STRATEGIES TO PROVIDE AFFORDABLE HOUSING WITH SUPPORTIVE SERVICES FOR THE HOMELESS

AUTHORIZED BY CITY OF MADISON RESOLUTION 28415

EXECUTIVE SUMMARY

The City of Madison is home to a growing population of homeless single adults, many of whom have disabilities, mental illness, or alcohol and other drug abuse issues. The private housing market is ill equipped to serve this population given their extremely low incomes and high need for services. As a result, housing subsidies are critical to successful housing solutions. Despite the efforts of the City of Madison, Dane County, and local not for profits, there remains a large gap between the supply and demand for housing with supportive services.

There are multiple sizing, funding, and operating models for the creation of permanent or transitional affordable housing for homeless adults including:

- Small Scattered Site
- Medium Sized New Construction
- Large New Construction
- Large Renovation
- Large Renovation with shared kitchen/bath
- Large New Construction with Attached Shelter

Each model presents unique advantages, disadvantages, and options. The two most important decisions that must be made are ***the population that the development will serve*** (people with disabilities, mental illness, alcohol and other drug abuse) and ***the number of people to be served by the development***. These two decisions will guide selection of the location, financing, amenities, partners, and development model.

The decision of who a development will serve is crucial because it drives the selection of operating and service partners. Recent work by the City's Community Development Division shows a growing demand for housing for homeless adults and identifies a particularly challenged group of individuals that are chronically homeless and have overlapping issues of physical disabilities, mental illness, or alcohol and other drug abuse (AODA) issues that consume a disproportionate amount of social services. Targeting this group of individuals could provide a significant relief to support system as a whole.

The decision of how many people to serve in a single development, whether in multiple small or a single large development, is crucial because it will drive the entire development strategy. Specifically, pursuing small or medium developments would likely utilize the Community Development Division's existing funding process, funding sources, and local not for profits. Large developments would likely require local government to take the lead in coordinating funding, project management, and creating partnerships with service providers in order to ensure success. A large development would also allow for the use of additional funding sources such as Affordable Housing Tax Credits or TIF funds, which would cover a significant portion of the construction/rehab expense.

The decision of whether to create multiple small or a single large development will also have a significant impact on the location of the developments. There are existing small or medium buildings located in neighborhoods throughout the City of Madison that are candidates for conversion to this use. Each will require an individual negotiation over siting with the surrounding neighborhood. A single large development would likely be located on a major transportation corridor such as East Washington Avenue or Park Street that has access to transit, is zoned to accommodate dense multifamily residential development, is located in a TIF district, and would require minimal land assemblage. Such a large development and concentration of individuals will require extra consideration in the design and management of the building to integrate with the surrounding neighborhood successfully.

Regardless of the model selected, success of the development will require coordination with service providers who can provide the high level of services that this population requires. This will prove particularly challenging given the strains already put on local service providers.

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PURPOSE

The purpose of this study is to explore the location, financing, and partnership options to develop additional Single Room Occupancy housing with support services for very low income adults within the City of Madison as a strategy to reduce homelessness (Madison Resolution 28415).

For the purposes of this study, Single Room Occupancy (SRO) refers to a multiple-tenant building that houses ***adults without children in individual rooms***. Traditionally, SRO tenants share bathrooms and/or kitchens, while some SRO rooms may include kitchenettes, bathrooms, and/or half-baths similar to efficiency apartments. SROs are primarily rented as a permanent residence. SRO housing is designed to provide housing for very low income and homeless populations at an extremely low price point.

CURRENT MARKET FOR SRO HOUSING FOR HOMELESS

CURRENT DEMAND

Demand for SRO housing is typically defined as individuals with incomes at or below 30% of Area Median Income (AMI), homeless, high risk of homeless, or chronically homeless. Most pressing is demand by chronically homeless individuals, who are by definition not served by the current housing supply and often require additional supportive services.

Based on work by the City of Madison Community Development Division, we know that:

- Roughly half the people served by shelters are single adults
- 1,911 single adults were served in shelters in 2012
- Almost half of single adults served by shelters have mental illness and/or alcohol or drug issues
- In a Point in Time measurement in January 2013, City staff counted 373 single adults in shelter and 90 unsheltered single adults
- Roughly a quarter of single adults served by shelters are chronically homeless
- Roughly half of unsheltered single adults are chronically homeless

Together, these facts show that there is significant demand for additional housing units for the homeless and that the greatest demand is for supportive housing for individuals with disabilities, mental illness, and/or alcohol or drug issues.

CURRENT SUPPLY

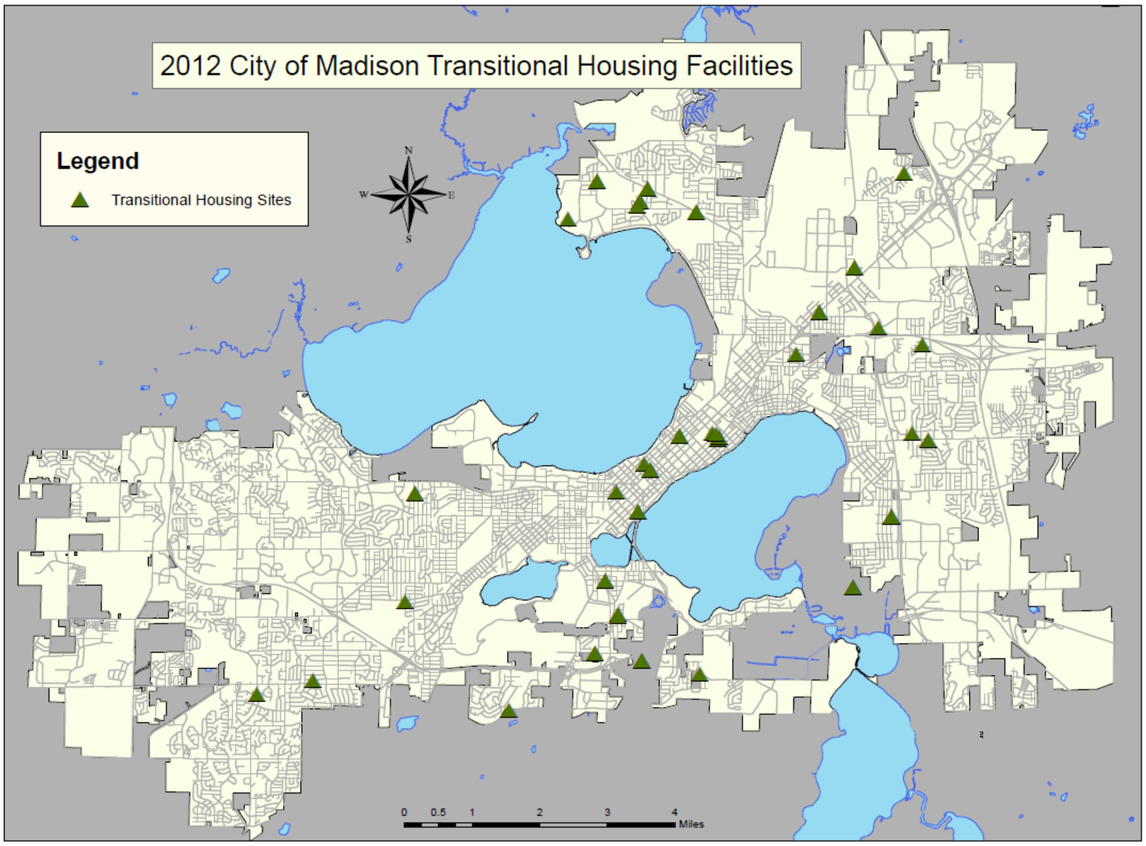
Housing for the homeless is provided through:

- Shelters
  - Overnight sleeping accommodations for homeless to provide temporary shelter
  - Characterized by shared sleeping, dining, and bathroom facilities
- Transitional Housing
  - Housing and supportive services to facilitate movement to independent living within 24 months
  - Often characterized by shared or private sleeping facilities and shared dining and bathroom facilities
- Permanent Supportive Housing
  - Long-term housing with supportive services for homeless persons with disabilities or for housing individuals and families in rapid re-housing programs
  - This type of supportive housing enables special needs populations to live as independently as possible in a permanent setting
  - Often characterized by private sleeping and shared or private dining and bathroom facilities

In the City of Madison, housing for the homeless is primarily provided by not for profit entities that serve as the landlord as well as supportive services provider in some cases. According to the Community Development Division's 2013 Housing Inventory, the market consists of:

- 121 units of transitional housing for homeless single adults
- 420 units of permanent supportive housing for homeless single adults
- 4 units of transitional housing for homeless single adults were removed in 2012
- 47 units of permanent supportive housing for homeless single adults were created in 2012

The significant increase in supply in 2012 was the result of 5 years of planning, negotiations with the City, and a significant capital campaign. The City has a goal of adding 15 units per year on average.



Map created by CDBG Office (AMK)
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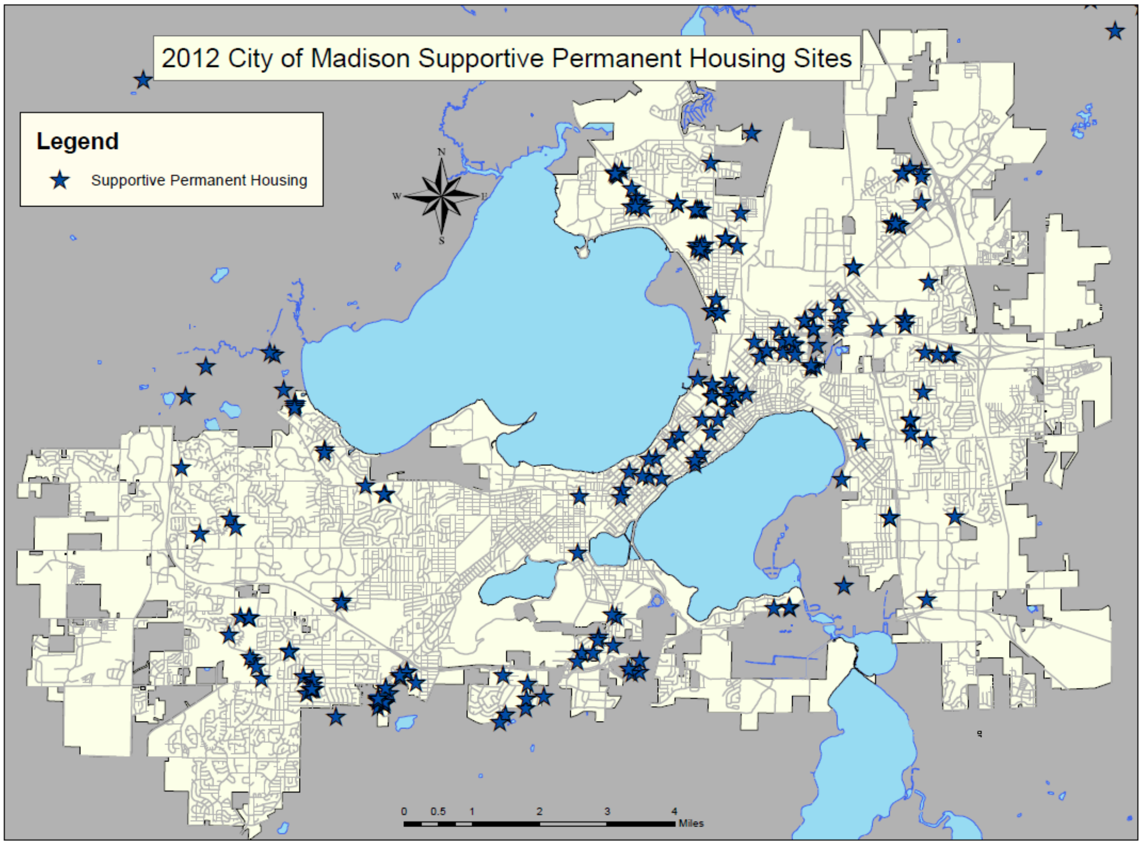

Map created by CDBG Office (AMK)
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With the exception of the YWCA and Porchlight's Brooks St. and Nakoosa Trail properties, most of the transitional and permanent supportive housing for homeless adults is characterized by:

- Small 4-16 unit buildings
- Renovated buildings
- Frequently they share kitchens or bathrooms
- Limited on-site property management
- Off-site services and case management

The not for profit administrators typically focus on specific homeless populations such as families, people with mental illness, people with disabilities, or alcohol or other drug abuse issues (AODA). This specialization and segmentation of the market is driven by the very different social services needs and funding sources available to each group.

SUMMARY OF NEED FOR ADDITIONAL SUPPORTIVE HOUSING

Despite the recent increases in supply of supportive housing, studies by the Community Development Division continue to show a strong demand for additional housing with services for the homeless population in Madison. This conclusion is supported by a series of interviews CDA and Community Development Division staff held with providers of homelessness services. Their responses focus on:

- Strong preference for efficiency style units with kitchenettes and bathrooms
- Need for more intense property management services as number of units per development increases
- Access to case management and social services (substance abuse, mental illness, job training)
- Access to public transportation is crucial, especially if services are not provided onsite

LOCAL EXAMPLES

Recent developments of housing for homeless in the City of Madison have focused on rehabilitating existing small apartments (4 – 8 units), new construction of moderate sized apartments and SROs with shared kitchens, and upgrading existing housing for the homeless. These developments added 47 units of permanent supportive housing for homeless single adults in 2012. These developments received partial funding from the Community Development Division and HUD.

MODEL #1 SMALL SCATTERED SITE - HOUSING INITIATIVES – MADISON

DEVELOPMENT

- Housing Initiatives served as developer and operator
- Total cost of $278,000 ~ $70,000/unit
    - $139,000 loan from WHEDA
    - $139,000 in federal HOME funds

DESIGN

- Renovation of an infill site
- 2 one bedroom and 2 two bedroom apartments with bathrooms and kitchens
- Located near public transportation
- Renovations include accessibility, energy efficiency and remediation

OPERATIONS

- Rents are subsidized through ShelterPlus Care or Section 8
- Rent is $762-850, tenants pay 30% of income and subsidy pays the remainder
- Targets homeless people with mental illness

MODEL #2 MEDIUM SCALE - PORCHLIGHT NAKOOSA TRAIL – MADISON

DEVELOPMENT

- Porchlight served as developer and operator
- Total cost of $3,800,000 ~ $80,000/unit
    - $420,000 in land from the City of Madison
    - $330,000 in federal HOME funds
    - $120,000 in Continuum of Care funds
    - Private fundraising campaign

DESIGN

- New Construction on greenfield site
- 14 SRO units with shared bathrooms or kitchens (SafeHaven Shelter)
- 34 Efficiency apartments with bathrooms and kitchens
- Located near public transportation
- Limited parking
- Energy efficient construction and onsite solar photovoltaic energy

OPERATIONS

- Operations are subsidized through HUD funds for programs operating on site - Safe Haven, Partnership for Transitional Opportunities and Housing First
- Tenant pays 30% of income
- Targets homeless people with mental illness

MODEL #3 UPGRADE EXISTING FACILITIES - YWCA – MADISON

DEVELOPMENT

- YWCA serves as operator
- Total cost of $16,800,000
    - $10,400,000 in Tax Credit Equity
    - $125,000 in federal CDBG funds
    - $250,000 in federal HOME funds
    - $6,000,000 in private fundraising and loans

DESIGN

- Renovation of former hotel that had been converted to housing
- 71 SRO units with shared bathrooms or kitchens
- 26 Efficiency units
- 30 emergency shelter beds
- Located in prominent downtown location
- Located near public transportation
- No parking

OPERATIONS

- Targets single women, single women with young children and homeless families

NATIONAL EXAMPLES

The Dane County Community Plan to Prevent and End Homelessness (10-Year Plan to Reduce Homelessness) articulates the need for permanent housing for homeless connected to support services as a strategy to reduce chronic homelessness. Nationally the U.S. Department of Housing and Urban Development (HUD) has encouraged the development of permanent housing for homeless people, especially for the hardest-to-serve, chronically homeless population, a substantial number of who have mental illness.

Additionally, there is a growing body of research showing that money spent on quality permanent supportive housing reduces the demand for spending public funds on the health care, public safety, incarceration, and temporary shelter costs of the chronically homeless. The United Way of Dane County gathered existing data on homeless served showing that a group as small as 66 of these hardest to serve individuals can cost millions of dollars per year in services while on the street. Nationally, studies in Portland, Maine and Raleigh, North Carolina showed a net decrease in service costs associated with chronically homeless individuals even with permanent housing costs included. [1][2]

These trends have lead to the creation of a number of recent developments around the country to house homeless individuals that have gained national architecture and quality awards by combining:

- Permanent rather than transitional housing
- High quality architectural design
- Environmental sustainability features to reduce operating expenses
- Larger number of rooms with enhanced onsite case management services
- Siting on infill locations near public transportation

Specifically, four models have been selected to highlight the variations on this trend:

- New Construction Efficiency with kitchenette and bathroom
- Renovation Efficiency with kitchenette and bathroom
- Renovation with bathroom and shared kitchen
- New Construction Efficiency with kitchenette and bathroom combined with an attached shelter

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[1] Adam Walsh, Dean Duncan, Laurie Selz-Campbell, and Jennifer Vaughn. *The Cost Effectiveness of Supportive Housing.* Chapel Hill, North Carolina: UNC-CH School of Social Work, 2007.

[2] Melany Mondello, Anne B. Gass, Thomas McLaughlin PhD, Nancy Shore PhD. *Cost of Homelessness - Cost Analysis of Permanent Supportive Housing.* Portland: Maine Department of Health and Human Services, 2007.

MODEL #4 LARGE NEW CONSTRUCTION - RICHARDSON APARTMENTS – SAN FRANCISCO

DEVELOPMENT

- San Francisco Redevelopment Agency provided the site and partnered with Mercy Housing (developer) and Community Housing Partnership (operator) through a competitive RFP
- Total cost of $35,971,996 ~ $300,000/unit *Cost includes build out of 1st floor retail
    - $12,144,398 Low Interest Loans from the City and San Francisco Redevelopment Agency
    - $720,000 FHLB Forgivable Loan
    - $200,000 General Partner Equity
    - $22,765,415 Low Income Housing Tax Credit Equity

DESIGN

- New Construction on infill site
- 120 Efficiency apartments with full kitchens and bathrooms
- Located in a dense transit oriented neighborhood where housing over retail is common, zero parking
- High quality architecture and public amenities to garner neighborhood support
- 2012 American Institute of Architects/HUD Secretary's Housing and Community Design Award
- Numerous sustainability features to reduce maintenance and operating costs
- Focus on durable, low maintenance finishes
- Significant building security and enclosed courtyard to combat loitering on street
- Critical mass of high needs tenants to justify a high level of on-site medical and counseling services
- 1st floor retail houses social enterprise bakery with training and employment for residents
- Job training and social service partners were involved in design process to ensure appropriate spaces onsite

OPERATIONS

- Target income of <30% AMI
- Rent of ~$376/month
- ~45% of operating costs are subsidized by City/County operating subsidy program
- 12 units set aside for Mental Health Services with separate rental subsidy
- Leasing based on referrals from public health department
- Supportive services are funded separately through a consortium lead by the San Francisco Public Health Department averaging $3,500/person/year

MODEL #5 LARGE RENOVATION - JOHNSTON CENTER – MILWAUKEE

DEVELOPMENT

- Mercy Housing (developer and property manager) partnered with Hope House (operator and services)
- Total cost of $13,600,000 ~ $150,000/unit
  - Low Income Housing Tax Credit equity
  - $750,000 City of Milwaukee Housing Trust Fund equity
  - $750,000 County of Milwaukee Housing Trust Fund equity
  - $429,000 FHLB Forgivable Loan
  - Economic Development Administration Grant
  - No amortizing debt
- Received philanthropic support from corporations and foundations
- Existing building was sold by the City of Milwaukee for $1

DESIGN

- Combination of rehab and new construction in infill location
- 91 Efficiency apartments with kitchens and bathrooms
- 41 units house individuals who are chronically homeless, very low-income and disabled
- 50 units house very low-income people who are at high risk for homelessness
- Located near public transportation
- High quality architecture and deep building retrofit to fix building condition and garner public support
- Affordable Housing Finance Magazine's Reader's Choice and 2012 AIA Wisconsin Merit Award Winner
- Numerous sustainability features to reduce maintenance and operating costs
- Common areas and a community space for use by the neighborhood

OPERATIONS

- 50 units are subsidized through project-based Section 8 vouchers
- 41 Units receive rental assistance and supportive services funded by the HUD Shelter Plus Care program in collaboration with Milwaukee County Department of Health and Human Services
- On-site service team comprised of case workers, property management, and a 24–hour front desk that work together under a blended management model

MODEL #6 LARGE SRO RENOVATION - BRAY'S CROSSING – HOUSTON

DEVELOPMENT

- New Hope Housing (developer and operator) partnered with the City of Houston
- Total cost of $15,100,000 ~ $100,0000/unit
    - $6,100,000 Tax Credit Equity
- Built with tax credits, private funds, and City of Houston funds

DESIGN

- Renovated former hotel, public nuisance property
- 149 SRO units with bathrooms but no kitchen
- Located near grocery and public transportation
- High quality architecture and deep building retrofit to fix building condition and garner public support
- 2011 Urban Land Institute Award for Excellence
- Full Bath, refrigerator and microwave
- Community kitchen, TV rooms, and library
- Serves as a showcase for local artists

OPERATIONS

- Rent of $435 to $510 per month
- No local rent subsidies
- 24/7 front desk and onsite case managers

MODEL #7 LARGE NEW CONSTRUCTION WITH SHELTER - BUD CLARK COMMONS - PORTLAND

DEVELOPMENT

- Portland Housing Bureau, Portland Development Commission, Home Forward (operations and intake), and TPI (shelter operator)
- Total cost of $44,500,000
    - $11,700,000 Low Income Housing Tax Credit equity
    - $29,500,000 TIF
    - $3,300,000 HUD ARRA financing

DESIGN

- New construction on infill site
- 130 Efficiency apartments with kitchens and bathrooms
- 90 bed shelter located on the 1st floor with 45 beds reserved for veterans
- The Day Center on the second and third floors provides clothing, meals, showers, and laundry facilities as well as case managers to assist in locating permanent housing. A wellness center provides basic healthcare and a learning center offers computer and skills training
- Highly visible Pearl District location near public transportation
- High quality architecture to garner neighborhood support
- 2012 AIA/HUD Secretary's Creating Community Connections Award
- Separate entrances for each of the 3 building functions
- LEED Platinum certified with solar hot water heater, grey water recycling, green roof and high efficiency building systems

OPERATIONS

- Rent is set at 27.5% of income
- Rent is subsidized through project-based Section 8 vouchers and Public Housing funds

FUNDING SOURCES

CONSTRUCTION/REHAB

Because permanent supportive housing inherently has reduced income streams, they are typically financed with high levels of equity rather than debt, if any traditional debt at all. Sources of financing could include:

- Affordable Housing Tax Credits
  - The maximum award per development $8,500,000 in credit, with no limit on the maximum number of units
  - Awarded by WHEDA and converted to cash equity by a syndicating partner
  - After syndication, funds typically cover 80% of building cost
  - Expensive and difficult to use in small scale projects
  - Can be used for permanent or transitional housing
  - Typically requires kitchens and bathrooms in units except in the case of SRO housing, which may share facilities
  - Can be used in new construction and acquisition/renovation
  - Requires occupants to earn less than 50% or 60% AMI
  - Requires property to stay affordable for 30 years
  - Requires property to pay property taxes
- Federal Home Loan Bank AHP
  - Typically $6,000 per unit
  - Competitively awarded forgivable loan
  - Can be used for apartments, SROs, and transitional housing
  - Requires at least 20% of building occupants to earn less than 50% AMI
- HOME Funds
  - Nationally, $950 million proposed for FY2014 budget, a $48 million cut
  - The City of Madison received $991,841 in FY2013
  - HUD funds awarded to state and cities for the creation of affordable housing
  - Deferred loan product
  - Administered by the City of Madison Community Development Division
  - Can be used in new construction and acquisition/renovation
  - Requires 90% of benefiting families have incomes under 60% AMI and in rental projects with five or more assisted units, at least 20% of the units must be under 50% AMI
  - Requires a match every dollar of HOME funds used (except for administrative costs) with 25 cents from nonfederal sources, which may include donated materials or labor, the value of donated property, proceeds from bond financing, and other resources
  - Requires units stay affordable for 20 years for new construction of rental housing

- Affordable Housing Trust Fund
    - Balance of over $3 million with disbursements limited to 25% of the balance
    - City of Madison funded endowment for the creation of affordable rental and owner-occupied housing administered by the Community Development Division
    - Provides installment loans and grants to for-profit and non-profit housing developers for acquisition/rehab, new construction, and up to 15% for soft costs
    - Requires at least 60% of the funds eligible for disbursement annually be used to create units for occupants who earn less than 60% AMI
    - Requires occupants to pay no more than 30% of gross household income at60% AMI in rent
    - Requires units stay affordable for 30 years
- Tax Incremental Financing (TIF)
    - City of Madison funded program that uses projected future increases in the property taxes from a defined area (TID) to subsidize redevelopment in that TID
    - Project must be located in a TID with a "generator" property that is sufficiently increasing the tax base
    - Project must prove that "but for" the subsidy the development would not occur
    - Affordable housing for renters under 80% AMI is an allowable use of funds
    - Can be used for capital costs but not for operating expenses
    - Project must pay property taxes
- Dane County
    - The Dane County Housing Authority has the ability as a PHA to partner and operate with the City of Madison to develop housing within city limits, a joint venture between the City of Madison and Dane County could share the development costs to create additional units
    - For 2013, Dane County added $1.1 million in new funding to be used to acquire and open a day shelter on East Washington Avenue, address the need for SRO and cooperative housing, help runaway teens at risk for homelessness and provide emergency shelter funding for those in abusive relationships

OPERATIONS & RENT SUBSIDY

Because tenants have little or no income and require additional social services, operational costs and rents often need to be subsidized.

- Project Based Vouchers
    - The CDA has the capacity commit 225 vouchers to new projects
    - HUD rental assistance vouchers for tenants with incomes no greater than 50 percent of the area median income (AMI) and 75% of the authority's vouchers must go to residents under 30% AMI
    - Tenants pay rent equal to 30% of adjusted household income with the remainder paid by HUD
    - Attached to the unit rather than travelling with the tenant
    - Administered by city and county housing authorities
    - Number of project based vouchers is limited to 20% of the housing authorities voucher allocation
    - Must be used for permanent rather than transitional housing
    - Must come from the housing authority's existing voucher allocation
- HUD - VASH
    - Nationally 10,000 vouchers are proposed to be added for FY 2014
    - HUD-Veterans Affairs Supportive Housing (HUD-VASH) program combines Housing Choice Voucher (HCV) rental assistance for homeless Veterans with case management and clinical services provided by the Department of Veterans Affairs
    - Can be project based with HUD approval
    - Administered by city and county housing authorities

- Section 811
    - Nationally, $126 million proposed for FY2014 budget, a $39 million cut
    - HUD rental assistance or capital advances for construction/renovation of units for persons with disabilities
    - No funds were awarded in 2012 for capital advances
    - Residents must be extremely low-income (within 30 percent of the median income for the area) with at least one adult member with a disability
    - Provides rental assistance for new or existing affordable housing developments funded by LIHTC, HOME, or other sources of funds
    - Under the state health care/housing agency partnership, the health care agency must develop a policy for referrals, tenant selection, and service delivery to ensure that this housing is targeted to a population most in need of deeply affordable supportive housing.
- Section 202
    - Nationally, $400 million proposed for FY2014 budget, a $26 million increase
    - HUD capital advances to finance the construction, rehabilitation or acquisition of structures that will serve as supportive housing for very low-income elderly persons
    - Provides rent subsidies for the projects to help make them affordable
    - Development must be operated by a private nonprofit and Is not receiving a majority of its operational funding from the public body
- Continuum of Care Funding
    - Nationally, $40 million is proposed for FY 2014 budget for new projects
    - Competitively award HUD funding
    - Can be used for SRO rental assistance in moderately rehabilitated units to defer the cost of renovation
    - ShelterPlus Care can be used for rental assistance for supportive housing for homeless people with disabilities and their families. The program allows for a variety of housing choices such as group homes or individual units, coupled with a range of supportive services (funded by other sources)
    - Can be used for new construction, acquisition, and renovation of existing housing
    - Dane County Homeless Services Consortium applied for and received over $3 million in 2012

DEVELOPMENT OPTIONS

In order to meet the increased demand for housing for the homeless in the City of Madison, two primary models can be followed. The first is to replicate the existing stock, which is characterized by:

- Small 4-16 unit buildings
- Renovated buildings
- Frequently have shared kitchens or bathrooms
- Onsite daily property management
- Off-site services and case management
- Located in neighborhoods

The second is to create additional units similar to national models defined by:

- Permanent rather than transitional housing
- High quality architectural design in new construction or significant renovation
- Environmental sustainability features to reduce operating expenses
- Larger number of rooms with enhanced onsite case management services
- Siting on infill locations near public transportation

It is also possible to create a development that combines features of each approach, which can be broken down as:

EFFICIENCY VS TRADITIONAL SRO

Efficiency	Traditional SRO
• Increased privacy • Prefered by tenants • More permanent style of housing • No need for a common kitchen • Can be zoned as regular multifamily housing	• Less expensive to build • Allows for smaller units • May require special zoning as a lodging house

CONSTRUCTION VS REHAB

New Construction	Rehab
• Easier to incorporate space for services • Allows for better security • Easier to make accessible • Greater flexibility in siting	• Potentially less expensive to build • Potentially faster timeline

MULTIPLE SITES VS. ONE SITE

Multiple Sites

- Multiple small facilities
- Multiple "simple" transactions
- Requires less onsite management
- Relies on offsite social services
- Harder to finance with LIHTC

One Site

- Single large facility
- Economies of scale allows for onsite social services
- Easier to finance with tax credits
- Single complex acquisition, design, construction transactions
- Potential for greater neighborhood resistance
- Requires enhanced security and staffing

INFILL VS EDGE

Infill

- Better access to public transportation and social services
- Better access to enhanced medical and social services
- Zoned for dense development
- Can be tied to larger rehabilition efforts on E. Washington or Park St.

Edge

- Less expensive to build
- Less potential for neighborhood opposition
- Greater selection of sites

IMPLEMENTATION

STRATEGIES FOR CREATING SMALL/MEDIUM DEVELOPMENTS

For the creation of small scattered site or medium sized developments, the City of Madison has an existing framework of funding not for profits through the Community Development Division with a variety of federal and City funds. As this framework already exists, if additional funds are made available they can be quickly disbursed through it with a high degree of confidence. Additionally, these not for profits funded through the Community Development Division often provide services themselves or have relationships with service providers as part of their operating model. Potential partners could include:

- Goodwill Industries
- Housing Initiatives Inc
- Madison Development Corporation
- Movin' Out
- Porchlight Inc.
- The Road Home
- St. Vincent de Paul
- Tellurian
- YWCA

Funding for additional small scattered site or medium sized developments would not require additional changes to the Affordable Housing Trust Fund (AHTF) ordinance or other CDBG funding programs. However, projects would benefit from changing the AHTF program guidelines to allow for more generous repayment terms or conversion to a deferred loan product. While Section 42 Affordable Housing Tax Credits are a possible funding source for this type of development, the process is expensive and the market for tax credits on scattered site developments is uncertain, making this option less likely.

Based on previous developments funded by the City of Madison, it is estimated that approximately $50,000 to $80,000 of combined private fundraising or City subsidy is required per unit.

For rehab projects, suitable 4-16 unit buildings are located throughout the City of Madison in multiple neighborhoods. Each will require an individual negotiation over siting with the surrounding neighborhood.

STRATEGIES FOR CREATING LARGE DEVELOPMENTS

For the creation of large developments, national models show a common strategy of creating a partnership between the City, a private developer with experience obtaining Section 42 tax credits and the financial capacity to provide guarantees required by investors and lenders, and an operator (usually a local nonprofit) with experience providing case management and operating housing for the targeted population. Often the developer is selected through an RFQ process. In such a partnership, the City would contribute land, equity funding, or forgivable debt to the developer in exchange for the development and operation of housing.

For the creation of large developments, it is possible to partner with a wider variety of service providers and bring some services into the building itself. Potential partners include healthcare providers, caseworkers, public health, and job training programs. Selection of these providers should be based on matching the needs to category of homelessness addressed by the facility. For example, permanent housing for individuals with mental illness would partner with social service providers focusing on mental illness, while transitional housing could focus more on providing job training.

Funding for large developments may require modification to the Affordable Housing Trust Fund (AHTF) selection criteria (d) which states a preference for developments "that are targeted to a mixture of household incomes, where Assisted Units are distributed throughout the building or development so as to avoid a disproportionate concentration in any one area" to allow for the proposed concentration of extremely low income individuals. Additionally, because of the limited cashflow from such low rent rates, converting the funding to a deferred loan would be advantageous. Given the size and target population of this type of development, Section 42 tax credits could be used to offset a large portion of the cost. Section 42 tax credits are highly competitive and are awarded based on a variety of criteria set forth in the Qualified Allocation Plan:

- Affordability
- Quality of design and sustainability features
- Location in a qualified Employment Center/High Need Census Tract
- Walkability

Attaching project based Housing Choice Vouchers (Section 8) from the City of Madison CDA, Dane County Housing Authority, or a combination will ensure cash flow for operations and tenant affordability. Funding for services will require additional funding or partners with their own funding sources.

Based on previous developments funded by the City of Madison, it is estimated that approximately $40,000 of private fundraising or City subsidy is required per unit.

Planning and Zoning staff determined that the use, size, and density of such a development would be appropriate for Traditional Enterprise, Traditional Shopping Street, Neighborhood Mixed Use, and Commercial Corridor – Transitional District zoning. However, because it would have more than 24 units it would be considered a conditional use and be subject to Plan Commission approval. The Planning Department would evaluate the development using their standard criteria of design quality, management plan, neighborhood context, and parking.

The Office of Real Estate Services was able to identify numerous sites suitable for the construction of a large development within a two-mile radius of downtown that are:

- On or near major transportation corridors such as E. Washington Ave or Park St. which are largely zoned for Traditional Enterprise, Traditional Shopping Street, Neighborhood Mixed Use, and Commercial Corridor – Transitional District
- Sized appropriately to construct 50 to 100 units
- In close proximity to similar sized developments, particularly multifamily housing
- Under City of Madison or single owner control
- In an active TIF District

The Office of Real Estate Services was unable to identify hospitals, hotels, or dormitory buildings suitable for conversion SRO housing at this time.

FINANCIAL MODEL

To illustrate the financial implications of the various development models, it is possible to create general financial models based on costs for recent development projects.

# of Units	**8**	**55**	**75**	**110**
Construction				
Land	$ -	$ 600,000	$ 600,000	$ 600,000
Cost per Unit	$ 50,000	$ 160,000	$ 160,000	$ 160,000
Total Cost	$ 400,000	$ 9,400,000	$ 12,600,000	$ 18,200,000
LIHTC		$ 7,040,000	$ 7,500,000	$ 7,500,000
AHP	$ 40,000	$ 275,000	$ 375,000	$ 550,000
County Contribution		$ 1,000,000	$ 1,000,000	$ 1,000,000
City Contribution (AHTF, TIF, HOME)	$ 360,000	$ 1,085,000	$ 3,725,000	$ 9,150,000
City Cost/Unit	$ 45,000	$ 19,727	$ 50,000	$ 83,000
Operations				
Net Income	$ 60,000	$ 420,000	$ 580,000	$ 850,000
Total Expenses	$ 40,000	$ 390,000	$ 470,000	$ 600,000
NET OPERATING INCOME	$ 20,000	$ 30,000	$ 110,000	$ 250,000
* Does not include cost of social services other than onsite case management				

These models show that while the cost of new construction for larger developments is significantly more expensive than acquiring and rehabbing small buildings, the use of Low Income Housing Tax Credits (LIHTC) can reduce the City's contribution significantly. It should also be noted that there is an ideal size range for large developments that maximizes the LIHTC award cap of $8,500,000 (~$7,500,000 after syndication) and is large enough to cover the fixed expense of providing 24/7 front desk/caseworkers onsite. Based on these cost estimates, a project would ideally be at least 55 units.