



Department of Planning and Community & Economic Development

Community Development Division

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Child Care
Community Resources
Community Development Block Grant
Madison Senior Center

To: CDBG Committee

From: Linette S. Rhodes, Community Development Grants Supervisor

Date: June 6, 2021

RE: Changing of terms for owner-occupied acquisition and rehabilitation proposals awarded funds through the 2021 Housing Forward RFP

Background

On February 23, 2021, the City of Madison Common Council passed Resolution RES-21-00153 (Legistar #63936), which approved awarding up to \$3.11 million in City and federal funds to proposals submitted to the Community Development Division (CDD) in response to its Housing Forward Request for Proposals (RFP) released on October 30, 2020. Of this \$3.11 million, three nonprofit applicants were awarded Affordable Housing Funds to support their proposals for acquiring property to create new homeownership opportunities for low- and moderate-income households. The terms of the loans that these nonprofit organizations accepted when they applied for City funds were listed in the RFP. However, to encourage long-term and permanent affordability of these properties, CDD is proposing to change the terms of one of the loans to be more favorable to the nonprofit in exchange for a 99 year Land Use Restriction Agreement on the individual properties.

Current Terms: Acquisition/Rehabilitation Proposals

As outlined in the Housing Forward RFP, for awards made to successful acquisition/rehabilitation proposals, at least 50% of funds would be provided in the form of a long-term deferred loan payable upon sale, transfer, or change in use of the property, and up to 50% of funds would be provided in the form of a 15-year forgivable loan. The promissory notes would reflect the following loan terms:

- Long-Term Deferred Note: Zero percent, long-term deferred loan payable upon sale, transfer, or change in the use of the property. The promissory note requires repayment of either a percentage of the appraised value after rehab or construction, based on the amount of the CDD funds invested in the property, or a percentage of the net proceeds, whichever is less.
- 15-Year Forgivable Note: 15-year loan at zero percent interest that requires no repayment so long as there is no sale, transfer, or change in the use of the property within 15 years of the date of final City disbursement of funds. Each year after the final City disbursement in which the project continues to operate as the intended use, a portion of the loan amount will be forgiven. After year 15, no repayment is required and the balance of the note is forgiven.

Staff Recommendation

For projects involving the acquisition and rehabilitation of owner-occupied properties, a non-profit developer typically holds title to the property for 12-15 months during rehabilitation before selling the property to a prospective homebuyer. After the initial sale the property may be sold

at fair market rate on the open market. To encourage long-term permanent affordability of owner-occupied properties, CDD proposes that developers agree to 99 year Land Use Restriction Agreement (LURA), requiring all subsequent sales of the property acquired and rehabilitated using Affordable Housing Funds, be to low- to moderate-income households. In exchange for this revised arrangement, the 50% of funds loaned under the terms of the 15-year forgivable note would be forgiven at time of sale to the first homebuyer of each respective property. To ensure enforceability, the LURA for each property would include a "Liquidated Damages" section, which would outline the penalties the City could exercise on the nonprofit developer, if the property is ever sold or transferred to a non-income qualified homebuyer. These damages could include a reversionary right, which would transfer the property's ownership to the City.