

**2014 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:** Tennyson Ridge
2. **Agency Name:** Lutheran Social Services of Wisconsin and Upper Michigan, Inc (LSS)
3. **Requested Amount:** \$780,000
4. **Project Type:** New 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:**
With Silverstone Partners, Inc as a co-developer, LSS proposes to acquire land and newly construct 72 affordable units of workforce/family rental housing at Tennyson Lane and Eliot Lane on Madison's northside.
7. **Anticipated Accomplishments (Numbers/Type/Outcome):**
A total of 72 rental housing units will be created with 19 One-, 34 Two- and 19 Three-Bedroom units. Six (6) of the units will be targeted to households with income at/below 30% CMI. Forty (40) of the units will be targeted to households with income at/below 50% CMI. Twenty-Six (26) of the 72 units will have income targets between 51-60% AMI. At least 72 households will be served with approximately 151 individuals in the first year based on an average of 2.1 residents per unit.
8. **Staff Review:**
LSS submitted applications for both Housing Development Reserve Funds and Affordable Housing Trust Funds (AHTF) for a total of \$780,000 (Note: the total needed will vary depending on the amount of deferred loan funds and the amount of an AHTF interest bearing loan) The primary partners of the development team for this project consists of LSS as project owner and operator, Silverstone Partners as project developer and Oakbrook Corporation as property manager. The development team will submit an application for Low-Income Housing Tax Credits to WHEDA in January 2014 for approximately \$6.9M of project equity. If awarded tax credits in April 2014, construction would begin in October 2014 with a planned completion date of October 2015.

LSS and Silverstone Partners executed an offer to purchase the land with Keller Development, LLC., current owner of the 20 acre Tennyson redevelopment site. This proposed project is next to a 120 unit senior housing project to be developed by Independent Living, Inc.. The proposed project is located in a Tax Incremental District (TID #40). Initially the City thought a TIF loan of \$300,000 would be possible and therefore is included in the project proforma. However recently it was determined that the TID is not generating a positive increment so a TIF loan is not available at this time. Further discussion regarding TIF funds will be had with CDD and if TIF funds do become available the amount of CDD funds for the project would be reduced by the TIF amount.

The redevelopment site is a vacant, distressed and environmentally affected former poultry research facility. Remediation of this blighted property would benefit the area. A Site Assessment Grant (SAG) will be applied for to offset costs related to assessment, demolition and testing.

Ald. Palm has expressed interest in the project. A second neighborhood meeting occurred January 6. Ald. Palm had no objection to the project but does want the neighborhood to decide if the project should move forward. The majority of residents at the meeting were in support of the project or had minor objections due to traffic.

LSS owns and operates 28 HUD assisted affordable housing projects and several non-subsidized housing programs. Silverstone Partners has been successful in developing seventeen previous tax credits projects and a myriad of other housing and commercial developments as listed in the application. Oakbrook Corporation manages over 7,000 apartments. All three entities have demonstrated their ability to comply with City, State and Federal regulations related to affordable housing development including tax credits requirements.

As a co-developer and co-owner, LSS will maintain ownership of 51% of the ownership entity in the project. With a total of 72 assisted units, this project meets the 2013-2014 Program Funding Goals and Objectives maximum per unit subsidy limits. The total investment will be \$11,000 per unit.

This project will leverage a substantial amount of additional funds. LSS indicated if awarded tax credit equity of \$6.9M that they could obtain a favorable first mortgage loan of approximately \$3.4M at 6.5% needed to complete the project.

This proposal meets the AHTF and City's goals of workforce housing, mixed-income affordable accessible

rental housing.

If CDBG funds are used for this project, funds would have to be dedicated to acquisition as new construction is not eligible. If HOME funds are used for the project, funds may be used for the acquisition or construction. This project will be operated in accordance with all HUD rules and will not include inherently religious activities.

LSS has proposed a total of \$780,000 in CDD funds. The total needed will vary depending on the amount of deferred loan funds and the amount of an AHTF interest bearing loan. The following allocation and distribution of fund type is now being requested based on what CDD has available to allocate for a total of \$795,000:

- \$295,000 in AHTF with a 17 year term amortized over 30 years with interest at 2.75% or below the variable annual federal rate (currently at 3.49%), whichever is lower, and payable annually beginning one year after project completion contingent upon sufficient cash flow to support the project.
- \$500,000 in CDD Reserve Funds as a shared appreciation loan of 0% interest deferred until sale or change in use.

There are sufficient Housing Development Reserve and AHTF funds available to fund the project under these terms. The terms of the AHTF as published are an installment loan with terms amortized over 10 years with 2.75% interest. In order to meet WHEDA's Tax Credit financing and investor requirements, permanent debt must be structured for at least the first 15 years. In order for a tax credit application to receive points for the receipt of these loan funds, the interest rate must be below the variable annual federal rate (currently at 3.49%) which varies monthly and repayment must be after the project cash flows. With these terms, the applicant anticipates that the project will have cash flow sufficient to pay the AHTF loan after Year 1. In exchange for a longer term (17 vs. 10 years), LSS has proposed the AHTF loan be amortized over 30 years with a term of 17 years. This approach allows AHTF funds to be utilized for this project while also improving the return to the City.

Total Cost/Total Beneficiaries Equals:	$\$11,649,500/72 = \$161,800$ per beneficiary unit
CD Office Funds/CD-Eligible Beneficiaries Equals:	$\$795,000/72 = \$11,040$ per unit
CD Office Funds as Percentage of Total Budget:	$\$795,000/\$11,649,500 = 6.8\%$ Total CD Funds

9. Staff recommendation:

1. Approve use of up to **\$500,000** in Housing Development Reserve Funds as a 0% long term deferred loan with shared appreciation according to the terms of the 2013-2014 Program Funding Goals and Objectives.
2. Approve use of up to **\$295,000** in Affordable Housing Trust Fund funds as an installment loan for a total CDD loan of \$795,000. The AHTF loan will be amortized over 30 years with a term of 17 years and interest at 2.75 or below the variable annual federal rate and payable annually beginning one year after project completion contingent upon sufficient cash flow to support the project. In the event that the cash flow is insufficient to pay all or a portion of the annual payment, the balance of the payment due will be repaid at the end of the 17 year period. Tennyson Ridge Apartments affordable rental housing project will produce a total of 72 assisted units.

CDD funds will be contingent upon receipt of 2014 Low Income Housing Tax Credit Financing, obtaining a post-construction appraisal supporting 115% secured loan to value ratio, a satisfactory environmental assessment, CDD-approval of change if property management team changes, incorporation of neighborhood feedback and alder support.