

Shared Appreciation – Modifying Existing Policy

Issue: The CDBG Office Shared Appreciation policy in regards to private non-profit affordable housing and service providers.

How it works: Let's say the City initially invests \$50,000 into a housing property which has a value of \$100,000. If that property increases in value and is worth \$200,000 in ten years when it is sold, the appreciated value would be "shared" between the owner and the City of Madison. Our share in this case would be \$100,000. In this way, as the property gains in value over time (which has been the case until recently), when it is sold, the City is rewarded with its initial investment and a share of the increased value.

Intent: The intent of this practice was to provide a means so that the City could not only invest in affordable housing in the present, but also continue this mission to invest in affordable housing over time by reinvesting the gain (shared appreciation) from our initial investment in new affordable housing ventures. In this manner, the City of Madison could increase the number of affordable housing units and meet the housing and other needs of low to moderate individuals and families. A property would be sold, the City's portion would be paid back, the City would contemplate what its next investment should be and those funds would be invested in the next project.

Practice: Staff analysis reveals that over the past 20 years, almost all appreciation has been immediately reused directly by our providers in their next, approved, project. Using the appreciation that is gained in future projects has worked. What is interesting is that when the funds are paid back to the City, in most cases the City has not applied the funding towards a new project with a different provider, but has simply turned the funds back over to the same provider for their next investment. In other words, the value gained by their investment and the City's investment has almost always been reinvested by the same organization in their next project.

Why the Suggested Modification: Currently, when a property is sold, the City is paid back its interest and simultaneously returns the funds to generally the same provider for the next project. While most would agree that the appreciated value should be reinvested in our core mission, the current *procedure* of returning the City's share of the appreciation back to the City and then re-obligating the funds back to the same housing provider,

is cumbersome at best and in some ways, a hindrance to our housing service providers. It is a practice that is difficult to explain to future lenders, hurts their “bottom line”, may limit equity and therefore their ability to borrow, actually hinder the creation of additional affordable housing stock in Madison and not in any way further the CDBG Office’s core mission.

Recommendation: Maintain the intent of the policy (reinvesting in housing and other initiatives and repaying the City funds initially invested) but end the current procedure of shared appreciation with our non-profit providers. As long as the City’s interest in seeing its funding invested in affordable housing and other core goals is preserved, we can create a policy that helps rather than hinders our service providers and our collective, core mission. Staff will bring back policy with appropriate language at our next CDBG Commission meeting.