



Department of Planning & Community & Economic Development

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Child Care
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Madison Senior Center

TO: All Alders

FROM: Jim O'Keefe

SUBJECT: Briefing Memo – Proposed Sale of Rethke Terrace & Tree Lane Apartments

DATE: May 8, 2024

This memo provides background information related to two resolutions before the Common Council – **Legistar Items #83201 and #83208**. Both pertain to the proposed acquisition and rehabilitation of properties located in Madison, at 715 Rethke Avenue and 7933 Tree Lane, by Cinnaire Solutions Corporation.

HISTORY

The properties in question came about in response to the City's desire to increase the supply of permanent supportive housing in Madison for those experiencing homelessness. The properties were developed by Heartland Housing, a Chicago-based non-profit organization that was selected by the City to do so in successive competitive Request for Qualifications Processes.

The Rethke development, which offers 60 studio apartments for single adults, was constructed with the aid of \$1.15M of financial assistance from the City, \$1M from Dane County, a \$5.4 million allocation of Federal Low-Income Housing Tax Credits from the Wisconsin Housing and Economic Development Authority and a grant from the Federal Home Loan Bank of Chicago. The property further benefited from the assignment to it of 54 project-based housing vouchers. Rethke Terrace Apartments opened in 2016.

The Tree Lane development, 45 family apartments, was built with the help of \$1.5M from the City, \$1M from Dane County, a grant from the Federal Home Loan Bank of Chicago, a private mortgage loan from BMO Harris and \$7M of Federal Low-Income Housing Tax Credits from WHEDA. Forty project-based vouchers were assigned to Tree Lane Apartments which opened in 2018.

Ineffective property and financial management by Heartland Housing plagued the properties and eventually led to Heartland's exit as part owner and operator. In June 2023, a Dane County Court put the properties under control of a Receiver to improve management of the properties and find a replacement for Heartland.

In November, the Receiver advised the Court he was unable to find a new entity to replace Heartland and work with US Bank (a principal investor and co-owner of the properties). He further noted that funds to operate the properties were nearly depleted. The Court granted permission to begin the process to close the buildings and list them for sale. The Court also accepted an offer by US Bank of \$1.25M to sustain operations through May 2024 and help pay relocation costs for tenants able to find other housing prior to a sale.

DETAILS OF PROPOSED PURCHASE

Several entities expressed interest in acquiring one or the other property. The proposal submitted to the Receiver by Cinnaire Solutions Corporation most closely aligned with key City (and County and WHEDA) goals, including:

- Preserving the long-term affordability of the housing

- Ensuring that a (reduced) number of supportive housing units remain available to serve those with homeless experience
- Committing to favorable tenant practices for current and future residents

Through negotiations with staff and legal counsel from the City, Dane County, WHEDA, the Madison Community Development Authority and the Dane County Housing Authority, an agreement with Cinnaire was reached. The following describes key details:

- Cinnaire Solutions Corporation is based in Lansing Michigan, with offices and key leadership staff located in Madison.
- Cinnaire's total cost to acquire and rehabilitate the two properties is approximately \$7.5M (\$3.9M for Rethke and \$3.5M for Tree Lane). These costs cover extensive rehabilitation that may take months to complete.
- Cinnaire agrees to assume responsibility for \$2.65M of secured debt from previous loans made by the City to help finance the properties (\$1.15M associated with Rethke, \$1.5M with Tree Lane.)
- Cinnaire will rent all of the units to tenants with household incomes at or below 60% of the County Median Income. Most, including all 60 of the Rethke units, will rent to persons with incomes at or below 50% of CMI.
- Cinnaire will maintain approximately 25% of the units (20 at Rethke, 11 at Tree Lane) as Permanent Supportive Housing units. This is down from about 90% when the properties opened, however, the previous concentration of high-need tenants is generally acknowledged to have been a contributing factor in the difficulties at the properties.
- At Rethke, 54 of the 60 units will retain project-based housing vouchers, unchanged from previously. At Tree Lane, the number of project-based vouchers will decline from 40 to 20.
- Units supported with project-based vouchers will continue to serve households experiencing, or at risk of, homelessness. Cinnaire will provide on-site support services for those living in supportive units.
- Existing City Loan Agreements and Land Use Restriction Agreements (as well as corresponding agreements with Dane County and WHEDA) will be modified to reflect the negotiated terms and conditions of the sales.
- To finance its costs, Cinnaire requests \$1,527,600 from both the City and Dane County. Cinnaire also seeks \$2.76M in low-cost loans, and an additional \$1.6M in conventional debt financing, from WHEDA.
- The transfer of ownership to Cinnaire and execution of related agreements, as well as the offer of financial assistance, requires Common Council and County Board approval. The WHEDA Board has signaled its support for the proposed sale and Cinnaire's specific requests for assistance are pending.
- The purchase and sale agreements are also subject to approval from a Dane County Court. A petition on the matter is scheduled for May 20.

PENDING RESOLUTIONS

- Legistar #83201:
 - Authorizes the assignment of secured loans, previously made to Heartland Housing to undertake development of the properties in question (\$1.15M for Rethke, \$1.5M for Tree Lane), to Cinnaire Solutions Corporation, or an affiliate LLC.
 - Authorizes staff to modify existing Loan and Land Use Restriction Agreements to reflect the negotiated terms of the purchase and sale. These will obligate Cinnaire, among other things, to maintain the unit mix and affordability through 2045 at Rethke and 2047 at Tree Lane.

- Legistar #83208:
 - Approves a grant from the City of Madison to Cinnaire, of up to \$1,527,600, to help finance eligible project costs.
 - Approves the use of uncommitted, City-administered Federal Emergency Rental Assistance Program funds that are contained in the Community Development Division's 2024 Adopted Operating Budget.
 - ERA funds, under updated federal guidelines, may be used to support the construction, rehabilitation and preservation of affordable housing so long as the assisted units serve households with incomes not more than 50% of the County Median Income.
 - Any ERA funds not spent by September 30, 2025 must be returned to the US Treasury.