

**2013 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:** Eagle Harbor Apartments
 2. **Agency Name:** Care Net Pregnancy Center of Dane County, Inc. (Care Net)
 3. **Requested Amount:** \$550,000 Total (Rental Reserve Funds) including up to
 \$250,000 AHTF Funds
 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 Kothe Real Estate as developer, Care Net proposes to newly construct a three story mixed-use building at 1360 MacArthur Rd. with 36 rental apartment units and a 2,038 square foot commercial daycare facility.

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

A total of 36 rental housing units will be created with 15 One-, 13 Two- and 8 Three-Bedroom units. Six (6) of the units will be Supportive Housing (as defined by WHEDA) and targeted to households with <30% CMI who are at risk of homelessness. Thirty (30) of the 36 units will have income targets at/below 60% AMI. At least 36 households will be served with approximately 98 individuals in the first year based on an average of 2.7 residents per unit.

8. **Staff Review:**

Care Net submitted applications for both Reserve Funds and Affordable Housing Trust Funds for a total of \$550,000. Construction would begin in July 2013 with a planned completion date of March 2014. The proposed construction site land is already owned by Care Net.

This project will leverage a substantial amount of additional funds. Care Net indicated if awarded tax credit equity of \$3.2M that they could obtain favorable 30 year first mortgage loan of approximately \$1.6M at 6.25% interest plus the remaining funds needed to complete the project.

Care Net has a preliminary agreement to hire Meridian Group, Inc. to provide Property Management services to both lease and maintain the project. Meridian is an experienced property management company and owner of affordable housing including over 100 CDD-assisted units. The Meridian Property Management plan submitted with the application adheres to the equal opportunity and affirmative marketing requirements associated with federal, state and local rental housing laws. If awarded funds, the funding agreement will require CDD-approval of change in property management team. Furthermore, the City of Madison CDBG Office will monitor the project for contract and program compliance consistent with funding source requirements.

Care Net is a religious based non-profit organization. Organizations that are religious or faith-based are eligible, on the same basis as any other organization, to participate in the HOME [and other federal] program(s). HOME regulations state that neither the Federal government nor a State or local government receiving funds under HOME programs shall discriminate against an organization on the basis of the organization's religious character or affiliation. However, organizations that are directly funded under the HOME program may not engage in inherently religious activities, such as worship, religious instruction, or proselytization, as part of the funded assistance. If an organization conducts such activities, the activities must be offered separately, in time or location, from the assistance funded under this part, and participation must be voluntary for the beneficiaries of the assistance provided. Funds will be contingent upon Care Net's commitment to implementation and ongoing compliance with the federal requirements regarding faith-based activities in the delivery of services and property management practices.

Care Net (as owner), Kothe Real Estate Partners (as developer), and Meridian Group (as property management) have indicated that there will be no requirements of tenants related to religious affiliation in any of the units. Care Net will establish a separate LLC as required for WHEDA tax credit projects. The affordable housing development will be affirmatively marketed to the general population based on income-eligibility regardless of gender, familial status or any protected class. The six supportive housing units will be offered to

people at risk of homelessness. Care Net submitted a letter affirming that their religious affiliation will not have an impact or influence on the tenants or management of this housing development.

The \$400,000 needed to construct the daycare facility will be funded out of the first mortgage and owner equity, not via CDD funds. The financial feasibility of the residential portion of the development is not dependent on the success of the daycare. The daycare will be open to the public and convenient to the residents of this development. CDD Child Care staff have indicated that there is a need for additional child care facilities in this area.

To address staff's question regarding recent multi-family development experience by the development team led by Kothe Real Estate, the applicant submitted a list which included the development of a 14-unit development at 229 West Lakelawn completed with Landgraf Construction in 2012.

This proposal meets the AHTF and City's goals of redevelopment, workforce housing, mixed-income affordable rental housing, and to reduce the number of individuals who are homeless or at risk of homelessness. The development is also consistent with goals of the Carpenter-Hawthorne-Ridgeway-Sycamore-Truax Neighborhood Plan (2001) which encourages infill mixed-use development and to increase the multi-family housing stock. Two neighborhood meetings were held which generated significant neighborhood concern about density and traffic. However, planning staff are recommending approval of the request for a conditional use permit for the Jan 14 Plan Commission meeting.

Alder Claussius indicated support for this project.

Care Net initially proposed a \$550,000 loan with 0% interest deferred with shared appreciation, until sale or change in use. HOME/HOME Match funds available were insufficient to fund the project under these terms. (CDBG funds would not be advantageous to this project as they would trigger federal prevailing wage rates.) Staff worked with Care Net in an attempt to utilize AHTF funds and maximize the return to the City. Care Net revised their project budget based on those discussions resulting in a request for \$150,000 in HOME/HOME Match and \$400,000 in AHTF funds for a total request of \$550,000. The terms of the AHTF RFP 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 2.31%) which varies monthly and repayment must be after the project cash flows. With these terms, this project will not have cash flow sufficient to pay the AHTF loan until Year 8.

Total Cost/Total Beneficiaries Equals:	$\$6,066,214/36 = \$168,505$ per beneficiary unit
CD Office Funds/CD-Eligible Beneficiaries Equals:	$\$550,000/21 = \$26,190$ per unit
	$\$150,000/11 = \$13,636$ /per HOME unit
	$\$400,000/10 = \$40,000$ /per AHTF unit
CD Office Funds as Percentage of Total Budget:	$\$550,000/\$6,066,214 = 9\%$ Total CD Funds

9. Staff recommendation:

Provide up to \$150,000 in HOME/HOME Match Reserve funds as a 0% long term deferred loan with shared appreciation according to the terms of the 2013-2014 Program Funding Framework and \$400,000 in Affordable Housing Trust Fund funds as an installment loan for a total loan of \$550,000. The terms of the AHTF loan will be amortized over 16 years with interest 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 16 year period. The Eagle Harbor Apartments affordable rental housing project will produce a total of 36 units with 11 HOME-Assisted and 10 AHTF-Assisted units.

Staff also recommend that the calculation of the applied interest rate (i.e. whether it be calculated on a monthly basis, annual basis, average basis, etc.) be determined so that it maximizes efficiency and return to the City.

CDD funds will be contingent upon receipt of 2013 Low Income Housing Tax Credit Financing, obtaining a post-construction appraisal supporting 115% secured loan to value ratio, an environmental assessment, and CDD-approval of change in property management team.