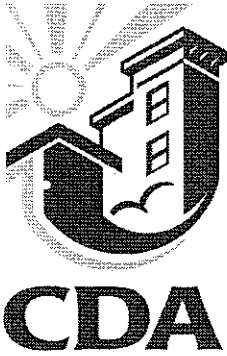


Community Development Authority



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To: Members, Madison Common Council

From: Stuart Levitan, Chair,
 Community Development Authority

Date: September 4, 2007

Re: 07172, Authorizing the City to negotiate with the CDA as Master Developer for City-owned property on Allied Drive and Jenewein Drive

I write to ask your support for the resolution, as amended, authorizing negotiations over the terms by which the CDA will develop 40-48 rental units for low-income households on part of the nine-acre "Hauk Property" which the City acquired last May.

The resolution, sponsored by Mayor Cieslewicz, Aids Solomon and Kerr, also:

- Requires us to solicit and respond to neighborhood interests in the redevelopment;
- Directs us to submit various analyses, plans, budgets, timelines and strategies;
- Directs us to issue an RFP to develop the remaining land into a mix of 50-70 mixed-income owner-occupied and rental units;
- Authorizes us to solicit interest from potential partners and service providers, provided we don't commit funds until the City/CDA contract is approved;
- Finds that the transfer of the City-owned property to the CDA is consistent with public purpose and various adopted plans; and
- Authorizes the City and CDA to negotiate for the terms and conditions of the transfer of the properties, subject to Council action.

Some have suggested that private (for-profit and non-profit) entities should develop this property. The CDA is seriously considering and will likely seek a strategic partner for one or more phases of the project. However, the CDA offers these five unique attributes, which we believe recommend this resolution over a formal and lengthy Request for Proposals process:

- The CDA is the only entity whose total commitment is to the public interest. Any non-public sector developer, whether for-profit or not, ultimately has a private interest that could affect affordability and management. Although these units will *not* be "public housing," the CDA has no interest besides the public's, and will act accordingly;
- Any non-public sector developer, whether for-profit or not, will ultimately make decisions privately; only the CDA provides full transparency and accountability;

- Any developer will seek to make a profit on this project. We think you would want that profit to go to your affiliate agency, rather than be lost to an outside entity – especially since we will commit all excess revenue to further neighborhood revitalization efforts.
- If the Council chooses instead to issue a Request for Proposals, it could not realistically approve the development contract until April 2008 – two months after the February 1 application deadline for Section 42 Low Income Housing Tax Credits (LIHTC). Since Section 42 tax credits are a necessary component of financing such a project, we believe this matter alone is conclusive – unless the City is willing to wait until the 2009 application process. In contrast, adoption of this resolution this evening establishes a timeline, which, with support from the Wisconsin Housing and Economic Development Authority (WHEDA), would bring construction in the summer of 2008.

WHEDA's support will be necessary because our budget is based on \$7.5 million in Sec. 42 tax credits, which indirectly provide construction capital and substantial writing down of debt. Under Sec 42, the IRS issues tax credits to state housing agencies (like WHEDA), which, following a competitive process, awards the tax credits to project developers, who then syndicate them. Equity investors then provide the capital in exchange for the tax credits, which provide a dollar-for-dollar reduction in federal tax liability, claimed in equal installments over a 10-year period.

To qualify for tax credits, developers must, at a minimum, rent 40% of the units to persons at 60% of County Median Income, or 20% percent of their units at 50% of CMI (with rent levels limited to 30 percent of the tenant's qualifying income). Our proposal calls for about three-fourths of the units to be affordable, for at least 15 years, to households at 50% and below of CMI, and all the units to be affordable to households at 60% of CMI – well beyond the federal requirement.

We cannot guarantee that WHEDA will allocate tax credits to this project, but we believe that we can put together a very strong application.

- We believe we can do a project like this because we've already done a project like this – revitalizing the Broadway/Simpson neighborhood through our Monona Shores/Waunona Woods and Lake Point Condominium projects. The award-winning Monona Shores/Waunona Woods project has brought 104 attractive rental units (evenly split between affordable and market rate) and 35 townhouse condominiums to a neighborhood formerly – but no longer – known for drugs and crime. While not perfect, the Monona Shores/Waunona Woods project is a clear success – one that took the CDA, working with city partners like the CDBG Commission, to make happen. The CDA has also managed the entire Lake Point Condominium Project, including acquisition, sale, and construction financing.

This, after all, is why you created us – to serve as the Madison *Community Development Authority*. We think that means more than just owning and operating low-rent public housing, administering Section 8 housing vouchers and issuing various bonds – it means acting in an entrepreneurial manner. Not only would such activity be good for community development – we think it's vital to the continuing financial health of the authority. Our long-range planning committee has documented how we need to grow – through projects just such as this – to offset anticipated federal cuts and rapidly changing economic models of affordable housing.

It will again take the CDA, again working with public, private and non-profit partners, to spur the revitalization of this part of the Allied Drive neighborhood. We have the commitment, competence and experience to undertake and successfully complete this project, and we hope to have the opportunity to do so.