



Department of Planning and Community and Economic Development
Community Development Division
Community Development Block Grant Office



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MEMO

To: CDBG Committee

From: Community Development Division

Date: September 25, 2012

RE: Recommendation to approve change of use and change of ownership for seven (7) HOME assisted Operation Fresh Start properties

Operation Fresh Start (OFS) has historically received funding through the CDBG office to construct affordable housing for resale as owner-occupied housing under the federal regulations of 24 CFR 92.254. An example of these regulations consist of the following: household income at or below 80% AMI; property remain owner-occupied for period of affordability; all household members are US Citizens or permanent resident aliens; and if using HOME down payment assistance household qualifies for financing under CDBG Underwriting Guidelines. It takes approximately 10-12 months for an OFS crew to complete construction of a housing unit. Due to this timeline, OFS housing policy is to not market a house until completion of construction. The houses are listed on Wisconsin MLS and advertised on OFS website once available for purchase.

OFS faces difficulty in the housing market in selling their housing to a targeted market of low-moderate income households. OFS builds houses that price to sell between \$120,000 and \$180,000, currently there are approximately 419 housing units for sale in Madison that are in this price range. The average length on the market for an un-restricted (no federal regulations) house in this price range is ten months. OFS is currently holding properties for a longer period of time. A complete list of un-sold OFS properties and the year funded is below. OFS' annual holding cost in 2011 was approximately \$75,000. Due to holding costs OFS reduced staff by one teacher and one crew leader/councilor position in 2011. OFS is requesting CDBG authorize a transfer to Wisconsin Partnership for Housing Development of the following 7 un-sold properties to be included in WPHD's Lease-to-Purchase program.

The 7 properties are as follows with corresponding contract years in which the properties were funded:

- 4717 Crescent funded 2006
- 117 Rustic Dr funded 2008
- 6317 Driscoll funded 2009
- 5141 Crescent Oaks funded 2009
- 1425 MacArthur Rd funded 2011
- 2718 Myrtle St funded 2011
- 809 Crestview funded 2011

WPHD Lease-to-Purchase program is a new program developed by OFS and WPHD. WPHD will identify prospective tenants who will lease the property. Per federal regulations the property must be transferred within 36 months of initial occupancy. WPHD will offer extensive education for tenants to prepare them for homeownership. Buyers must qualify for conventional financing at the time of purchase; HOME funds invested in the property can be transferred as down payment assistance to eligible households.

WPHD has agreed to find private financing to purchase the 7 units from OFS. Any CDBG funds invested in the properties originally funded through OFS' Capital Revolving Loan Fund Contract will be returned to the CDBG office at the time of transfer from OFS to WPHD. WPHD will assume all HOME related debt on each property in order to keep the home affordable. HOME funds will transfer to the homeowner within the 36 month lease period when the homebuyer purchases the home from WPHD.

The CDBG staff has met with WPHD and OFS to develop the details of the Lease-to-Purchase program. Although there are still some risks identified, WPHD and CDBG staff will continue to work together as the contract is developed to address those risks as the program design is finalized. An identified risk that the CDBG staff will work with WPHD is the formation of a clear tenant selection plan. The CDBG staff will also need to review the budget for each sale of the above mentioned property to determine feasibility.

WPHD and OFS originally submitted a request during the 2013-2014 Summer Funding process for funding of up to 4 units of affordable housing which would be occupied under a Lease-to-Purchase model. At the time of the summer funding process the CDBG staff and CDBG Committee had additional questions as WPHD was developing the new program model. Attached is additional information that has been submitted by WPHD in response to questions submitted by the CDBG staff and CDBG Committee members.

Staff recommendation is to allow the change of use and change of ownership to the properties listed above. The homes will be managed under the WPHD Lease-to-Purchase program. WPHD will be expected to do extensive homebuyer education throughout the lease period and ownership of the homes must be transferred to the homebuyer within 36 months of initial occupancy. OFS and WPHD will work with the CDBG staff during each transfer of property transaction to supply required documentation of sales price, appraisal, tenant selection plan and any documentation deemed necessary in evaluating the transaction.