

**2015 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:** Mifflin & Butler Rental Acquisition/Rehab

2. **Agency Name:** Housing Initiatives

3. **Requested Amount:** \$650,000

4. **Project Type:**  New  Continuing

5. **Framework Plan Objective Most Directly Addressed by Proposed Activity:**

Objective 1.1 Housing Supply - Preserve, improve and expand the supply of affordable housing for homeowners and renters.

6. **Product/Service Description:**

Housing Initiatives (HII) proposes to purchase and complete minor rehabilitation on a 6-unit and an 8-unit property at 310 E. Mifflin & 103 N. Butler Streets. Currently owned by Madison Development Corporation (MDC), these two buildings consist of five 1-bedroom units plus one efficiency and seven 1-bedroom units plus one efficiency, respectively. All of the units are fully occupied. HII will continue to rent to current households, so as to not displace any existing tenants. As natural turnover occurs, HII will rent the units to people with mental illness who are experiencing homelessness. HII provides property management, secures rent subsidies for the tenants so the units are affordable, and coordinates with tenants case management service providers.

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

Funds would be used to acquire and rehabilitate a total of 14 units of affordable, rental housing in 2015. Fourteen (14) households, likely single individuals, would be projected to be served in 2016 all of whom would be low-income ( $\leq 80\%$  County Median Income (CMI)). Eight (8) of 14 current tenants have household incomes at  $\leq 50\%$  CMI. As natural turnover occurs, all units will be targeted to households at/below 50% CMI, likely single individuals, with mental illness who are experiencing homelessness.

8. **Staff Review:**

Housing Initiatives has executed an offer to purchase and rehabilitate a 6-unit and an adjacent 8-unit property consisting of a total of 14 units. The proposed housing project will effectively preserve 14 units of affordable rental housing in Madison's downtown. It would be a significant loss to the affordable housing supply for these units to be sold and operated as market rate housing.

In addition to meeting Objective 1.1 in the adopted 2015-2016 Community Development Program Goals and Objectives, this project specifically addresses the priority to preserve the supply of rental units, especially for individuals needing affordable single room occupancy (SRO) or efficiency units and with supportive services for special populations. Tenants who reside in these units will benefit from a safe, decent and sanitary housing at an affordable rate.

This project will also leverage additional funds. HII has indicated that they could obtain favorable first mortgage loan (4.5% @ 30 year-fixed) from WHEDA secured by the time of acquisition. As a 501(c)(3) tax-exempt organization, HII will apply to the City Assessor for tax-exempt status for this property, which is generally granted.

Housing Initiatives initially applied for \$650,000. However, staff determined that this amount of federal assistance was more than necessary to provide affordable housing due to a reduction in certain development costs, increase in rents over time from anticipated rental assistance, decrease or elimination in property taxes over time. Therefore, staff concluded that a lower amount of \$600,000 would be sufficient to provide an amount of federal assistance no more than necessary to maintain the affordable housing.

More than 400 homeless single adults were counted in the 2014-2015 Madison-Dane County Point-in-Time surveys. Approximately one-fourth of homeless individuals surveyed in 2015 have severe mental illness. The private housing market is ill equipped to serve this low-income, high needs population. Persistent historically low vacancy rates and increasingly high rental costs exacerbate the City of Madison's need for affordable rental housing units with supportive services that are already in high demand.

Housing Initiatives has a successful 20 year history of providing permanent supportive rental housing units for low-income people with mental illness who are experiencing homelessness. Permanent supportive housing is appropriate for people likely to need some level of ongoing services in order to maintain stable housing. HII manages 110 units of this type of housing coupled with federal rent subsidies that reduce tenant rent to 30% of their income. Most HI clients have HUD Continuum of Care (CoC) Rent Assistance. HII tenants who do not receive CoC Rent Assistance have a Section 8 Housing Choice or Veterans Assistance (VASH) voucher. Voucher holders often report difficulty securing housing in the current rental market, suggesting the need for more landlords willing to accept vouchers. Almost all of Housing Initiatives tenants have incomes below 30% CMI. With a waiting list consistently over 100 people, Housing Initiatives' units are in high demand. HII reports a 95% success rate of their clients never returning to homelessness.

In 1996, Madison Development Corporation (MDC) acquired and rehabilitated these properties with the assistance of approximately \$206,000 HOME & CDBG funds from the City of Madison CDBG office. In 2015, the two properties were market valued at approximately \$1.1M. Upon sale, MDC will repay approximately \$500,000 which consists of the original CDD assistance plus its shared appreciation in the properties combined at about 46% of the current appraised value (pending). Housing Initiatives proposes to maintain those funds in the project. Instead, MDC will repay the City of Madison; and the CDD will enter into a new loan agreement and loan documents to Housing Initiatives as a new project.

Alder Zellers has expressed her support for the funding of this project.

<b>Total Cost/Total Beneficiaries Equals:</b>	$\$1,255,250/14 = \$89,661$ per beneficiary
<b>CD Office Funds/CD-Eligible Beneficiaries Equals:</b>	$\$600,000/14 = \$42,857$ per unit
<b>CD Office Funds as Percentage of Total Budget:</b>	$\$600,000/\$1,255,250 = 48\%$

**9. Staff recommendation:**

Provide up to **\$600,000** in CDD Housing Development Reserve Funds towards the acquisition and/or rehabilitation of 14 units of affordable rental housing under the terms of the 2015-2016 Community Development Program Goals and Objectives. Funds will be contingent upon Housing Initiatives obtaining a post-rehabilitation appraisal that supports a maximum of 115% secured loan to value ratio, commitment of sufficient, permanent financing to complete the project, and related due diligence documentation.