



REPORT

DATE: For the Agenda of July 19, 2002 **ITEM 101**

REPORT NO.: HCR02-060

SUBJECT: Contract On Behalf of Reinvestment Task Force for Market Assessment and Feasibility Study (Citywide)

SUMMARY

Issue: Should the Housing Commission, acting on behalf of the Reinvestment Task Force, explore the feasibility of developing a Capital Collaborative Fund to help finance affordable housing and small business development in low-income areas?

Recommendation: Authorize the Chief Executive Officer to execute a contract with Economic Innovation International (EII) for an equity capital fund market assessment and feasibility study in an amount not to exceed \$162,500 as described below (Attachment 1).

Fiscal Impact: The Housing Commission currently provides \$50,000 to the Reinvestment Task Force (RTF) for administrative expenses. No additional costs to the Housing Commission will result from the approval of this contract. Supplemental funding for these activities has been secured from alternative sources (Attachment 2).

Certificate of Funding Availability:

Certificate No:	03-027
Amount:	\$162,500
Revenue Source:	Various Sources
Division:	Housing Finance & Development
Line Item:	412001 – Professional Consultants

Affordable Housing Impact: A major focus of the development of an equity capital fund is affordable housing. It is estimated that \$20 to \$40 million would be secured from investors for affordable housing.



Equal Opportunity Statement: Economic Innovation International is not a Minority or Women Owned Business Enterprise.

Previous Related Action: Annually the Housing Commission has approved administrative funding to support the RTF in partnership with the County of San Diego. The RTF approved work plan includes pursuit of a capital fund for San Diego.

Future Related Action: It is anticipated that future investment solicitations will occur through a proposed non-profit and no future approvals by the Housing Commission are anticipated.

BACKGROUND

The RTF was formed in 1977 by joint resolution of the City Council and County Board of Supervisors. It is comprised of five lenders, five community organizations and three members at large, appointed by the Co-Chairs (Deputy Mayor George Stevens and County Supervisor Ron Roberts). A listing of current membership is included as Attachment 3. The Housing Commission and the County Housing and Community Development Department provide core funding for the RTF. In addition, the RTF secures periodic funding from public and private sources. This supplemental funding is primarily directed at research.

The RTF meets monthly and is staffed by a Director and a Program Analyst. The Housing Commission acts as a fiscal agent and administers RTF funding, while the County HCD provides office space and supplies.

The two primary goals of the RTF are to 1) monitor lending policies and practices, and 2) develop strategies for reinvestment. The RTF, by City and County policy, is authorized to comment on bank mergers and develop reinvestment agreements with lenders. The RTF has negotiated ten agreements and banks in low-income communities in FY 01-02 have loaned over \$1.6 billion. In the last ten years, over \$500 million has been loaned for affordable housing construction. Nearly all projects developed by non-profit organizations in San Diego (excepting tax credit deals) include financing from lenders working with the RTF.

DISCUSSION

The RTF is a quasi-public entity and accordingly lacks the legal authority to enter into contracts. Therefore, the Housing Commission provides this function contracting with the County to manage all RTF funding. The RTF was recently authorized by City Council and County Board of Supervisors to implement a three-year business plan including 13 action items. The major initiative is the formation of a multi-tier equity capital fund (Capital Collaborative). The San Diego City Council approved the Reinvestment Master Plan, including the directive to the RTF to develop the Capital Collaborative in December 2001. The Capital Collaborative would be a multi-purpose equity fund designed to provide capital for affordable housing and small business in low-income areas.

The overall objective of the fund is to create a San Diego source of capital that can be used to provide the initial investment in housing and commercial developments in low-income communities and to provide venture capital for small business start-ups in low-income communities. By providing this form of capital new affordable housing, new commercial development and new job creation and business development will occur.

Similar types of funds (i.e. multi-purpose) have been developed in Los Angeles and San Francisco and are under development in Sacramento as well. Other funds were created in the past in Arkansas, Massachusetts, Maryland, and New York, to mention a few. Single purpose funds (e.g. venture capital) exist in twenty-two cities across the country.

A Request for Qualifications (RFQ) seeking a consultant to analyze the feasibility of such a fund was prepared by RTF staff and broadly distributed to 171 organizations. Additional public exposure was achieved in a San Diego Business Journal article and distribution of about 600 RTF newsletters. General Counsel has reviewed the procurement practice followed in this case and has opined that the public noticing requirements for the RFQ process have been substantially met through this extensive outreach.

According to the RFQ the required services from the contractor will include, but are not limited to, the following:

Phase 1: Market Assessment and Feasibility

- 1) Determining the feasibility of developing the funds including evaluating the Credit Needs Assessment and other pertinent documents, interviewing key community stakeholders, and performing collaborative research. The assessment should include an evaluation of the most appropriate funds and alternative strategies to address the identified capital needs.

- 2) Identifying and analyzing three to five primary keystone sites or investment zones in low- and moderate-income census tracts within the San Diego region that have the potential for strong financial and social returns and could serve as models of success for the funds. Possible secondary sites should also be identified. It is expected that more sites will be considered after funds are developed and investment managers hired. Relevant research that has already been completed, such as the Socio-Economic Review done by the RTF for the Casey Foundation and a workforce analysis done by the City, should be considered when determining sites.

Three responses were received and the sub-committee chose two for final interviews. Each firm was interviewed for nearly two hours. The committee members completed a formal ranking form based on the evaluation criteria and the majority of committee members favored Economic Innovation International.

Economic Innovation was largely selected due to their relevant experience in Los Angeles, San Francisco and Sacramento. Knowledge of the consultant and trust by potential investors is vital to the success of equity investment funds. Economic Innovation, based on potential investor interviews, has that relationship and trust. The building of funds in other cities in California enhances the potential to build the San Diego fund. The second place bidder did not have that experience or the relationships with California investors. Attachment 4 reflects the evaluation and scores of each of the proposals.

The criteria for evaluation included:

- Research Capability (20%)
- Fund Development (25%)
- Project Investment Experience (20%)
- Fundraising Ability (15%)
- Experience With Reinvestment (10%)
- Compensation Proposal (10%)

The selection sub-committee to the RTF included Art Rivera, Washington Mutual; Mary Noble, Bank of America, Scott Kessler, BID Council-City of San Diego; Mitch Thompson, MAAC Project; Wendell French, Wells Fargo; Monica Edwards, California Federal Bank; Erica Opstad, US Bank; Ron Barefield, County HCD; and Jesus Arguelles, Economic Development Consultant.

The RTF reviewed the recommendations of the sub-committee and voted to support the sub-committee recommendation that the Housing Commission enter into a contract with Economic Innovation International for Phase I of the project.

ALTERNATIVES

Option 1 - Select Community Development Venture Capital Alliance who received the second highest ranking. This option might diminish the ability to access investors in California who have not worked with CDVCA in the past. CDVCA has very limited experience in building multi-purpose funds of this size and scope.

Option 2 - Do not approve a contract with either responsive bidder. This is not recommended because it would reduce potential for private funding of affordable housing (\$20-30 million).

Respectfully submitted,

Approved by,

Signature of File with Original Document

Carrol M. Vaughan
Chief Operating Officer

Elizabeth C. Morris
Chief Executive Officer

- Attachments:
1. Contract for Economic Innovation International*
 2. Funding Sources for Phase I
 3. RTF Membership List
 4. Summary of Evaluation of Proposals

*Limited distribution due to its length. A complete copy is on file at the Office of the San Diego Housing Commission, 1625 Newton, and the Office of the City Clerk, 202 C Street, 2nd Floor.