, not just housing.
- The plans must be integrated with policy-making as well as implementation.

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- The plans must be updated in response to changing conditions. This requires the maintenance of an effective information base to monitor changes throughout the city and within each neighborhood.
- Allocation of Resources*
- Limited City housing dollars should be used to leverage other public funds as well as private sector funds.
 - Decisions to support housing assistance projects should be based on sound financial criteria.
 - Actions should be comprehensive and on a scale which produces visible results.
 - There must be equity and fairness in the delivery system, with resources directed to activities in relation to the level of need of those being served.
- Neighborhood Planning Geographic Focus*
- Neighborhood planning areas should not be so extensive that implementation will produce scattered results which fail to achieve the impact needed to build neighborhood-confidence.
 - Neighborhoods should be "self-defined" by custom and commonly accepted boundaries. They should be manageable in scale, generally not larger than 30-40 square blocks.
 - For implementation, especially in neighborhoods with greater concentrations of problems, project areas of 6-12 blocks should be selected for concentrated activity. In some neighborhoods a more "scattered-site" approach may be appropriate, but the guiding concern remains to achieve impacts appropriate to the needs of the neighborhood.
- Preparation and Selection of Plans*
- The city neighborhood planning staff will assess needs and work with neighborhood representatives to prepare preliminary plans for several neighborhoods. The initiative at this point can come either from the work of the city staff, or from proposals submitted by neighborhood groups. The working concept behind such plans should be that visible results can be anticipated within a three year period.

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Advisory Board

- These preliminary plans will be presented to an Advisory Board, together with recommendations for the composition of the program in any given year. Advisory Board membership should be chosen from neighborhood residents, corporate executives, leaders from the nonprofit, institutional community and county officials.
- The Advisory Board will provide review and comment to the City staff, which will then recommend to the City Council the neighborhood plans for which funding is to be committed annually, Council approval will define the overall program on an annual basis.
- The number of such plans selected in any given year will depend on the amount of resources required in relation to what is available to support the neighborhood strategies outlined in the plans, and on the status of plans that have been approved for funding in prior years. Approved elements in a given year could involve a specific project area within a neighborhood, continuing activities in other parts of a neighborhood following completion of a project area plan, or neighborhood-wide activities consistent with identified needs.

Implementing the Planning Process

- The City's neighborhood planning function should be closely coordinated with its delivery of housing assistance, code enforcement inspections, and human services and capital improvements. To achieve this, existing city functions must be restructured to assure the necessary degree of control and accountability.
- The responsibility for the neighborhood revitalization effort should be fixed in a single person, directly accountable to the City Manager, with the responsibility to coordinate the functions of planning, neighborhood revitalization, housing assistance, code enforcement and building inspection.
- The City Manager must assume a strong role in implementing this integrated neighborhood-based delivery system by assuring the coordination of the City's various departments whose activities relate to neighborhood improvement.
- In addition to its role in reviewing preliminary plans and recommending annual programs to the City Council, the Advisory Board and its Technical

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Subcommittee will be used to assure effective coordination of all of the entities providing services and resources that will be needed to implement approved plans.

- The resulting planning process must incorporate a "neighborhood listening" approach, as proposed in this report. It should be an integral part of an ongoing information system that provides for both the identification of needs and the monitoring of activities as plans and projects are implemented.
- The city neighborhood planning staff should be organized to support the preparation and implementation of neighborhood plans. At a minimum, this should involve three staff people, matching the three subareas defined by the two rivers dividing the city. This staff, supported by others as necessary, should assume responsibility for coordinating the implementation of the neighborhood plans approved for funding by the City Council. The implementation of plans should be carried out in an active partnership with the neighborhoods involved, and staff support should be sufficient to assure the ability of neighborhood residents to be actively involved.

Provision of Housing Assistance

- The key ingredient of the proposed housing assistance delivery system is a new Neighborhood Finance Corporation. The NFC would be the primary conduit for the delivery of funding for assistance to both project proposals and to individual homeowners or prospective purchasers. Public and private funds would be blended so that public dollars leverage as much private investment as possible.

Purpose and Initial Goals

- The NFC would finance specific projects involving rehabilitation, acquisition and rehabilitation, or new construction by providing seed money loans, gap financing and construction financing to nonprofit and for-profit developers for projects predominantly in the neighborhoods designated by the City for revitalization and low/moderate income housing developments. The NFC would also have the opportunity to comment on the preliminary plans submitted to the Advisory Committee for review.
- A portion of the NFC's funds could be reserved for deserving projects responsive to needs but not located within a currently designated neighborhood plan area.

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- The NFC should insure long term affordability through rent restrictions and/or resale restriction covenants.
- The NFC would administer two funds initially, a Revolving Loan Fund for PROJECT-BASED financing, and a Mortgage Pool for INDIVIDUAL acquisitions or rehabilitation of existing structures. A separately financed Housing Equity Fund would have its own decision-making process, but would operate in coordination with the work of the NFC.
- The overall goal for an initial three year period is to raise and commit \$19 million to create or improve 700 units of housing in as many as 14 neighborhoods.
- The Revolving Loan Fund should be capitalized initially with funds from the following sources:

County Bonds	\$1M
City Funds	\$1M
Private/Corporate	\$3M

- The Mortgage Pool should be capitalized initially as follows:

County Bonds	\$1M
City Funds	\$1M
Private Lenders	\$9M

- The county should commit additional funds to provide for the demolition of currently tax foreclosed structures, not suitable for rehabilitation, and the city should commit funds to provide for the demolition of structures judged to be unsafe.
- The NFC should target 282 units from the Revolving Loan Fund, and 394 units either bought or rehabilitated from the Mortgage Pool, including 34 infill units. 214 of the units financed through the Revolving Loan Fund would use investment capital through the proposed Equity Fund. 75% of the assisted units would be in neighborhoods with approved plans.

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Organizational Structure

- The NFC should be directed by a Board of Directors, with membership broadly representative of community interests, including the city official responsible for coordination of the neighborhood revitalization effort and other City & County officials; and senior people from the private sector, with banking, development, real estate and social service experience.
- The Board should be formed immediately, and be given the responsibility for recruiting an Executive Director, and defining its specific mission based on the initial recommendations in this report.
- The composition of the staff in addition to the Executive Director should be determined as its functions are more clearly defined. As a general principle, the NFC should concentrate on the processing, screening and approval of project and individual loan applications. Some of the functions involved and discussed below can be performed adequately by existing organizations, and the NFC in such circumstances should not duplicate services without a clear and compelling reason.

Operations

- The NFC should also provide assistance, either directly with its staff, or through contracts with other qualified organizations, to individuals either buying a home or rehabilitating their own home. This could include assistance in credit reviews, house inspections, ownership counseling, and negotiations with the seller, if necessary.
- The NFC should also do preliminary loan processing for both first mortgages and second mortgages in conjunction with the operation of the mortgage pool, for both the rehabilitation of existing homes and/or down payment assistance for purchases.
- Banks currently operating their own specialized lending programs should coordinate them with the initial activities of the NFC, and over time the new funding commitments included in this report should be made into the NFC mortgage pool.

Housing Equity Fund

- A Housing Equity Fund should be established to facilitate additional investment in support of providing affordable rental housing. The HEF would participate in rental housing developments by contributing to project costs as an equity partner with nonprofit or for-profit developers utilizing federal low income tax credits.

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- Private corporate contributions should be pledged to start with a \$3m equity pool.
- The rental housing production goal for these funds should be 214 units, 75% in neighborhoods with approved plans. These units would also be assisted by financing through the Revolving Loan Fund.
- Project approvals should be guided by the same relationship to approved neighborhood plans that pertains for the revolving loan fund.
- The HEF should be directed by of a Board of Directors, consisting of the participating corporate investors plus the City official responsible for coordinating the neighborhood revitalization effort. Its funding decisions would be separate from, but coordinated with, the activities of the NFC.
- The Executive Director of the Neighborhood Finance Corporation can also serve as the Executive Director of the HEF and other staff responsibilities could also be shared.

Next Steps

These recommendations are the starting point for the many steps that must be taken to implement a renewed commitment to neighborhood revitalization in Des Moines. Hopefully the basic commitment to act has been forged during the time this report has been in preparation. With this commitment in place, these recommendations will stimulate the discussions and decisions needed to turn the ideas into a reality that is consistent with the needs and goals of the City.

The most fundamental steps required are:

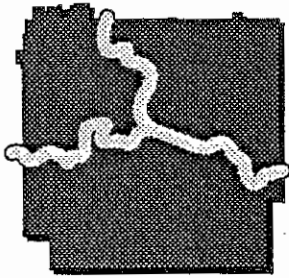
- Designation by the City Council and/or City Manager, as appropriate, of the staff person to coordinate the realignment of city functions and the establishment of the neighborhood revitalization planning process.
- Action by the City Council and Polk County Board of Supervisors to name an interim blue-ribbon committee to take the initial steps toward the formation of the Neighborhood Finance Corporation. This committee would have a limited life-span and the specific charge of defining the initial mandate of the Corporation and creating the Board of Directors. Depend-

SUMMARY

ing upon the circumstances, the committee could also initiate the search for an Executive Director, but the selection should be made by the Board. This committee should be staffed by the city staff person designated to coordinate the city's restructuring of its efforts. To the extent possible, the committee should also define the specific actions needed to secure funding commitments, since some lead time will be needed before actual funds are available.

- Appointment by the City Council of the Advisory Board that will participate in the establishment of the neighborhood planning process, recommend specific neighborhood plans to the City Council for funding, and provide important reaction as the planning and implementation activities move ahead. This Board would take the place of the present Central Advisory Board and would also replace the role of the Housing Coordinating Board. It will provide a replacement for the presently diffuse system in which the energy of many willing participants is poorly used because roles and accountability have not been adequately defined.
- Initiation of the neighborhood planning process by review of the preliminary plans contained in this report and by inviting the participation of other neighborhoods.

NEIGHBORHOOD REVITALIZATION STRATEGY



1. Principles of Neighborhood Revitalization

The underlying goal of a neighborhood revitalization strategy is to build confidence in the future of the neighborhood on the part of existing residents. This in turn will exert a positive influence on the part of others who are now choosing to bypass neighborhoods in Des Moines in favor of suburban locations.

Individual decisions, taken collectively on a daily basis, are more important to achieving neighborhood stabilization and improvement than any public sector project or program. However, public sector initiatives directed at key problems within a neighborhood can create a local multiplier effect and thereby positively influence the thousands of individual decisions that are made by neighborhood residents every day. These smaller decisions are the ones that eventually add together to determine the future of the neighborhood - whether a homeowner is motivated to clean his or her property, commit to a loan to improve his or her house, or deal fairly but effectively with tenants who are abusing the property; or whether a tenant is willing to be responsible for paying the rent on time or maintaining the property in reasonable condition; or whether the neighborhood resident is willing to get involved with his or her neighbors who don't seem to care about maintaining or fixing up their properties.

To ensure that public sector initiatives do foster such confidence-building, the planning process must include the component of listening to what the neighborhood residents perceive to be the most important problems to address. Some of these problems will be suggested or confirmed by statistical data. Others, equally or more important, will not be discovered without talking with people who know the neighborhood.

NEIGHBORHOOD REVITALIZATION STRATEGY

Problems will differ from one neighborhood to another, and can include such matters as city services, road improvements, school redistricting, elimination of abandoned housing, or drug dealing in vacant buildings. Since the resources available to implement neighborhood plans always will be limited, it is essential that the implementation concentrate on those problems which are seen within the neighborhood as most critical. This process of "neighborhood listening" is described in more detail later in this report.

To work toward the GOAL of sound neighborhood confidence, certain principles should be consistently observed as programs are designed and implemented, and decisions made about the use of always scarce resources. These principles relate to the basic approach to neighborhood revitalization, to the preparation of plans, and to the allocation of limited resources.

Underlying Approach

1. The delivery system must be responsive to neighborhood needs. The City's housing policy and delivery system should be responsive to different neighborhood housing market dynamics, conditions and issues. Programmatic approaches and financial assistance should be made available based on an on-going assessment of neighborhood needs and objectives. This is the "neighborhood listening" process that we believe to be central to the understanding of neighborhood change. This process should be integrated with a strong, ongoing neighborhood planning process led by the city working in conjunction with the neighborhoods.
2. Neighborhood revitalization requires neighborhood capacity-building. Technical assistance must be made available to neighborhood organizations so that they can participate effectively in planning and implementing programs, gather local support on a block-by-block basis, and provide a long term stabilizing force in the neighborhood. The objective of such assistance, when it is needed, should be to equip the neighborhood organization with the skills needed for it to be an effective partner with the city.
3. Strategies must result in renewed confidence in the future on the part of neighborhood residents. No matter how intensively public policy may seek to intervene to affect the continuous process of neighborhood change, the actions will be only a small part of the many, many daily

NEIGHBORHOOD REVITALIZATION STRATEGY

decisions people and institutions make about where they want to live. The aim must be to understand the dynamics of what is important to a neighborhood, so that the revitalization investment can be directed toward the conditions that are of greatest concern. Correcting them can then provide evidence of positive change and thus encourage the other positive actions that are central to the building of neighborhood confidence.

Neighborhood Planning

4. Revitalization plans must be comprehensive in scope. Public dollars for housing should be coordinated with other public sector activities and funds for infrastructure improvements, community facilities, economic development projects, human services programs - whatever the set of activities needed to respond to identified neighborhood problems. This will assure that housing improvements are not carried out in isolation from other revitalization needs. Coordinated city policy is required across department and agency lines.
5. Implementation should be integrated with planning and policy-formulation. The planning and implementation of housing and neighborhood revitalization strategies should be linked to a coordinated policy-making structure. Policies must be articulated by the Mayor and City Council, who are directly accountable to the city's residents through the electoral process. These policies in turn must provide the framework in which plans are made and implemented.
6. Ongoing data collection is important. An effective policy-making and delivery system must include a mechanism to provide accurate and updated information on an ongoing basis about what is occurring in the local housing market. This includes both statistical information (hard data) and the perceptions gained through the neighborhood listening process (soft data). The reality of neighborhoods is that conditions are constantly changing, and timely information is essential if programs are to be responsive to those changes.

NEIGHBORHOOD REVITALIZATION STRATEGY

Allocation of Resources

7. Limited city dollars should be used to leverage county, state and private sector funds. City housing dollars have been limited to the CDBG program, and its resources are insufficient to address the City's housing problems. A new delivery system must utilize untapped county bonding authority, other city funds, state housing funds, and private dollars from the business community to create a pool of resources which can adequately address the City's neighborhood housing problems. All potential funding sources should be explored in building this resource pool.
8. Investments must make good business senses. Housing activities supported with public and private sector funds must be based on both financial and market feasibility. The underwriting criteria established for various programs should be followed carefully in all investment decisions.
9. Actions must make a visual impact and must be adequate to address the problem. Project areas should be selected so that action plans can achieve demonstrable results in the short term. The scale of activity undertaken must be in synch with available resources. Residents must be able to see concrete improvements which will increase their level of confidence in the future and their willingness to make other investments in improving the neighborhood.
10. There must be equity and fairness in the delivery system. Programs should be flexible and deal with recipients according to their needs and their ability to pay. Loans, grants, and other forms of financial assistance should be tailored to recipients, not vice versa.

2. Approach

Neighborhood Definitions

Our recommendations focus on the importance of working at a neighborhood scale. Des Moines residents have a strong sense of identification with parts of the city, but this does not always translate into a specific neighborhood. The identification with the east, west or south side may be as strong as a sense of identity with a particular neighborhood. One useful impression of existing neighborhoods within the city, prepared by the city staff, is shown in Map 1.

Neighborhoods can be defined by major physical boundaries, by school districts, by orientation to predominant landmarks, or simply by custom. The basic concern for this report is that the area must be manageable in scale, small enough that a comprehensive program can lead to an ongoing process of neighborhood improvement and stabilization. Examples of how this fits with the current situation can be found with two of the areas selected to illustrate the planning and housing assistance concepts proposed in this report. Both Columbus Park and Capitol East are neighborhoods defined primarily by major physical elements - rivers, railroad tracks and major highways. Both areas are parts of presently identified CDBG target areas, and thus reflect our recommendation that the focus of activity should shift to smaller areas.

The singular importance of the downtown area should be noted. There is a growing awareness of the opportunities for new housing downtown to serve particular market segments generated by the needs of major companies and government offices. A growing segment of the population is the younger white collar service employee. Units designed to attract these households are an important part of the effort to attract to the center city people who are now opting to live in the suburbs. Another segment could include housing intended for empty nesters or other executives interested in living close to their work place.

The availability of this housing can help the general situation by providing an opportunity to experience living in the city and creating a more positive attitude when the time comes for families to decide where they want to live on a more permanent basis. This report concentrated primarily on the needs and

NEIGHBORHOOD REVITALIZATION STRATEGY

opportunities of neighborhoods outside the downtown area, but it should be emphasized that the development of new market rate housing is an important component of the overall effort to address the housing problems in Des Moines. A generalized picture of Des Moines' neighborhoods is shown in Map 2. The "inner" neighborhoods are those with the greatest concentrations of problems, but it is important to note that the proposed program is citywide in scope, with program strategies matched to differing neighborhood conditions.

Project Areas

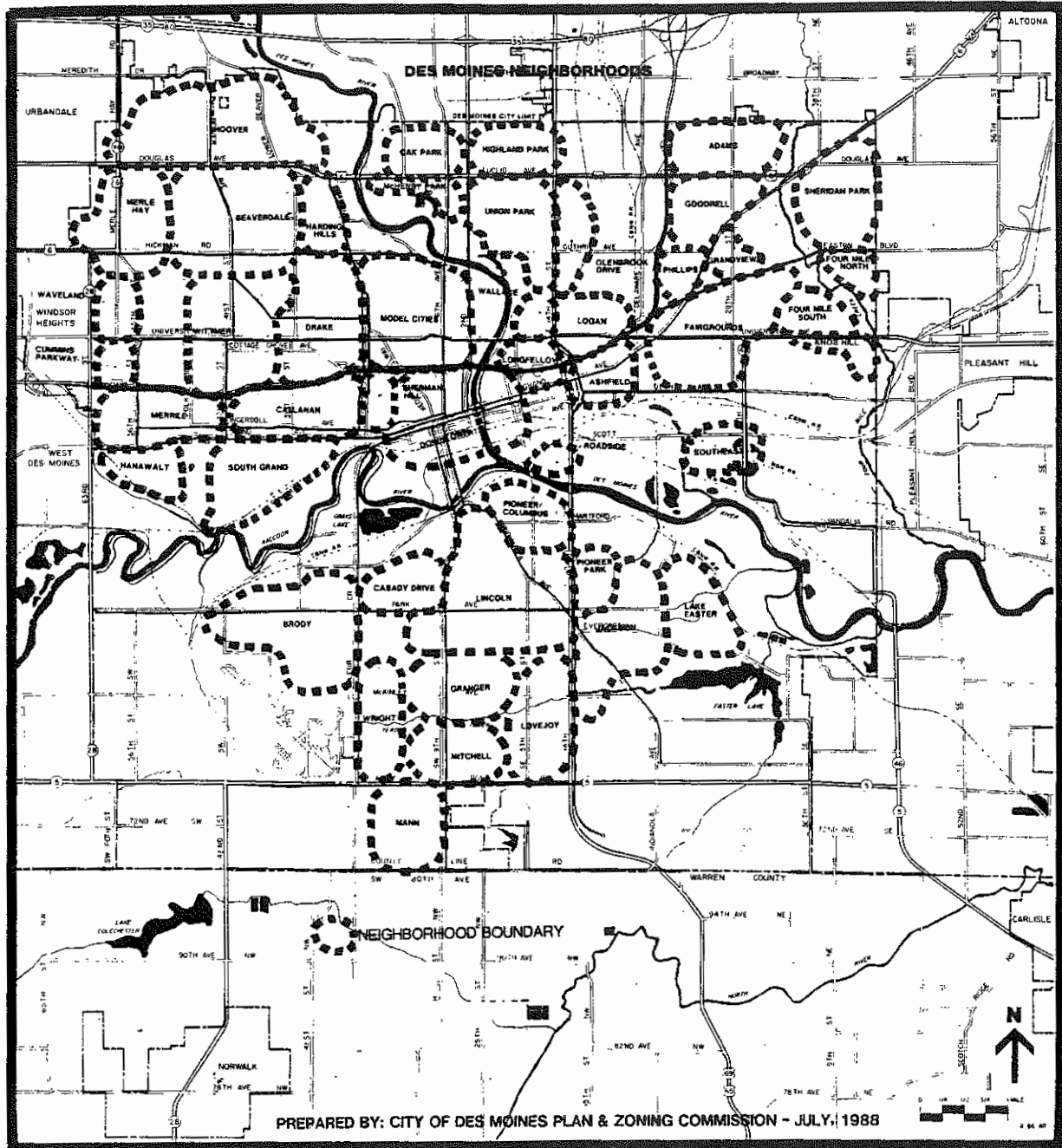
Activities designed and implemented at the neighborhood level are important, and there is a parallel need for action programs at a smaller scale, to permit more realistic use of limited funds and the achievement of visible results within a reasonable time period. The identification of smaller project areas within a neighborhood is a critical part of the planning process.

We suggest that a project area generally should be no more than 6-8 blocks in size, representing a segment of a neighborhood in which more concentrated activity is appropriate. Even smaller areas may make sense, depending upon the situation. The basic purpose is to select an area small enough that positive results can be anticipated within a reasonable period of time. This progress can then provide others with the confidence necessary to undertake improvements on their own. For neighborhoods in which key problems are less concentrated, a "scattered-site" approach may be appropriate. This approach would be more characteristic of more stable neighborhoods.

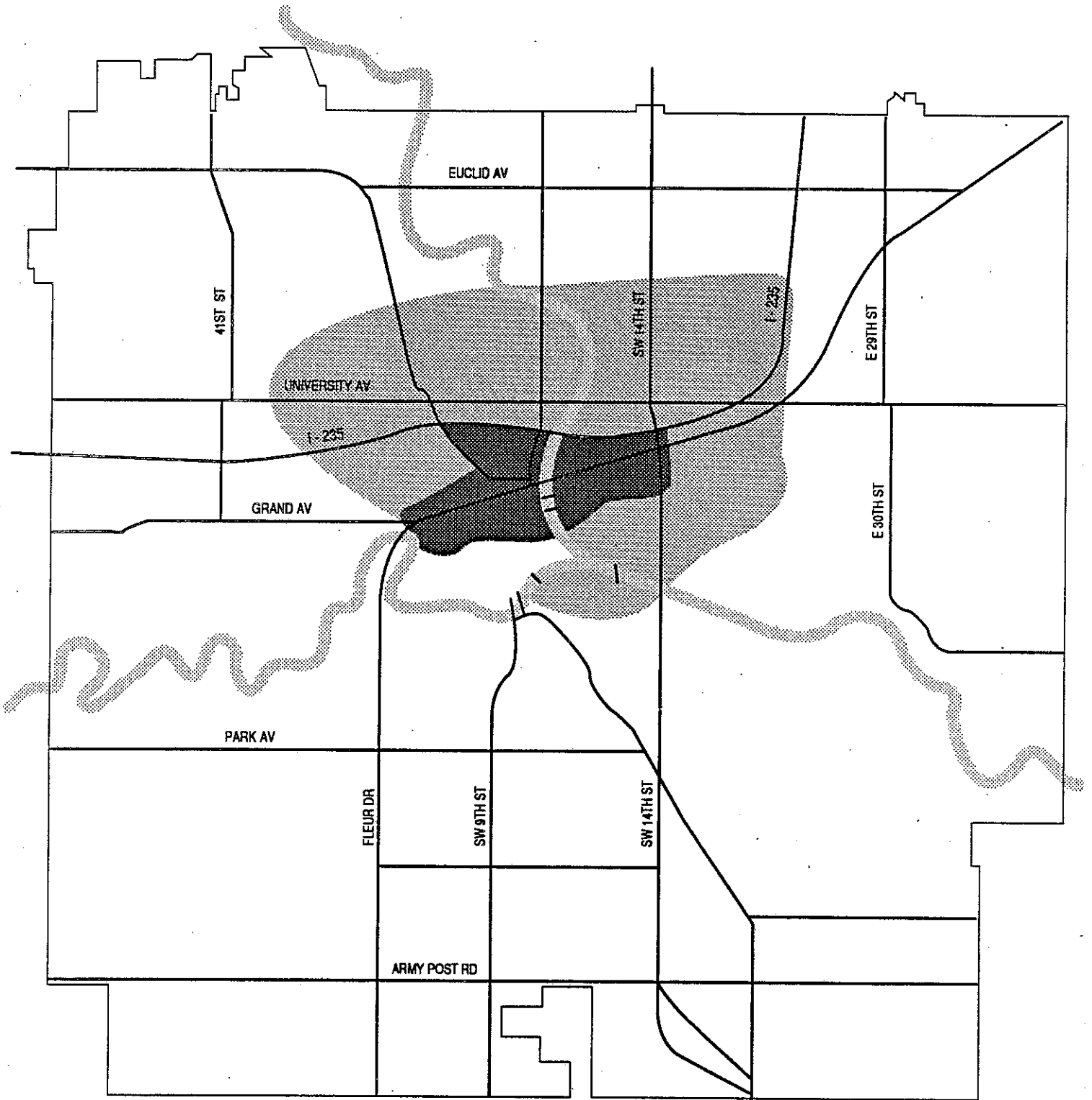
The program for a selected project area should anticipate that all activity should at least be initiated within a three year period. The ability to "get in and get out" of specific project areas is central to the ability to keep on with an overall improvement strategy that moves systematically through a neighborhood.

Work in a project area should be tied to the structure of the participation process in the neighborhood in which the project is located. In some cases such an appropriate organization will be in existence; in other circumstances, it will be necessary for the work program to include resources for creating such an organization and equipping it to play its appropriate part.

Map 1



Map 2



GENERALIZED NEIGHBORHOOD PATTERN

-  DOWNTOWN — Market Rate Opportunities
-  INNER NEIGHBORHOODS — Greater Concentrations of Low Income and Problem Housing
-  OUTER NEIGHBORHOODS — Greater Stability, Problems Exist but More Scattered

NEIGHBORHOOD REVITALIZATION STRATEGY

The designation of a project area does not necessarily mean a focus on the worst part of a neighborhood. A number of different types of projects can be contemplated. One course would be to select an area with a large amount of vacant land, as a result of property abandonment and foreclosure. The key factor in such a situation would be the determination that there is in fact a positive market for the reuse of such an area.

Another type could be an existing commercial area, whose revitalization could be a major factor in the stabilization of a changing neighborhood. Still another type would include housing stock in basically sound condition but requiring a significant amount of rehabilitation. A companion purpose could be either to retain an existing pattern of owner occupancy, or to seek to reverse a pattern of increasing absentee ownership. The presence of a major institution or other land use with an interest in its immediate neighborhood can also be an important basis for selecting a project area.

The basic idea is that the selection process should respond to problems of immediate concern in the neighborhoods involved, and thus increase the prospect of producing visible results within three years.

Neighborhood Types

The development of appropriate strategies for a given neighborhood is also a function of where the neighborhood fits into the continuous process of neighborhood change. An understanding of how an area is changing is far more important than any static picture of conditions at a single point in time. While the systematic identification of neighborhood types was not a central focus of this report, the development of strategies will be based on some level of understanding of such changes. The initial reconnaissance in Des Moines identified suggests three basic neighborhood types, described below along with a general picture of the conditions that define the differences between the types.

- *Stable/Conservation.* Neighborhoods in which the population is relatively stable, the housing stock is in sound condition, problems of abandonment and foreclosed properties are isolated or nonexistent, property values are relatively sound, and the area is free of the perceived existence of socioeconomic problems which signal incipient decline in neighborhood confidence. The basic challenge for such neighborhoods is of course to maintain the stability in the face of potential negative change.

NEIGHBORHOOD REVITALIZATION STRATEGY

Included in this category would be some areas where positive conditions are more than just "stable". With low turnover and steady or increasing property values, such areas are examples of the "marketable" neighborhoods that do exist within the city. As general market conditions improve in Des Moines, the goal for these neighborhoods will be to maintain stable conditions and avoid the rapid upward surge of conditions that has occurred in other cities at the expense of long-time residents in those neighborhoods.

- *Transition.* Neighborhoods exhibiting varying degrees of problem conditions. These could include declining population, combined with an increasing proportion of lower income households; a relatively higher incidence of property abandonment; property sales relatively inactive and not producing appropriate prices when they do occur; increasing signs of investor owner activity and some pressure to convert larger single-family property to multi-family use. Perceived concerns about crime, schools and similar issues are strong enough to be a factor in decisions to leave the neighborhood or, for those seeking housing, to bypass urban neighborhoods and head farther out.
- *Distressed.* Neighborhoods reflecting serious problems in all respects - seriously deteriorated housing stock, relatively severe property abandonment and disinvestment to a serious degree. Conditions in such an area would suggest a clear need for intensive action, including the possibility of substantial redevelopment to establish a brand new land use pattern. A critical issue to be addressed is the timing of activity in these locations. The condition of the area in relation to identifiable market potential for use or reuse may preclude immediate redevelopment action. The extensive degree of intervention that would be required should not be undertaken until there is clear indication of what market demand there will be for subsequent reuse.

In such circumstances, it will be important to have in place a "land banking" mechanism to assure proper control and management of any properties that are vacant as a result of abandonment. The needs of the neighborhood should be identified, both for the short-term use of the vacant land and to help determine the long-term use of the property.

NEIGHBORHOOD REVITALIZATION STRATEGY

Figure 1 presents a generalized picture of the dynamics of change. It illustrates that the process is continuous and suggests that perceptions of market strength and actual housing conditions combine to define how neighborhoods changes. The generalized status of Des Moines neighborhoods shown on the figure reinforces this point by suggesting that perceptions are a constraint on stability and value even in locations where overall housing conditions are generally satisfactory.

Programs Supporting Housing Assistance

A successful neighborhood revitalization program must reflect a comprehensive understanding of the problems, as perceived by those familiar with the neighborhood and supplemented by hard statistics. Housing assistance programs that are not accompanied by attention to other neighborhood concerns often fail to achieve their intended purposes because they are dealing with only a part of the problem.

This section of the report describes all of the other programs that may be needed to support housing assistance initiatives in carrying out a neighborhood revitalization strategy. In effect, what follows is a "menu" of possible activities, and not all of which will be necessarily relevant to any given neighborhood.

It is also important to understand that the need for particular activities can be determined only through the process of developing neighborhood revitalization plans. Some strategies appropriately will have a city-wide application, such as a general marketing effort to build positive interest in living in the city's neighborhoods, or a program to provide technical assistance to prospective small-scale investor owners. But in most instances the use of the strategies will be adapted to the particular concerns of each neighborhood.

Thus the purpose of this section is to identify the broad range of activities which may be required, and where appropriate, to make specific recommendations for changes or new initiatives that have surfaced during the course of this work. The description also suggests the large number of service providers whose participation may be essential to the success of neighborhood plans. The system for achieving this coordination in service delivery is discussed as part of the recommendations for a new emphasis on neighborhood planning within the city.

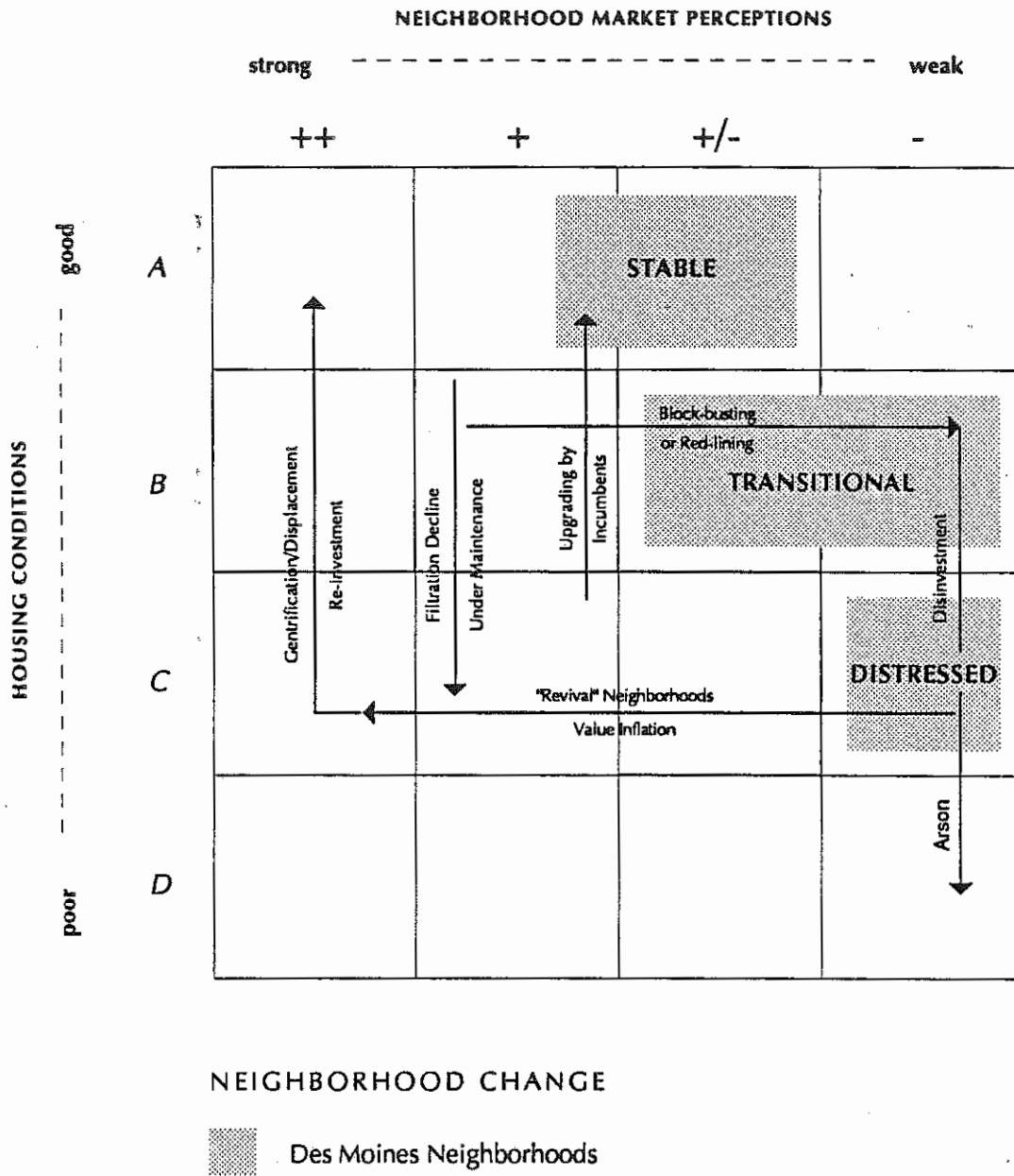
NEIGHBORHOOD REVITALIZATION STRATEGY

Mention should also be made of what is not included in this section. Issues related to education, employment and provision of social services are central to the concerns of neighborhood residents, especially for those with limited incomes. Addressing needs in those areas is beyond the scope of this report, but it will be important to assure that representatives of organizations responsible for provision of those services are included in the overall process for neighborhood planning proposed in this strategy. This applies particularly to assistance provided through County welfare programs and through the City's Community Action programs.

Many elements of the city's housing problems relate to what is required to maintain a sound housing stock and to serve the needs of both owners and tenants. Since many of these issues surface in similar fashion throughout the city, it may be appropriate to have these services available through a single provider, rather than less separately and less efficiently for each neighborhood. Possible programs could include:

- Assistance in routine property maintenance, including measures to increase energy efficiency. This may apply especially to elderly property owners.
- The availability of counseling or mediation services for disputes between landlords and tenants may be useful in encouraging the rental population to remain in their present housing. If tenants feel that they have some recourse in the face of unresponsive landlords, they may be less inclined to flee a difficult housing situation.
- The city housing inspection program provides regular coverage of all rental property, although single family rental properties are not as readily detected and therefore not as regularly covered. Inspection programs can often have unintended results. Intensive inspection with vigorous enforcement can sometimes discourage landlords from making improvements and lead them to simply walk away from the property. The process should have enough flexibility to it to provide an incentive to responsible owners to make improvements, while also sending a clear message to other types of owners that they must keep up their property or run the risk of losing it to someone who will.

Figure 1
The Matrix of Housing Dynamics



NEIGHBORHOOD REVITALIZATION STRATEGY

Recommendations

- Consider restructuring of housing inspection activities in neighborhood plan areas, to monitor compliance as at present and to provide initial contact and marketing services to identify owners interested in participating in housing assistance programs.
- Clarify role of present Housing Advisory Board. Limit function to hearing appeals related to Housing Code. Broader policy role should be a responsibility of the Neighborhood Advisory Board proposed in this report. Consider change in membership to provide for direct representation of neighborhood viewpoint.
- Public Housing. The Des Moines Housing Authority plays a significant role in dealing with the needs of the city's lowest income residents. Its participation may well be an important element of revitalization efforts in areas with the most serious gaps between the cost of housing and what low income households can afford to pay. The Authority should be an active participant in the neighborhood planning process, to assure that its existing inventory of units is managed in concert with neighborhood plans, and to explore possibilities for the expansion of its role.

Capital Improvements

The condition of streets and sidewalks, the presence of street trees, and similar infrastructure components are critical elements of any neighborhood revitalization strategy. At present there is no link between neighborhood improvement initiatives and the city's capital budgeting process.

Recommendation

- The annual capital budgeting planning process should include provision for consideration of the plans for neighborhood revitalization. The annual capital budget planning cycle should be coordinated with the annual neighborhood planning process.

Open Space

Open space needs as perceived by neighborhood residents may relate to better access to a regional open space system, improvements to or expansion of existing parks, or to the use of smaller spaces for both short-term and permanent purposes. Usable open space within an urban neighborhood need not be large in order to have a positive impact on neighborhood stability. In fact, the smaller parcels created by the removal of abandoned properties can be either an eyesore or an important new resource for neighborhood use.

NEIGHBORHOOD REVITALIZATION STRATEGY

Recommendation

- As part of the neighborhood planning process and in coordination with the County, prepare and maintain an inventory of all vacant property, and work with neighborhood organizations to identify short or long-term uses for these properties and assure that they are properly maintained.

City Services and Regulatory Tools

- *Tax Abatement Program.* This program is applicable to both new construction and the rehabilitation of existing properties. It has had a beneficial impact where the work would normally result in increased assessment and therefore higher taxes. Some have observed that the program provides no incentive for more cosmetic inside improvements, some of which could be important to the marketability of the house. It would be difficult to modify the program to incorporate improvements which do not normally bring about a change in assessed value. However, there is certainly a need to encourage such improvements, and some of the recommended housing assistance programs would serve this need.
- *Building Code.* Comments have been made that the present code is inflexible in terms of allowing the use of newer materials, and requiring more work than is necessary for basic safety and security purposes.
- *Beautification Ordinance.* This program has the potential to be an effective instrument to aid in improving the appearance of urban neighborhoods. While the program is activated by complaints, there would be nothing to prevent a heavier marketing of the program in specific areas, involving the appropriate neighborhood organization to assure prompt and consistent follow up. It would be appropriate to designate as special enforcement areas those neighborhoods in which an overall revitalization plan is being implemented, and to provide adequate enforcement staff.
- *Zoning.* Zoning policy should reflect neighborhood development objectives and not attempt to define them. The preservation of local commercial activity should be encouraged wherever possible, as should zoning provisions that support a wide variety of housing types, consistent with both the existing character of each neighborhood, and with projections about the future demand for housing in that neighborhood. The existing zoning provisions have not been examined in detail, but the development of infill housing may require new provisions to encourage smaller scale new development.

NEIGHBORHOOD REVITALIZATION STRATEGY

Commercial Revitalization

In older urban neighborhoods in particular, the disappearance of local shopping facilities will be a significant factor influencing a flight to a new location. As noted above, city policy can and should support the retention of existing local shopping areas. City policy should support such efforts by looking very carefully at requests to expand commercially zoned areas nearby along arterial streets. Such expansions both dilute the shopper base for more local shopping and create additional negative conditions along the more heavily used arterial streets.

The Economic Development Department's program to provide assistance to neighborhood shopping areas should be coordinated with the proposed neighborhood planning effort. The current program in Beaverdale is an example of using commercial revitalization to respond to a key neighborhood concern. A priority should be placed on initiatives that support neighborhood revitalization, as opposed to those aimed primarily at a more regional base.

Crime Prevention and Security

Whether the problems concerning safety and security are real or perceived, the resultant negative attitudes about a neighborhood can be critical in the process of neighborhood decline. The programs appropriate to specific neighborhood conditions could include increased police presence, mobile or on foot; a special hot line for rapid response to emergency calls; block-watch programs, and other programs to provide for increased surveillance and monitoring at the neighborhood level; and police and community intervention to deal with specifically identified problems such as drugs.

Marketing and Special Events

There is a clear perception that only bad news gets the attention of the media. There is a clear need for a more positive approach, with initiatives drawing attention to the special qualities that make the City and its neighborhoods attractive. The efforts should be focused on building interest in Des Moines' neighborhoods, for those now living in them, and for those actively looking for a place to live. The approach could include such initiatives as:

- Overall campaigns to boost the attractiveness of the city and its neighborhoods.
- Work with the media to promote programs highlighting the work of the city and others to upgrade neighborhoods.

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- Educational programs with local realtors to provide perspective about the city and its neighborhoods, and to solicit ideas for making changes from a group of people who should be most familiar with the differing character of different neighborhoods.
- Booster campaigns for individual neighborhoods, based on ideas generated from the neighborhoods themselves.
- Implementing special events built on the special character or history of a given neighborhood.
- Work with larger employers to reach new employees early in their process of house hunting. Sharpen understanding of why people now generally chose to live in the suburbs, and learn what could be done to change this. Develop public relations campaigns to change the underlying attitudes affecting those choices.
- The City's public relations function should be directly tied to the neighborhood revitalization program, and a task force of private sector media representatives should be formed to support a closer working relationship between the local media and the city's neighborhood revitalization program.
- The existence of a neighborhood elementary school appears to be an important issue for families making decisions about where they will live. The neighborhood planning effort should be linked with School District planning to be sure that neighborhood revitalization activities are considered in any policy decisions faced by the School District. Decisions to close or improve specific buildings should support neighborhood plans, not contradict them.

Neighborhood Schools

3. Planning for Neighborhood Revitalization

Two basic steps are required to initiate the neighborhood revitalization program recommended in this report - the creation of an effective neighborhood planning process within the city and the creation of a corporate entity to provide effective coordination and direction for the provision of funds for housing assistance. The first of these changes is described in this section.

To provide for appropriate leadership and direction of the city's neighborhood revitalization effort, we propose a realignment of city operations. The objectives to be served are:

- To assure an effective linkage between planning and implementation activities.
- To coordinate the commitment of resources needed to accomplish comprehensive neighborhood revitalization, including taking the initiative to secure funding from other sources such as federal and state programs and foundations.
- To help build capacity for organizing and implementing community development activities at the neighborhood level, and sustain the active involvement of neighborhood organizations.
- To assure the establishment and maintenance of an annual planning process, including the ability to monitor progress being made on approved plans and projects.
- To coordinate the implementation of needed support activities implemented by other city departments, public agencies or human services providers as important parts of approved neighborhood plans.
- To create and maintain an appropriate information system to support the "neighborhood listening" and data collection activities outlined in this report.

NEIGHBORHOOD REVITALIZATION STRATEGY

The proposed neighborhood planning process is shown in Figures 2 and 3.

The initial step should be the designation by the City Manager, with City Council approval if appropriate, of the individual to direct the restructuring of responsibilities to achieve the objectives listed above. The restructuring would be designed to achieve a more effective linkage between the functions of:

- Planning at the neighborhood scale
- Technical assistance to neighborhood groups
- Community development block grant administration
- Administration of community services programs
- Coordination with the related activities of other relevant public and private agencies and organizations
- Information collection for both program design and monitoring.

The restructuring could be achieved in any number of ways, as long as there is a clear identification of the person who is ultimately accountable for the process.

This individual should also sit on the Board of the Neighborhood Finance Corporation, and should present the City's planning and funding commitments which need to be coordinated with the NFC's decisions about its own lending commitment to projects and individual property owners.

The details of achieving the objectives stated above must be worked out under the direction of the individual designated. However, there are four key issues that should be addressed in establishing an effective process:

- The preparation of neighborhood plans.
- The related changes in administration of the Community Development Block Grant program and related human services activities.

Proposed Neighborhood Planning Process

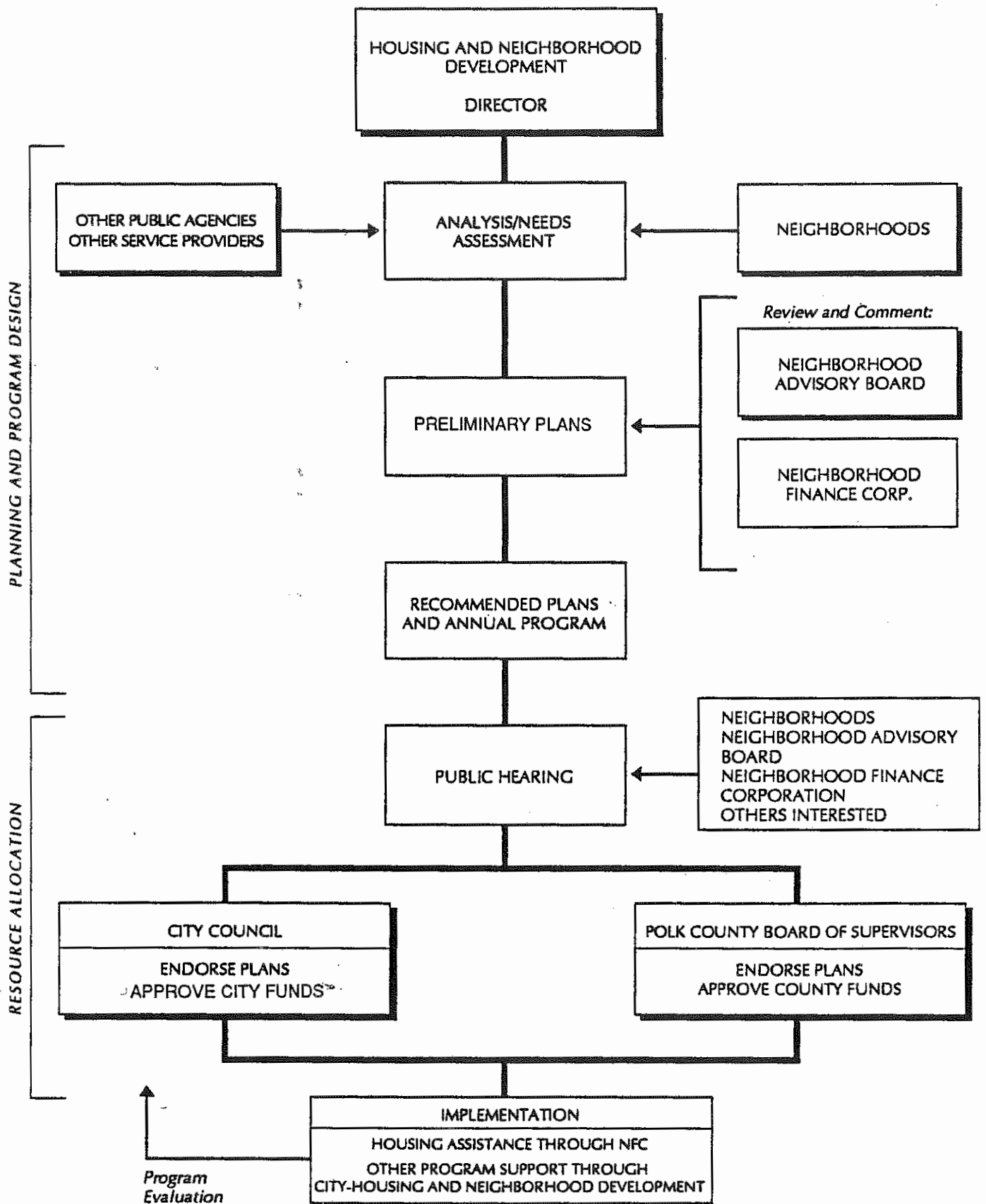


Figure 3**Neighborhood Revitalization Planning**

Task	Participants	Purpose
Assess problems and needs	City staff Neighborhood reps.	Identify conditions and potential neighborhood planning programs
Develop plan Proposals	City staff Other public agencies non-profit service providers Neighborhood Advisory Board and Neighborhood Finance Corporation	Prepare plans Determine implementation roles Coordinate needed resources Review and comment
Recommend annual Plan priorities	City Staff	Review annual plan Coordinate with other funding cycles
Approve annual Plan	City Council	
Implement plans	City staff, coordinate with neighborhood	Assure neighborhood access and feedback
Monitoring Evaluation	City staff	Assure effectiveness of resources
Programs	As provided by plan	Respond to neighborhood needs

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- The existence of a means for community involvement in the preparation of plans, recommendations for funding priority, and coordination of the entities needed to successfully implement approved plans.
- The role of neighborhood-based organizations.

Each of these is discussed in the following sections.

Neighborhood Planning

The preparation of neighborhood plans should occur as a two-step process. Initially, the city's neighborhood planning staff, in partnership with neighborhood organizations wherever possible, would prepare preliminary plans for neighborhood revitalization. These could be initiated either on the basis of assessments of need developed by the city staff, or on the basis of proposals brought to the city by neighborhood organizations.

The plans would contain an overall assessment of existing conditions, identification of issues and concerns as defined by the residents of the neighborhood, and preliminary application of the program strategies suggested in this report. The detail would be sufficient to provide a clear sense of both needs and potential impacts, and an initial sense of the overall budget and necessary involvement of other public agencies.

Except for relatively stable neighborhoods where a neighborhood-wide approach would be appropriate, the plan would also identify one or more project areas which would be the focus of initial activities.

These preliminary plans would be presented to the proposed Neighborhood Advisory Board, which would assist in formulating recommendations for the specific neighborhoods to be included for funding in any given year. These recommendations would then be acted upon by the City Council, and the result would constitute the approved and funded program. This program would be acted upon on an annual basis, with recommendations for changes made based on the activities of the preceding year.

The realigned structure would assign clear responsibility for developing such plans on an annual basis, with different staff members responsible for different areas of the city and working with constituent groups in developing such plans. At a minimum, the staff under the division head should include three people to reflect the three major areas of the city as divided by the rivers.

NEIGHBORHOOD REVITALIZATION STRATEGY

Additional staff responsibilities should be assigned as the program gains momentum and a greater number of neighborhoods are participating.

There should be a means of assuring effective coordination with neighborhood residents as the plans are implemented. Neighborhoods with an existing and active organization in place could provide this link; in other circumstances a part of the implementation program would focus on providing technical assistance, either with city staff or through contracts with neighborhood-based nonprofit organizations, to build the capacity for effective neighborhood involvement.

The determination of how many and which specific neighborhoods should capture the City's attention and resources each year is a matter to be determined through the process outlined above, incorporating the advice of the Advisory Board, and the approval of the Mayor and City Council. The criteria used in making this determination should include, but not be limited to, the following:

- A neighborhood's rapid transition downward or upward in terms of its housing dynamics, indicating the need for direct public intervention to stabilize the situation so that existing residents can be protected from financial hardship, dislocation or loss of investment;
- The timeliness of intervention because of a connection to other major public sector activities, such as new highways, public infrastructure improvements, economic development activities, crime enforcement programs etc.
- The opportunity to coordinate with private sector activities ties which are bringing new enterprises, jobs, and/or capital into a neighborhood;
- The need to support neighborhood-based initiatives which have broad-based community involvement and endorsement;
- The degree to which investment in a given neighborhood can be expected to "leverage" other investment activity.

The Planning staff should carry out these neighborhood planning efforts following the principles of "neighborhood listening" outlined in this report. They should also be responsible for providing technical assistance to existing

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neighborhood organizations as they begin to formulate their plans and objectives, and for working to build organizational capacity in those neighborhoods with clear needs but no established structure and organizational capability.

The proposed planning process is shown in Figure 2. It is designed to establish an effective citywide neighborhood planning process and address some basic problems in the existing system, shown in Figure 4.

Community Development Administration

The neighborhood planning program will be the central, but not exclusive focus of the city's efforts to address problems within its neighborhoods, particularly for low and moderate income households. Paralleling the neighborhood planning process outlined above will be the continuing planning and administration of other community development activities, including the Community Development Block Grant and the Community Action Program. Some activities addressing the needs of low and moderate income citizens will continue on a citywide basis. While some of the CDBG funds should be targeted to projects within approved neighborhood plan areas, some will be available for activities within the CDBG target area but outside plan neighborhoods. The responsibility for planning and administering these programs would remain outside the neighborhood planning process, and these activities would be coordinated through the proposed Advisory Board.

We recommend that certain changes in the administration of these funds be adopted, as follows:

- The present priority target areas are too large to expect lasting results from the investment of limited funding resources. To foster active neighborhood involvement consistent with the stated principles of neighborhood revitalization, the area should be redefined so that more individual neighborhoods within the central core area of the city are eligible for financial assistance. A single, larger area within which neighborhoods could seek some of the CDBG funds to leverage other investment in support of revitalization activities appears to be more appropriate now. This could also permit some of the CDBG funds to be spent in direct support of income-related needs.

The functions now performed by the Central Advisory Board would be shifted to the proposed Neighborhood Advisory Board, so that the decisions on the use of CDBG funds can be more effectively integrated with other funding decisions. The neighborhood participation now facilitated by the Priority

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Boards would be replaced by involvement at the neighborhood level in the planning and implementation of comprehensive plans utilizing several funding sources and therefore greater potential of accomplishment.

- Funding for these areas should be approved in conjunction with neighborhood plans developed by the planning staff, and in concert with neighborhood residents.
- Funds should be leveraged according to need, and a significant portion of all funds used to supplement financial assistance from either the Neighborhood Finance Corporation or the Neighborhood Equity Fund. Our recommendation is that \$1,000,000 of the current entitlement be set aside for this purpose. This amount corresponds to the present level of spending for housing improvement activities.
- Priority for other CDBG funds not committed to direct use in support of NFC approved projects, should be used for:
 - support of other programs in designated neighborhood plan areas.
 - programs outside the defined neighborhood plan areas but within the CDBG defined target area.
 - citywide activities responsive to program guidelines.

A recommended approach for the allocation of CDBG funds is shown in Figure 5.

Neighborhood Advisory Board

The proposed Neighborhood Advisory Board would:

- Assist in bringing citizens into the policy development process.
- Offer a forum for constituent groups to make their views heard in policy deliberations regarding housing and neighborhood development
- Provide for the effective coordination of the many agencies and organizations with program funding and service delivery functions relevant to a comprehensive neighborhood revitalization process.

Figure 4
Current CDBG Allocation Process

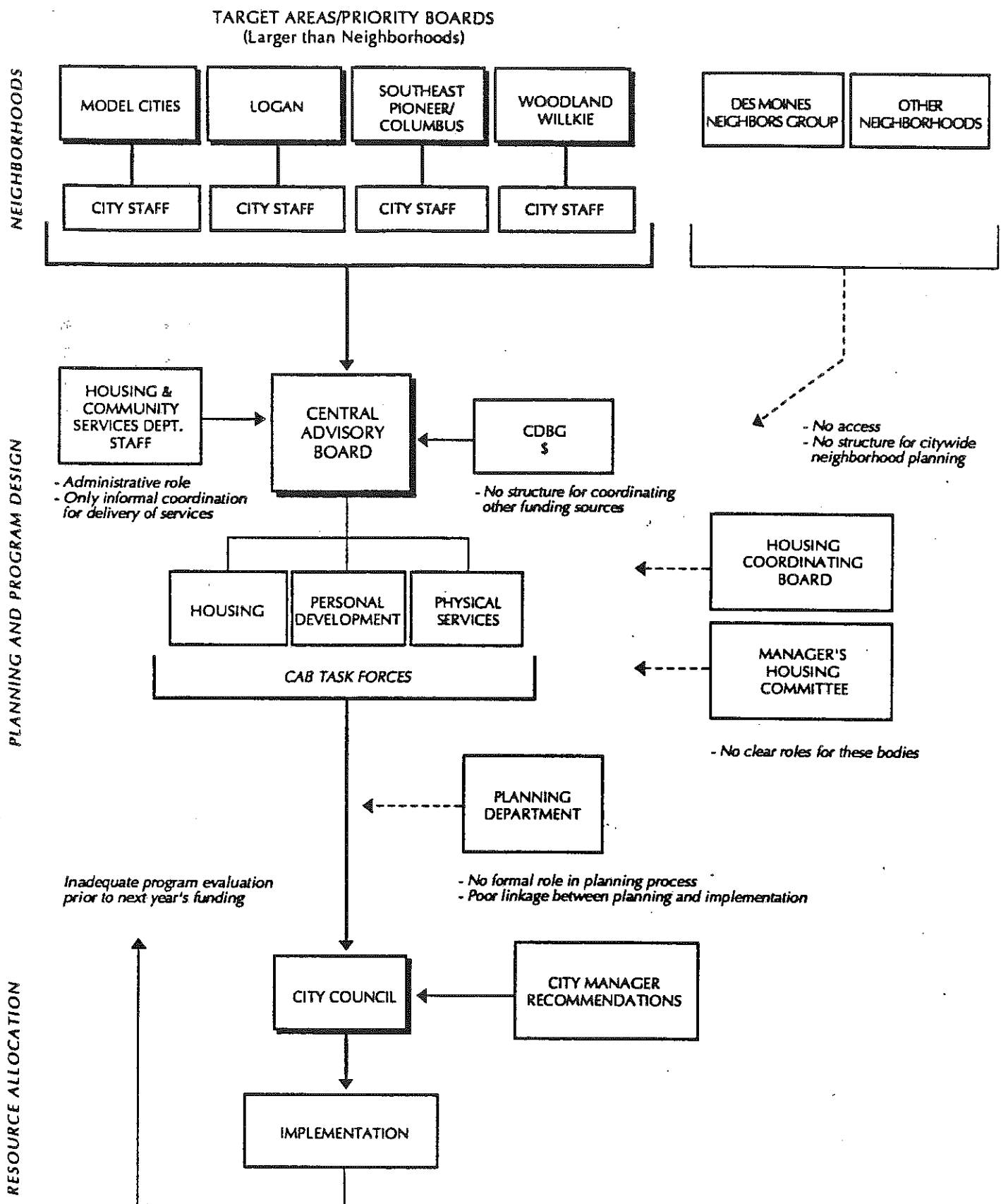
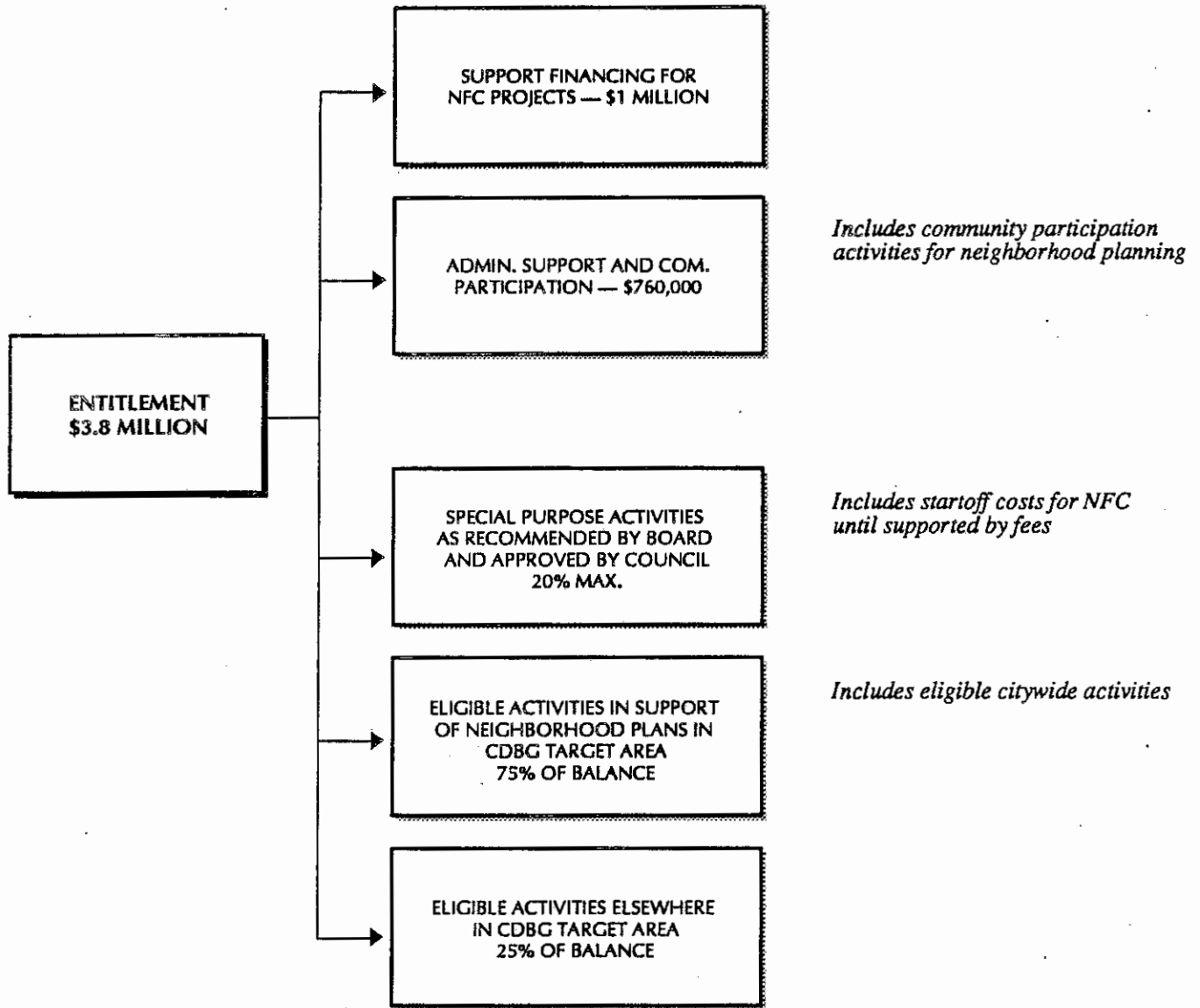


Figure 5
Recommended CDBG Allocation



Based on amount in current entitlement

NEIGHBORHOOD REVITALIZATION STRATEGY

The Board should represent a broad cross-section of Des Moines residents, familiar with the city's neighborhoods and possessing technical expertise in fields such as housing development, rehabilitation, financing and management, planning and design, landlord-tenant relations, and neighborhood advocacy and development. Appointments would be recommended by the City Manager, with the concurrence of the City Council. If possible, the composition of the Board should meet program requirements for the Board responsible for the administration of the Community Action Program. If this is not appropriate, then a separate subcommittee or other structure should be set up to meet this requirement without setting up a Board totally independent of the proposed Advisory Board.

The duties of this Board would include the preparation of annual recommendations for the use of CDBG funds, and in this role it would replace the present role of the Central Advisory Board. The Board would review recommendations for the annual selection of neighborhood plans and would present recommendations for approval by the City Council.

Also represented on the Board should be representatives of agencies and organizations that will be involved in the implementation of plans reviewed by the Board. Representation should include the County, School Department, private human service agencies, perhaps representatives of state agencies - a sound cross-section of the entities whose coordinated participation will be needed. Figure 6 summarizes the purpose and structure of the board.

The Role of Neighborhood- Based Community Organizations

Effective neighborhood revitalization requires a strong partnership involving the neighborhoods in which programs are being implemented. Without this partnership, there will be no assurance that the programs are responsive to neighborhood needs, and no assurance that the successes of programs will endure on a longer-term basis. No matter how much private participation is leveraged by public dollars through specific projects, the long term stability of any neighborhood will depend far more on the cumulative impact of the many decisions made over time by current residents - to stay and invest in their properties, work with their neighbors on matters of immediate concern.

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We believe also that it is now appropriate to redefine the areas now represented by the Priority Boards. The existing target areas in several instances overlap with neighborhood boundaries or are large enough to include more than one neighborhood. For example, part of the Model Cities target area lies within the Drake Neighborhood; and two of the neighborhoods examined in the illustrative plans in this report - Capitol East and Columbus Park - are parts of target areas.

We believe that the CDBG funds can be more effectively used if a single "target area" is defined, as shown in Map 3. This one area would encompass most of the area of concentration of households with low and moderate incomes, and housing stock with more serious problems. Within this area, a priority would be given to neighborhoods with approved plans, but some funds would be allocated for use in other parts of the new target area. By focusing community planning and organization efforts on smaller areas, it is our belief that the resulting partnership will have more to offer to the neighborhood.

As suggested above, the longer-term stability of a neighborhood depends on the existence of a strong neighborhood-based organization, able to demonstrate broad support, and the ability to provide leadership and command respect in working with the city and other public and private interests. It must also be able to provide timely and accurate information about what is happening in the neighborhood, a critical aspect of the "neighborhood listening" process suggested in this report.

Those neighborhoods with existing organizations certainly have the opportunity to bring to the city their assessment of neighborhood problems and to seek funds for neighborhood plan implementation. The Des Moines Neighbors Group is an encouraging example of neighborhoods coming together to seek a common agenda for working with the city (see Map 4). There may well be other parts of the city with equally compelling needs who are not yet so effectively organized. In such cases, a part of the plan must call for the building of capacity at the neighborhood level.

Figure 6

Neighborhood Advisory Board

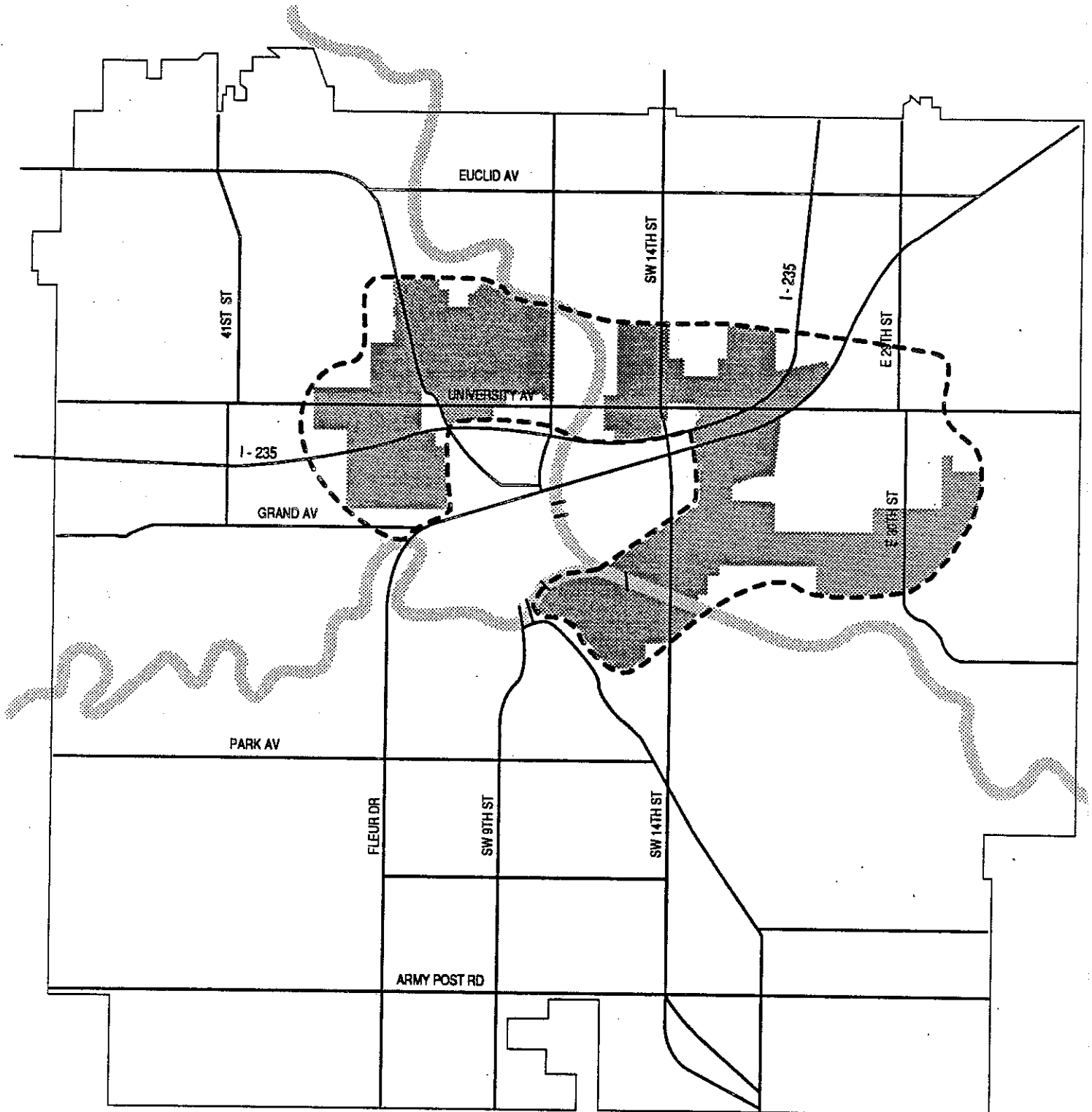
PURPOSE: Provide advice reflective of overall community interests for the activities planned and implemented under the Housing and Neighborhood Development program.

MEMBERSHIP: Approximately 15 persons, selected because of familiarity with the city and issues related to housing and neighborhood development. Appointments would be made by the City Council, and could reflect recommendations solicited from specific organizations, but members would not sit as representatives of particular organizations. Appropriate representation of CDBG target area as well as compliance with Community Services Block Grant administrative procedures must be considered.

FUNCTIONS: Review and comment on preliminary neighborhood plans and annual program prepared by city staff working with affected neighborhoods. Review and comment on proposed use of Community Development Block Program funds, including both funds connected to neighborhood plans and those to be spent elsewhere consistent with program guidelines. As appropriate, provide advice on other program proposals prepared by the city related to neighborhood improvement initiatives. Provide ongoing advice to city staff as approved programs are implemented.

STAFF: Provided as necessary by city Housing and Neighborhood Development staff.

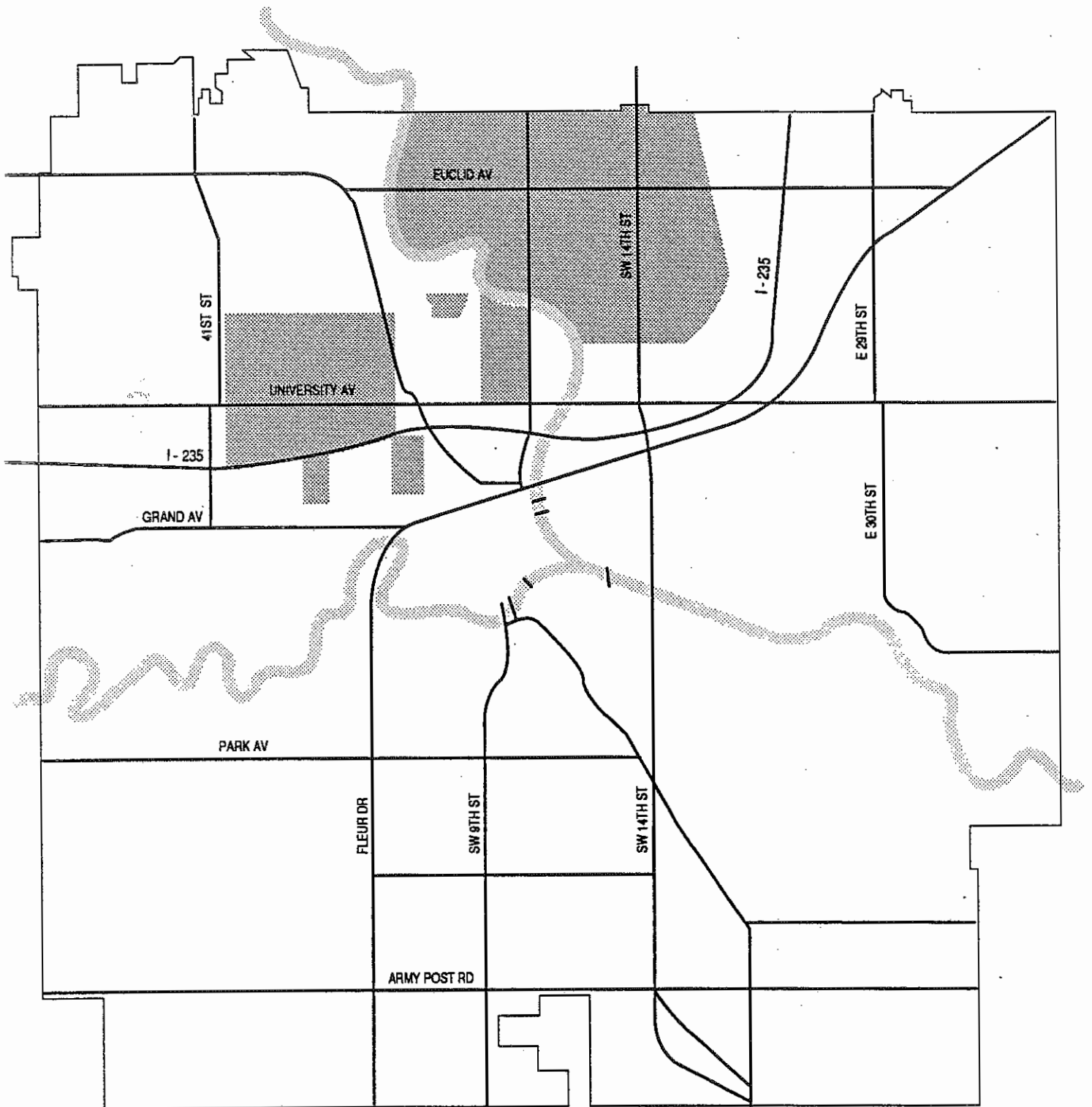
Map 3



COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

-  Existing CDBG Target Areas
-  Recommended Target Area
(generalized subject to detailing with updated housing condition & 1990 census data)

Map 4



NEIGHBORHOODS REPRESENTED IN DES MOINES NEIGHBORS GROUP

4. Housing Assistance Delivery

Overview

A new system of housing financing assistance programs is proposed to complement the principles and recommended neighborhood planning process already discussed. The system will provide for greater coordination in the allocation of funds, maintain consistent priorities and flexibility through a comprehensive approach to neighborhood revitalization, and allow for more effective use of nonprofit and other development entities.

We recommend the creation of a new financing entity, operating two funds to deal with debt financing, and a related fund to deal with equity participation. The proposed Neighborhood Finance Corporation is described below, along with an overview of the programs it would operate. More detailed information on the recommended new programs is contained in supplemental material appended to this report. We also note the possible need for a new nonprofit development corporation, and include in that supplemental material a description for future reference and consideration by the NFC once it has been in operation for a while.

Each of the programs can be fairly flexible in terms of the kind of housing it helps to finance — rehabilitation or new construction, home ownership or rental or cooperative housing, housing for different types of households, and housing developed by for-profit developers or by nonprofit organizations of public agencies. That flexibility should be preserved to the greatest extent possible as the programs are designed and implemented, so that they can respond to needs and opportunities in different neighborhoods.

As other communities have moved to establish new approaches to financing housing improvements, it has become clear that the basic alternatives will come out differently in each city, and that it will take time to determine just what programs are appropriate for responding to local conditions. Certainly the first step in the process for Des Moines will be the establishment of the parent body - the Neighborhood Finance Corporation. The Board of that organization, working with an Executive Director, will determine just how the programs will operate. It may well be that not all programs will be set up at the very beginning. Some cities try one program first before branching out.

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Neighborhood Finance Corporation

The Neighborhood Finance Corporation (NFC) would be a nonprofit corporation established to manage housing assistance funds which would be capitalized by private capital from local banks and other corporations, city funds and county tax-exempt bond proceeds. The structure and purpose of the NFC is shown in Figure 7 and summarized Figure 8.

Two separate funds would be established to provide financial assistance to home buyers, home owners interested in repairs, and investor owners of rental housing. A Revolving Loan Fund would be used to finance projects, and a separate Mortgage Pool would handle lending for individual applications. As recommended here, funding for the Revolving Loan Fund would come from corporate sources, and funding for the Mortgage Pool would come primarily from banks. Banks currently operating programs with special underwriting could continue to operate their separate programs or put their resources into the NFC's mortgage pool.

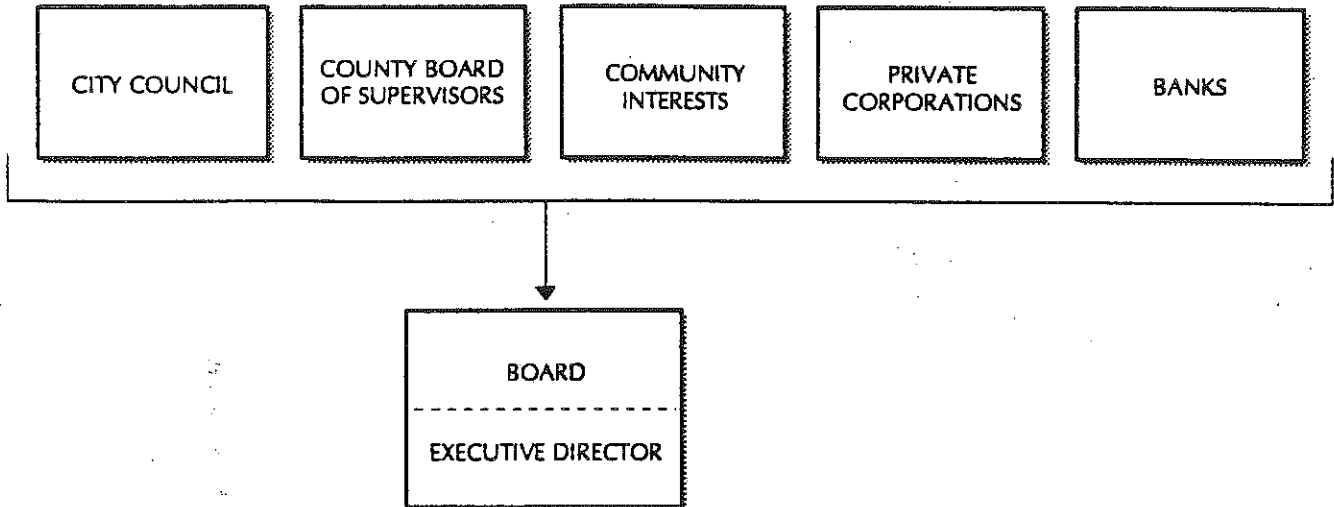
Funds made available to the Revolving Loan Fund should carry the tax-exempt rate on the county bonds, or the equivalent of the cost-of-funds for lending institutions for the corporate contributions. City funds could be raised by bonding or alternative mechanisms. Funds put into the Mortgage Pool should carry the tax-exempt rate on the bonds, a sliding scale based on applicant need for the CDBG funds, and 100 basis points below prime from the lenders. Figures 9 and 10 summarize the basic operation of the two funds.

We also describe a separate development fund, which could be set up to assist projects involving more complicated financing. The need for such a fund separate from the Revolving Loan Fund would be determined by the NFC based on the experience of its initial operations. The NFC could also establish a Loan Guarantee Fund, if early experience supports the need for such a program. Both of these possible programs are described in the supplemental material appended to this report.

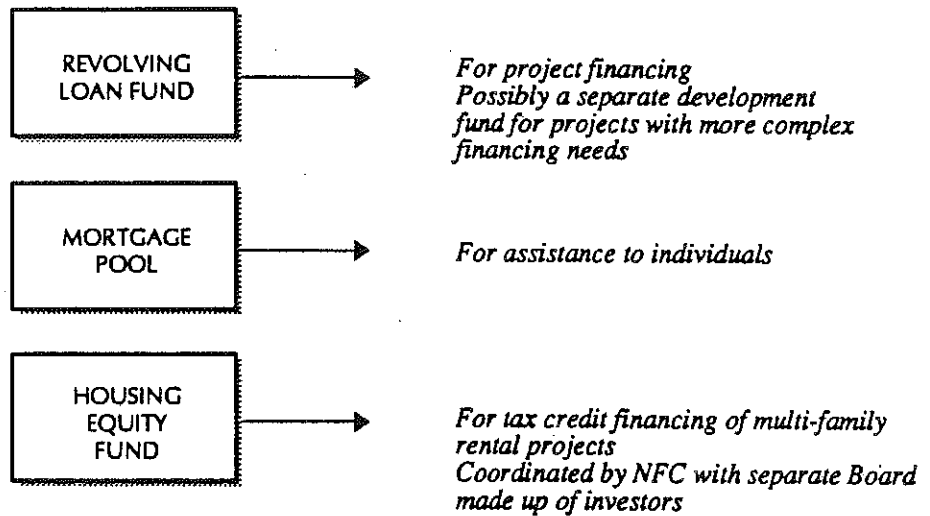
Figure 7

Housing Assistance Delivery The Neighborhood Finance Corporation

INTERESTS REPRESENTED



THE BOARD OPERATES



APPROVED PROJECTS WOULD BE IMPLEMENTED BY

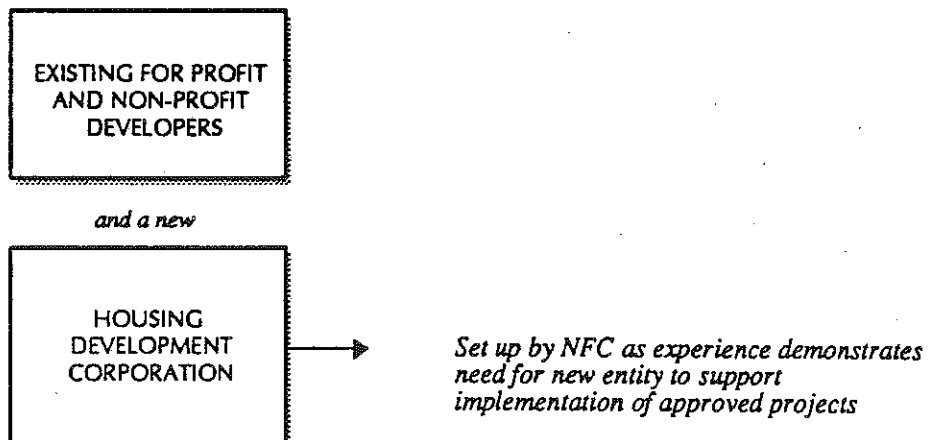


Figure 8

Neighborhood Finance Corporation

PURPOSE: Provide financial assistance to housing projects, and to individual homeowners or prospective buyers, to serve those unable to compete effectively for housing in the private market.

Resources directed primarily to neighborhoods with plans approved by the City and County.

MEMBERSHIP: Eleven members, appointed by the Des Moines City Council and the Polk County Board of Supervisors. Membership should represent the interests, both public and private, whose funds will be allocated by the NFC; and others more generally representative of community interests and activities related to the provision of affordable housing. Two private sector members should also sit on the Neighborhood Advisory Board to assure effective communication between the two entities.

FUNCTIONS: Provide comment on preliminary neighborhood plans as prepared by city staff in conjunction with interested neighborhoods. Receive proposals for housing assistance, test for feasibility and consistency with neighborhood plans. Approve funding for specific activities. Coordinate work of approved developers. Provide assistance, such as pre-purchase counseling, as necessary for implementation of approved activities, as much as possible assuring the provisions of such services through existing organizations.

STAFF: Executive Director plus appropriate level of staff to assure efficient implementation of approved projects.

Figure 9

HOUSING PROGRAM ASSISTANCE

Revolving Loan Fund — Project Assistance

Task	Implemented By
Develop Project Proposals	City Staff Nonprofit organizations Neighborhood based organizations Private developers
Review Project Proposals	NFC Staff Consistency with: Neighborhood plans Economic feasibility Availability of support funds and programs
Approve Project	NFC
Implement	Designated development team

Figure 10

HOUSING PROGRAM ASSISTANCE

Mortgage Pool — Individual Assistance

Task	Implemented By
Prepare Applications	Neighborhood Based Organizations Neighborhood Plan Staff
Review Applications	NFC Staff
Approve	NFC
Implement	Staff and/or Nonprofit Organizations NFC Loan Committee

NEIGHBORHOOD REVITALIZATION STRATEGY

The Board of the NFC would be made up of representatives appointed by the City, County, and private sector, and should also provide for representation of the city's neighborhoods. The membership should consist of no more than eleven persons, structured to assure a balance between public sector appointees and those representing the business community and the neighborhoods. It may be appropriate for the NFC to be represented on the proposed Neighborhood Advisory Board, to assure early input on the selection of neighborhood plans for funding approval.

The initial goal for the NFC's activities for the first three years is \$19,000,000, representing \$15,000,000 in private investment and \$4,000,000 from new county and city funds. This would provide for improvements to almost 700 units, mostly for rehabilitation of the existing stock. The city also would provide \$1 million in CDBG funds. The basis for the goals is detailed in the section on program implementation.

Housing Equity Fund

The Housing Equity Fund (HEF) would be a partnership of corporations providing equity capital to finance low income rental housing in the city, thereby taking advantage of federal tax incentives to realize an acceptable rate of return on investment. Where low income rental units can be provided by acquiring and rehabilitating the existing stock, equity funds can be leveraging with debt financing to produce lower rents than would otherwise be required under conventional loan-to-value ratios. The federal tax credits which provide the financial return to corporate investors to enable the rent structure to remain within affordability ranges for low income residents.

The HEF would be governed of a Board of Directors, consisting of membership from participating corporate investors (one per company) as well as by the Director of the Department of Housing and Neighborhood Development, so that the City's planning and funding commitments can be communicated and integrated into the Board's policy decisions. It would operate as an entity independent from the NFC, but its funding decisions would be coordinated to assure consistency in the setting of priorities for project approvals.

Each project brought to the attention of the Board would have to bring its own financial feasibility, whether or not it was within the project areas or neighborhoods the City had given priority to in any given year. The goal would be

NEIGHBORHOOD REVITALIZATION STRATEGY

to act in partnership with the planning, financing, and technical assistance work being undertaken by the City and the County in their annual neighborhood revitalization efforts.

The Role of Nonprofit Neighborhood Development Corporations

The proposed Neighborhood Finance Corporation and the related Housing Equity Fund will be the financing conduit for both projects and assistance to individuals. The implementation will require the active involvement of both private developers and nonprofit housing development corporations.

We have observed that there are many organizations currently involved in the implementation of housing programs. The problem is one of effective coordination and use of scarce resources. Once the NFC and the city's neighborhood planning process are established, there will be a need for qualified entities to implement the activities. We believe that at least some of the proposed activity can be carried out by organizations that now exist, as long as they can demonstrate to the NFC that they have the capability to carry out projects once they have been approved. The Des Moines Housing Council, for example, would continue to function as a developer. The work of Neighborhood Housing Services should be coordinated with the city's neighborhood planning efforts to avoid duplication of effort. We understand also that both the Des Moines Housing Authority and the Greater Des Moines Chamber of Commerce Federation have nonprofit housing development corporations that were established at some point to address a particular housing problem. It may be appropriate to reactivate either of these entities to undertake projects.

We have also identified the probable need for a new nonprofit development corporation in the city, to provide an expanded development capacity to take advantage of the potential increase in financing resources for housing. Certainly progress has been made by nonprofits now operating in the City, for example the Des Moines Housing Council. However, we believe that the types of projects which could be forthcoming may require a level of expertise and experience with real estate development that is not now present.

For this reason, we have suggested that a Neighborhood Development Corporation be established as a nonprofit housing development and assistance vehicle to utilize the new public and private financing tools to be made available for housing assistance across the city. The NDC could operate independ-

NEIGHBORHOOD REVITALIZATION STRATEGY

ently or in joint venture with existing neighborhood-based housing developers, public agencies or other private developers to create more impact than is otherwise the case. The NDC would not compete with existing housing developers to do the same projects but would expand what they do by working in different neighborhoods or by rehabilitating or building more housing than existing developers can undertake by themselves.

The need for a NDC will be determined by the Board of the Neighborhood Finance Corporation, based on the initial experience with the implementation of the new housing assistance strategy.

This discussion has focused on the implementation of housing development activities. It is important to note also that there are other activities that may require the support of nonprofit corporations. The need for housing support activities such as landlord/tenant counseling and provision of basic maintenance services is discussed elsewhere in this report. Most of these activities will be carried out most efficiently by a single entity providing the needed services to several neighborhoods or even on a citywide basis. The use of nonprofit corporations for such activities will depend in part on how much responsibility for program implementation is carried by city staff. Possible roles for nonprofit entities include:

- Designation alone or in partnership to carry out a particular proposed project within a neighborhood. Example: Designation as developer for a housing rehab project.
- Designation of a neighborhood organization to be responsible for technical assistance in the implementation of the plan for that neighborhood. Example: Selection by a neighborhood organization to provide ongoing technical assistance.
- Selection by the city to provide technical assistance to a neighborhood for either planning or implementation functions. Example: Selection by the city to work with a particular neighborhood in preparing a marketing strategy to attract new residents.

NEIGHBORHOOD REVITALIZATION STRATEGY

- Designation as the agency to carry out a support program that functions on a citywide, or multi-neighborhood basis. Examples: landlord/tenant counseling services, design and maintenance services in connection with gardening projects on vacant lots.

Summary of Proposed Three-year Program

This section presents the actions that should be taken to implement the recommendations in this report. Hopefully, that process will begin with the delivery of this report, and our recommendations cover the period through the end of 1990.

These recommendations focus on structural and organizational actions, primarily the establishment of an effective neighborhood planning process within the city and the creation of a Neighborhood Finance Corporation. Actions related to the implementation of the four illustrative preliminary plans are presented separately.

The overall goal for housing assistance provided through the Neighborhood Finance Corporation is to commit \$19 million in private and public funds, to provide assistance to 700 units over the initial three-year period. That level of funding is based on a proposed pace for the approval and implementation of neighborhood plans, and the estimated number of properties that will require housing assistance. The basis for these goals is shown in Figures 11, 12, and 13. The recommendations are based on the following assumptions:

- In the first year, funding approvals will be given to a total of six neighborhoods - the four for which initial preliminary plans are provided in this report and two other neighborhoods yet to be identified. These six neighborhood plans will be implemented for all three years of the initial period, assuming successful progress and continuing inclusion in the overall program.
- The level of assistance for the two additional neighborhoods approved will be similar to what is proposed for the four illustrative action plan areas.
- In each of the second and third years, an additional two to four neighborhood plans will be approved. The number of neighborhoods that can be

NEIGHBORHOOD REVITALIZATION STRATEGY

added will depend in part on the pace of implementation in the neighborhoods approved initially. There is also an assumption that as activity continues, the results will have a beneficial impact on housing investment decisions in those neighborhoods and others, and thereby reduce somewhat the level of assistance needed through the Neighborhood Finance Corporation.

- 25% of all units assisted will lie outside the areas covered by the projects in approved neighborhood planning areas. The impact of this assistance on surrounding conditions will be another factor affecting the number of neighborhoods added to the program in subsequent years. If this more scattered approach is successful in encouraging the improvement of other properties without the use of NFC assistance, then fewer resources will be needed in other parts of the neighborhood and activities can be undertaken in more neighborhoods.

Figure 11

Housing Assistance — Program Summary

SELECTED NEIGHBORHOOD PLANS	TIMETABLE	REHAB/ EXISTING OWNER- OCCUPANTS	FIRST-TIME HOMEBUYERS	INFILL CONSTRUCTION	INVESTOR- OWNER REHAB	ACQUISITION AND REHAB
Initial Four Neighborhoods (assuming approval and im- plementation of illustrative plans)	Years 1-3	99	63	26	25	63
Two Additional Neighborhoods	Years 1-3	20	25	0	13	40
Second Year Approved Plans Two-Four Neigh- borhoods	Years 2-3	39	20	8	20	35
Third Year Approved Plans Two-Four Neigh- borhoods	Year 3	20	14	0	10	22
TOTAL FOR NEIGHBOR- HOOD PLAN AREAS (75%)		178				160
OUTSIDE PLAN AREAS (25%)		60				54
GRAND TOTAL		238	122	34	68	214

Figure 12

Housing Assistance — Funding Summary

PROGRAM STRATEGY	NUMBER OF UNITS	UNIT COST (\$000)	REVOLVING LOAN FUND (\$000)	MORTGAGE POOL (\$000)	EQUITY FUND (\$000)
Rehab. for Existing Owner Occupants	238	15		3,570	
First-time Homebuyers	122	46		5,612	
Infill Construction	34	53		1,802	
Investor-owner Rehab.	68	20	1,360		
Acquisition and Rehab.	214	17	3,638		
with Equity Fund		14			2,996
TOTAL	676		4,998	10,984	2,996

Figure 13

Housing Assistance — Funding by Source

PRIVATE	REVOLVING LOAN FUND (\$000)	MORTGAGE POOL (\$000)	EQUITY FUND (\$000)
Corporations	3,000		3,000
Banks		9,000	
Public			
County Bonds	1,000	1,000	
City Funds	1,000	1,000	
TOTAL	5,000	11,000	3,000

5. Program Implementation

This report sets forth a series of recommendations defining a new direction for the City's housing improvement and neighborhood development initiatives. They represent the professional judgments of the consultant team, and they are based on the information collection and discussions that have taken place over the past seven months. It is our intent that this report be a starting point for a process that will take place over the coming months, building on the efforts of the past few years as first defined in the Housing Element of the Year 2000 Plan.

We have commented on a sense that the time is right for new initiatives. This section on program implementation concentrates on a work program for the next year. What happens during that period will determine whether in fact this is the time for change, for renewed leadership and a true "new direction". We believe that the ideas in this report are consistent with much of what we have heard and discussed, but the recommendations can at best be a guideline to the more specific actions that must be taken to bring about change and a genuine renewal of confidence in the City's neighborhoods.

NEIGHBORHOOD REVITALIZATION STRATEGY

First Year Implementation Program

The first program year begins with the issuance of this Report. By the end of 1990, the annual cycle for the neighborhood planning process should be integrated with the City's regular fiscal year calendar, and work should have begun on the first set of neighborhood plans and projects. Some of the steps to accomplish this integration are touched on in the work program set forth below.

"Transition" refers to the period from the release of this report to the end of 1989. The four quarters identified are for the year 1990.

Neighborhood Revitalization Planning

1 REALIGNMENT OF CITY FUNCTIONS

Transition

- City Manager and/or Council, as appropriate, assign responsibility for coordination of actions to establish new neighborhood planning program, review report recommendations, and initiate work to assure coordination with other key public sector planning functions - capital budget, school board.

First Quarter

- Define jobs in new structure, confer with existing staff to determine interest in new roles, present recommendations to City Council for action.

2 ADVISORY BOARD

Transition

- Review membership of existing advisory/coordinating boards - Housing Coordinating Board, Central Advisory Board, etc., propose Advisory Board membership for Council approval, receive from interim or permanent director recommended policies for Board Operation.
- Convene first meeting of Advisory Board, to review procedures for initiating annual neighborhood planning process.

First Quarter

- Convene meeting of Advisory Board to review potential plan neighborhoods.

NEIGHBORHOOD REVITALIZATION STRATEGY

Note: Implementation of preliminary action plans included in this report is discussed separately.

3 PREPARE INITIAL PRIORITIES FOR NEIGHBORHOOD PLANNING AREAS

Transition

- Review criteria for selecting neighborhoods set forth in report, revise as basis for initial round of selections.
- Announce invitation to all neighborhoods to submit statement of needs for their area.
- Define annual planning cycle, to assure that decisions to approve plans are coordinated properly with other funding decision cycles - city budget, capital budget, CDBG, County, etc.

First Quarter

- Review available data base (see information system below) to suggest initial priorities based on need

Second Quarter

- Receive neighborhood statements of need
- Review status of the four report illustrations as part of initial assessment of needs and priorities
- Prepare initial recommendations for priority neighborhoods, reflecting assessment of neighborhood statements and internal information collection

Third Quarter

- Review recommendations with Advisory Board
- Present to City Council for approval

4 INFORMATION SYSTEM

Transition

- Designate primary responsibility for coordination of data collection, refine format based on readily available information, identify need for other data and make plan for getting it, determine where system will be housed, set up format for neighborhood listening, based on report recommendations, set up program and initiate efforts to involve neighborhoods in the process.

NEIGHBORHOOD REVITALIZATION STRATEGY

First Quarter

- Establish retrieval system for external information sources - Real Estate board, school board, assessor's department

5 REPROGRAMMING OF BLOCK GRANT

Transition

- Review recommendations for allocation of funds - how much to be set aside for neighborhood plans and related project, how much for other projects that come before the NFC
- Define process by which neighborhoods and Advisory Board interact for purpose of reviewing proposals

Housing Assistance Programs

1 ESTABLISH THE NEIGHBORHOOD FINANCE CORPORATION

Transition

- City and County appoint blue ribbon committee to oversee organization of NFC. Committee designates interim staff director.
- Subcommittees organized to draft job description for executive director and begin recruitment, and work on bylaws for NFC.

First Quarter

- Blue ribbon committee presents recommendations for public review and City/county approval.
- Board begins to meet. Executive director arrives.
- Board organizes to define staff needs and budget with Executive Director, and to work on details for proposed programs - Revolving Loan Fund, separate Development Fund if determined to be appropriate, Equity Fund. Loan Guarantee fund on hold until need verified. Begin process of fund raising.

Second Quarter

- Participating organizations announce first commitment of funds.
- Initial announcement of process of submitting applications for project financing.

NEIGHBORHOOD REVITALIZATION STRATEGY

- Initial announcement of opening of mortgage pool application process.

Third Quarter

- Board announces first project commitments
- Board announces first mortgage lending commitment

Fourth Quarter

- Board submits first annual report and commitments for coming year, and reissues procedures for solicitation process.
- Board reviews need for new Nonprofit Housing Development Corporation.

2

COORDINATE NEW PROGRAMS WITH EXISTING BANK PROGRAMS

Transition

- Inventory existing bank programs and assess progress.

First Quarter

- Determine with banks how they want to participate- fold activity into the revolving loan program, continue their own, or a combination of both strategies.

NEIGHBORHOOD REVITALIZATION STRATEGY

Information System Design

The need for a comprehensive housing information system was identified in the Des Moines 2000 Housing Plan. Accurate and current information is needed initially to assess conditions as a basis for setting priorities for program decisions, and then to monitor changes and assess the impact of program actions. We have emphasized that the process of neighborhood change is dynamic, and the availability of information that can document how change is occurring is of fundamental importance.

The basic approach utilizes two general types of data - "hard" and "soft". Both are essential to an effective picture of how neighborhoods are changing. The hard data come from variety of sources, and provides quantitative information on what is happening. The soft data, described in this report as "neighborhood listening", comes from the perceptions of people who are observers of neighborhood activity. These perceptions often can provide the basis for interpreting the meaning of the quantitative data for a particular neighborhood.

The detailed design of an information system is beyond the scope of this report, but it is possible to suggest some priorities for that system, based on what we have discovered during our work. These recommendations are summarized below, for both types of information.

Key Indicators of Change

The range of information that can be collected is included in the discussion of the illustrative plans prepared for this report. Two key concerns for the hard data are its availability and its currency. The U.S. Census is the most comprehensive source of useful information, but without local means of keeping it current, its utility is eroded as the data becomes more dated at the end of a decade. For this reason, we have emphasized the importance of using local sources that can provide at least some important information on a more current basis. The following list suggests the types of information most useful to monitoring changes in the housing stock and in neighborhood conditions. The primary indicators represent a basic set of data most useful in monitoring changes in housing stock and neighborhood conditions. The secondary indicators represents local sources of information that can provide useful additional data.

NEIGHBORHOOD REVITALIZATION STRATEGY

Key to Sources

Assessor - City Assessors' Department
GDMREB - Greater Des Moines Real Estate Board
Census - U.S. Census
Survey - Plan Department Survey

STOCK RELATED

Primary Indicators

Sales Prices and Sales Activity. Number and average length of listing
Source: Assessor, GDMREB

Structure Condition
Source: Survey. Process is labor intensive and inherently subjective, but
Census data is only indirectly applicable

Ownership. Duration and type of owner (occupant vs. absentee)
Source: Assessor

Secondary Indicators

Building Permit Data
Housing Inspection Report
Mortgage Activity (from Community Reinvestment Act reporting)
Status of Abandoned Property

POPULATION RELATED

Primary Indicators

Income
Age Composition
Turnover
Household Composition
Employment

Source: The basic source of information is the U.S. Census, with the accompanying need to derive local sources for periodic updating. The Department of Housing and Urban Development does provide updates on income for purposes of regulating its assisted programs. There may be useful local sources for some pieces of data. For example, rapid turnover in some elementary schools is a clear indicator of instability in the housing market. If the School Department were able to monitor pupil movement through the school system, it would provide a useful indicator of turnover and population movement throughout the city, particularly for a segment of the population most in need of affordable housing.

NEIGHBORHOOD REVITALIZATION STRATEGY

Information from agencies providing social services may be useful in updating this type of information. Supplemental surveys may be useful as part of the planning process for particular neighborhoods, but in general they are too labor intensive to be feasible on a broader basis.

Secondary Indicators

The same sources cited above may also have supplemental information. At some point, however, the neighborhood listening process described below will be an equally useful source of information about demographic changes in a neighborhood.

OTHER SOURCES OF INFORMATION

Information about other activities may also be useful in monitoring program activity in plan neighborhoods. This would include such elements as information on capital investments in street and sidewalk improvements, disposition of Beautification Ordinance complaints, and the disposition of zoning actions. In general, this type of information will be most useful in monitoring activity in particular plan neighborhoods.

Neighborhood Listening

The preparation of this report has involved conversations with a broad cross-section of the Des Moines population. In preparing the illustrative plans presented elsewhere there was some initial contact with people familiar with the areas being studied. This represents the start of what must be a continuous process in any neighborhood in which a detailed planning program is being implemented

The listening process should be a joint undertaking involving the city neighborhood planning staff and the organization that exists or needs to be created within the neighborhood to represent its interests and concerns.

The process involves identifying a cross-section of people with knowledge about what is happening in the neighborhood - property owners (both long-term and recently arrived), tenants, neighborhood merchants, lenders, realtors, developers, neighborhood leaders, city and nonprofit agency officials and staff, the media, civic leaders and others. The perceptions from these sources can be gathered using a very simple form to assure some consistency in assembling the information. The questions should identify perceptions of how the neighborhood has changed and will changed and why, the key problems that currently affect the neighborhood, and the actions that would be most effective in changing attitudes and rebuilding a sense of confidence in the future of the neighborhood.

NEIGHBORHOOD REVITALIZATION STRATEGY

The process is more concerned with identifying patterns than with collecting statistics. The consistent mention of a particular problem during the listening process is a better clue to the real problems in a neighborhood than an extensive effort to interpret the meaning of more general statistics. The numbers can provide a picture of the broad changes occurring; the listening feedback can help to explain why.

Another component of the listening process relates to the ability to know what is happening throughout the neighborhood on a regular basis. For example, Census information may indicate the presence of elderly households, and a pattern of increasing abandonment may be revealed by County records. Regular contacts by an active neighborhood organization can produce specific information about the elderly households who are faced with mounting housing costs and a concern about what to do next. This information can lead to program assistance that can both meet the needs of those elderly households and keep the house out of the cycle that eventually leads to an abandoned property.

It will be the responsibility of the city's neighborhood planning staff to integrate this soft data with its ongoing collection of hard statistical data to provide a picture of the neighborhood and how it changes as program initiatives are implemented.

6. Illustrative Action Plans

Purpose This report proposes an approach to neighborhood revitalization in Des Moines. It is based on principles we developed through work in other locations, and consists of a new set of housing assistance tools, and related support programs that can provide for a comprehensive treatment of neighborhood conditions. This section of the report demonstrates the use of these new tools by illustrating their application in four specific areas of the city. The purpose is provide a potential departure point for initial implementation activities, and to show how the housing assistance programs can be used as a part of an overall neighborhood revitalization strategy.

As the process moves forward, neighborhood plans will be proposed based on a working partnership between the city neighborhood planning staff and the neighborhoods themselves. We believe that the neighborhoods themselves are a critical source of information. Statistics can provide one kind of picture about what is going on, but the key problems in a neighborhood can best be identified by the people who live and work there. By identifying those problems and targeting resources to them, a plan can achieve the purpose of using limited public resources strategically to encourage additional market activity and positive decisions that can lead to the confidence about the future that is necessary to the long-term stability of a neighborhood.

For the purposes of this report, the consultants proposed a set of neighborhoods and projects areas, based on data collected by the city, and our judgment about how best to illustrate approaches to the types of neighborhood conditions we have found in Des Moines.

The plans clearly represent initial ideas, and thus are comparable to preliminary plans as they are discussed in this report. We believe that they can provide a solid starting point leading to action plans in each of the areas. The basic implementation steps are presented in this section, along with program approaches for each area that are as specific as they can be at this preliminary stage. A very important component of that implementation process must be the involvement of the residents and other groups with an active interest in the future of each neighborhood.

NEIGHBORHOOD REVITALIZATION STRATEGY

The overall program we have proposed provides for the start of activity in as many as six neighborhoods during the first year. The four illustrated plans clearly could be a part of that program, and the process should provide opportunity for the participation of other neighborhoods as well. The overall housing assistance program is summarized in Figures 11, 12, and 13. The remainder of this section focuses on the four illustrative areas.

Selection

The four areas were selected to demonstrate how the program concepts could be applied, by using a limited number of neighborhoods representative of the different types to be found in the city. The criteria for selection included such factors as characteristics of the housing stock and land use patterns; the record of past program activity in the area and the potential for successfully demonstrating new program ideas, and a general sense of the way the neighborhood is changing, relative to the city as a whole.

The four areas selected, based on the recommendations of the consultant team are:

- **Beaverdale** (Bounded by Douglas, 30th Street, Franklin and 47th Street). A *stable* neighborhood, with the immediate potential to compete with the suburbs to attract households with greater choice.
- **Columbus Park** (Bounded by the rivers, SE 9th Street and Indianola/Hartford Streets). A *stable/transitional* neighborhood, with a housing stock characteristic of many parts of the city, relatively low population turnover and some experience with prior neighborhood improvement activities. A key issue is the stability of a housing stock with many older owners, faced with an uncertain market for resale.
- **Capital East** (Bounded by Interstate 235, railroad tracks to the east and south, and 14th street). A *transitional* neighborhood, with a mixed housing stock, containing some recent construction nearer the Capitol, but primarily older and reflecting significant problems. Strongly affected by nonresidential land uses and by through traffic.
- **6th and University** (Bounded by 6th Street, University, 9th Street and Forest). A *project area* within a *distressed* neighborhood, reflecting a high degree of absentee-ownership, a housing stock in bad condition, and land

NEIGHBORHOOD REVITALIZATION STRATEGY

use conflicts between the residential parcels and abutting commercial activity. This area was selected to demonstrate the approach of working incrementally at the edges of more severely troubled areas.

Information Base

The planning process for neighborhood revitalization depends on both "hard" statistical data, and the "soft" data that comes from the neighborhood listening process. The city planning staff has collected a significant amount of data on the four areas, which provided information on existing neighborhood conditions, frequently on a parcel-by-parcel basis. As discussed elsewhere in this report, the availability of this type of information on a regular basis is critical to the process of determining where limited resources are most needed, and to understanding the patterns of change within neighborhoods. Included is information on:

- Zoning and Land Use
- Exterior Building Condition
- Property Ownership
- Property Tax Abatements
- Property Tax Delinquency
- Street, Curb and Sidewalk Condition
- Building Permit Activity
- Subsidized Housing
- Rental Housing
- Recent Property Sales
- Vacant or Abandoned Structures
- Average Assessed Value (by block)

As suggested above, our recommended approach to neighborhood revitalization depends heavily on the active involvement of neighborhood residents, investors, business owners and others with knowledge about what is happening in the neighborhood. Although the work program limited the extent of this activity, the issues surfaced through these discussions are reflected in the following plans. It is important that this base be expanded as an integral part of the ongoing neighborhood planning process. The information obtained certainly provides an initial sense of neighborhood concerns, and some sense of the kinds of problems common to several areas, and those that are more focussed on particular neighborhoods. The more information collected, the more precise can be the program strategy. For example, in several

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neighborhoods the problem of poorly maintained vacant property was mentioned. More detailed discussions in a given neighborhood might identify a specific parcel which, if cleaned up and put to use, could serve as an incentive to abutting property owners to do something about their property.

Figures 15 and 16 present data related to income and housing costs, showing that owning "affordable housing" is at least theoretically within the reach of many households. Achieving this is of course challenging, and the housing assistance programs are designed to create additional ownership opportunities.

Figures 17 and 18 document two basic facts based on 1980 Census data:

- Over 50% of households consisted of one or two people.
- Single and two-family structures contained over almost 75% of all housing units.

The proposed housing assistance approaches are directly related to that information, with approaches directed to the single and two-family, and others to the remaining "multi-family" stock.

Housing Assistance and Neighborhood Revitalization

The overall approach to the provision of Housing Assistance involves a basic set of problems that are flexible enough to be tailored to the particular conditions within each neighborhood. The application of programs should be geared to the nature of the ownership and the willingness of present property owners to participate, the income status of owners or renters, the condition of the structure and/or its identification as a "problem" property by neighborhood residents, and the conditions of surrounding properties.

The approach recognizes the realities of funding limitations, and therefore concentrates on identified "problem" properties, on the assumption that other property owners will be motivated to make improvements to their properties once the key issues deterring neighborhood confidence have been dealt with.

For the purposes of our work, we have defined as problem properties all structures classified as either condition 3 or 4 (those requiring the most extensive work to correct major defects) in the city's recent housing survey, plus those for which the city received complaints. With additional neighborhood

Figure 14

Ownership Affordability

House Value	Income Required for Purchase
10,000	5,040
20,000	10,050
30,000	14,080
40,000	18,760

Median Family Income 1989 (family of four): \$35,400

Assumptions: 90% mortgage, 9.5%, 30 years

Taxes and insurance at 6% of value

Housing cost at 30% of income

Source: U.S. Census

Figure 15

Current Family Income

Household Size	Median Income	Moderate Income (80%)	Low Income (50%)
1	24,800	19,800	12,400
2	28,300	22,650	14,150
3	31,900	25,450	15,950
4	35,400	28,300	17,700
5	38,200	30,050	19,100
6	41,100	31,850	20,550
7	43,900	33,650	21,950
8	46,700	35,400	23,350

Median Family Income (family of four): 1979 = \$20,665; 1989 = \$35,400

Source: U.S. Census

Figure 16

Affordable Housing Cost (30% of Income)			
Household	Affordable Rent		Section 8 Fair Market Rents
	Low	Mod	
1	310	495	314
2	354	556	382
3	399	635	450
4	442	708	
5	478	751	565
6	514	796	
7	549	841	632
8	584	885	

Source: 1980 Census, Current HUD Data

Figure 17

Household Size 1979		
Persons	Number	Percent
1	21,884	29.0
2	24,654	32.7
3	12,023	15.9
4	9,675	12.8
5	4,644	6.2
6+	2,536	3.4
75,416		

Source: U.S. Census

Figure 18**Housing Units By Structure Type 1979**

Structure Type	# Units		%
1 Detached	52,781	52,781	
1 Attached	1,255	1,255	
2	4,796	4,796	
3 & 4	3,536	3,536	73.6
5 +	16,150	16,150	
Other Mobile Home Trailer	1,384	1,384	24.6
	79,902		

NEIGHBORHOOD REVITALIZATION STRATEGY

those for which the city received complaints. With additional neighborhood feedback, the definition of problem structures could be sharpened to identify the ones whose improvement would provide the greatest incentive to others to act on their own.

The list below identifies thirteen basic strategies for the provision of assistance for neighborhood revitalization. The first four are concerned directly with housing finance assistance, and the following nine reflect other types of program support needed to complement the investments in housing improvement. Because of the emphasis placed in this report on a new approach to housing assistance, we have developed the first four in somewhat greater detail. The actual mix of strategies appropriate for any given neighborhood will be different, as will the specific activities used to implement the strategies. At the level of detail reflected in the four illustrative plans, some strategies are common to all four areas. This point is shown in the overall description of implementation, and we have defined more specific ideas for an individual neighborhood or project whenever such information was uncovered in our preliminary reconnaissance.

For the first four approaches, a set of examples is included (following the list of twelve basic approaches) to illustrate how the proposed housing finance assistance programs could be used to support a specific approach. These of course are illustrative of but a few of the ways in which the funds could be applied; the Neighborhood Finance Corporation would define its operating procedures for the use of available funds once it has been organized.

Approach

The proposed housing assistance programs separate single and two-family structures from the balance of the housing stock. This is appropriate, since almost 75% of the city's housing units are in such structures. Therefore, the multi-family category includes all structures with three or more units.

NEIGHBORHOOD REVITALIZATION STRATEGY

Housing Assistance Programs

1

SUPPORT EXISTING OWNER-OCCUPANTS OF SINGLE AND TWO-FAMILY STRUCTURES WITH REHABILITATION ASSISTANCE, PARTICULARLY IN AREAS WITH AN INCREASINGLY HIGH INCIDENCE OF INVESTOR/ABSENTEE OWNERSHIP. IN LIMITED SITUATIONS, WHERE OWNERS MAY CONSIDER THE SALE OF SUCH "PROBLEM" PROPERTIES, SUPPORT THE TRANSFER TO FIRST-TIME HOMEBUYERS.

- Focus on problem properties, as defined by condition and housing complaints.
- If rehab is economically unfeasible, work to identify opportunities for owner to purchase elsewhere in the area. Properties should be acquired for demolition and possible reuse.
- Funding assistance to be based on income of applicant with affordable terms.
- Support retention of affordable rental units in two-family structures.

2

SUPPORT THE TRANSFER OF "PROBLEM" SINGLE AND TWO-FAMILY STRUCTURES FROM ABSENTEE OWNERSHIP TO FIRST-TIME HOMEBUYERS. IN LIMITED SITUATIONS, PROVIDE REHABILITATION ASSISTANCE TO SUPPORTIVE INVESTOR-OWNERS OF SINGLE AND TWO-FAMILY STRUCTURES.

- Focus on problem properties, as defined by condition and housing complaints.
- "Problem" properties include absentee-owners not interested in improving property.
- Facilitate retention of affordable rental units.
- Accelerate the taking process or demolish where rehab is not feasible.
- Intervene early to abort pattern of abandonment and foreclosure.

NEIGHBORHOOD REVITALIZATION STRATEGY

3

SUPPORT IMPROVEMENT OF RENTAL HOUSING STOCK (BUILDINGS WITH MORE THAN 2 UNITS) BY ASSISTING NON-PROFIT CORPORATIONS WITH THE ACQUISITION AND REHABILITATION OF "PROBLEM" PROPERTIES. IN LIMITED SITUATIONS, PROVIDE REHABILITATION ASSISTANCE TO SUPPORTIVE INVESTOR-OWNERS OF SUCH PROPERTIES.

- Focus on problem properties, as defined by condition and housing complaints.
- Facilitate the transfer of properties from unresponsive absentee-owners to owners with ties to neighborhood.
- Accelerate the taking process or demolish where rehab is not feasible.
- Provide restrictions to assure continued availability of affordable rental units.
- Intervene early to abort pattern of abandonment and foreclosure.

4

SUPPORT REUSE OF VACANT PARCELS AND DEVELOPMENT OF AFFORDABLE NEW UNITS WHERE FEASIBLE.

- Assemble sites for infill where appropriate and feasible with new units for owner-occupancy to build neighborhood confidence. Priority sites include presently vacant lots and those parcels with deteriorated structures where rehabilitation is not feasible.
- Ownership of (infill) multi-family structures should rest with investor owner or organizations with ties to the neighborhood.

NEIGHBORHOOD REVITALIZATION STRATEGY

Other Support Programs

5 _____

CONSIDER THE REUSE OF VACANT PARCELS FOR OPEN SPACE PURPOSES IN THE ABSENCE OF DEVELOPMENT INTEREST FOR INFILL HOUSING.

- As alternative to housing, especially for isolated vacant parcels, transfer ownership, first to abutters where there is sufficient interest in order to control maintenance and use; assemble for other use, such as open space, in absence of abutter interest. Responsibility for maintenance should be identified as part of the transfer process.

6 _____

PROVIDE ASSISTANCE TO EXISTING OWNERS IN ROUTINE PROPERTY MAINTENANCE, INCLUDING MEASURES TO INCREASE ENERGY EFFICIENCY, WITH SPECIAL CONSIDERATION GIVEN TO ELDERLY AND FEMALE-HEADED HOUSEHOLDS.

7 _____

PROVIDE COUNSELING ASSISTANCE TO NEIGHBORHOOD OWNERS AND RENTERS ON LANDLORD/TENANT ISSUES.

8 _____

PROVIDE NEEDED CAPITAL IMPROVEMENTS TO STREETS AND SIDEWALKS, AS WELL AS OTHER INFRASTRUCTURE COMPONENTS THAT MAY BE CRITICAL ELEMENTS AS IDENTIFIED IN THE NEIGHBORHOOD PLANNING PROCESS.

9 _____

CONTINUE TO PROVIDE NECESSARY CITY SERVICES AND REGULATORY TOOLS IN SUPPORT OF NEIGHBORHOOD PLANNING EFFORTS.

10 _____

SUPPORT THE RETENTION OF LOCAL BUSINESSES, AND NEW COMMERCIAL DEVELOPMENT, INCLUDING FINANCIAL ASSISTANCE, WHEN CONSISTENT WITH NEIGHBORHOOD BUSINESS DISTRICT PLANNING.

11 _____

DEVELOP A CRIME PREVENTION PROGRAM TO DEAL SPECIFICALLY WITH INDIVIDUAL NEIGHBORHOOD PROBLEMS SUCH AS DRUGS AND PROSTITUTION.

12 _____

ESTABLISH ONGOING PARTNERSHIP WITH NEIGHBORHOODS, BASED ON CONTINUING DISCUSSIONS, DEVELOP PROGRAMS TO RESPOND TO OTHER NEIGHBORHOOD REVITALIZATION ISSUES, INCLUDING MARKETING AND SPECIAL EVENTS. SUCH PROGRAMS SHOULD BE DESIGNED TO PROMOTE THE POSITIVE ASPECTS OF INDIVIDUAL NEIGHBORHOODS.

NEIGHBORHOOD REVITALIZATION STRATEGY

Examples of Housing Financing Assistance

This section contains six examples which are illustrative of the types of housing finance assistance available through the Neighborhood Finance Corporation. They are included to show how the programs could be used. In actuality, virtually each project or individual application could present a unique circumstance, and these examples simply show a few of the many possibilities.

EXAMPLE A

Rehab of "Problem" single-family structure by existing homeowner.

Program

Mortgage Pool

Costs

Rehabilitation \$15,000

Assistance to Homeowner

Loan from Mortgage Pool \$15,000 or \$100/mo.
(@ 7% - 30 years)

Mortgage Pool \$100
TOTAL \$100 = \$ 3,996 household income
(@ 30% of gross income)

Monthly Payment

It may be possible for individual homeowners to refinance existing debt on their home mortgage - depending on household income and ability to repay the loan, with a \$30,000 limit on Mortgage Pool funds including rehabilitation and refinancing.

EXAMPLE B

Acquisition and rehab of "Problem" single-family structure by first-time homebuyer.

Program

Mortgage Pool and City/County Bonds

Costs

Acquisition \$20,000
Rehabilitation 20,000
Carrying Costs/Fees 6,000
TOTAL \$46,000

NEIGHBORHOOD REVITALIZATION STRATEGY

<i>Acquisition by First-time Homebuyer</i>	3% downpayment from buyer	\$ 1,380
	17% from County/City Bonds	\$ 7,820 or \$ 90/mo.
	(@ 7% - deferred until resale or 10 year term depending on buyer's income)	
	80% loan from Mortgage Pool	\$36,800 or \$ 215/mo.
	(@ 7% - 30 years)	
<i>Monthly Payment</i>	Mortgage Pool	\$215
	County/City Bonds	90
	Taxes/Insurance	105
	TOTAL	\$410 = \$16,400 household income
	(@ 30% of gross income)	

EXAMPLE C Construction of new single-family structure on county "tax-title" land by a neighborhood-based housing corporation for sale to low-income owner-occupant.

Program Mortgage Pool and City/County Bonds

<i>Costs</i>	Acquisition (land only)	\$ 0
	Construction (inc. carrying costs/fees)	53,000
	TOTAL	\$53,000

<i>Acquisition by Homebuyer</i>	3% downpayment from buyer	\$ 1,590
	17% from County/City Bonds	\$ 9,010 or \$ 104/mo.
	(@ 7% - deferred until resale or 10 year term depending on buyer's income)	
	80% loan from Mortgage Pool	\$42,400 or \$ 282/mo.
	(@ 7% - 30 years)	

<i>Monthly Payment</i>	Mortgage Pool	\$282
	County/City Bonds	104
	Taxes/Insurance	115
	TOTAL	\$501 = \$20,040 household income
	(@ 30% of gross income)	

NEIGHBORHOOD REVITALIZATION STRATEGY

EXAMPLE D Rehab of "Problem" two-family structure by existing investor-owner.

<i>Program</i>	Mortgage Pool	
<i>Costs (per 2 units)</i>	Rehabilitation	\$40,000
<i>Assistance to Investor-owner</i>	Loan from Mortgage Pool (@ 7% - 30 years)	\$40,000 or \$266/mo.
<i>Monthly Payment</i>	Mortgage Pool	\$266
	TOTAL	\$266

Note: Rehabilitation of investor-owned properties may require additional assistance to provide affordable rents.

EXAMPLE E Acquisition, rehab and rental of "Problem" single-family property by the NFC or other neighborhood-based housing corporation to low-income rental household. Income of target households = 60% of median income or \$15,000/year.

<i>Program</i>	Mortgage Pool plus City or County subsidy	
<i>Costs (per unit)</i>	Acquisition	\$20,000
	Rehabilitation	20,000
	Carrying Costs/Fees	6,000
	TOTAL	\$46,000
	Rental Income (per unit)= (@ 30% of target household income)	\$4,500/year or \$375/mo.
<i>Operating Expenses (per unit)</i>	Management Fee (@ 5% of rent)	\$225
	Administration	200
	Taxes (@ 10% of rent)	450
	Insurance (@ .7% of value)	325

NEIGHBORHOOD REVITALIZATION STRATEGY

	Maintenance	500
	Utilities	800
	Replacement Reserve	225
	TOTAL	\$2,725
<i>Operating Expenses (per unit)</i>	Net Operating Income =	\$1,775
	Available for Debt Service = (debt service coverage ratio @ 1.05)	\$1,690
<i>Acquisition by NDC or Housing Corporation</i>	Maximum mortgage from Revolving Loan Pool (@ 8.25% - 30 years)	\$18,750
	Equity required from Housing Equity Fund	\$27,250
<i>Equity from Limited Partners in Housing Equity Fund</i>	4% credit on acquisition (less land @ 10% of acquisition) = $\$18,000 \times 4\%$	\$720/year
	9% credit on rehabilitation and capitalized soft costs of $\$26,000 \times 9\%$	\$2,340/year
	Depreciation deductions (\$38,000 basis on 27.5 year straight line schedule) produce tax savings at 28% corporate rate =	\$995/year
	Total credits and depreciation =	\$4055/year
	Limited partners typically make capital investment of 15% less than value of tax benefits, to produce 15% current rate of return during pay-in period, over 6-8 years =	\$3,447/year
	Project must borrow against annual payments by limited partners to use equity as part of development budget. Present value of total equity investment, discounted at 8.5% (using "bridgeloan" from NFC) =	\$19,600
<i>Other Grant Funds</i>	Remaining "gap" in development budget must be financed from CDBG or other grant/deferred payment loans	\$7,650

NEIGHBORHOOD REVITALIZATION STRATEGY

EXAMPLE F Acquisition and rehab of existing absentee-owned multi-family property by the NDC or other neighborhood-based housing corporation for occupancy and rental by low-income households. Income of target households = 60% of median income or \$15,000/year.

Program Revolving Loan Fund and Equity Fund

<i>Costs (per 4 units)</i>	Acquisition	\$ 50,000
	Rehabilitation	60,000
	Carrying Costs/Fees	15,000
	TOTAL	\$125,000

Rental Income (per 4 units) =	\$16,800/year gross income or \$350/mo./unit; \$16,310/year net income (including 3% vacancy allowance). (@ 30% of target household income - average of \$14,000/year)
-------------------------------	--

<i>Operating Expenses (per 4 units)</i>	Management Fee	\$ 840
	(@ 5% of rent)	
	Administration	675
	Taxes (@ 10% of rent)	1,680
	Insurance	875
	(@ .7% of value)	
	Maintenance	1,600
	Utilities	3,000
Replacement Reserve	900	
TOTAL	\$ 9,570 or \$2,392/unit	

Net Operating Income =	\$6,740
------------------------	---------

Available for Debt Service =	\$6,130
(debt service coverage ratio @ 1.10)	

<i>Acquisition by NDC or Housing Corporation</i>	Maximum mortgage from Revolving Loan Pool	\$68,000
	(@ 8.25% - 30 years)	
	Equity required from Housing Equity Fund	56,000

NEIGHBORHOOD REVITALIZATION STRATEGY

*Equity from Limited
Partners in Housing
Equity Fund*

4% credit on acquisition (less land
@ 10% of acquisition) = $\$45,000 \times 4\% =$ \$1,800/year

9% credit on rehabilitation and capitalized
soft costs of \$75,000 $\times 9\% =$ \$6,750/year

Depreciation deductions
(\$105,000 basis on 27.5 year straight line
schedule) produce tax savings at 28%
corporate rate = \$2,749/year

Total credits and depreciation = \$11,299/year

Limited partners typically make
capital investment of 15% less
than value of tax benefits, to produce 15%
current rate of return during pay-in period,
over 6-8 years = $\$9,825/\text{year} =$ \$78,600
total investment (8 years)

Project must borrow against annual
payments by limited partners to use equity
as part of development budget. Present
value of total equity investment, discounted
at 8.5% (using "bridgeloan" from NFC) = \$57,400

NEIGHBORHOOD REVITALIZATION STRATEGY

Implementation

Initiate neighborhood meeting(s) to discuss the preliminary Housing Assistance Approach and consider possible revisions as may be necessary.

Housing Assistance Programs

1

- Contact owners of problem single and two-family structures to determine if they may be willing to improve such properties with assistance through the Neighborhood Finance Corporation.

- Prepare cost estimates for rehabilitation of each structure where owner-occupants have expressed willingness to participate in the neighborhood revitalization effort. Determine economic feasibility of rehabilitation.

2

- Contact owners of problem single and two-family structures to determine if they may be willing to improve such properties with assistance through the Neighborhood Finance Corporation.

- Advertise for and pre-screen potential first-time homebuyers who may be interested in acquiring single and two-family structures where existing owners have not expressed interest in neighborhood revitalization efforts.

- Prepare cost estimates for rehabilitation of each structure where investor-owners have expressed willingness to participate in the neighborhood revitalization effort. Determine economic feasibility of rehabilitation.

3

- Contact owners of problem multi-family structures (more than 2 units) to determine if they may be willing to improve such properties with assistance through the Neighborhood Finance Corporation.

- Advertise for and work with area non-profits who may be interested in acquiring such multi-family structures where existing owners have not expressed interest in neighborhood revitalization efforts.

- Prepare cost estimates for rehabilitation of each structure where investor-owners have expressed willingness to participate in the neighborhood revitalization effort. Determine economic feasibility of rehabilitation.

NEIGHBORHOOD REVITALIZATION STRATEGY

4

- Inventory all vacant sites, including all parcels owned by persons or corporations with no ties to the neighborhood.
- Evaluate the development potential of all such sites and determine the market feasibility of new "infill" housing.
- Identify priority sites and solicit development interest from investor-owners or organizations with ties to the neighborhood.

Other Support Programs

5

- Inventory all vacant sites, including all parcels owned by persons or corporations with no ties to the neighborhood.
- Contact abutters of vacant isolated parcels to determine interest in possible acquisition for the purpose of controlling maintenance and use. Other possible open space uses may include neighborhood gardens or tot lots.

6

- Conduct door-to-door survey to determine the need for assistance with routine property maintenance, including measures to increase energy efficiency.
- Develop a priority list of all owner-occupants in need of financial assistance, with special consideration given to elderly and female-headed households.

7

- Develop the framework for a city-wide landlord/tenant counseling program with targeted assistance to owners and renters in the proposed neighborhood plan areas.
- Determine interest from social service providers in the implementation of such a program.

NEIGHBORHOOD REVITALIZATION STRATEGY

8

- Conduct survey of existing street and sidewalk conditions to determine if improvements are necessary. Identify other neighborhood infrastructure needs. Prepare list of all such improvements and show on map.
- Prepare cost estimates for all capital improvements to streets, sidewalks, and other necessary infrastructure components identified in the neighborhood planning process.

9

- Conduct neighborhood meeting to assess the effectiveness of the various city regulatory programs, including Code Inspection and Beautification Ordinance. Determine the need for additional enforcement efforts or regulatory changes.

10

- Meet with neighborhood business owners to discuss issues which support the retention of local businesses, including financial assistance, parking availability, and common marketing programs. Determine the need for physical improvements to the business district.

11

- Meet with police department representatives to review area crime data and discuss the need for special treatment of individual neighborhood problems.

12

- Conduct neighborhood meetings on a regular basis to continue discussions on issues related to neighborhood revitalization planning, and identify other areas of activity.

NEIGHBORHOOD REVITALIZATION STRATEGY

A preliminary budget for the four action plans has been prepared as follows:

The use of housing assistance programs, including estimated costs, is included in the description of each of the four preliminary action plans.

With respect to the other support programs, many services probably will be provided by a single entity, serving the neighborhood plan areas as a whole, or even operating on a citywide basis with specific priority for activities in these areas. The recommendations and estimates that follow reflect the needs identified during our limited reconnaissance. As preliminary plans are developed in greater detail, the support actions appropriate for each area will be defined and the most effective structure for delivering the services can be determined.

Some of these activities may involve the restructuring of programs now operated by CDBG funds. This could apply to both property maintenance services (Approach 6) and landlord/tenant counseling services (Approach 7). Some activities also will involve coordination with other public agencies or organizations to place a priority on the neighborhood plan areas. This coordination will be one of the principal responsibilities of the technical sub-committee.

NEIGHBORHOOD REVITALIZATION STRATEGY

Figure 19

Other Support Programs — Estimated Annual Cost

5. Vacant Property	Detailed Inventory Acquisition of available parcels	City Council Staff \$200,000
6. Property Maintenance Assistance	Contractual services	\$90,000
7. Landlord/Tenant Counseling Program	Contractual services	\$120,000
8. Capital Improvements	Estimates to be detailed in expanding preliminary plans	to be estimated based on more detailed services in support of neighborhood plans
9. Regulatory Programs	Regulatory services Land use studies Contractual services	City Staff \$200,000
10. Neighborhood Business Revitalization	Market studies Rehab assistance included in CDBG budget in eligible areas	\$80,000
11. Crime Prevention Security	Additional personnel, & specific programs, subject to detailing in expanded preliminary plans	to be estimated based on detailing of neighborhood plans
12. Special Activities	Ongoing neighborhood planning Other special activities	City Staff to be detailed

NEIGHBORHOOD REVITALIZATION STRATEGY

Beaverdale Preliminary Neighborhood Plan

Issues

- Older property owners want to remain in area but have difficulty maintaining property.
- Older property owners may be concerned about being able to sell house to facilitate move to smaller and less expensive housing.
- Perception of increasing absentee ownership.
- Property tax burden discourages in-city home purchase and contributes to housing cost for elderly.
- Infrastructure generally old and in need of repair/replacement. Possible need for additional sidewalks.
- Need for improvement of commercial area.
- Perception of increased crime and security problems.

Neighborhood Profile

Number of Tax Delinquent Properties	FY 87/88: 147
-------------------------------------	---------------

Number of Building Permits since 1980	361
New Construction	12

Number of Residential Properties Sold since 1986	751
--	-----

NEIGHBORHOOD REVITALIZATION STRATEGY

Building Condition

Condition of Structure	TOTAL
1	2,520
2	366
3	120
4	9
TOTAL	3,015 *

* Condition not recored for commercial structures.
Information based on windshield survey, Fall 1988.

Land Use

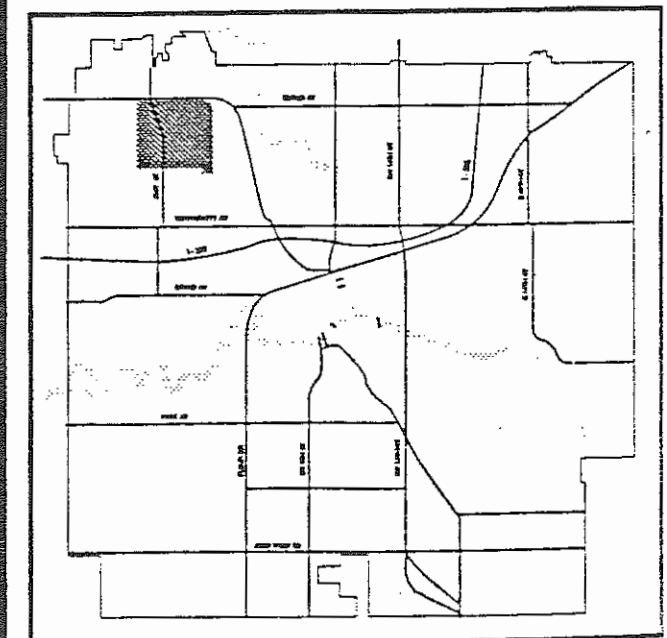
	TOTAL
Single Family	2,914
%	97
Two-Family	87
%	<3
Multi-Family	11
%	<1
Mixed-Use	3
%	<1
Commercial	
%	
Institutional	
%	
TOTAL	3,015
%	100

HOUSING IMPROVEMENT
AND NEIGHBORHOOD
REVITALIZATION PROGRAM

**BEAVERDALE
NEIGHBORHOOD PLAN**

Prepared By
Stockard & Engler, Inc.
Cambridge, Massachusetts

NOVEMBER, 1989

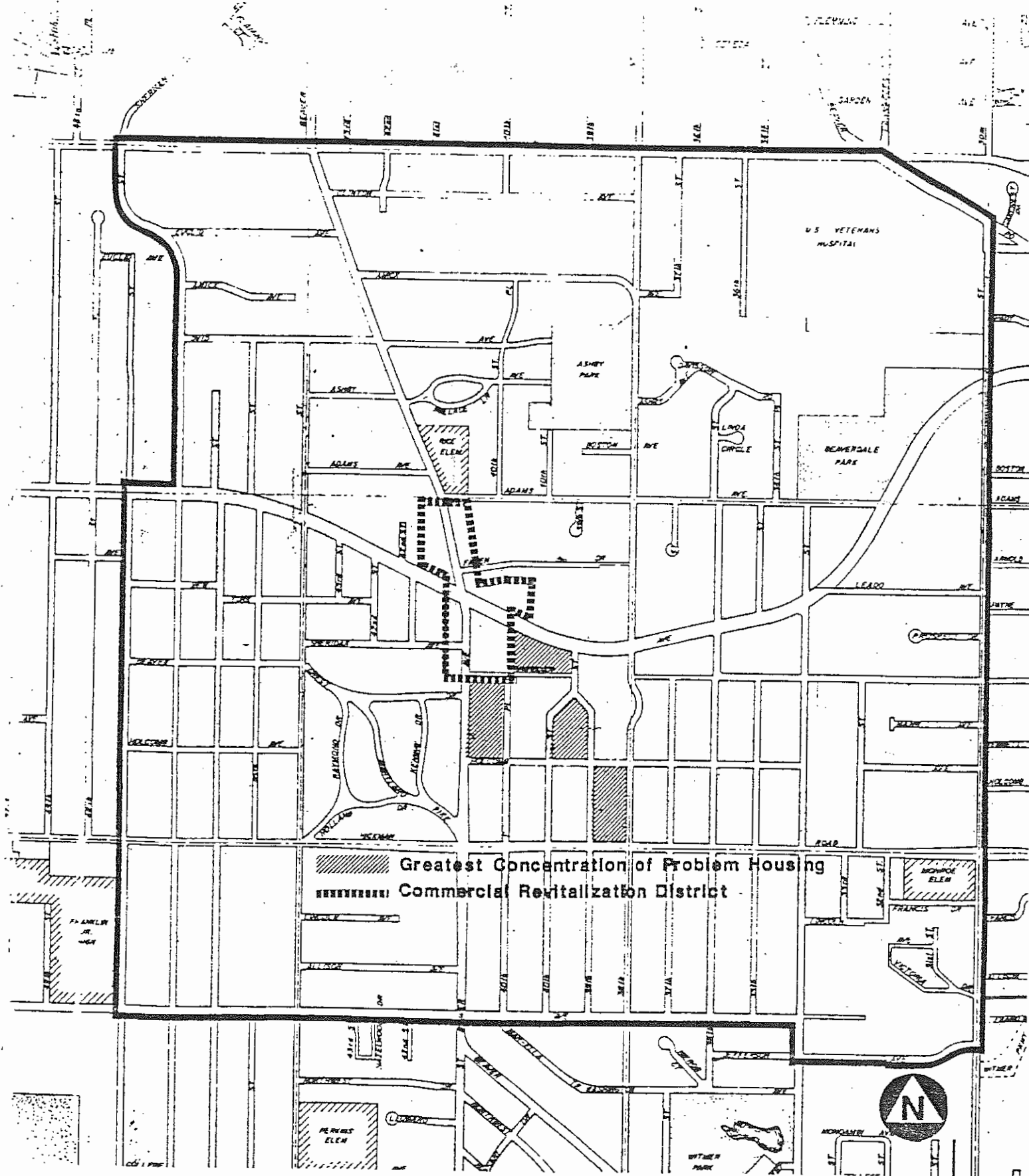


LEGEND

- NEIGHBORHOOD
- PROJECT AREA

Approach

- 1 REHABILITATION ASSISTANCE TO EXISTING OWNER-OCCUPANTS OF "PROBLEM" SINGLE AND TWO-FAMILY STRUCTURES.
- 2 TRANSFER "PROBLEM" SINGLE AND TWO-FAMILY STRUCTURES TO FIRST-TIME HOMEBUYERS. LIMITED REHABILITATION ASSISTANCE TO SUPPORTIVE INVESTOR-OWNERS OF SUCH STRUCTURES.
- 3 ACQUISITION AND REHABILITATION ASSISTANCE OF "PROBLEM" MULTI-FAMILY STRUCTURES (BUILDINGS WITH MORE THAN 2 UNITS) BY NON-PROFIT CORPORATIONS.
- 5 TRANSFER OF VACANT PARCELS TO ABUTTERS OR REUSE OF VACANT PARCELS BY THE CITY FOR OPEN SPACE PURPOSES.
- 6 ROUTINE PROPERTY MAINTENANCE ASSISTANCE TO EXISTING ELDERLY AND SPECIAL NEEDS HOUSEHOLDS.
- 7 COUNSELING ASSISTANCE TO NEIGHBORHOOD LANDLORDS AND TENANTS: PART OF CITY-WIDE PROGRAM, WITH PRIORITY FOR APPROVED NEIGHBORHOOD PLAN AREAS.
- 8 CAPITAL IMPROVEMENTS TO SIDEWALKS.
- 9 CITY SERVICES AND REGULATORY TOOLS IN SUPPORT OF NEIGHBORHOOD PLANNING.
- 10 CONTINUE PLANNING WITH LOCAL BUSINESSES. FINANCIAL ASSISTANCE FOR RENOVATION OF LOCAL BUSINESSES CONSISTENT WITH DISTRICT PLANNING.
- 11 CRIME PREVENTION TO DEAL WITH SPECIFIC NEIGHBORHOOD PROBLEMS.
- 12 MARKETING PROGRAM AS PART OF CITY-WIDE EFFORT. ORGANIZE NEIGHBORHOOD RESIDENTS.



NEIGHBORHOOD REVITALIZATION STRATEGY

Figure 20

Beaverdale Neighborhood Plan Housing Assistance-Budget Summary

Housing Assistance	Estimated Cost
1. Existing Owner-Occupants Single and Two-Family	35 units @ \$15,000/unit=\$ 525,000
2. Acquisition and Resale to First-Time Homebuyers Single and Two-Family Rehab by Investor-Owner	12 units @ \$46,000/unit=\$ 552,000 7 units @ \$20,000/unit=\$ 140,000
3. Acquisition and Rehab by Non-Profit	11 units @ \$31,000/unit=\$ 341,000
Total Housing Assistance	\$1,558,000

NEIGHBORHOOD REVITALIZATION STRATEGY

Columbus Park Preliminary Neighborhood Plan — Initial Project Area

Issues

- Elderly owners have difficulty with maintenance. Heirs have no interest in who buys, just in making the sale.
- No strategy for identifying and dealing with the isolated problem properties that discourage investment on the part of others nearby.
- General neighborhood appearance is a problem - area along river needs maintenance and improvement, much vacant land on main corners and vacant cars around, and Beautification Ordinance isn't well enforced.
- Streets and sidewalks in generally bad condition.
- Proposed McKinley School closing threatens ability of neighborhood to attract young families. (Closing apparently at least postponed, pending further examination of possibilities for upgrading and expansion of school).
- Need more attention to community organization for both planning and implementation. Programs not marketed and lack of technical assistance discourages some from participating in programs.
- Need to work on getting more residents involved in neighborhood issues.

Neighborhood Profile

Number of Parcels	147
Number of Vacant Parcels	20 (13.6%)
Number of Tax Delinquent Properties	FY 87/88: 11 (7.5%)
Owner-occupied	9
Investor-owned	2
Commercial	0
Vacant Parcels	1
Number of Building Permits since 1986	29
New Construction	3
Number of Residential Properties Sold since 1986	14
Single-family	11 (Median Sales Price - \$27,400)
Duplex or Multi-family	2
Not Identified	1

NEIGHBORHOOD REVITALIZATION STRATEGY

<i>Building Condition</i>	Condition of Structure	Owner Occupied	Investor Owned	Commercial Institutional	TOTAL
	1	27	5	2	34
	2	19	6	1	26
	3	44	9	1	54
	4	3	1	0	4
	TOTAL				118 *

* Condition not recored for 10 structures.
Information based on windshield survey, Fall 1988.

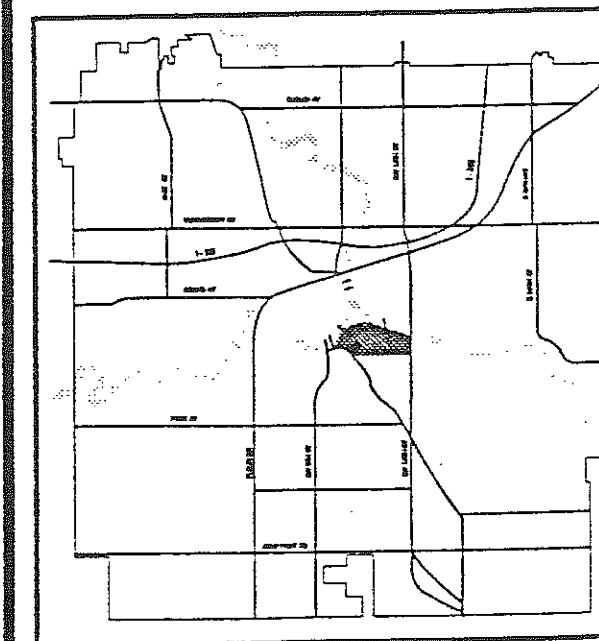
<i>Land Use</i>	Owner Occupied	Investor Owned	TOTAL
Single Family %	99	12	111 87
Two-Family %	0	8	8 6
Multi-Family %	1	1	2 2
Commercial %	5		5 4
Institutional %	2		2 2
TOTAL %	107 84	21 16	128 100

HOUSING IMPROVEMENT
AND NEIGHBORHOOD
REVITALIZATION PROGRAM

**COLUMBUS PARK
PROJECT AREA PLAN**

Prepared By
Stockard & Engler, Inc.
Cambridge, Massachusetts

NOVEMBER, 1989

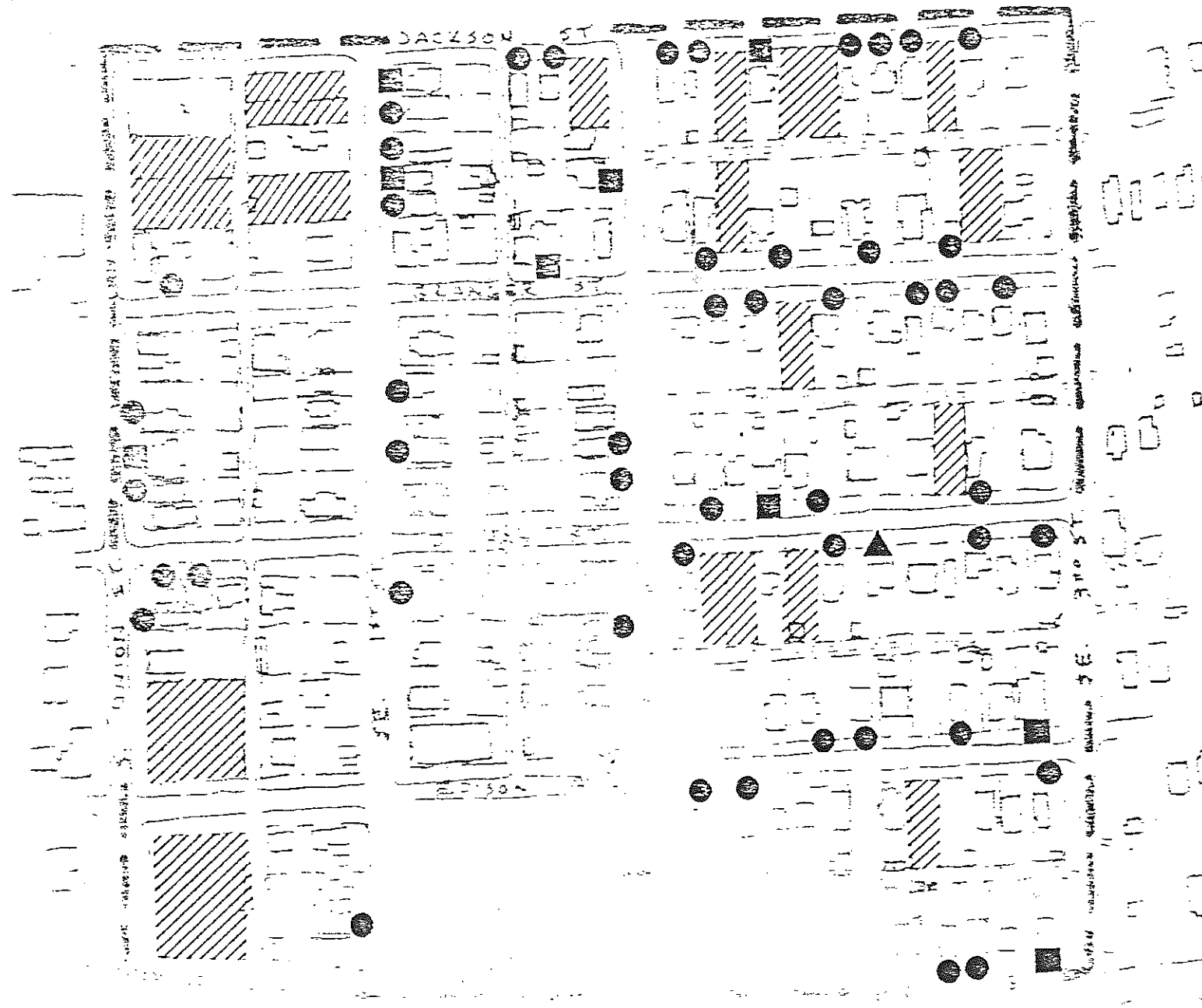


LEGEND

-  NEIGHBORHOOD
-  PROJECT AREA

Approach

- 1 REHABILITATION ASSISTANCE TO EXISTING OWNER-OCCUPANTS OF "PROBLEM" SINGLE AND TWO-FAMILY STRUCTURES.
- 2 TRANSFER "PROBLEM" SINGLE AND TWO-FAMILY STRUCTURES TO FIRST-TIME HOMEBUYERS. LIMITED REHABILITATION ASSISTANCE TO SUPPORTIVE INVESTOR-OWNERS OF SUCH STRUCTURES.
- ▲ 3 ACQUISITION AND REHABILITATION ASSISTANCE OF "PROBLEM" MULTI-FAMILY STRUCTURES (BUILDINGS WITH MORE THAN 2 UNITS) BY NON-PROFIT CORPORATIONS.
- /// 5 TRANSFER OF VACANT PARCELS TO ABUTTERS OR REUSE OF VACANT PARCELS BY THE CITY FOR OPEN SPACE PURPOSES. INVENTORY VACANT PARCELS AND DEVELOP PROGRAM.
- 6 ROUTINE PROPERTY MAINTENANCE ASSISTANCE TO EXISTING ELDERLY AND SPECIAL NEEDS HOUSEHOLDS. INCLUDING VACANT LOT MAINTENANCE.
- 7 COUNSELING ASSISTANCE TO NEIGHBORHOOD LANDLORDS AND TENANTS; PART OF CITY-WIDE PROGRAM. WITH PRIORITY FOR APPROVED NEIGHBORHOOD PLAN AREAS.
- 8 CAPITAL IMPROVEMENTS TO STREETS, SIDEWALKS AND OTHER INFRASTRUCTURE COMPONENTS.
- 9 CITY SERVICES AND REGULATORY TOOLS IN SUPPORT OF NEIGHBORHOOD PLANNING. PRIORITY AREA FOR BEAUTIFICATION ORDINANCE ENFORCEMENT.
- 11 CRIME PREVENTION TO DEAL WITH SPECIFIC NEIGHBORHOOD PROBLEMS.
- 12 MARKET LOW COST HOME PURCHASE OPPORTUNITIES WITH WALK-TO-WORK LOCATION; TARGET PROGRAM FOR FIRST-TIME HOMEBUYERS. ORGANIZE NEIGHBORHOOD RESIDENTS.



NEIGHBORHOOD REVITALIZATION STRATEGY

Figure 21

Columbus Park Project Area Neighborhood Plan Housing Assistance-Budget Summary

Housing Assistance	Estimated Cost
1. Existing Owner-Occupants Single and Two-Family	37 units @ \$15,000/unit=\$ 555,000
2. Acquisition and Resale to First-Time Homebuyers Single and Two-Family Rehab by Investor-Owner	22 units @ \$46,000/unit=\$1,012,000 3 units @ \$20,000/unit=\$ 60,000
3. Acquisition and Rehab by Non-Profit	4 units @ \$31,000/unit=\$ 124,000
Total Housing Assistance	\$1,751,000

NEIGHBORHOOD REVITALIZATION STRATEGY

Capital East Preliminary Neighborhood Plan — Initial Project Area

Issues

- Housing stock is old and rundown. Resident lack income to make repairs and are reluctant to invest because they lack confidence in future of area, seeing changes to expanded commercial or multi-family residential.
- General appearance is a problem - junk cars, lack of enforcement of Beautification Ordinance, County doesn't maintain vacant properties and is slow to demolish abandoned structures.
- Recreation and human service facilities are limited. Parks not well maintained.
- Crime and security problems increasing.
- Through traffic not restricted to specific streets, consequently is a factor throughout the neighborhood.
- Odor from byproducts plant - a fundamental environmental issue not directly controllable by actions of neighborhood residents.

Neighborhood Profile

Number of Parcels	166
Number of Vacant Parcels: 41 (24.7%)	
Number of Tax Delinquent Properties	FY 87/88: 19 (11.4%)
Owner-occupied	11
Investor-owned	4
Commercial	1
Vacant Parcels	3
Number of Building Permits since 1986	13
New Construction	3
Number of Residential Properties Sold since 1986	7
Single-family	5 (Median Sales Price - \$10,300)
Duplex or Multi-family	2

NEIGHBORHOOD REVITALIZATION STRATEGY

Building Condition

Condition of Structure	Owner Occupied	Investor Owned	Commercial Institutional	TOTAL
1	55	13	1	69
2	16	9	1	26
3	19	7	0	26
4	2	1	0	3
TOTAL				124 *

* Condition not recored for 14 structures.
Information based on windshield survey, Fall 1988.

Land Use

	Owner Occupied	Investor Owned	TOTAL
Single Family %	95	16	111 87
Two-Family %	0	13	13 10
Multi-Family %		1	1 <1
Commercial %	1		1 <
Institutional %	2		2 2
TOTAL	98	30	128
%	77	23	100

NEIGHBORHOOD REVITALIZATION STRATEGY

Figure 22

Capital East Project Area Neighborhood Plan Housing Assistance-Budget Summary

Housing Assistance	Estimated Cost
1. Existing Owner-Occupants Single and Two-Family	18 units @ \$15,000/unit=\$ 270,000
2. Acquisition and Resale to First-Time Homebuyers Single and Two-Family Rehab by Investor-Owner	15 units @ \$46,000/unit=\$ 690,000 3 units @ \$20,000/unit=\$ 60,000
4. Infill Construction	6 units @ \$53,000/unit=\$ 318,000
Total Housing Assistance	\$1,338,000

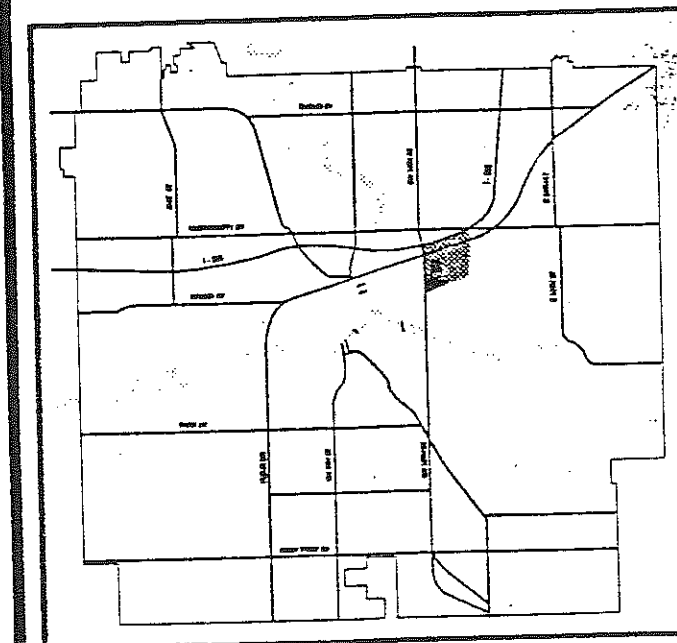
HOUSING IMPROVEMENT AND NEIGHBORHOOD REVITALIZATION PROGRAM

CAPITAL EAST PROJECT AREA PLAN

Prepared By

Stockard & Engler, Inc.
Cambridge, Massachusetts

NOVEMBER, 1989

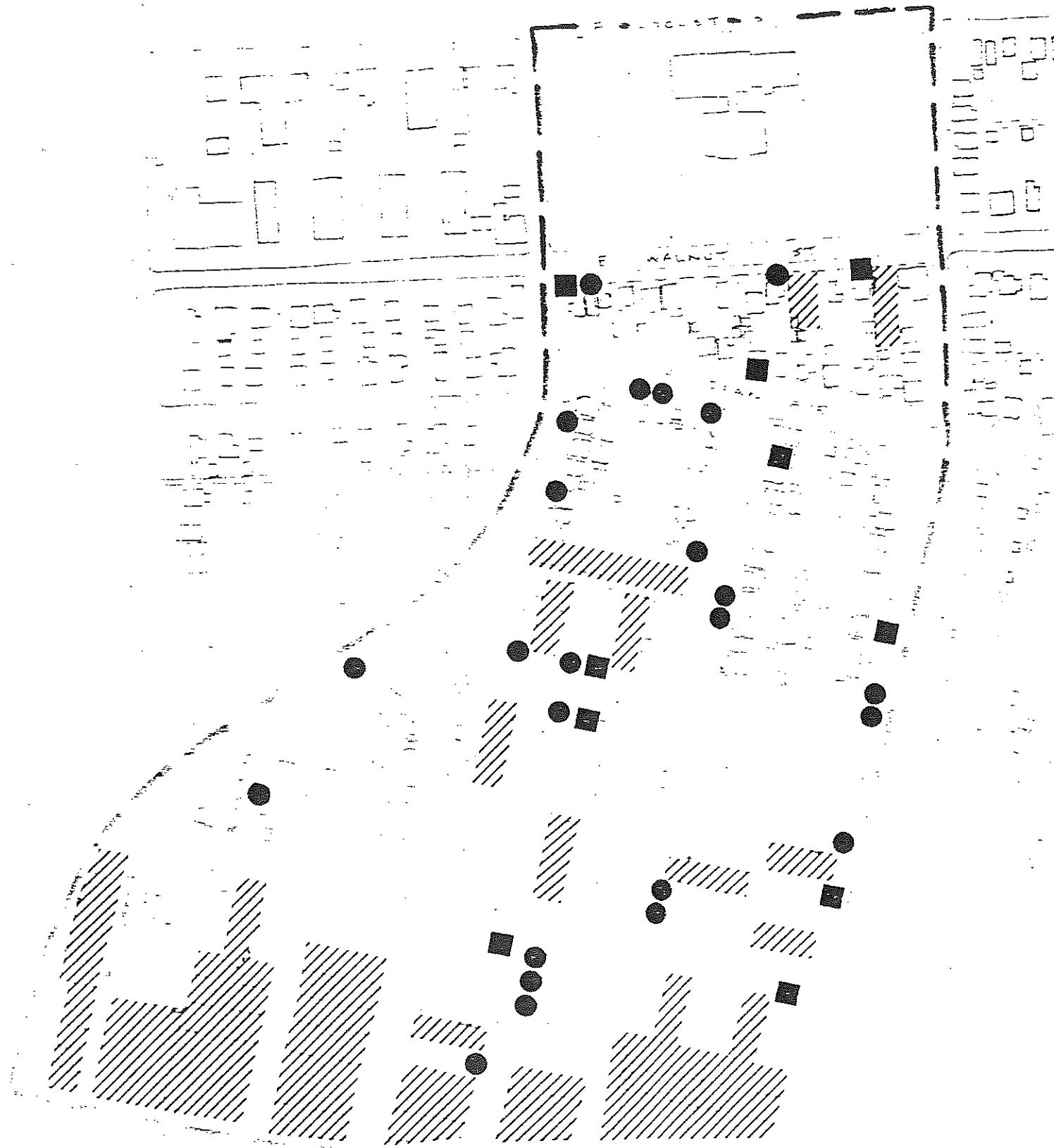


LEGEND

-  NEIGHBORHOOD
-  PROJECT AREA

Approach

- 1 REHABILITATION ASSISTANCE TO EXISTING OWNER-OCCUPANTS OF "PROBLEM" SINGLE AND TWO-FAMILY STRUCTURES.
- 2 TRANSFER "PROBLEM" SINGLE AND TWO-FAMILY STRUCTURES TO FIRST-TIME HOMEBUYERS. LIMITED REHABILITATION ASSISTANCE TO SUPPORTIVE INVESTOR-OWNERS OF SUCH STRUCTURES.
- /// 4 DEVELOPMENT OF NEW AFFORDABLE HOUSING UNITS (CONSISTENT WITH LOCAL HOUSING NEEDS) ON SUITABLE SITES.
- /// 5 TRANSFER OF VACANT PARCELS TO ABUTTERS OR REUSE OF VACANT PARCELS BY THE CITY FOR OPEN SPACE PURPOSES. DEVELOP PARK MAINTENANCE PROGRAM.
- 6 ROUTINE PROPERTY MAINTENANCE ASSISTANCE TO EXISTING ELDERLY AND SPECIAL NEEDS HOUSEHOLDS, INCLUDING VACANT LOT MAINTENANCE.
- 7 COUNSELING ASSISTANCE TO NEIGHBORHOOD LANDLORDS AND TENANTS; PART OF CITY-WIDE PROGRAM, WITH PRIORITY FOR APPROVED NEIGHBORHOOD PLAN AREAS.
- 8 CAPITAL IMPROVEMENTS TO STREETS, SIDEWALKS AND OTHER INFRASTRUCTURE COMPONENTS.
- 9 CITY SERVICES AND REGULATORY TOOLS IN SUPPORT OF NEIGHBORHOOD PLANNING. CONDUCT TRAFFIC STUDIES AND PREPARE PLAN. PILOT AREA FOR CONCENTRATED ENFORCEMENT OF BEAUTIFICATION ORDINANCE.
- 11 CRIME PREVENTION TO DEAL WITH SPECIFIC NEIGHBORHOOD PROBLEMS. CONDUCT DETAILED SURVEY AND WORK WITH POLICE DEPARTMENT TO IMPLEMENT PLAN.
- 12 MARKET LOW COST HOME PURCHASE OPPORTUNITIES WITH WALK-TO-WORK LOCATION.

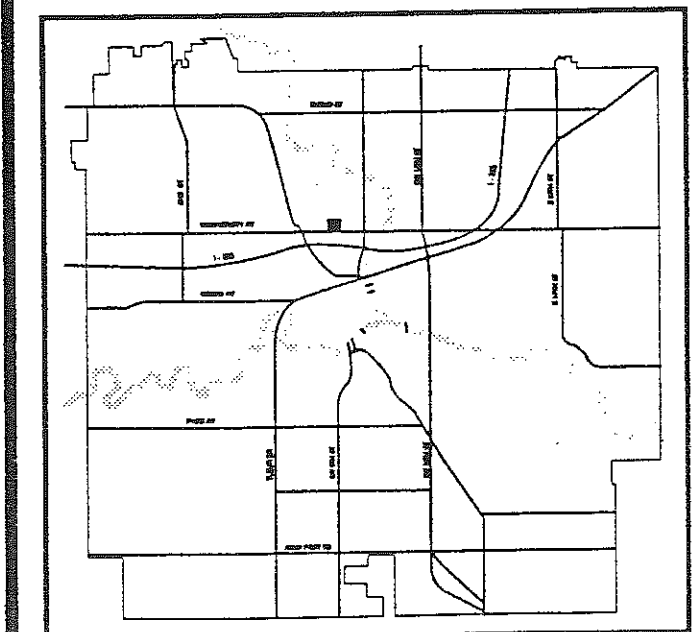


HOUSING IMPROVEMENT AND NEIGHBORHOOD REVITALIZATION PROGRAM

6TH AND UNIVERSITY PROJECT AREA PLAN

Prepared By
Stockard & Engler, Inc.
Cambridge, Massachusetts

NOVEMBER, 1989



LEGEND

 PROJECT AREA

Approach

- 1 REHABILITATION ASSISTANCE TO EXISTING OWNER-OCCUPANTS OF "PROBLEM" SINGLE AND TWO-FAMILY STRUCTURES.
- 2 TRANSFER "PROBLEM" SINGLE AND TWO-FAMILY STRUCTURES TO FIRST-TIME HOMEBUYERS. LIMITED REHABILITATION ASSISTANCE TO SUPPORTIVE INVESTOR-OWNERS OF SUCH STRUCTURES.
- ▲ 3 ACQUISITION AND REHABILITATION ASSISTANCE OF "PROBLEM" MULTI-FAMILY STRUCTURES (BUILDINGS WITH MORE THAN 2 UNITS) BY NON-PROFIT CORPORATIONS. LIMITED REHABILITATION ASSISTANCE TO SUPPORTIVE INVESTOR-OWNERS OF SUCH STRUCTURES.
- /// 4 DEVELOPMENT OF NEW AFFORDABLE HOUSING UNITS (CONSISTENT WITH LOCAL HOUSING NEEDS) ON SUITABLE SITES.
- /// 5 TRANSFER OF VACANT PARCELS TO ABUTTERS OR REUSE OF VACANT PARCELS BY THE CITY FOR OPEN SPACE PURPOSES.
- 6 ROUTINE PROPERTY MAINTENANCE ASSISTANCE TO EXISTING ELDERLY AND SPECIAL NEEDS HOUSEHOLDS, INCLUDING VACANT LOT MAINTENANCE.
- 7 COUNSELING ASSISTANCE TO NEIGHBORHOOD LANDLORDS AND TENANTS; PART OF CITY-WIDE PROGRAM, WITH PRIORITY FOR APPROVED NEIGHBORHOOD PLAN AREAS.
- 8 CAPITAL IMPROVEMENTS TO STREETS, SIDEWALKS AND OTHER INFRASTRUCTURE COMPONENTS. INITIATE SURVEY TO DETAIL NEEDS.
- 9 CITY SERVICES AND REGULATORY TOOLS IN SUPPORT OF NEIGHBORHOOD PLANNING.
- 10 PLANNING WITH LOCAL BUSINESSES, INCLUDING MARKET AND REUSE STUDY OF UNIVERSITY AVENUE PROPERTIES. FINANCIAL ASSISTANCE FOR RENOVATION OF LOCAL BUSINESSES CONSISTENT WITH RESULTS OF PLANNING.
- 11 CRIME PREVENTION TO DEAL WITH SPECIFIC NEIGHBORHOOD PROBLEMS.
- 12 OUTREACH PROGRAM WITH LOCAL ELEMENTARY SCHOOL TO WORK WITH TRANSIENT FAMILIES. ORGANIZE NEIGHBORHOOD RESIDENTS.

NEIGHBORHOOD REVITALIZATION STRATEGY

6th and University Preliminary Neighborhood Plan — Initial Project Area

Issues

- Lack of financing for home improvements. Prospective new owners find difficulty getting financing. Banks reluctant to lend in area.
- Some buildings have too many units.
- Lack of investment interest.
- Vacant lots - bad maintenance and amount of vacant land is a deterrent to residential investment. Abandoned properties are not promptly demolished. Beautification Ordinance isn't used.
- Absentee-owners don't adequately manage residential properties.
- Condition of commercial buildings along 6th Street is a problem - too much land zoned for commercial use. Uses are auto-oriented and do not serve neighborhood needs. Too many bars.
- Lack of recreational/cultural facilities. Jewish Community Center is an eyesore.
- Crime and security are major issues.
- High population turnover presents problems for neighborhood elementary school.
- Information doesn't get out. Different sections of area do not communicate with each other.

Neighborhood Profile

Number of Parcels	134
Owned by Polk County	8 (6.0%)
Owned by Hunter Farms	19 (14.2%)
Owner by Others	107 (79.8%)
Number of Vacant Parcels	44 (32.8%)
Number of Tax Delinquent Properties	FY 87/88: 25 (18.6%)
Owner-occupied	3
Investor-owned	21
Commercial	1
Number of Building Permits since 1986	13
New Construction	1
Additions	1
Number of Residential Properties Sold since 1986	8
Single-family	4 (Median Sales Price - \$28,600)
Duplex or Multi-family	4

NEIGHBORHOOD REVITALIZATION STRATEGY

<i>Building Condition</i>	Condition of Structure	Owner Occupied	Investor Owned	Commercial Institutional	TOTAL
	1	5	4	4	13
	2	7	28	1	36
	3	9	18	0	27
	4	1	8	1	10
	TOTAL				86 *

* Condition not recored for 3 structures.
Information based on windshield survey, Fall 1988.

<i>Land Use</i>	Owner Occupied	Investor Owned	TOTAL
Single Family %	22	13	35 39
Two-Family %	1	10	11 13
Multi-Family %		35	35 39
Commercial %	6		6 7
Institutional %	2		2 2
TOTAL %	31 35	58 65	89 100

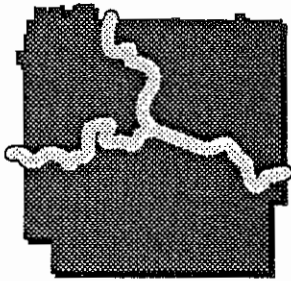
NEIGHBORHOOD REVITALIZATION STRATEGY

Figure 23

6th and University Project Area Neighborhood Plan Housing Assistance-Budget Summary

Housing Assistance	Estimated Cost
1. Existing Owner-Occupants Single and Two-Family	9 units @ \$15,000/unit=\$ 135,000
2. Acquisition and Resale to First-Time Homebuyers Single and Two-Family Rehab by Investor-owner	14 units @ \$46,000/unit=\$ 644,000 4 units @ \$20,000/unit=\$ 80,000
3. Acquisition and Rehab by Non-Profit	48 units @ \$31,000/unit=\$1,488,000
Multi-Family Rehab by Investor-Owner	8 units @ \$20,000/unit=\$ 160,000
4. Infill Construction	20 units @ \$53,000/unit=\$1,060,000
Total Housing Assistance	\$3,567,000

SUPPLEMENTAL MATERIAL



7. Process

From the beginning of the work program, a central objective has been to involve as many people as possible in the process. The purpose is both to obtain information from a broad cross-section of the Des Moines population, and to use the process of the study to develop support for the final product, so that the results can represent the beginning of a new process rather than just the end of a study. We make no claim to a statistically valid sample of the population, nor do we necessarily think that we have spoken with all the people we should have. What we do believe is that, with almost one hundred meetings involving several hundred people, we have gotten a good sense of how the city's housing problems are perceived by key components of the population, and have observed the points of consistency and disagreement about those problems and how they should be addressed.

The work program was divided into three phases:

1. An initial reconnaissance, which began in February and concluded in May with the presentation of the Preliminary Assessment.
2. In May, revision of the work scope based on the results of the first phase, and selection of the four areas for which illustrative preliminary plans were to be developed.
3. Beginning in June, development and refinement of specific recommendations, including the preparation of the illustrative plans.

As suggested above, the work program execution reflected a consistent objective of maintaining contact with the Des Moines, with the actual process differing from phase to phase.

SUPPLEMENTAL MATERIAL

Initial Reconnaissance

This phase involved an initial review of materials collected by the City staff, and two field trips in February and April. The Preliminary Assessment was presented in May.

The first field trip involved almost forty interviews and meetings with a broad cross-section of the Des Moines community - neighborhood representatives, City and County staff and elected officials, state elected officials from the Des Moines area and others connected with state government, realtors, developers and other representatives of the business community, and others directly involved in the delivery of housing services. The purpose was to develop an understanding of the nature of housing problems in Des Moines, and how these problems are perceived from different perspectives.

The focus of this activity was to understand problems and issues relative to the entire city and its metropolitan area. A secondary purpose was to gain an understanding of how neighborhoods are defined in Des Moines, how they are changing, and how much planning and housing activity is focused at the neighborhood scale.

Selection of Areas for Illustrative Action Plans

With the completion of the Preliminary Assessment, an immediate concern was to determine how best to illustrate the ideas and recommendations that would be contained in the final report. The structure of the work program was adjusted to place less emphasis on the classification of neighborhood types throughout the city, and more on the selection of a limited number of areas to be used to show how the ideas contained in the recommendations could be put into action.

The four areas were selected based on the recommendations of the consultant team, following review of possible locations with City and County staff and business community representatives meeting to advise on the progress of the work. The preliminary plans which were then prepared represent an important component of the work, a starting point that can lead to detailed plans and commitments for activities in specific locations.

It is important to emphasize that the selection were made so that concepts could be demonstrated. The four areas do not necessarily represent the best or worst examples. They were chosen because as a group they reflect the range of conditions to be found in Des Moines, and thus can demonstrate the kinds

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of actions that could be appropriate in other neighborhoods. Further development of the plans for those four areas can lead to implementation, and encourage neighborhoods to get involved as well.

Development of Recommendations and Illustrative Plans

Beginning in June, the remainder of the work program was spent detailing recommendations and preparing the illustrative plans. Field trips held in June and July involved public meetings and other meetings and interviews to present preliminary recommendations and get some reaction. It was not possible to maintain contact with all of those contacted in the initial reconnaissance phase, and this was one reason for the public meetings.

The preparation of the illustrative plans involved the collection of statistical information for each area, including updates of housing condition. The neighborhood listening process we have described in this report was undertaken in an abbreviated way by talking with some people familiar with each area and by holding larger meetings with neighborhood organizations where this was possible. Both the city and the consultant team were involved in this process. The initial impressions gathered were sufficient for the immediate purpose, but they should be recognized as initial impressions, and expanded through greater neighborhood contact as more detailed planning takes place. To develop those plans in greater detail, the neighborhoods must be involved in an ongoing process. The limited contacts made to aid the consultants in preparing preliminary plans must be expanded in each area, so that in each instance there is an active neighborhood partner to work with the city to implement the plans.

The final phase culminates with the presentation of a final report. It was the consultant team's goal to use the study process itself to build consensus and support for a new direction in neighborhood revitalization. The report is only a starting point, but we are encouraged that it will be that, rather than just another report that produced no tangible accomplishments.

8. Preliminary Findings

The initial phase of the work program was completed with the presentation of a Preliminary Assessment Report in May, 1989. It summarized the information during two field trips that involved contacts with well over 100 people. The response to the findings presented in that report was the starting point for the work reflected in this final report. Therefore it is useful to include the earlier findings to provide additional context for the final recommendations.

Overview

Many of the problems associated with neighborhood and housing conditions in Des Moines reflect the results of how the metropolitan area as a whole has been growing. Much of the suburban growth has occurred at the expense of the city, reflecting both the move of city residents to the suburbs and a pattern in which in-migration has been concentrated in the western suburbs, without sufficient emphasis on the choices available in the city. There is a general perception that people looking for housing, whether to buy or rent, are not encouraged to consider choices within the city.

It is difficult to separate fact from perception. There are problems in Des Moines- disparity in property taxes, difficulty in obtaining financing, the decline of neighborhood business centers, concerns about the quality of schools and crime. Regardless of objective facts, if negative perceptions about problems are strong enough, and if these perceptions are reinforced rather than dispelled, then the past growth pattern will continue, suburban gains will come at the further expense of the central city, and the symptoms will get worse. This is a metropolitan problem, and all interests must work together to address the causes head-on, directly through new programs in the city, and equally importantly by working to change perceptions and instill renewed confidence in the future of Des Moines' neighborhoods.

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The Housing Stock

Deferred Maintenance. There is a general perception that owners are not investing in maintenance of existing residential structures. Such a condition may be more evident in neighborhoods where large elderly populations and/or high concentrations of investor-owned property may be found. A recent housing conditions survey conducted by the City Planning Department, as compared to a similar 1980 survey, determined that the number of residential structures (city-wide) with serious maintenance problems has increased from 5.1% in 1980, to nearly 14% in 1988. The incidence of absentee ownership was seen as a critical factor leading to deferred maintenance.

Abandonment. A problem which affects most city neighborhoods primarily due to delays in the process for taking of tax delinquent properties by the county. State law prescribes a tax deed foreclosure process which takes nearly five years to complete. The Polk County Physical Planning Department estimates that of the more than 1,500 tax delinquent properties taken by the county in recent years, approximately 20% include abandoned residential structures. Once a structure has been abandoned, for whatever reason, many such buildings deteriorate past the point where rehabilitation is possible. Demolition of such structures often remains the only alternative. Since 1985, the city has demolished approximately 50 houses each year, but many more remain on the list for demolition. The resulting proliferation of small vacant parcels is a related issue.

Declining Values. Owners of existing residential structures in many neighborhoods have difficulty selling their properties due to the "soft" market. Neighborhood confidence is lacking. Sales are slow and owners frequently take less than a fair return on their investment. Recent residential sales prices in eleven assessment districts have been significantly lower than assessed value. As a result, those eleven districts have been revalued by the City Assessor. In comparing investment opportunities (city vs. suburb) potential homebuyers will often choose the suburb.

Tax Rate Disparity. Since 1960, Des Moines, like many central cities across the country, has been losing population, while the total population of Polk County has been increasing. The continuing population loss has eroded the city's tax base, which in part has contributed to the fact that city homeowners are paying the highest property tax levy in the county. At the same time they are receiving a decreasing level of public services.

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Property taxes (1986) on a \$50,000 residence can be compared as follows:

Clive	\$ 887
Des Moines	1,279
Johnston	1,036
Urbandale	1,064
West Des Moines	915
Windsor Heights	957

With the city's real estate tax rate significantly higher than areas outside the city, many homebuyers are buying more house in the suburbs for the same overall monthly cost. Many realtors use the tax rate disparity as another reason for buying in the suburbs.

Housing Inspections. Current policy requires all rental properties to be inspected once a year. It is difficult for city staff to identify all rental properties to be inspected. The inspection process currently does not include all single-family structures and there is a perception that absentee ownership of single unit structures is a growing problem. In Fiscal Year 1987-88, the city Housing and Community Services staff inspected a total of 12,352 properties with approximately 38% found to have code violations. Selected neighborhoods believe that city staff should focus efforts on problem buildings and/or investor-owned properties, and perhaps a more frequent inspection of such properties may be necessary.

Structure Size. Many of the large, single-family residential structures no longer meet the needs of today's homebuyers. Such structures are no longer consistent with the household size of potential homebuyers. In 1980, once and two person households accounted for 62% of the total, and there is a sense that this number has increased. Many believe that the number of renter-occupied units has also increased since 1980. The 1980 U.S. Census reported only 26,817 renter-occupied units of the total 79,913 units.

Neighborhood Conditions

Vacant Lots. Although one might consider vacant lots to be an open space resource in city neighborhoods, such lots present a problem, primarily to abutters, when continued maintenance is not evident. Many of the vacant lots have been acquired by Polk County due to tax delinquency, although less than 9% of such parcels are developable. Land banking of tax delinquent proper-

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ties should only be considered as an interim measure by county officials. Des Moines must make use of these acquired parcels in a manner consistent with a "vision" or plan for the surrounding neighborhood.

Crime. There is a general perception among residents in many neighborhoods that there has been an increase in the crime rate. This perception is a major source of instability within many neighborhoods, specifically related to drugs and prostitution. The crime rate in Des Moines is not significantly higher than surrounding suburban areas, yet many believe that the suburbs are a "safer" place to raise a family. In a situation like this, statistics will not put to rest the concerns that come with this perceptions of a problem.

Public Infrastructure. Although the problem is more evident in a few neighborhoods, there are examples city-wide of the lack of investment in the public infrastructure, including street paving and curb repair, sidewalks, and street lighting. Since 1982-83, the city's capital improvement fiscal policy has been driven by projects in support of downtown revitalization or those with a metropolitan focus. Nearly 80% of the capital budget was spent on such related expenditures. If we are successful in designing a city housing strategy with a neighborhood focus, there will be an expectation that additional city resources, including the capital budget will be more closely tied to such a strategy.

Mortgage Financing Policy. Many potential homebuyers are often frustrated by the policies of local banks and savings institutions which discourage investment in properties valued under \$30,000. Such policies have a detrimental effect on neighborhood confidence. In response to the apparent need to improve housing conditions in many city neighborhoods, area lenders have recently designed Community Reinvestment Programs to be of assistance in this regard, providing some flexibility in underwriting standards. However, it appears that there is only limited knowledge of the availability of some of these programs.

Neighborhood Planning. Few neighborhood organizations are able to effectively participate in the decision-making process related to neighborhood development. In fact, only eight neighborhood groups are actively involved in neighborhood improvement efforts. Neighborhood planning is essential within the framework of an overall city-wide comprehensive plan. Such a plan

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should become an important component in the city's overall housing strategy. The first step in the neighborhood planning process is organization.

Other Conditions

Neighborhood Definition. Based on our review of materials sent prior to our field visits and confirmed by our discussions with city officials and neighborhood representatives, there appear to be many ways of defining "neighborhoods" within the city. If neighborhoods expect to participate in the public decision-making process relative to the allocation of program and capital funds, they must organize and agree on neighborhood boundaries. No area of the city should be excluded from such a process.

Neighborhood Marketing. Local media frequently will focus on the negative stories or problems within city neighborhoods, such as the increasing crime rate or impact of school busing. Neighborhood residents and city officials must take responsibility for promoting the positive aspects of city living and the success stories of local initiatives.

Loss of Confidence. Neighborhood residents and potential homebuyers suffer from a perceived lack of confidence in the future of many neighborhoods. Loss of confidence leads to other problems such as declining values, deferred maintenance, and abandonment. A recent survey of area realtors indicates at many potential homebuyers are looking outside the city in part because of higher resale values. Marketing activities can be an important component of a strategy to build and maintain neighborhood confidence, and the realtor community should be one of the most positive participants in this process.

Program Targeting. Most of the public investment in neighborhood housing problems has been driven by regulations tied to federal funds. "Target" neighborhoods have gained a negative reputation resulting extensive expenditures in recent years with no significant improvement to the housing stock. One reasons for the minimal impact is the size of target neighborhoods. For example, the Model Cities neighborhood includes a portion of more than 159 blocks.

Additional Program Resources. There is a need for a more comprehensive approach to the city's housing problems which includes combining traditional housing program funds with capital budget and other public resources. Such an approach is a necessary part of any neighborhood revitalization program.

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It will be important to "pool" public and private resources to deal effectively with identified problems. The limited federal funds, currently used by the city to address the housing problem, are further reduced in terms of direct program expenditures since these same funds are used to pay for administrative and program staff. The city's Housing Assistance Plan estimates the total rehabilitation cost in the target areas alone to be more than \$40 million. In the 1989 Community Development Block Grant (CDBG) budget only \$1.7 million of the \$3.8 million total is recommended to be spent on housing programs. Clearly, the existing funding commitment is inadequate.

Homeownership. Many neighborhood representatives believe that city housing programs should support and encourage the goal of increased homeownership opportunities. Housing programs designed to assist investor-owners should be a lower city priority. There seems to be agreement that owner-occupants help to build confidence and add stability to the neighborhood.

Schools. People want neighborhood schools, and many believe the Des Moines public school system no longer offers neighborhood schools - one more reason why families are moving to the suburbs. Recent decisions by the School Board, related to changes in high school district boundaries, increase concern that students will be "bused" to schools in other neighborhoods. The reasons for such decisions are often not considered. There is simply a negative reaction, by many, to decisions that result in change. In fact, the Des Moines Public Schools offer excellent educational opportunities. Test scores provide an illustration of academic growth and development of the district's diverse urban student body.

Neighborhood Investment. There is a general perception that the downtown area is "on the way up". Examples of public and private investment are evident in most downtown city blocks. There appears now to be general support for a similar investment of resources, both public and private, into neighborhood revitalization, including rehabilitation of the housing stock.

Program Delivery. The delivery of housing program appears to be well intentioned but often ineffective, primarily due to the lack of a coordinated approach. No one seems to be "in charge". Many neighborhoods with housing problems receive no funding from the existing city programs. It is appropriate now to consider a new organizational structure for housing program

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delivery, one designed to assure effective coordination and communication with the most appropriate use of limited resources.

Although the limitations of this study prevent us from completing a comprehensive housing needs assessment, we believe the aforementioned list of general findings related to the city's housing stock and neighborhood conditions help to define many of the city's housing problems.

Existing Programs

City staff has provided much information on available housing assistance programs. In our review of the available information, we found many of these programs designed to improve the existing housing stock without making the connection to a comprehensive neighborhood revitalization strategy. We believe that housing program dollars must be tied to other funding resources - public and private.

The purpose of this section of the report is to make general observations of the existing housing and neighborhood programs, and to identify apparent gaps. The list of currently active programs is included in a report section to follow, which discusses basic components of a neighborhood revitalization strategy.

Again, the limitations of this study prevent us from completing a comprehensive evaluation of all city housing and neighborhood programs, however, we believe the following observations will prove to be useful as we begin to design program "packages" for neighborhood revitalization.

Observations

- *Lack of Resources.* Existing programs are primarily funded by federal dollars and those resources have been shrinking in recent years. There is a need for additional public dollars and those funds must be spent to leverage private dollars.
- *Marketing.* How can people be expected to take advantage of all the various programs if we don't "spread the word".
- *Waiting List.* Once a waiting list grows to the point where recipients do not receive the benefits in a "reasonable" period of time, programs are no longer considered to be viable.

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- *Program Administration.* The use of limited public funds to provide administrative and program staff further reduces the number of dollars spent in city neighborhoods.
- *Isolated Approach.* Individual programs are often applied in isolation with no consideration given to a coordinated approach; combining program resources in support of neighborhood planning and private investment.
- *City-wide Strategy.* Many of the existing programs are “targeted” to selected areas; there appears to be no city-wide strategy.
- *Number of Programs.* It is nearly impossible to know the details of all the various housing and neighborhood programs. Given the limited resources, there may be too many programs with overlapping purposes. This imposes clear limitations on the effectiveness of an overall effect.

9. Proposed Housing Assistance Programs

Overview

This report recommends consideration of three new housing finance programs for Des Moines, each of which is intended to respond to particular program objectives. A fourth program, a Loan Guarantee Program, is also described for possible future reference, although it is our judgment that this tool is not needed now in Des Moines.

Each of the programs is fairly flexible in terms of the kind of housing it can help to finance — rehabilitation or new construction, home ownership or rental or cooperative housing, housing for different types of households, and housing developed by for-profit developers or by nonprofit organizations of public agencies. That flexibility should be preserved to the greatest extent possible as the programs are designed and implemented, so that they can respond to needs and opportunities in different neighborhoods.

As other communities have moved to establish new approaches to financing housing improvements, it has become clear that the basic alternatives will come out differently in each city, and that it will take time to determine just what program structure is most appropriate for Des Moines.

Certainly the first step in the process for Des Moines will be the establishment of the parent body - the Neighborhood Finance Corporation. The Board of that organization, working with an Executive Director, will determine just how the programs will operate. It may well be that not all programs will be set up at the very beginning. Some cities try one program first before branching out. Others, as is the case with programs recently announced in Baltimore and Detroit, take time to evolve a mechanism which works best to establish an effective working way of blending public and private funds. It may also be that a revolving loan fund and a development fund may be operated under a single formula. We have suggested a separate development fund as a way of drawing a line between the levels of risk associated with different types of projects, but the programs do not have to be operated separately.

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This overview section provides a summary description of the four programs. The three most relevant approaches are discussed in greater detail in separate sections that follow.

Revolving Loan Fund

A Revolving Loan Fund is nothing more complicated than a pool of capital created to make loans. It could combine public and private capital from a variety of sources, and it could make a range of kinds of loans to different kinds of borrowers. A Revolving Loan Fund offers loans on terms that are not available from other sources; if it didn't, there would be little reason to create it. That can mean lower interest rates or loans to borrowers or projects which would be seen as unacceptable risks by conventional lenders. A Revolving Loan Fund usually combines a number of participants so that none of them alone has to bear all the burden of providing lower-cost capital, so they can share the risks, and so that a larger total pool of capital can be created than any of the individual participants would be willing or able to provide by itself.

Definition

"Revolving" means whatever the participants in the Fund decide it should mean. Basically, it means that the participants have agreed to make capital available for a specified number of years; as the earlier-made loans are repaid, the recovered capital is used to make additional loans. The alternative would be a pool of capital created to make one "round" of loans, with repaid funds returned immediately to the participants.

However, the period during which the fund will exist and continue to make new loans is entirely at the discretion of the participants. So is the kind of loans to be made, which partly determines how quickly the capital "revolves".

Application

Loans could be made to individuals to:

- Purchase homes in good condition or homes rehabilitated by a developer.
- Purchase and rehabilitate homes themselves.
- Make needed repairs and improvements to homes they already own.

The problems faced by elderly home owners in Des Moines neighborhoods, for example, living on fixed incomes and unable to afford maintenance, have been identified as a particularly high priority. The condition of their housing

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affects not only their own comfort and safety, but the housing market in the neighborhoods where they live. Conventional home improvement loans carry interest rates too high for many elderly home owners. A Revolving Loan Fund could make low-interest home improvement loans to elderly home owners.

Loans could also be made to responsible "developers" to:

- Purchase and rehabilitate homes for resale to owner-occupants or to housing cooperatives, or for use as long-term rental property.
- Refinance rental property they already own to enable them to make needed repairs and improvements.
- Make repairs and improvements through second mortgage financing without refinancing the underlying first mortgage.

Particular interest has been indicated in supporting small-scale investor-owners in Des Moines neighborhoods, for example. They need lower-interest loans because the condition of property they might acquire has been allowed to deteriorate, and because low market rent levels will not support needed rehabilitation at conventional loan interest rates. They are sometimes seen by conventional lenders as higher risks as borrowers because they have limited experience in managing rental property. The housing they want to own and manage is seen as a higher risk because the depressed housing market in some neighborhoods results in tight cash flows and lower property values, both of which provide less security for loans. A Revolving Loan Fund may be the only realistic way to provide financing to enable an expanded role in neighborhood revitalization for small-scale investor-owners.

Types of Loans

Usually, a Revolving Loan Fund makes shorter-term loans. Otherwise, there is little opportunity for the funds to "revolve" to reach more borrowers, projects and neighborhoods. Funding sources who agree to make money available at low interest rates, in addition, often want to do that for a shorter as opposed to a longer period of time. For those reasons, a Revolving Loan Fund usually does not make long-term or "permanent" mortgage loans to individual home owners, owners of rental property or housing cooperatives.

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Construction loans, or "interim financing", are often offered by Revolving Loan Funds. Construction loans are usually short-term loans. Construction financing is often considered high-risk lending by conventional lenders in the best circumstances, and unacceptably risky in some situations, so an alternative lender may be needed. If the amount of the loan is kept within reasonable limits, and there is a firm commitment of permanent financing after completion of rehabilitation or construction, a construction loan is usually considered a good "product" for a Revolving Loan Fund to offer.

However, many borrowers in Des Moines neighborhoods cannot use conventional permanent financing, because of its cost or the standards used by conventional lenders. Simply making low-interest construction loans available will not do the job in those cases. Although participants in a Revolving Loan Fund may want to stay out of the long-term lending business, they can make "special purpose" loans which are not usually available from conventional lenders on any terms, and which help to "bridge the gap" between borrowers and conventional loans.

Special-purpose loans for rental or cooperative housing could include:

- "Bridge Loans" — a loan to a developer with limited experience at housing management, where the permanent mortgage lender will not take over until management capability has been demonstrated. Bridge loans can also be used in neighborhoods where a permanent lender wants to be sure there is a market for the housing, and that operating costs can be supported by income.
- A Low-Interest "mini-perm" — a short-term loan with regular monthly payments large enough to amortize principal more quickly than in a conventional loan. Besides demonstrating the market and the borrower's management capability, the loan allows the loan-to-value ratio to be reduced, making the loan more attractive to a replacement lender at the end of the term. If the interest rate is low enough, the monthly payments can be lower than conventional financing yet still large enough to allow refinancing at the end of the loan term, because more of the payment goes toward principal.

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- “Equity Capital Loans” — loans to projects using syndication of ownership to investors who make equity investments in return for tax benefits. Equity capital loans allow investors to make pay-ins of their equity capital over time, but enable sponsors to use that equity to meet up-front development costs. Equity capital loans are repaid by the investors’ annual equity payments.

Special purpose loans for home ownership could include:

- The same kind of “mini-perm” loan described above, but made to a home buyer who has the necessary down payment and a credit history which would qualify for a conventional mortgage loan, but whose income is too low to support monthly payments at market interest rates.
- A similar “mini-perm” loan to a nonprofit corporation or other developer to finance a “rent with option to buy” or “lease-purchase” program. Such a program would serve families who wish to buy homes but who do not have the required down payment or have credit problems. The interim loan term could allow them to straighten out credit and budgeting problems, with counseling from the program, and the low interest rate could enable them to build up equity in lieu of a down payment when they exercise their option to buy. Such a program could also be used in “soft” markets to give potential home buyers more time to decide whether they are willing to make an investment in home ownership.
- Second mortgage loans to home buyers with good credit who can afford somewhat larger monthly payments, but not enough savings for a down payment. Such loans can now be used in tandem with a special Federal National Mortgage Association program which purchases first mortgage loans from local lenders on the same terms as conventional loans. That kind of second mortgage loan can also be used to attract home buyers who are not willing to make a larger down payment from their own funds, because they are uncertain about the future of the neighborhood.
- Finally, a Revolving Loan Fund could make home improvement and rehabilitation loans to home owners or to owners of rental property and still keep the loan term fairly short, if the interest rate is low enough to amortize the loan and still keep payments affordable.

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Sources of Funds

Virtually any kind of public or private funds can be used as part of a Revolving Loan Fund, and funds in different cities or states have used a variety of funding sources. On the private side, sources have included individuals, religious orders, pension fund, institutions and foundations. They have also included private corporations who are not normally in the real estate lending business and some who are, such as banks, savings and loan associations and insurance companies.

In one example of an actual Revolving Loan Fund, ten private lending institutions have committed funds to make loans at an interest rate matching their cost of funds, generally around 7%. A large utility company has committed funds at no interest as part of its energy conservation program. Its funds are used for energy conservation measures in construction or rehabilitation projects. The difference between the real cost of the capital and the 0% lending rate is built into the utility's rate base.

Public funds can also be used as part of a Revolving Loan Fund. In another example, a City participates in loans using both Community Development Block Grant funds and the proceeds of a tax-exempt bond issue. Because of some unusual circumstances, the bond funds carry an interest rate of only 2%, which is difficult to reproduce.

A Revolving Loan Fund can be designed to make different kinds of loans with funds provided by different participants, depending on their individual objectives. That can be extremely cumbersome to manage, however, and it is preferable if possible to use all the funds in one combined pool to make whatever kinds of loans the participants agree are needed.

A Housing Equity Fund is a vehicle which enables corporations to make pooled equity investments in lower income housing projects, with return on investment provided principally by federal tax benefits.

Housing Equity Fund

A Housing Equity Fund uses federal tax benefits available to owners of rental housing which is affordable to lower-income residents to attract equity capital which earns its rate of return primarily from those tax benefits. In that way, capital is available to projects which acts like a grant — that is, does not increase costs to the residents — but earns a reasonable rate of return for the investors.

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In some ways, a Housing Equity Fund is simpler than a Revolving Loan Fund, because federal tax law makes many of the decisions for the investors and the developers of projects.

Investor Return

The most important benefit to investors is the Lower Income Housing Tax Credit, a dollar-for-dollar credit against tax liability, earned annually for ten years. The credit amount is calculated on the tax "basis" of the real estate, essentially the original development cost. The amount of the credit can be as high as 90% of the construction or rehabilitation costs over ten years and as high as 40% of acquisition costs. Owners of projects are also allowed to use depreciation of the real estate, on a straight-line 27.5-year schedule, as a deduction from taxable income. Operating expenses and interest on debt are also allowable as deductions. For corporate investors, credits and losses can be used to offset taxes on income from any source in an unlimited amount.

Projects might not generate income for investors from cash flow, to avoid increasing costs to lower income residents. To keep housing affordable to lower income residents when tax benefits are no longer available, title to projects could be transferred to nonprofit corporations or to the residents themselves. The new owners would assume the liability for outstanding debt, and would pay the limited partners enough to cover their tax liability at the time of sale.

Kinds of Housing Financed

Basically, housing which "earns" Low Income Housing Tax Credits must be rental housing affordable to and occupied by households with incomes no higher than 60% of the median income in the county or metropolitan area. In Des Moines, that income limit would be \$21,240 for a family of four.

Tax Credit projects do not have to be entirely lower-income. They can be mixed-income, but there are requirements for a minimum number of lower-income units. Tax Credits are earned only on lower-income units, not all the units in a mixed-income project.

Housing projects can involve new construction or rehabilitation. Acquiring buildings to use them as lower-income housing without any rehabilitation also qualifies for Tax Credits, but is subject to additional restrictions.

There are a number of other specific requirements and restrictions on Tax Credit projects, some of which are explained in the Technical Memorandum on the Housing Equity Fund.

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Equity Fund Structure

A Housing Equity Fund would be organized as a general partnership of investing corporations. The Fund, in turn, would act as the sole limited partner in individual housing projects. Each project would be a limited partnership in which a developer or project sponsor acts as the general partner. More than one sponsor or developer, could act as co-general partners. That structure limits the financial liability of limited partners to the amount of their equity investment. The financial exposure of each investing corporation would also be reduced because investment risks would be shared, and because risks would be spread across a pool of individual projects.

The Housing Equity Fund would be organized as a "blind pool"; that is, projects would be selected for investment after the fund is created rather than before, similar to a Revolving Loan Fund. A nonprofit corporation whose Board of Directors is selected by investor corporations would act as managing general partner of the Housing Equity Fund, and would select projects. An Investment Committee representing all the investors could veto project selection decisions and some other major operating election decisions and some other major operating decisions.

Investment in Projects

Project investments can be structured in any way the investors and the project developers agree. However, it is becoming fairly typical for investors to advance capital over a number of years, with the amount of each "installment" matching the projected tax or other financial benefits for that year plus the required rate of return. In that way, the investors are always in a positive cash flow position; they recover their investment and realize the return on investment on a current basis. The number of years in which they make "pay-ins" of equity is a matter of negotiation between them and the project developer. Basically, the shorter the pay-in period, the higher the rate of return to the investors, but the less equity is available to the project.

That staged pay-in creates the need for project developers to borrow against the future payments of capital by the investors. Most or all of the equity capital is needed as part of the financing of the project's initial development costs. The loan, which we call an "equity capital loan" in this report (sometimes also called a "bridge loan"), usually must be arranged separately from the equity investment. It could be made by a Revolving Loan Fund, if one is created. Because part of the equity payments are used to pay interest on the loan, the project has a smaller amount available to meet its development costs.

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The only way to avoid the need for such a loan would be for the investors to make most or all of their equity capital available during the project development stage. Usually, if they are willing to do that, they will "discount" their investment to account for the fact that their return is earned over a period of time, and possibly to reflect their need to borrow funds themselves to make the payments. In other words, the projects still end up with a smaller net amount of equity capital, unless the investors are willing to absorb those costs.

Equity Fund Participation

Any corporation (except S corporations, closely-held C corporations and personal service corporations) which has taxable income, and expects to have it for the next ten years, can use Low Income Housing Tax Credits and expense deductions to create tax savings. Qualifying corporations can use an limited amount of tax credits and deductions to shelter income from any source.

There is no real way for the public sector to participate as an investor in a Housing Equity Fund, because tax benefits are of no use to governmental agencies. Public funds could be used to pay the cost of legal work required to structure the Fund, and part or all of the operating costs of the Fund.

Loan Guarantee Fund

The concept of a Loan Guarantee Fund has been discussed as a part of a comprehensive program of housing financing assistance. It would appear that such a fund is not needed as a part of the activities of the Neighborhood Finance Corporation. The following description is included only for future reference, and we do not see any reason to commit funds to this purpose as a part of initial activities. Whether there would be a need for such a fund in the future would be a policy matter to be determined by the Neighborhood Finance Corporation.

A loan guarantee is an agreement between a lender and a guarantor that, if the lender is not repaid by a borrower, the guarantor will make the payment. A loan guarantee also includes an agreement between the guarantor and the borrower. The guarantor may agree to step in to replace the original lender, or lend enough money to the borrower to repay the original lender. A loan guarantee may cover all or only part of the risk of nonpayment.

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"Credit enhancement" is a term originally used in connection with tax-exempt bonds, but becoming more common as a synonym for partial or total loan guarantees. Loans are made based on the creditworthiness of borrowers. Anything that assures (or guarantees) repayment enhances the borrower's and the project's credit.

Use of Loan Guarantees

Some borrowers might be able to afford monthly payments on a conventional loan, but represent too high a risk to lenders. For those borrowers, loans from a special-purpose Revolving Loan Fund may not be necessary. If risk rather than interest rate is the issue, it may be simpler to eliminate or reduce the risk to the lender.

Other borrowers might need both lower interest rates and a lender willing to accept a higher risk. However, the sources of loan capital may feel that they are doing their share by providing lower-cost funds, and that another source of money should stand behind the risk of non-repayment.

If loan funds are provided at low interest rates, the borrowers may be able to afford monthly payments on a loan for a higher percentage of the property's appraised value than lenders would normally accept. The appraised value would be lower than the borrower can afford because the appraiser would not assume that other buyers, in the event of foreclosure, would be able to use similar low-cost financing. Using an amortized loan with a high loan-to-value ratio avoids or reduces the need to rely on scarce subsidy funds to meet development costs. A loan guarantee could make it acceptable to lenders to lend at a higher percentage of value. Loan guarantees are also a way to make lenders comfortable with borrowers who have little equity to invest, which is often another reason the borrower wants to borrow a larger percentage of the property's value.

Loan guarantees can be used for virtually any kind of loan — home purchase loans, home improvement loans, loans to investor-owners to purchase and rehabilitate rental property, or loans to developers to build new housing. Loan guarantees are already available for home purchase loans, from both FHA and private mortgage insurance companies. However, underwriting standards used by private mortgage insurers have become more restrictive in recent years, and many observers believe they work to make it much more difficult for lower-income first-time home buyers to purchase property in central city neighborhoods.

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FHA also provides insurance on some forms of loans for rental property, although private mortgage insurers do not. Virtually no form of mortgage insurance or loan guarantee is available for construction loans, or for any of the forms of "special purpose" loans described in the section on the proposed Revolving Loan Fund.

Structure of Loan Guarantees

As noted above, a loan guarantee can be partial or total. Private mortgage insurance generally covers only the top 20% of a mortgage loan. The lender accepts the risk that, in the event of foreclosure, the property could be resold for at least 80% of the loan amount.

In some of the FHA insurance programs, a "co-insurance" model is used. Normally, FHA itself re-underwrites loans originated by private lenders to decide whether the risk is acceptable. That process discourages some lenders and borrowers from using FHA insurance, because it can be slow and cumbersome. FHA allows some lenders to make that decision on their own, in return for the lender retaining a share of the risk, or "co-insuring" the loan.

Another issue is whether a loan guarantee is provided separately, as an "arm's-length" transaction, or as part of a loan fund itself. One or some of the participants in a loan fund can agree to accept a higher level of risk than the other participants in the loans; that is, if there is loss on the loan, they lose their money first. In one Revolving Loan Fund managed by a statewide nonprofit organization, a city plays that role for construction loans on property to be rehabilitated and sold to home buyers.

Sources of Capital

Virtually any kind of money can stand behind a loan guarantee, public or private. It is not necessary for funds actually to be set aside, as long as the lenders who are the beneficiaries of the guarantee believe that the guarantors can make good on their pledge if the need arises. That arrangement is commonly used for "credit enhancement" on tax-exempt bonds used to finance multifamily housing projects. A lending institution or insurance company issues an irrevocable letter of credit, agreeing to advance funds to the borrower to meet its obligations to the lender. The lender relies upon the financial strength of the guarantor, rather than on capital in an insurance fund.

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Housing Development Fund

The Housing Development Fund would be a capital pool created to provide a flexible source of "gap financing" for housing or economic development projects. Although it is described here as a separately funded pool, it is possible that the fund could be operated as a part of the revolving loan fund. There is no structural reason why the funds need to be operated separately, but it is our sense that the purposes are sufficiently different to warrant this approach. Once again, this is a policy decision to be determined by the NFC Board once it has been established.

Financing for some projects will be available from conventional private lenders, and some projects will be able to afford it. Special-purpose financing programs and vehicles are proposed in this report, including a Revolving Loan Fund, a Housing Equity Fund and a Loan Guarantee Fund. The financing they offer is essential to making needed projects work. Capital would be provided at lower cost and more flexible terms than through conventional financing, and financing is made available to borrowers who are seen as higher risks and to projects in weaker market areas.

However, besides attractive debt and equity financing, worthwhile projects often need a relatively small but critical amount of money as part of their total financing package on terms unavailable from any other source.

The other likely use of a Housing Development Fund would be making "predevelopment loans". Project sponsors and developers often have to spend money to explore the feasibility of a project, or to preserve opportunities such as availability of a desirable property at an attractive price. Although funds for those expenses can be structured as a loan, there is very little or nothing to secure it. Predevelopment loans are often made with repayment contingent on the project proceeding and securing other financing; if the borrower could assure repayment independent of that contingency, they probably wouldn't need the loan at all. Since the loans are made at such an early stage in the project that feasibility is extremely difficult to judge, the lender must be prepared to treat the loan as a grant.

Project Application

"Gap financing" may be in the form of a grant, a first mortgage loan or a subordinated loan at very low interest, a loan in which part or all of the interest or repayment is deferred, a loan with contingent repayment, or an equity

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investment willing to defer any return until some point in the future. Currently, projects and borrowers who need that kind of capital are dependent on limited public funds or foundation grants, and there simply are not enough of those funds to support neighborhood revitalization on the scale Des Moines needs.

In addition, other "gap financing" is often available only at certain times of the year, and the timetable used by funding sources for accepting proposals and allocating funds may not match the timing of project opportunities. Funding from other sources is subject to criteria and guidelines which reflect the priorities of the sources, and may or may not match the needs of the neighborhoods and the objectives of projects designed to meet those needs. Projects which have taken months to put together may fall through for lack of 5-10% of their total financing. A more flexible Housing Development Fund could help to solve that problem.

Almost any project intended to provide housing for low or moderate income residents will need some kind of "subsidy" to keep costs affordable. Some housing intended to attract residents with somewhat more comfortable incomes to neighborhoods in need of revitalization may have to be offered at a below-market price, and that can also require subsidies. Lower-interest debt financing helps to make project budgets work, but lenders want their loans repaid, and may be cautious in making assumptions about the value of the property which provides security on the loan. "Gap financing" is another way to reduce the risk to the lender.

Owner-occupied housing as well as rental or cooperative housing can use "gap financing". An outright grant could reduce the purchase price of a home. A low-interest second mortgage could reduce the monthly payments required from home buyers. Some home ownership programs have used deferred-payment loans, repaid when the home is sold. On such loans, interest only can be paid on a current basis, with the principal deferred, part of the interest can be deferred along with principal, or the entire debt can be deferred. Some programs have used a "co-investment" model, in which equity is provided in return for a share of the appreciation in the home's value at resale, rather than a loan with a fixed amount of interest due.

10. Revolving Loan Fund

Structure of the Fund

This technical memorandum describes some of the structural, management and operating considerations which apply to the creation of a Revolving Loan Fund. It is not intended as a comprehensive "blueprint" for such a Fund, but rather to discuss some of the major issues involved in designing a Fund in response to Des Moines' needs and priorities.

Most Revolving Loan Funds are created as incorporated entities. It would be possible to operate a loan fund as a less formal "association" of participants. However, that probably would be more cumbersome, since the relationship among the participants in a loan — as well as the relationship between the lenders and the borrower — would have to be spelled out for each individual loan.

If the Fund is created as a corporation, there are two basic ways the participants can relate to one another and their funds can be used to make loans. The first is for the corporation to borrow funds from the participants and re-lend them to individual borrowers. However, that usually requires some written agreement about the use of the funds borrowed by the corporation from the participants — such as issuance of a "mortgage-backed security" — and that can lead to additional complexity either to comply with or achieve an exemption from state and federal securities law.

The second arrangement is for the corporation to originate loans directly on behalf of the participants, who are its members. In that model, each participant holds an ownership interest in each loan. It is a one-step transaction, rather than two-step, and is simpler in many ways. Since a mortgage position in the property financed is usually the only security for the loan made with the participants' funds, the alternative of a loan from the participants to the corporation would not reduce the financial risk to the participants.

Most of the other structural issues can be decided based on the preferences of the participants. The corporation could hire staff or enter into a contract for services with another entity. The board of directors of the corporation could approve loans itself, or it could create a committee for that purpose. Decisions on loans and other business matters could require unanimous consent or

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be based on majority votes. If there is a majority process, votes could be allocated one to each participant or weighted based on the amount of their participation. All participants could be required to participate in all loans, or participants could be allowed to take part in some loans and not in others. Some participants, however, might be subject to legal restrictions on the use of their funds.

The remainder of this Memorandum discusses the range of loans which could be made by the Revolving Loan Fund, the benefits and costs to the projects and their sponsors, and the risks and benefits to the sources of the capital.

Construction Loans

Brief Description

Construction loans finance a project while the physical product is being produced. They finance not only acquisition of the property and actual construction expenses, but all of the associated "soft costs" such as professional fees, real estate taxes and other expenses during construction. If those costs have been financed with a predevelopment loan, the construction loan repays that earlier loan. Construction loans also pay the costs of selling the property, if the project is for home ownership. Those costs include marketing or broker's fees, and holding costs such as real estate taxes and insurance. Construction loans cover similar costs for rental housing, because permanent mortgage lenders usually will not take over until a certain percentage of occupancy has been achieved. Construction loans usually have a term of one year or less.

Benefits to Housing Projects and Sponsors

Construction loans are made by many conventional lenders, and can be obtained readily if the sponsor has a demonstrated track record and the risk is acceptable. Conventional construction loans are often made at interest rates that include a risk premium of 1-2% above the interest rate on permanent mortgage loans for the same kind of project.

The benefits to projects and sponsors of an alternative source of capital for construction loans are (1) lower interest rates, and (2) lenders willing to accept higher risks. Interest paid on construction loans can be substantial, easily 5-6% of the total project budget, depending on the rate and the length of the construction period. The amount of money borrowed is large, and delays in construction or marketing keep the meter running on accrued interest. Sponsors can spend more money on improving the quality of the project or lowering costs to residents if interest rates can be reduced.

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However, many sponsors of lower income housing projects benefit more from the willingness of construction lenders to accept higher risks than they do from lower interest rates. Some sponsors have difficulty getting conventional construction financing because they have limited experience at managing development projects, and because the market is weak in neighborhoods where they work. They rely on alternative capital sources for the construction financing they need.

Risks and Benefits to Providers of Capital

Any construction lender faces the normal and unavoidable risk of the project going awry before completion, and their loan not being repaid in full. Unexpected increases in construction costs, or delays in building and marketing, can jeopardize commitments of permanent financing. A sponsor may abandon a project before construction and marketing are complete, forcing the lender to foreclose and finish the project or find another developer to take it over in midstream. If the borrower does not complete the project, the value of the real estate in an unfinished state seldom has as much value as the amount the lender has "exposed". Like predevelopment loans, construction loans are also risky because they are repaid in a lump sum. The lender doesn't know, until it happens, whether all of the money will be repaid, and can't "hedge their bet" by getting part of their money back as the project progresses.

Other risks are more under the lender's control, in the sense that they depend on the lender's own decisions regarding sponsor capability, the nature of the project, and the market for the real estate which provides the ultimate security for their loan. Is the sponsor more likely to lose control of the project because of limited experience? Will the project be more difficult to market because the housing is specialized? Are the permanent financing commitments in place, and are they subject to contingencies which might be difficult to meet? Is the loan-to-value ratio too high? Construction lenders must assess all of these, and other factors.

There are additional risk factors because of the kinds of projects and areas in which revolving loan funds are often involved when they are created to stimulate neighborhood revitalization. In "soft" home ownership markets, construction lending for new construction or rehabilitation without an identified buyer is risky because the home simply may not sell, or may sell for less than the amount of the construction loan. The property might be used for rental housing as a fall-back, but the developer may not want to own and manage rental housing or may not be qualified to do that.

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The property may also be worth less as rental property. The amount neighborhood residents are willing to pay in rent will most likely be less than the monthly payment a home buyer might make, and almost certainly will be no more, but there are additional costs that have to be built into an operating budget for rental housing. In turn, that means not as much would be available to pay debt service on a permanent mortgage, and so repayment of the construction lender's loan could be jeopardized.

The benefits of construction loans to providers of capital are mixed. The financial benefits depend entirely on the rate of return charged. A construction loan can be made at below-market interest rates, and therefore benefit the project, yet still provide a higher rate of return than some other investments. However, the risk is also higher than for other investments.

Availability of a construction loan from an alternative lender can make the difference between a project happening and not happening at all, if the project presents risks that conventional lenders are not willing to accept on their own. However, making construction loans can seem very complicated and not very exciting to alternative capital sources who want to use their money for innovative projects. Most alternative construction loan funds are created by private lenders who are comfortable assessing the risks and deciding which ones they're willing to accept.

Management Issues

Construction lending is a fairly complicated business. Underwriting — evaluating the risks presented by a project — is a job for experienced professionals. Construction loans are advanced to the borrower in installments as construction progresses, and managing this process is also a job for people with experience. It takes training to decide whether the quality of construction completed justifies putting additional funds at risk. In addition, construction lenders use other professionals — lawyers, appraisers, inspectors and escrow agents — to make sure their funds are protected. Few sources of alternative capital want to get involved directly in hiring and supervising those people, as well as “in-house” loan staff, and so contracting with another entity is likely to be preferable.

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Bridge Loans

Brief Description

Bridge loans are fairly unusual and many conventional lenders would not even recognize the term. They are what the name suggests — a bridge between one kind of financing and another. Examples are: (1) a loan to replace construction loans on individual scattered-site rehabilitation projects, to allow the sponsor to assemble a larger group of properties for a single permanent mortgage loan; or (2) a loan to a sponsor with limited experience at housing management, where the permanent mortgage lender will not take over until management capability has been demonstrated. Bridge loans are used primarily for rental or cooperative housing projects. They are relatively short-term loans of one to three years.

Benefits to Housing Projects and Sponsors

Bridge loans don't have a financial benefit to projects as much as a "go or no-go" benefit. Any interest rate savings they may offer lasts only as long as the loan does, which is a short time. They are repaid in installments, like permanent mortgage loans. If the interest rate is comparable to the rate on the permanent mortgage, the costs carried by the project are no higher, but no lower than they will eventually be. If the bridge loan interest rate is lower, the lender will still usually require that the project be able to make monthly payments as high as will be required by the permanent mortgage.

However, some projects cannot obtain permanent financing at a feasible interest rate without a delay between repayment of the construction loan and closing of the permanent mortgage. Then a bridge loan is essential. The same is true if permanent financing can only be closed later, regardless of the interest rate.

Risks and Benefits to Providers of Capital

A bridge lender is in a middle position in terms of the project's life and in terms of risk. Since bridge loans are closed after the housing is built and occupied, they do not carry the risks of the construction and marketing period. The lender does get monthly payments during the term of the loan, although no significant amount of principal is repaid. Sometimes bridge loan payments are interest-only because the monthly principal payment would be so small. However, the lender is repaid interest on a current basis. In addition, each monthly payment gives some comfort that the next one will be made. Any or all of the principal outstanding is repaid in a lump sum, when the permanent mortgage loan closes. If that doesn't happen, the bridge lender may not lose money, but may become a long-term lender by default.

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Another kind of risk depends on the terms of the loan. Sometimes, bridge lenders are asked to commit their funds before a commitment of permanent financing has been obtained. They share the risk that the project sponsor will be able to secure a commitment later. In other cases, the commitment of permanent financing may have contingencies which give the permanent lender an "out", or the interest rate may not be locked in because the loan will be closed too far in the future. How much of that kind of risk the bridge lender carries depends on what terms they are willing to accept.

The benefit to the bridge lender is a combination of interest earned and a shorter period of risk, if the project works out as planned. The bridge lender also has the satisfaction of playing a unique role, one which few other lenders would be willing to play. They have really enabled a project to happen, rather than just saving the project money. Some creative projects can only happen if a bridge loan is available, and so their role is crucial.

Management Issues

The need for bridge loans is unusual and occasional enough that it might be more feasible for individual sources of alternative capital, or a group of sources assembled ad hoc, to make them on their own for specific projects. If there is a firm commitment of permanent financing, that lender has presumably underwritten the project, and the bridge lender can rely on that judgment. The only management tasks are collecting monthly payments, passing them on to the individual capital sources, and monitoring the project for problems which could interfere with closing the permanent loan. Bridge lenders might be able to hire a local conventional lender to play that role, especially if that lender has made the permanent loan commitment. However, if a broader-purpose loan fund is to be created in any case, it makes sense to include bridge loans as one of the loan types offered.

Accelerated Principal Payment Loan (APPL)

Brief Description

APPLs are five-year loans at below-market interest rates used for rental or cooperative housing projects. Monthly payments are calculated so that enough principal will be repaid by the end of the loan term to allow refinancing of the outstanding balance at conventional interest rates. Depending on the cost of the funds used during the APPL term, the monthly payments may be lower over the long-term life of the project than payments on market-rate loans.

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Benefits to Housing Projects and Sponsors

The most important benefit of the APPL is that it allows projects to obtain conventional financing at the end of the term. Conventional lenders are often reluctant to take a risk on a new project developed by a sponsor with limited experience. But after the APPL term, the sponsor has built up sufficient equity in the project to refinance at terms that will make conventional lenders comfortable.

Even when a project can support market interest rates, a sponsor can use an APPL to accelerate principal repayments and refinance at the end of the term. That gives the project a more comfortable cushion against high interest rates on the replacement loan. If rates in the future match the assumptions used in loan underwriting, the project may actually produce cash at refinancing. After the APPL is paid off, the cash can be used to repair or improve the project or to provide a subsidy fund to use in other projects. Thus the low interest rate on the APPL gives the sponsor an incentive to set up a "savings account" within the project financing.

Risks and Benefits to Providers of Capital

The only risk to the lender on an APPL is the normal risk of permanent mortgage lending — whether the sponsor can manage the project competently, maintain occupancy and keep operating costs under control.

The accelerated principal payment that makes APPLs attractive to borrowers also reduces the risk to lenders. The capital providers do agree to accept a below-market interest rate for a definite term, but once they do that, they receive payments of interest on a regular basis. Each monthly payment on the loan repays them a larger part of their principal than would be true in a conventionally-amortized loan. They make a limited-term loan, but with much greater assurance of being taken out at the end. As the principal balance on the loan declines rapidly, so does the loan-to-value ratio. That also maximizes the ease of refinancing because the risk to the replacement lender will be lower even if the project value or values in the surrounding area remain unchanged or decline. APPLs are a safe way to use lower-interest money as a temporary part of permanent financing, safe for both borrower and lender.

APPLs can accommodate capital sources who want to commit different amounts of money at different interest rates. Each participant simply owns a pro rata share of each loan, and the interest rate to the borrower is a blended rate of all funds used. That feature also allows capital sources to share the lending risk, and to spread it across a larger pool of loans.

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Management Issues

Because APPLs are made like permanent mortgage loans, they should be underwritten and managed by professional lenders. Because they can be used by a large number and variety of projects, it makes most sense to offer them as part of a lending program rather than as individual loans negotiated for specific projects. The complications arising from participation pools and blended interest rate as described above make professional management of these loans a virtual necessity.

Equity Capital Loans for Syndication

Brief Description

In syndications using Low Income Housing Tax Credits, investors often wish to make their equity payments over several years. They may not have access to enough cash to make one lump-sum payment, and spreading out their investment increases their rate of return because the return itself is earned over time. Project sponsors, however, almost always need most or all of the equity funds as part of the project's interim or permanent financing. Using equity capital loans, sponsors can receive the funds up front, repaying the loan as the investors make their equity available, on a specified schedule.

Benefits to Housing Projects and Sponsors

If the sponsor can obtain an equity capital loan at a low interest rate, the net amount available from syndication is larger. The alternative is to ask investors to make the entire equity investment at once. Usually, if they agree, investors must borrow funds to finance the payment, and the interest rate will be relatively high. If investors use their own funds, they "charge interest" themselves, by reducing the total amount they will invest.

It is difficult for sponsors to secure equity capital loans from conventional lenders, even at market interest rates. Conventional lenders are not used to loans with annual rather than monthly payments; their overall operations are based on more regular cash flow. In addition, conventional lenders may be uncomfortable relying on payments from individuals or corporations as limited partner/investors. They may be concerned about investors' ability to make payments, and about investors' response if the project develops problems during the period over which equity payments are due.

Risks and Benefits to Providers of Capital

Alternative capital sources as makers of equity capital loans for syndication face the same risk that conventional lenders would. If the project develops problems, limited partners will not withhold their equity payments entirely because that could create a financial crisis and jeopardize their own investment. However, they may delay more cash advances until the sponsor/general

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partner assures them that the problems will be solved. As a practical matter, the project has no other way to generate cash to repay the equity capital lender, and so the lender is at risk. It is common for equity capital lenders in syndications, whether they are conventional or alternative lenders, to require the limited partners to co-sign the bridge loan note and sometimes to provide a performance bond. Sometimes they require the same of the syndicator, and may even take a mortgage position in the project, if one is available.

As an alternative to an equity capital loan, limited partners may "self-finance" the staged pay-in of equity capital, keeping the amount they invest in the project the same as it would be with a low interest bridge loan. However, even socially-motivated investors usually feel they are doing enough by investing in the project, carrying the risks, and perhaps accepting a lower rate of return on the investment itself. They feel that some other source of capital should provide the low interest equity capital loan.

Management Issues

Equity capital loans could be arranged directly for individual projects, rather than being offered through a larger program. Equity capital lenders usually want information about the limited partners and their financial position, and about the syndicator if there is one. Since these are not really real estate loans, they do not want to rely on the project itself for repayment. If they feel they have to evaluate the feasibility of the project, it may be an indication that they can expect problems with payments from the investors. Some alternative capital sources, however, may want advice from another party familiar with syndication in general, and so may find it preferable to have such loans managed as part of an multi-purpose loan fund.

"Mini-Perms" for Home Buyers and Rent with Option to Buy Loans

Since these loans would be structured similar to Accelerated Principal Payment Loans for rental or cooperative housing, the benefits to borrowers and the risks and benefits to providers of capital would also be similar. There is a different element of risk to the lender in that repayment of the loan is contingent upon the ability of individual households to secure replacement financing on terms they can afford.

If the loan is made to a "sponsor" for a rent with option to buy program, they may be able to repay part but not all of the loan, because some but not all of the tenants becoming home owners are able to arrange financing. As in the case of construction loans on homes intended for sale to home owners, the

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sponsor might not be interested in continuing to manage the property as rental housing, and an uninterested manager is not a good risk. A smaller number of properties might not be cost-effective for them to manage, even if the original number was. If the loans are made to individual home buyers, the risk is that what was intended as a limited-term loan becomes a longer-term loan, and possibly an indefinite-term loan, by default.

There are two additional management considerations, in addition to those which apply to APPL loans for rental or cooperative housing. First, if a rent with option to buy program is designed to create a home ownership opportunity for people who are unable to qualify for mortgages initially because of credit problems, the quality of the sponsor's counseling program is critical. The interim lender should be comfortable that whatever problems stand in the way of the household becoming an owner are clearly identified and addressed, and that their progress is carefully monitored. That is just as important to the household as to the lender. A family nominally offered the opportunity for home ownership but not genuinely equipped to make it feasible is not being well served, and that should concern the lender who is a party to the situations as much as it does anyone else.

Second, the lender, the sponsor and the family should be sure that there are lenders willing to offer refinancing at the end of the loan term who will consider the amortization of principal made possible by the family's payments as accrued equity — the equivalent of a down payment for underwriting purposes. Conventionally, lenders and mortgage insurers would consider such an arrangement as simply a reduction of the purchase price by the seller, in a rent with option to buy program.

It will undoubtedly be impossible to secure a firm advance commitment to make a refinancing loan at the end of the loan term from any lender. The lender would have to make their commitment contingent upon the borrower meeting underwriting standards then, even if they do now, and no one could be sure that the buyer could afford payments at an unknown interest rate. However, it would be very important to obtain agreement from a lender or lenders to consider providing replacement financing if the family does qualify, and that the family's equity build-up will be counted as a down payment.

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Second Mortgage Down Payment Loans

Brief Description

Second mortgage down payment loans could be made to low or moderate-income home buyers so that they can qualify for a conventional mortgage loan, or so that home buyers would have to use entirely their own funds to purchase a home. The loans would be intended to build up the level of home ownership in neighborhoods, to stabilize the real estate market and to encourage reinvestment by private lenders.

Often, first-time home buyers with modest incomes have not been able to save enough to make substantial down payments on homes they might wish to buy. FHA or private mortgage insurance is available for loans with small down payments, but mortgage insurance underwriters have become increasingly restrictive in their underwriting standards, which has particularly impacted lower-income buyers and older neighborhoods. Private lenders sometimes have negative perceptions of "FHA neighborhoods". The Federal National Mortgage Association (FNMA, or "Fannie Mae") recently initiated a program to encourage neighborhood revitalization. FNMA normally will only purchase mortgage loans with a maximum 80% loan-to-value ratio. In its new program, FNMA will purchase mortgages from local lending institutions in which the borrower makes a down payment as low as 5%, another lender makes a second mortgage loan for at least 15% of the purchase price, and the first mortgage is 80%.

Sometimes, home buyers who could come up with enough to make a down payment, or who could qualify for private mortgage insurance, may be reluctant to invest their funds in purchasing a home. They may be no more confident of the neighborhood's future than others are, and they may feel like they have more to lose if the money required for a down payment represents a substantial part or all of their savings.

Benefits to Borrowers

Depending on the financial situation of the individual borrower and the terms on which the loan is available, a second mortgage down payment loan may be the only real way they can afford to become home owners. The interest rate and term of the second mortgage loan, as well as the sales price of the home, determines the income level of the home buyer who could be assisted. Sometimes programs are designed to assist home buyers who can make larger monthly payments but have small amounts saved for down payments. Other programs are designed for lower-income home buyers. The lower the interest rate and the longer the term, the lower the combined first and second mort-

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gage payment. Some "down payment assistance" programs involve repayment of only part of the loan in regular installments, with repayment of the balance when the home is sold. The faster the second mortgage loan is repaid, the faster the home owner builds up equity, but faster repayment requires a higher income.

Risks and Benefits to Providers of Capital

The principal risk to the capital sources for down payment second mortgage loans, as it is in any other loan, is nonpayment. However, down payment lenders take an unusually high-risk position. The underwriting standard that home ownership mortgage loans should be no more than 80% of the property's appraised value, without some form of mortgage insurance, is based on two assumptions. First, property values in the area may decline. Even if that isn't a trend over the long term, interest rates and other factors could create a downturn in values at the time the lender has to foreclose and try to sell the property. Second, there is an assumption that home owners will have a greater stake in keeping property maintained and continuing to make payments if some of their own money is at risk. Although most second mortgage down payment loan programs do require that the home buyer have some of their own funds invested, the amount is typically less than the 20% that conventional underwriting standards suggest.

In some communities, neighborhood-based employers have provided funds to make such low-interest second mortgage down payment loans. They have included manufacturing firms and institutional employers such as hospitals or universities. The employers have an interest in stabilizing and improving the neighborhoods in which they are located. They have found that their work force is more stable and reliable when employees live closer to their jobs, and that employees have more positive attitudes toward employers who are helping to improve the community. Finally, institutional employers often have substantial numbers of employees with fairly modest wage levels, and assisting them to purchase affordable housing is in the interest of both employer and employee. In other words, those funding sources have motivations of their own, and benefits they realize, that compensates for their risk as lenders.

Management Issues

If the source of funds for down payment second mortgage loans is employers making such loans to their own employees, it might be easier for them to create that program separately themselves. They might, however, wish to contract with the staff which manages the Revolving Loan Fund to make and service the loans.

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If other funding sources participate in such loans for the broader purpose of expanding housing opportunities for low and moderate income people and encouraging neighborhood revitalization, it would make more sense to incorporate that loan "product" within the Revolving Loan Fund itself.

In either case, the underwriting task would be different than for most other loans. The primary emphasis would have to be placed on evaluating the credit history and personal motivation of the borrower, rather than the value of the home as security. These loans are more akin to personal loans than to real estate loans.

11. Housing Equity Fund

This Technical Memorandum describes some of the structural, management and operating considerations which apply to the creation of a Housing Equity Fund. It is not intended as a comprehensive "blueprint" for such a Fund, but rather to discuss some of the major issues involved in designing a Fund in response to Des Moines' needs and priorities.

In this Memorandum, "tax credits" means Low Income Housing Tax Credits under the provisions of the 1986 federal Tax Reform Act, unless otherwise noted. This Memorandum is intended only as a summary of some features of tax credits and of their use, and should not be interpreted or understood as a full description of any or all applicable provisions of tax or securities law. Project sponsors and potential investors should obtain the advice of qualified attorneys and accountants before making any decisions about a Housing Equity Fund or investment in specific projects.

The information in this Memorandum reflects current provisions of federal tax law. As of this writing, Low Income Housing Tax Credits are subject to a "sunset" at the end of 1988. Although legislation has been introduced to extend or remove the sunset date, and the prognosis for its passage is generally favorable, that cannot be assured. Changes in the specific provisions of the law may be made as part of legislative action, and those are difficult to predict with any accuracy.

Summary of Syndication Using Federal Low Income Housing Tax Credits

Brief Description

Federal tax law offers certain benefits to owners of rental housing for lower income residents as defined by specific income and rent limits. The most important benefit is the Lower Income Housing Tax Credit, a dollar-for-dollar credit against tax liability, earned annually for ten years. The credit amount is calculated against the tax basis of the real estate, essentially the original development cost. The amount of the credit is different for acquisition vs. construction costs and for federally-subsidized or assisted financing vs. private or local public financing, but can be as high as 90% of the construction costs over ten years.

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The ownership entity in syndication is a limited partnership, in which the equity investors are limited partners and the sponsor/developer is the general partner. The word "syndication" comes from that ownership structure, which allows a "syndicate", or group, of corporations or individuals to participate in the project in specific ways. The financial liability of limited partners is the amount of their equity investment; all other obligations are carried by the general partner. The limited partners must also have a passive role in management of the project, to preserve their limited liability.

Both corporations and individuals can be limited partner investors in syndications using Tax Credits. Federal law places limits on the income of individual investors, and on the amount of tax credits and deductions they can use. Corporate investors are allowed unlimited use of tax credits and deductions.

Benefits to Housing Projects and Sponsors

Basically, the equity investment made by limited partners can provide funds to a project which act very much like a grant. Most or all of the return on investment is provided by the federal tax benefits, and sponsors may not have to pay investors anything from the project's operating budget. The rate of return on investment can be very attractive. However, if socially motivated investors are involved, the rate of return may be lower, with more equity funds available to the project. Generally speaking, projects have generated as much as 25-40% of the total development cost from equity investments in tax credit syndications.

Some projects offer investors cash flow from operating income, and a share of profits at resale or refinancing, as additional return on investment. Those arrangements cost the project money, but amount to little on a current cash basis. Profits at resale are fit into a refinancing scenario which preserves the affordability of the project to lower income residents.

The non-financial costs of syndication are a great deal of complexity in the legal arrangements, and usually the need to attract other subsidy funds to make project rents fit within federal restrictions. Experience has shown that syndication by itself does not produce enough equity capital to make the project work without subsidies, even if investors accept a somewhat below-market rate of return. Some subsidy funds, in turn, make the syndication itself less effective because they involve federal dollars which earn a lower credit percentage within the project's development costs. That results in a complicated balancing act for the sponsor.

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The cash costs of syndication can also be substantial, reducing the net equity capital available to the project. Those costs include legal and accounting fees and the fees of a syndicator or licensed securities dealer who acts as an intermediary with investors.

Risks and Benefits to Providers of Capital

One risk to investors is the poor liquidity of the investment. To qualify for tax credits, the project must be maintained as low income housing for 15 years even though tax credits are earned over only ten years. The original investors can withdraw from the limited partnership only if they post a bond with the Treasury Department guaranteeing that the housing will remain in compliance with the law. As a practical matter, that requirement makes it impossible for them to leave the partnership.

The other primary risk is that the housing will fall out of compliance with the federal income and rent restrictions. If that happens, investors lose tax credits until the project is brought back into compliance, and they are subject to recapture of the benefits already earned, with penalties. Although the investors have limited financial liability for the project within the partnership agreement, they may be forced to invest additional money to keep the project in compliance. That, of course, reduces their rate of return, but is the only way they can protect themselves. They cannot step in and take an active role in management of the housing.

The investors also have to contend with the complexity of creating the limited partnership and making sure all federal requirements are met. Loan documents are simple in comparison to limited partnership agreements and the tax counsel's opinion which accompanies a syndication offering.

The primary benefit to investors is that they can make a substantial impact on the affordability of the project and still earn a reasonable rate of return from the tax benefits. Their return on equity is more predictable than relying solely on profit from appreciation in the value of the project.

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A More Detailed Discussion of Tax Credits and Syndication

Definition of "Low Income Housing Tax Credits"

Low Income Housing Tax Credits are dollar-for-dollar credits against income tax liability which can be claimed over a ten-year period by owners of rental housing occupied by low-income residents.

Value of the Tax Credits

- An annual tax credit of approximately 9% of the owner's basis in the property for any construction or rehabilitation costs of "qualifying units".
- An annual tax credit of approximately 4% of the basis for acquisition costs (except for land acquisition, for which no credit is allowed) of "qualifying units", or for construction or rehabilitation costs financed by federally-subsidized funds.
- Credit percentages are set monthly by the Treasury Department to reflect a present value of 70% or 30% of the credits earned over a ten-year period. Once set, they remain fixed for the life of the project unless the project falls out of compliance with requirements of the law. The owner's basis in the property is not adjusted for depreciation.

Definition of "qualifying units"

- Housing units occupied by residents with incomes at or below 50-60% of the area median income (qualifying income level is elected by the owner initially, and cannot be changed subsequently).
- Housing units with rents paid by residents, including utilities, no higher than 30% of the qualifying income level.
- Rent subsidies can be used to pay part of a tenant's rent, do not reduce the basis for tax credits even if federal funds are used, and can be based on total rent higher than 30% of qualifying income levels as long as tenants themselves do not pay in excess of 30% of the income limit for the applicable size of household. In other words, rent restrictions apply only to rents paid directly by residents.
- Housing units which meet both tests for a period of at least 15 years.

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Tax credits are earned on a percentage of the project's basis based on the number of qualifying units compared to the total number of units in the project, or the floor area of qualifying units compared to the total floor area in the project, whichever is less. Low income units must be comparable to other units, except for size.

Other Eligibility Criteria for Tax Credits

- Projects must have at least 20% of the housing units affordable to and occupied by residents with incomes at or below 50% of the area median income OR 40% of the units affordable to and occupied by residents at or below 60% of median.
- Rehabilitation expenditures must be at least \$2,000 per housing unit to qualify for the higher credit percentage for rehabilitation as opposed to acquisition.
- Any federal grants must be excluded from the basis before credits are calculated. Grants from any source other than federal funds can be included in basis, however.
- Tax credits cannot be used for owner-occupied buildings of four or fewer units, buildings with leases of less than six months, most health care facilities, retirement homes or mobile home parks.
- Credits for acquisition costs cannot be claimed if a previous owner has "placed the building in service" as rental housing during the previous ten years. In other words, ownership of a building used as rental housing must not have changed hands during the previous ten years.
- A limited amount of tax credits are available in each state annually. Projects must receive an allocation of tax credits from the state agency designated to exercise that authority, and must meet any additional restrictions imposed by that agency.

Other Forms of Return on Tax Credit Projects

- Depreciation can be taken as a tax deduction on a 27.5-year, straight-line basis.
- Normal expense deductions can be used as "tax losses".

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- Investors can receive a share of any net cash flow from operations and a share of profits at resale or refinancing.
- If the project qualifies for historic tax credits, they can be taken as well. However, the value of historic tax credits must be deducted from basis before Low Income Housing Tax Credits are calculated.

Investors Who Can Use Low Income Housing Tax Credits

- Individuals and most corporations (except personal service corporations, S corporations and closely-held C corporations) can use the credits.
- However, individuals can use only a limited amount of credits or tax losses to offset any income other than “passive income” from other ventures in which they are passive participants. That is, there are limitations on using tax credits to offset taxes on income such as wages, salaries or income from active investments. Individuals with adjusted incomes above \$250,000 cannot use tax credits at all.
- Eligible corporations are exempt from “passive loss restrictions”, and can use any amount of tax credits or tax losses from eligible projects. Penalties for failing to comply with income, rent or other restrictions
- Any future use of credits is lost, as are credits for the year in which non-compliance occurs.
- Taxes are recaptured on the “accelerated portion” of credits previously claimed. The accelerated portion is one-third of the credits claimed, since credits are used over a ten-year period but “earned” over the 15-year compliance period.
- Accrued interest must also be paid on the taxes due because of recapture.
- Any sale of the project during the 15-year compliance period triggers recapture, unless the seller posts a bond with the Secretary of the Treasury to assure continued compliance.

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How Investors Participate in Syndi- cated Projects Using Low Income Housing Tax Credits

- Investors become partners in a limited partnership created to own the real estate. Investors are “limited partners — meaning that they have limited liability and limited involvement in both development and management of the housing. The two are linked; there must be restrictions on the participation of limited partners, written into the partnership agreement, in order for them to protect their limited liability. They must be “passive” investors.
- The financial liability of the investor/limited partners is limited to the amount of their equity investment. Under federal tax law, financing used for the project must be “non-recourse” — that is, secured only by the assets used by the limited partnership, without recourse to any assets of the individual partners.
- The “active” role in the project partnership is played by one or more general partners. General partners are the “developers” or “sponsors” of the project. They are often nonprofit development corporations (or a subsidiary), for-profit developers, or joint ventures of nonprofit and for-profits. There can be one or a number of general partners. At least one general partner must have net worth of at least 15% of the amount of equity capital invested by the limited partners.
- The investor/limited partners make an equity investment or “capital contribution” to the limited partnership, typically in return for 99% of the income, losses and tax credits. Limited partners usually receive a smaller share of any after-tax profit from resale or refinancing after 15 years.
- The amount of the equity investment is negotiated between the general partner and the limited partners, as is the schedule of equity payments.

Structuring a Housing Equity Fund

A Housing Equity Fund must be organized as a partnership, in order for the tax benefits to be passed through to individual corporations. It can be structured as a general partnership or a limited partnership. In a general partnership, each of the partners is completely liable for all of the obligations of the partnership. That might seem more risky, because some of the partners might default, and the remaining partners would either have to “stand in” for them or take legal action against them to enforce their obligations.

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However, some attorneys believe that a limited partnership in which all the partners have limited liability might be subject to being considered as having the character of a corporation by the IRS, and tax benefits cannot be passed through to shareholders of a corporation. The only way to protect against that risk would be for one or more of the partners to assume the role of a general partner. Since the only distinction between investors in an Equity Fund is the amount of their investments, none of the partners is likely to be willing to assume the total risk on behalf of the entire partnership. Consequently, they may as well all share the risk in common.

Someone has to manage the day-to-day business affairs of the investing partnership — must be the “managing partner”. In the model created by the Chicago Equity Fund, now being replicated in other cities and in Wisconsin, a nonprofit corporation plays that role. In that model, a different set of investors is assembled to invest in projects using tax credits available in each calendar year. The nonprofit corporation acts as managing general partner for all of the investing partnerships. The board of directors of the nonprofit corporation, elected by all of the investors, makes business decisions including selection of projects for investment. An Investment Committee consisting of a representative of each of the investors in each year’s investing partnership can veto decisions of the board.

In most corporate equity funds, all of the investors share pro rata in every project investment. A fund could be structured in which individual partners have the ability to select projects in which they wish to invest. However, that could very easily lead to disputes and to some projects having few or no investors interested in providing equity capital. For that reason, the provision for mandatory pro rata participation is more acceptable. The partners could agree among themselves that investment decisions be unanimous; that is purely a business decision among the participants.

12. Housing Development Fund

This Technical Memorandum describes some of the structural, management and operating considerations which apply to the creation of a Housing Development Fund. It is not intended as a comprehensive "blueprint" for such a Fund, but rather to discuss some of the major issues involved in designing a Fund in response to Des Moines' needs and priorities.

The issues related to structuring the program are substantially the same as those discussed in the Technical Memorandum on the Revolving Loan Fund, and so they are not repeated here. This Memorandum discusses the range of loans which could be made by the Housing Development Fund, the benefits and costs to the projects and their sponsors, and the risks and benefits to the sources of the capital.

Predevelopment Loan

Brief Description

Predevelopment loans enable project sponsors to establish the feasibility of a project and demonstrate it to other sources of financing in order to secure firm financing commitments. Such loans are typically used for options on sites or buildings; legal, architectural, engineering, consulting and appraisal fees; market studies; application fees for other financing; and similar expenses. Predevelopment loans usually have a term of about six months, although the term is hard to control. Before a project has secured construction financing, there is no realistic way to "call the loan due".

Benefits to Housing Projects and Sponsors

The major benefit of predevelopment loans is that they allow projects to proceed even though the sponsor has little or no working capital. Predevelopment loans are high risk loans, because they are made before it's clear whether there is a feasible project. They are virtually impossible to get from conventional financing sources, so they are made by alternative lenders or not made at all.

Predevelopment loans can also improve the timing and quality of preliminary work done on projects. To avoid spending money in the predevelopment stage, sponsors sometimes persuade providers of professional services to work free or on a contingency basis. When professionals agree to work "on spec", they may spend less time or delay performing services because they're doing

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work without full payment. Even though they make similar arrangements with for-profit developers, they have less incentive to perform for nonprofit sponsors who are less likely to bring them repeat business, and who may not be able to bring the project to a successful conclusion. Use of predevelopment loans to pay professional fees can eliminate these problems.

Predevelopment loans also give sponsors more choice in project planning. If funds aren't available to pay for options, for example, the sponsor must limit its choice of sites to property whose owners will agree not to sell it, or—in the absence of such an agreement—to plan a project around a property that might be sold or used for a different purpose before the sponsor can buy it. With predevelopment loans for option fees, site control can be secured before extensive planning begins.

Predevelopment loans are usually made at low interest rates, but that has minor financial benefit to the project. The small loan amounts and short loan terms mean that accrued interest is minimal.

Risks and Benefits to Providers of Capital

As with any loan, the basic risk to lenders is non-repayment. However, the particular problem with predevelopment loans is that there is little basis for evaluating risk. Since so little is known about whether the project will succeed it's hard to assess probabilities. The lender must rely mostly on the reputation and demonstrated commitment of the sponsor to making projects work. There is some comfort if other financing sources have indicated interest in the project, but interest is not a "firm commitment" and may never materialize.

The additional risk is that there is little to secure a predevelopment loan, unless the sponsor has assets which can be pledged. The products purchased with predevelopment loans are of little value if the project does not proceed. If the original sponsor fails, an alternative sponsor can take over and repay the loan, or the lender can step in and carry out the project, but neither of these alternatives may be worth pursuing. Some predevelopment lenders are flexible enough to make repayment contingent on the project securing construction financing. That really puts them in the position of an equity investor; they get their money back, and their return, only if the project is successful.

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Theoretically, predevelopment lenders could charge high interest rates on the basis of risk. Since the amount of money involved is fairly small, sponsors might even be able to afford those rates. However, most predevelopment lenders don't charge high interest rates because their major motivation is assisting the project, not making money on the loan. This is the major benefit to the lender—satisfaction in helping a worthwhile project get off the ground.

Management Issues

Corporations or individuals usually make grants if they wish to provide predevelopment assistance directly. Very few of them go into the predevelopment loan business on their own. Instead, they place their money with an intermediary, someone experienced at evaluating housing development projects in their early stages. Such an intermediary is equipped to assess sponsor capability, which is the primary consideration. Capital sources may also want an intermediary capable of assisting the sponsor if a project runs into trouble, rather than waiting passively for the loan to be repaid.

Intermediaries usually do not assume the risk of loss on predevelopment loans. They insist that the capital sources carry it themselves. By using the same intermediary, a group of capital sources can share, and thus minimize, the risk.

Permanent Mortgage Loans

Brief Description

Permanent mortgage loans are made to spread the original development cost of a project over a long enough period of time to make monthly costs to residents affordable. These loans are made to the buyers of owner-occupied housing, or to the sponsors of rental or cooperative development projects. They are "permanent" not because they last forever, but because payments are made until the loan is fully repaid—usually for 20 to 30 years.

Benefits to Housing Projects and Sponsors

Every project needs permanent or long-term financing to replace its construction, bridge or other interim loans. The major benefit of alternative capital for this purpose is a lower interest rate, which reduces costs to residents or allows better quality projects. Alternative lenders may also be willing to accept higher risks, and a fixed interest rate which makes project operating costs more predictable and affordable to residents.

Permanent mortgage loans are the most basic kind of financing used in housing development. Conventional mortgage loans are fairly standardized with terms decided largely by factors outside of the lender's or borrower's control.

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Those terms include the interest rate and whether it is variable or fixed, the loan term, and the loan-to-value ratio. Whatever makes the loan better for the project makes it worse for the lender. Sponsors who can negotiate directly with alternative capital sources are more likely to arrange terms that fit the project's needs. They are also better able to reassure alternative lenders about the riskier aspects of the project. Finally, alternative lenders may be more willing to live with the basic problem that nonprofit, community-based sponsors have little or no net worth—no independent assets to back up the project if problems develop.

Risks and Benefits to Providers of Capital

Permanent mortgages are the longest-term loans used in housing. Looking at the down side—the risks—the longer the term, the more time there is for things to go wrong, in financial or other terms.

Aside from the normal lending risk—that of non-repayment—the biggest risk to capital sources is being locked in to the project for a long time. The conventional lending industry has solved that problem by developing standardized loans and mortgage-backed securities which are easily bought and sold. Any individual capital source can invest in those securities for as long as they wish, collecting mortgage loan payments as their current return, but trading them in if a new investment opportunity comes along.

By contrast, mortgages on lower income housing projects developed and owned by nonprofit organizations, in neighborhoods with uncertain futures, have extremely poor liquidity. If the original lenders need to use their money differently, they can't rely on another investor taking them out, especially at a low interest rate. The project may not be able to support a higher rate, or the sponsor may have agreed not to raise costs to residents as a condition of obtaining other financing. If the original investors become dissatisfied with the performance of the sponsor, they may have difficulty extracting themselves, and their own public image may suffer. Because they are usually local investors, with a presence and stake in the community, they may hesitate to exercise their rights to take action because the project depends on their money for stability.

The main financial benefit of permanent mortgage loans to capital sources is a predictable, stable rate of return as long as the housing stays occupied and operating costs are kept under control. The psychological benefits are modest;

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alternative sources of permanent financing do what other lenders do, but perhaps for a lower rate of return. Long-term mortgage lending is not very exciting, which is exactly what attracts many conventional investors. Usually, alternative capital sources make permanent loans only as lenders of last resort to borrowers or projects unable to get this most basic kind of financing anywhere else. Often, that fact makes even socially-motivated lenders uneasy.

Management Issues

Because large amounts of money are involved, permanent mortgages from alternative capital sources are usually arranged for specific projects, as opposed to being offered by a program. Only corporations experienced in real estate lending and investment make permanent mortgage loans directly. Other corporations or individuals who provide capital will want someone else, usually a conventional lender, to handle loan underwriting and servicing on their behalf.

If alternative capital sources want to be permanent lenders, they should probably participate in loans with a conventional lender who also has something at stake. By thus pooling funds, they can produce a lower blended interest rate and share the risk. At the same time, the conventional lender can provide the management expertise that alternative lenders lack.

Second Mortgage Loans

Brief Description

A second mortgage loan is used to provide part of the long-term financing for a project. It is used if the first mortgage lender is not willing to put at risk the full amount the sponsor can afford to borrow, or if the second mortgage is available on better terms. It is a "second mortgage" because the lender agrees to take a position subordinate to that of the first mortgage lender. Both lenders receive regular payments from the borrower, but if the project goes into foreclosure the first mortgage holder is repaid first. The second mortgage holder gets whatever is left. Second mortgage loans usually have terms comparable to permanent mortgage loans, 20 to 30 years.

Benefits to Housing Projects and Sponsors

The benefits to projects of second mortgage loans may be simply allowing the project to happen or lowering costs to residents. Sometimes, a project can make monthly payments that support a larger mortgage than the percentage of appraised value the primary lender is willing to lend. Even if the second mortgage lender charges the same interest rate, they may make a different judgment about whether the project is likely to succeed. The second mortgage lender may also believe that property values in the area will increase because

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of efforts of the sponsor, the local government or neighborhood residents, and that their risk will be reduced over time.

If the second mortgage lender will accept a lower interest rate, the sponsor may be able to produce a better quality project or reduce costs to residents. Sponsors usually determine the total monthly loan payment the project can afford based on keeping costs to residents at a given level. If part of the money is used to repay a loan at 10% interest and the rest to repay a loan at 6%, the payment will support a larger loan and more amenities can be included in the project budget. Or the sponsor can figure out what part of the project's cost has to be financed. If some of the money used for financing carries a lower interest rate, the monthly payment is smaller and costs to residents can be reduced.

Risks and Benefits to Providers of Capital

Second mortgage loans have the same risk as any other long-term loan—whether the project will be able to keep making payments covering what is owed. A second mortgage lender has the additional risk of being in a subordinate position. If the second mortgage loan increases the project's debt to value ratio, the second mortgage lender also carries the risk of whether that value will be there in case of foreclosure.

A second mortgage lender can reduce risk by lending for a shorter term. If they are willing to accept a lower interest rate, the project may be able to repay them faster and still keep monthly payments down.

Management Issues

A second mortgage loan works like a first mortgage, in terms of the need to underwrite and service the loan. Even if a second mortgage loan is made by a single capital source, an experienced lender may be asked to take that responsibility. If a number of capital sources pool their money to make second mortgage loans, they need someone to perform management functions on their behalf. It's probably not worth the time and effort to create a separate program to make these loans unless the capital sources want to make a number of them to different projects over time.

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Deferred Payment Loans

Brief Description

Deferred payment loans are loans in which all or part of what's owed is repaid at some specified future time, rather than in regular payments. Deferred payment loans can have regular payments of interest with principal deferred, part of the principal paid on a current basis and part deferred, part of the interest as well as part or all of the principal deferred, or the entire repayment deferred. The term is partly up to the lender, and partly based on when the project can repay the deferred amount, which depend in turn on the agreements made by the project's sponsor with other financing sources.

Benefits to Housing Projects and Sponsors

Deferred payment loans are similar to project grants or subsidies. The money they provide does not have to be fully repaid by income the project can generate, so the costs to residents can be kept down. Deferred payment loans give sponsors more flexibility than any other use of lower-cost money. However, both the sponsor and the lender must remember that the money is to be repaid. Both parties must understand how it will be repaid, and the project's financing must be structured accordingly.

Risks and Benefits to Providers of Capital

The risk to lenders in deferred payment loans is unique. A large part of what they are owed is available to them only in the future. The likelihood of repayment is based on reasonable, good faith projections of what the sponsor will be able to do at that time. Usually, deferred payment loans are repaid by refinancing the project, if that can be done on the terms projected at the beginning. If the sponsor has trouble covering the project's operating costs or keeping it occupied and maintained, refinancing may be difficult. The longer the term of the loan, the harder it is to guess what will happen.

In addition, deferred payment loans are almost always second mortgages and are often subordinated to still other loans which have regular payments. In case of foreclosure, the makers of a deferred payment loan are not in a favorable position.

Lenders making deferred payment loans have only limited ability to hedge their risk. The best way is to increase the amount paid to them on a regular basis and defer less, but the project's finances limit this option. They can also build acceleration provisions into the loan agreement, to take effect if problems develop. However, acceleration only protects the lender if the project

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can actually generate more income. Finally, the lender can require the borrower to set up a sinking fund to accumulate all or part of what will be owed in the future. Again, the ability to set aside money in a sinking fund depends on the rest of the project's financing.

Deferred payment loans allow alternative capital sources to provide grant-like benefits to projects, but still get their money back. If their motivation is to make a worthwhile project happen, deferred payment loans will be very satisfying because they do more than most other uses of capital.

Management Issues

Deferred payment loans are one of the easiest arrangements for alternative capital sources to manage on their own. That's because very little happens during the term of the loan. Monthly payments, if they are made at all, can be made directly to a single capital source or handled by an escrow agent in the case of multiple participants.

Deferred payment loans are usually made for specific projects, if private capital is used. They are usually part of a larger program, offering several types of loans and managed by a third party. Lenders making deferred payment loans should be sure that financing projections for the project are reviewed, but that is a one-time task for each project rather than an ongoing function. Lenders may want to monitor the project's performance during the term of the loan, to be sure it matches the projections. However, considering their limited ability to change the terms of the agreement once it is made, it may not be worth setting up a full-blown management arrangement to accomplish that.

"Patient" Equity Investments

The major difference between a "patient" equity investment and a deferred payment loan is that a loan has a fixed amount of principal and interest, if any, due at some future point while an equity investment relies on a share of proceeds from operations, resale or refinancing of the project. Lenders in deferred payment loans may be in a relatively weak position in terms of security, but at least they can take a mortgage position. Equity investors come last in any claims against the assets of the project.

Other than that consideration, the benefits to the project and the risks and benefits to the investor are substantially the same as for deferred payment loans. Depending on the terms of the investment agreement and expectations about appreciation, an equity investor can have a greater "up-side" potential

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for return. There is no limit on the amount of their return, unless they agree to one; a deferred payment loan has a fixed payment due, which cannot increase except for penalty provisions in the event of delinquency or default.

Grants

In most ways, grants are the simplest form of "gap financing" arrangement. They have the greatest financial benefit to projects because they carry no obligation to repay, currently or in the future. The "cost" to the sponsor or developer, and possibly to the residents of the housing, is meeting whatever requirements the source of the grant imposes, which may not be consistent with the sponsor's motivations and priorities.

The greatest risk to the provider of the capital to make grants is that their only ability to enforce any conditions attached to the grant is to sue in the event the grant agreement is violated. That possibility and negative publicity may be enough to persuade the project's owner to comply with an agreement. However, the grantor would undoubtedly consider carefully whether their actions would jeopardize the solvency of the project sponsor, which could harm the residents of the housing. In addition, the absence of any ability to foreclose leaves the grantor in a weaker position than any makers of secured loans, and possibly in a weaker legal position than even makers of unsecured loans.

