

**2012 STAFF REVIEW OF PROPOSALS FOR
COMMUNITY/NEIGHBORHOOD DEVELOPMENT RESERVE FUNDS**
(Housing Development Funds, Affordable Housing Trust Funds, Facility Acquisition/Rehab Funds, Futures Funds)

1. **Project Name/Title:** 2013 Foreclosed Rental Acquisition #2
 2. **Agency Name:** Housing Initiatives, Inc.
 3. **Requested Amount:** \$246,000
 4. **Project Type:** New or Continuing
 5. **Framework Plan Objective Most Directly Addressed by Proposed Activity:**

D: Rental Housing: Expand the number of affordable rental units and/or improve the quality and/or diversity of units available to lower income individuals throughout the community.

6. Product/Service Description:

Housing Initiatives (HII) proposes to purchase and rehabilitate one 8-unit or two 4-unit foreclosed properties to rent to people who have a chronic mental illness disability and are homeless. HII provides property management, secures rent subsidies for the tenants so the units are affordable, and ensures the tenants receive case management services.

7. Anticipated Accomplishments (Numbers/Type/Outcome):

Funds would be used for the acquisition and rehabilitation of a total of eight (8) units of affordable, rental housing in 2013 for people who are homeless and disabled through chronic mental illness. Eight (8) individuals would be projected to be served in 2013.

8. Staff Review:

Housing Initiatives is an essential affordable rental housing development partner of the City of Madison. HII has been very successful in managing approximately 88 units of this type of housing and obtaining over 100 federal Shelter + Care (S+C) slots to assist their clients with a rent subsidy reducing the tenant rent to 30% of their income. HII has a waiting list of over 100 people. Almost all of Housing Initiatives tenants have incomes below 30% Area Median Income. HII tenants who do not receive S+C assistance are assisted with Section 8 or Veterans Assistance (VASH) vouchers. Some VASH voucher holders have reported difficulty securing housing in the current rental market, suggesting the need for more landlords willing to accept vouchers.

This proposal is for a "license to hunt" meaning that sites have not yet been identified. If implemented as planned, the proposed housing project(s) will effectively produce affordable rental housing. However, HII will need to submit a concrete project pro-forma and related details for staff evaluation and approval when sites are known. The actual per unit subsidy may vary depending on the size of the units, purchase price and amount of necessary rehab.

HII discussed the possibility of securing a foreclosed property in the Allied Drive neighborhood staff discussed concerns with such a location including potential inconsistency with the CDA's Allied Drive Revitalization Plan; complications due to squatters currently occupying property; concentration of HII units and clientele in one already distressed neighborhood; meeting HUD's requirement to replace "de-commissioned" low-income housing units; and potential private market interest in acquiring the property. Given these concerns, HII has agreed to focus its search elsewhere.

HII has indicated that they could obtain favorable first mortgage loan (2% @ 30 year-fixed) from WHEDA of up to half of the project development cost secured by the time of acquisition. Based on past performance and experience in developing housing, HII should be able to have an accepted offer to purchase and submit site specific information by October 31, 2013.

Housing Initiatives submitted an incomplete application for Community Housing Development Organization (CHDO) recertification for 2013. HII would need to complete the recertification process in order for this project to qualify towards HUD's requirement that at least 15% of new HOME funds be used for CHDO development activities. As a 501(c)(3) tax-exempt organization, HII will apply to the City Assessor for tax-exempt status for this property, which is generally granted. This project will be subject to an Environmental Review once a specific site is identified.

Since 2009, HII has been successful in acquiring and rehabilitating vacant, bank-owned foreclosed properties. This project also meets the mayor's goal of addressing the issue of foreclosed properties. Given HII's interest and willingness to focus on foreclosed properties which will in turn help stabilize neighborhoods, staff support waiving the site specific requirement in the 2013-14 Community Development Program Goals and Priorities.

Staff have evaluated and support this proposal in relation to the new FY2012 HOME requirements including adequate developer capacity, fiscal soundness, and CHDO staff capacity. Staff will conduct a review of neighborhood market conditions once a site is identified. However, given HII's lengthy waiting list and Madison's record low rental vacancy rates (less than 2%), there is low-risk of the units remaining vacant. Project sites identified will be consistent with the 2013-2014 Framework condition to not convert owner-occupied units to rental units.

This proposal does not identify a specific site(s) but rather requests funds to allow the agency to seek a site(s). New HUD rules state that funds may not be committed unless a specific local project with an address has been reviewed and approved based on detailed project information. If funding is recommended, this project may only be approved contingent upon having identified a specific site(s) by a certain date and providing related project detail sufficient for staff to ensure a viable project and compliance with regulatory requirements in effect at that time. This includes the proposed a slate of significant changes to the HOME regulations proposed by HUD in 2011, but not yet final.

Due to the limited amount of Reserve Funds currently available for 2013, staff recommends funding only one foreclosed property at this time. If Reserve Funds remain at the time this project is substantially completed, Housing Initiatives should consider applying for Reserve Funds for its next housing project.

Total Cost/Total Beneficiaries Equals:	$\$366,000/8 = \$45,750$ per beneficiary
CD Office Funds/CD-Eligible Beneficiaries Equals:	$\$246,000/8 = \$30,750$ per unit
CD Office Funds as Percentage of Total Budget:	$\$246,000/\$366,000 = 67\%$

9. Staff recommendation:

Provide up to **\$216,000** in Housing Development Reserve Funds towards the acquisition and/or rehabilitation of at least 4 units of affordable rental housing under the terms of the 2013-2014 Program Funding Framework. Funds will be contingent upon Housing Initiatives identifying an appropriate, feasible, vacant and foreclosed property outside of the Allied Drive area and submitting site specific project information by October 31, 2013. Funds will be contingent upon Housing Initiatives obtaining a post-rehabilitation appraisal that supports a maximum of 115% secured loan to value ratio and sufficient, permanent financing to complete the project.