



Community Development Authority

Mark A. Olinger, Executive Director
Madison Municipal Building, Suite LL100
215 Martin Luther King, Jr. Boulevard
Madison, Wisconsin 53703

ph (608) 266.4635 fx (608) 267.8739 TTY/TEXTNET (866) 704-2318
email molinger@cityofmadison.com
mail P.O. Box 2985, Madison, WI 53701-2985

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TO: **Madison Common Council**

FROM: Stuart Levitan, Chair
 Community Development Authority

SUBJECT: File 08380 (Allied Drive Redevelopment)

I write to ask your support for Leg. File No. 08380, Version 2 as amended, authorizing the execution of a Cooperation and Development Agreement between the City and the CDA for the redevelopment of the City-owned properties in the Allied Drive neighborhood. The resolution, in succeeding iterations, has received near-unanimous support from all reviewing bodies.

Under our proposal, the CDA will develop 109 affordable rental and ownership units, in a manner consistent with the Allied Drive Area Affordable Housing Plan. The project would be financed primarily with federal Low Income Housing Tax Credits and private sector investment totaling about \$25 million, with the city's financial participation capped at its existing commitment/obligation of about \$8.9 million (its purchase price of the Redevelopment Properties plus the cost of demolition and infrastructure, including internal streets). We expect this project to create an increment of at least \$10 million for TIF District 29.

The CDA proposes to develop the approximately eleven acres in two phases. Phase One would consist of 48 Low Income Tax Housing Credit residential units in five buildings – a majority of them designed for three bedrooms, the vast majority affordable to households of very low income, thanks to the use of Section 8 Project-Based Vouchers. Our plan calls for 31 units in two three-story buildings flanking a large plaza at the corner of Allied and Jenewein, and 17 units among three two-story town homes to the south and east. For Phase Two, we will issue RFP's for private for-profit and non-profit entities to develop about 61 ownership units using a variety of ownership and financing options, with various building types. We believe our plan meets or exceeds the terms of all adopted preliminary resolutions, as follows:

In RES-07-00926, the Council agreed to negotiate an agreement with the CDA for it to act as Master Developer, along the following terms:

- That the CDA submit a timely 2008 application for Section 42 Low Income Housing Tax Credits to WHEDA, for a project consisting of 40-48 low income rental units, with priority given to existing City property and Allied area residents, based on a vision from the community;
- That the parties negotiate an agreement to provide for the transfer of the City properties to the CDA, subject to a tax credit award, in a manner consistent with the Allied Drive Area Affordable Housing Plan;
- That we submit a market analysis; a staffing plan; an overall 3-5 year plan for the neighborhood; and a proposed budget and timeline for the project;
- That the CDA develop the rental units using traditional real estate budgeting, with fees thus earned redeployed for future neighborhood development;
- That the CDA issue RFPs to develop the remainder of the site for 50-70 mainly ownership units, with strategies to encourage low-income availability;
- That the CDA could release RFPs for professional services, but not enter into contracts until the Council had approved the final agreement between the City and CDA. *(NB - Authorization was subsequently obtained for funds to retain outside consultants to prepare the application).*

We have complied with all of these terms.

In RES-07-0164, the Council reaffirmed those requirements, and added that the agreement incorporate a land value; identify the process of land transfer and recovery of properties; specify funding sources and backstops, along with repayment schedule; and indicate mechanism for long-term affordability. The Council also directed us to solicit neighborhood involvement and respond appropriately. Thanks to the \$75,000, which the Council also authorized for outside consultants, we have met these terms as well.

Phase 1 Unit Mix – Size and Affordability

Pursuant to Council authorization and funding, the CDA issued Requests for Proposals for various professional services. The preliminary design and construction contract was awarded to a development team consisting of Schreiber/Anderson Associates, Epstein-Uhen Architects and Stevens Construction Company, with Virchow-Krause performing the housing market study and Dimension Development, LLC, preparing the Section 42 application. Their proposal, as reviewed and modified by the community and the CDA, and endorsed with near-unanimity by all referral bodies, meets the Allied area Affordable Housing Plan, as follows:

No.	Bedroom Count	% of Total	Sq. Ft.
13	3-bedroom	27%	1,350
13	2-bedroom + den	27%	1,200
9	2-bedroom (handicapped accessible)	19%	975
9	1-bedroom	19%	750
4	Studio/lofts	8%	550

There will also be a live/work unit for a Resident Manager in one of the elevator buildings, across the plaza from a very large clubhouse/business and training center.

To assure long-term affordability, and consistent with the recommendation of the Allied Area Task Force, the CDA will petition the U.S. Department of Housing and Urban Development to permit the use

of thirty-six (36) Project-Based Section 8 Vouchers by households at, or below, 50% of County Median Income. Such households would pay 30% of their income towards the following rents (which would then be subsidized by the Vouchers). This financing is critical, and we have already had encouraging discussions with area HUD officials. Once obtained, the Vouchers can reasonably be assumed to continue as needed. However, if for some unexpected reason the Vouchers are not authorized, the project would not proceed.

Again, these are *not* the rents the tenants will pay; these are the Payment Standards (as adjusted) as authorized by HUD.

No.	Bedroom Count	Rent
3	Studio/Loft	\$602
7	1-bedroom	751
6	2-bedroom	888
10	2-bedroom with den	888/1191
10	3-bedroom	1191

Of the 33 households residing in the City-owned properties, 14 are at, or below, 30% of County Median Income, with another five at or below 40% of County Median Income. Since these households will have the first opportunity to move into the new units, we can safely predict that a substantial number of the households served by this project will be very low income.

12 units would be affordable to households between 50-60% of County Median Income, with the following rents:

No.	Bedroom Count	Rent
1	Studio/loft	\$486
2	1-bedroom	606
3	2-bedroom	699
3	2-bedroom with den	722
3	3-bedroom	750

This meets both the commitment I made to the Council that the entire project would be affordable to households at or below 60% of County Median Income, along with the terms of the Allied Drive Area Affordable Housing Plan.

Phase 1 Relocation Plan

The CDA adopted a generous Relocation Plan for the households currently on site in three different complexes, which the Allied Area Task Force and other reviewing bodies endorsed by adding paragraphs 9 and 10 to File 08380. We propose to retain two buildings during construction for tenants of the City-owned properties as well as other area residents who are displaced, subject to the screening criteria developed by the Allied Area Task Force. We will cover our existing tenants' front- and back-end moving costs, hook-ups and a month's free rent, and will spend about \$3,000 per unit in bringing shuttered units back into service, at a cost of about \$160,000.

Site Plan

The Redevelopment Property is surrounded on the west, south and east by neighborhoods in the City of Fitchburg. Madison has long sought an east/west connection between and among these neighborhoods, which could be accomplished by linking an extended Lovell Lane to Pawnee Pass in Phase Two. An early plan showed such a connection. However, for a variety of reasons, Fitchburg residents and officials are at this time resolutely opposed to such a connection, which cannot be created without their support. Accordingly, we have removed that connection.

The details of the Phase Two site plan are not before you in considering File 08380. Adoption of this item does not preclude our including such a connection in the event conditions change, and I hope supporters of connectivity will not cite this preliminary decision as grounds to oppose File 08380. The Council, moreover, may adopt an amendment directing the CDA to continue to pursue connectivity.

Developer Fee

A developer fee has been provided for in all preliminary resolutions, and the CDA has relied on this in the ongoing negotiations. Please note that no private developer would undertake such a project without a similar fee, which the developer would hold entirely as private profit. Also please note that, notwithstanding that the retention of such a fee is necessary for the CDA's long-term financial stability, the CDA has already committed to allocating twenty percent (20%) of the developer fee after completion of Phase One to loans and grants for phase two (see below).

However, in order to provide sufficient security to the council that the fee is appropriate, and will be put to proper uses, we have reduced it substantially below the WHEDA-authorized limits. Moreover, I have suggested an amendment requiring that an additional twenty percent (20%) of the fee following completion of Phase One be spent on the development and operation of low- and moderate-income rental housing, here and elsewhere, pursuant to City plans and policies. I believe that the full CDA would agree to such an amendment at its special meeting to ratify the amended agreement.

Phase Two

Although neither the Preliminary Resolutions nor File 08380 explicitly require a detailed plan for phase two, the CDA believes the Council and has a right to know our general thoughts for the southern 2/3 of the Redevelopment Property. Accordingly, the CDA has adopted a full Development Concept and a Statement and Framework, projecting a total of 61 owner-occupied units, with the following unit mix:

No.	Bedroom Count
7	1-bedroom
15	2-bedroom
37	2-bedroom plus den/3-bedroom
2	4-bedroom

Consistent with adopted plans, we have committed to striving for an affordability mix in which the units will be about evenly split between households at 30-50%, 50-80% and 80%-above of County Median Income. Accordingly, I consider an amendment on this point, along with an amendment providing for full City review of our plans, to be friendly.

Our adopted Phase Two Statement and Framework contains several other innovative aspects, including a commitment to seek proposals for live/work and rent-to-own units, along with land trusts, co-housing, and other tenure and ownership models. It also:

- Pledges 20% of the Developer's Fee after completion of Phase One for loans and grants to support ownership affordability;
- Seeks to provide that a majority of the units carry mortgages of \$100,000 and below;
- States a preference for proposals which provide employment and training opportunities for area residents;
- States a preference for units three bedrooms and larger;
- Provides that the CDA may either retain or sell various parcels;
- Provides that the CDA may transfer one or more lots back to the city for development in conjunction with the CDBG Commission;
- Provides that some units may include equity caps or other restrictions to preserve long-term affordability.

Subsequent to CDA action on File 08380, an amendment was adopted requiring all aspects of Phase Two development be referred to various reviewing bodies for recommendation to the Council for final approval. I will recommend to the CDA that it accept this amendment, and I expect it will do so.

The Redevelopment Property

The CDA understands how significant it is that File 08380 provides for the transfer of the entire Redevelopment Property to the CDA. Here is why we believe such an action is justified:

1. It has been another integral aspect in the City/CDA negotiations from the outset, and has been incorporated into all adopted resolutions. The CDA has complied with all the terms in those resolutions, and has given the City no reason to change such a significant term.
2. It is critical to our Section 42 Tax Credit application. Without the commitment by the City and CDA to develop Phase Two as affordable ownership opportunities, this is just a routine Section 42 Tax Credit application in a neighborhood that already has a number of such projects. But with Phase Two, it is an exciting and far-reaching project that will enable WHEDA to showcase just how a Section 42 project can stimulate a larger area, including the development of affordable owner-occupied housing. Without this commitment to Phase Two, Phase One might not get approved; with Phase Two, Phase One is an extremely attractive proposal.
3. Development activity such as this is vital to the CDA's long-term financial health. We have called to your attention our concerns over the many pressures public housing agencies have been under, including declining resources. If we are to stabilize and grow, we need to undertake various development activities such as this.
4. A public hearing before the CDA and action by the Council is required for the sale of any parcel in the Redevelopment Property, thus ensuring your continued involvement in the property's development;
5. Notwithstanding the above, I recognize the concerns some of you may have on this point. Accordingly, I have suggested a further amendment to require that the CDA apply twenty

percent (20%) of the revenue from the sale of land in Phase Two for the development and operation of affordable rental housing. Again, I believe the full CDA would support such an amendment at its upcoming special meeting.

Employment and Training of Area Residents

The CDA recognizes the great need for employment and training opportunities for area residents, as part of a holistic approach to neighborhood revitalization. Accordingly, I support, and will recommend to the CDA that it accept, amendments to provide for such opportunities in the activities undertaken under this resolution.

Summary

Over the past few months, the CDA has undertaken a planning process for this vital development that has been both collaborative and expedited. We have been responsive to the neighborhood's needs and desires, and enjoy its support for our plan. We have complied with all adopted resolutions, and enjoy the near-unanimous support of all reviewing committees, along with that of Ald. Solomon and Mayor Cieslewicz. We have produced a plan that will provide about 109 rental and ownership units, affordable to the target populations, with the necessary unit mix. We have capped the city's financial obligation at about \$8.7 million (most of it already spent or budgeted). We have an ambitious and innovative plan for Phase Two, which supports and builds on Phase One. We have done all you have asked of us, and more.

The CDA has thus met or exceeded all the material terms of the Preliminary Allied Resolutions. Accordingly, I respectfully ask for adoption of File 08380, Version 2, with the additional amendments noted above, so we may continue our mutual efforts to revitalize the Allied Drive neighborhood.

I will be present at your meeting this evening to answer any questions you may have about the resolution or the CDA's proposal.

Thank you for your support to date, and for your support of this resolution.

c: Commissioners, Community Development Authority
Mayor David J. Cieslewicz