

## Regular City Council Meeting

Meeting Date: 12/13/2010

TITLE: Business Consortium Project: \$300,000 Public Hearing &amp; Grant Award

PRESENTED BY: Brenda Beckett

Department: Planning &amp; Community Services

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PROBLEM/ISSUE STATEMENT

The Community Development Division received one proposal in response to a Request for Proposals (RFP) for \$300,000 in funding for a Business Consortium project, which is designed as a combined housing and social-enterprise business / employment project. Financing for this project was provided through a special federal appropriation through the U.S. Department of Housing and Urban Development (HUD) as an Economic Development Initiative. Funding needs to be allocated to a specific project site in order for staff to complete an Environmental Review and finalize the project in order to secure the funding with HUD by their deadline, December 31, 2010.

A joint proposal was submitted by The Salvation Army and Rimrock Foundation by the RFP deadline, 5:00pm on October 1, 2010. The proposal includes treatment, housing and employment opportunities for the chronically homeless in compliance with strategies identified by the City's ten-year plan to impact homelessness, Welcome Home Billings ([www.ci.billings.mt.us/homeless](http://www.ci.billings.mt.us/homeless)).

Staff is requesting that the City Council hold a public hearing and approve committing \$300,000 towards this project: \$100,000 to The Salvation Army for equipment purchase to manage a social-enterprise business; \$200,000 to Rimrock Foundation to acquire and rehabilitate housing to serve the homeless.

## ALTERNATIVES ANALYZED

- 1) Award of \$100,000 to The Salvation Army and \$200,000 to Rimrock Foundation to purchase equipment and housing to provide opportunities for the homeless;
- 2) Not award funding to the proposing organizations and return the HUD Economic Development Initiative funding.

## FINANCIAL IMPACT

The City of Billings is not required to provide match funding for this project. The total allocation from HUD is \$323,000, of which \$23,000 in administration funding is planned for use by City staff to assist in meeting federal requirements for implementation. The Community Development Division also has an additional allocation of approximately \$6,500 in homeless project administration funding which may be utilized to facilitate relocation of current tenants.

According to Welcome Home Billings, the cost to serve one chronically homeless individual locally averages \$115,690 (pages 23-24). Allocating \$300,000 to these organizations could save the public nearly \$700,000 during the first year of operation. A thorough cost-benefit analysis will be completed during the period of affordability for both the business and housing units.

## BACKGROUND

The Community Development Division's objective with this project is to encourage the development of housing projects for occupancy by individuals and / or families currently experiencing homelessness, with a preference for serving the chronically homeless. The project is expected to assist in determining the cost-benefit of housing homeless individuals who frequently utilize high-cost services such as emergency room

care, hospitalization, incarceration in jail / prison, substance abuse detoxification and ambulance services. The cost of serving these individuals and / or families is expected to decrease if housing is provided first, followed by comprehensive services including (but not limited to) case management, addiction treatment, workforce development, mental health treatment, medication management, etc. Data requirements include basic demographic information as well as the cost / type of services utilized for a twelve-month period prior to and post placement in housing. Other performance measurements are required and all data are subject to federal privacy regulations.

Approximately \$300,000 is available for the project and the funds can be used for acquisition, new construction / rehabilitation and equipment purchase. The project was initially proposed as multi-family, although single-family or group care projects could have been considered. The project could have been designed to be transitional or permanent housing and could be developed at one site or include multiple sites. Initial occupancy of the rental units must be one-year leases. Housing proposed must be comparable in value, design and amenities with the surrounding neighborhood. All of the units must be occupied by individuals / families considered "homeless" as established by the Mayor's Committee on Homelessness.

The population to be served with this project must present with high-cost needs which are expected to be reduced over time with housing placement and subsequent service delivery. Methods for determining the population to be served are specific to the specialties of agencies providing housing and services and are flexible for the purposes of this project.

## PROJECT DESIGN

**Business:** The proposed "green" business, The Salvation Army Bokashi Composting Processing Center, would be located at 10 South 30th Street. \$100,000 in funds would be used to purchase a bobcat and a horizontal grinder to assist in business start-up. Bokashi composting is a low-maintenance, cold composting method that uses anaerobic microorganisms to turn kitchen scraps into nutrient-rich composte through fermentation. Bokashi requires little maintenance and has the potential to be a large-scale business. The business is designed to include "work therapy" concepts, including addiction treatment, counseling, assistance in the development of vocational skills, etc. Formerly homeless individuals would run the operation, including constructing the Bokashi boxes, collecting compostable kitchen waste from downtown businesses, managing the composting processes, marketing and selling the final product.

The Salvation Army owns the buildings on this property and has been leasing the land from Montana Rail Link for the past 15 years. Zoning for this property is Controlled Industrial and the proposed use appears to be appropriate with zoning code under the 515 Farm Product Raw Materials Wholesale / Retail category. The Salvation Army also proposes to manage another business, The Recycling Center, at the same location. Operations from The Recycling Center will subsidize the operating costs of the site lease and utilities, and will not duplicate other recycling businesses offered in the community. Zoning for recycling is appropriate only if fully enclosed at the site.

**Housing:** The project's proposed location, 116 South 30th Street, contains two housing units in a duplex and would provide housing for six individuals. \$200,000 would be used for acquisition (approximately \$168,500) and small-scale rehabilitation (up to \$31,500). No other loans would be required to acquire the property and Rimrock Foundation has committed to provide an additional \$50,000 to rehabilitate the property if needed.

Should the location of the housing project change, staff would complete an additional Environmental Review Record prior to the final commitment of funds. Rimrock Foundation has committed to any additional funding

amounts for the acquisition / rehabilitation of other units identified. Proximity to the business is paramount to the project.

**Target Population:** A person is considered chronically homeless when he / she is disabled and has either been continuously homeless for a year or more, or has had at least four episodes of homelessness in the past three years. The chronically homeless were targeted as a preferred service group for this RFP at the recent Housing First Project, completed in January 2010 by Interfaith Hospitality Network. Targeting chronically homeless individuals would allow the City to gather data to perform cost-benefit analyses on investments to serve both types of homeless populations for future opportunities.

Prospective tenants are chronically homeless individuals who have recently completed precursory addiction treatment and who are actively working on a plan of supervised recovery. Rimrock Foundation will provide a sober-living environment, case management services, 24-hour access to medical unit staff, and consistent support through a Sober Living Coordinator.

## RANKING & RECOMMENDATION

A total of six individuals reviewed and ranked the proposal, including staff from the City's Community Development Division, the Planning Division, and members of the Mayor's Committee on Homelessness. Reviewers were asked to sign a "non-conflict of interest certification", and average ranking score was 68.25 out of 100 possible points. Following extensive proposal review, staff recommends funding the proposal as follows:

- \$100,000 to The Salvation Army for equipment purchase, including a bobcat and horizontal grinder.
- \$200,000 to Rimrock Foundation for acquisition and rehabilitation of housing units.

*The project has been proposed as a conditional grant product based on the following factors:*

- Project has been proposed by two separate organizations with long-term service to the Billings community (The Salvation Army - 113 years, Rimrock Foundation - 40 years). Limitations on business and housing components should match as much as possible, including the time period the project is monitored and recommended funding mechanisms.
- The Salvation Army is prohibited from entering into loan agreements for assets by their corporate office, therefore, the project was proposed as a grant.
- Rimrock Foundation's mission includes the provision for affordable housing for individuals / families in recovery. With this investment, the City can be assured of a commitment to provide affordable housing in perpetuity.

*City staff recommends offering the following terms for financing:*

- \$100,000 in financing to The Salvation Army to purchase equipment, including a bobcat and horizontal grinder, which will fully depreciate after seven years. The Grant Agreement for financing will include equipment management and disposition requirements, stipulating sale of equipment prior to the expiration of full depreciation requires full repayment of proceeds to the City. The agreement would also require submittal of an annual use / ownership statement, confirming ownership and continued equipment use for the approved purpose.

- \$200,000 in financing to Rimrock Foundation as a zero interest, deferred payment loan, forgivable after seven years of operation, secured via Trust Indenture. In addition to the Trust Indenture, other agreements include a Development Agreement and Deed Restriction Agreement. These documents outline requirements such as historic review, lead-based paint, procurement, tenant rents and lease requirements.

*Determining factors for the proposal review team included the following:*

- Level of difficulty to respond to the RFP as designed, with both housing / employment requirements with preference of serving the chronically homeless.
- Chronically homeless individuals would be placed into housing directly from homelessness, immediately ending homelessness for some of the community's highest-cost individuals.
- Residents would have supported employment opportunities for vocational training, job coaching, equipment certifications, and would be contributing to the tax base. Employment would also establish a positive work history for future employment.
- New affordable housing units were proposed to expand the capacity of Billings' affordable housing base, specifically designated to serve the chronically homeless.
- Supportive housing is proposed, with a complete system of support in recovery.
- Residents would be required to pay rent, establishing positive rental history.
- Housing units are sustainable, and the ongoing financing structure for the seven-year period of affordability is stable.
- Longevity of the organizations in service to the Billings community.
- Innovative partnership between two organizations willing to work with this very difficult population.

## PROCEDURAL TIMELINE

- *February 13-14, 2008:* Social Enterprise Conference was held, featuring Pioneer Human Services as a Social Enterprise business model. Over 130 individuals representing local businesses and non-profit organizations attended.
- *March - July, 2008:* Community Development staff facilitated meetings for the Business Consortium for Social Change, furthering momentum generated from the Social Enterprise Conference. The group decided to separate from the Mayor's Committee on Homelessness by December 2008, due to the desire to work on a specific business plan with proprietary information.
- *December 2008:* Community Development staff proposed the Business Consortium Project through a federal appropriation, which is supported by the City Council. This proposal was not funded.
- *July 2009 - June 2010:* Community Development staff secured an AmeriCorps\*VISTA member to further the initiative through Social Enterprise and Elevate the Workplace strategies.

- *December 2009:* Community Development staff proposes the Business Consortium project for a federal appropriation, which is supported by the City Council.
- *March 29, 2010:* The Community Development Division received official application / award materials for the Business Consortium Project through the U.S. Department of Housing and Urban Development, totaling \$323,000.
- *August 5, 2010:* Public notifications were published through the Billings Times for the Request for Proposals on August 5, 19 and September 2, 2010. Deadline for the proposals was October 1, 2010.
- *October 1, 2010:* One joint proposal from The Salvation Army and Rimrock Foundation is received by City staff.
- *October 20, 2010:* Deadline for rankings from internal review team.
- *October 26, 2010:* Staff memo and recommendation is forwarded to the Mayor's Committee on Homelessness for review.
- *November 4, 2010:* Recommendation to the City Council to fund the project is received from the Mayor's Committee on Homelessness.
- *December 6, 2010:* Community Development staff presents the project during the Council Work Session.
- *December 13, 2010:* Public Hearing and action through the City Council meeting.
- *December 31, 2010:* Required submittal for federal appropriation and completed environmental review.

## STAKEHOLDERS

Stakeholders include the following:

- Homeless individuals
- Twenty organizations and individuals comprising the Mayor's Committee on Homelessness
- Residents of the City of Billings

## CONSISTENCY WITH ADOPTED POLICIES OR PLANS

*This project meets all of the strategies in the City's Consolidated Plan for HUD funding (adopted April 2010):*

- Promote the preservation of the existing supply of affordable housing in the community.
- Promote new affordable housing opportunities.

- Actively partner with non-profits to address housing and community development needs specific to lower income and special needs households, including the homeless.
- Promote the preservation and revitalization of the community's older neighborhoods where the affordable housing stock is located.
- Provide assistance to agencies serving lower income and special needs populations, particularly the homeless, the elderly, minorities and those with disabilities.

*This project meets the following strategies outlined in Welcome Home Billings (adopted October 2009):*

- **Housing:** increasing supportive housing units for those in recovery; building local service provider capacity for affordable housing development, management and rehabilitation; decreasing barriers to obtain housing; facilitate collaborative grant / loan applications for affordable housing development to serve the homeless.
- **Services:** Facilitate application streamlining to access services, transportation, housing and employment; increasing the availability and capacity of health care, mental health, substance abuse services, medication assistance and access to legal assistance; establish one-stop shop to access all services.
- **Assets:** Supporting asset development, job training and employment opportunities for the homeless; promoting fair wage and competitive bidding through the expansion of social enterprise efforts and increase financial management services for those in need.

#### RECOMMENDATION

Staff recommends the City Council conduct a public hearing and approve an award of \$100,000 to The Salvation Army for equipment purchase to support the Bokashi Composting Processing Center and \$200,000 to the Rimrock Foundation to acquire / rehabilitate housing units, and to allow staff to finalize agreements for the project. Both financing packages will be secured via agreements for a period of seven years.

APPROVED BY CITY ADMINISTRATOR

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#### Attachments

[Salvation Army Subrecipient Agreement - DRAFT](#)

[Rimrock Development Agreement - DRAFT](#)

[Rimrock Deed Restriction Agreement - DRAFT](#)

[Rimrock Trust Indenture - DRAFT](#)

[Rimrock Promissory Note - DRAFT](#)