



Department of Planning & Community & Economic Development
Community Development Division

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**Child Care
Community Resources
Community Development Block Grant
Madison Senior Center**

MEMO

To: City of Madison, Common Council and Board of Estimates
From: Susan Morrison, Community Development Division - CDBG Unit
Subject: Revisions to City Small Cap TIF loan programs
Date: October 24, 2016

Overview

In response to recent questions and concerns about the City's two Small Cap Tax Increment Financing (TIF) loan programs, Community Development Division staff worked with staff from the Planning Division, the Economic Development Division and the Community Development Authority to review underlying issues and develop recommendations for program revision. What follows below is background on and a series of recommended changes to the loan programs, coupled with an explanation of the underlying issues each change seeks to address.

Background

The City Community Development Division's CDBG Unit manages the two residential rehabilitation loan programs funded by Tax Increment District (TID) proceeds. The Mansion Hill-James Madison Park Small Cap TIF loan program (TID #32) was established in 2011. Since then, it has funded six loans with an average value of \$78,138. The Greenbush Small Cap TIF loan program (TID #43) was established in 2014. Thus far, it has funded five loans with an average value of \$88,000. Both programs have been amended via Common Council resolution. In each case, these amendments made technical changes to the programs that enhanced the City's ability to achieve previously approved program goals.

Both Small Cap TIF programs provide forgivable loans for the purchase and/or renovation of renter occupied properties in specifically defined geographic areas under the condition that they be converted to owner occupancy. The programs fund renovation costs plus up to 10% of purchase price. Loan amounts may not exceed \$80,000 for single unit properties, \$90,000 for two-unit properties, and \$100,000 for three-unit properties. Maps and detailed program guidelines can be found at the following links:

- Greenbush: <http://www.cityofmadison.com/dpced/economicdevelopment/greenbush-housing-renovation-program-small-cap-tif-loan-program/1584/>
- MansionHill: <http://www.cityofmadison.com/dpced/economicdevelopment/mansion-hill-james-madison-park-neighborhood-small-cap-tif-loan-program/229/>

Proposed Program Revisions

1) Projects funded with Small Cap TIF program loan funds, will not be allowed to increase the number of units - for example, conversion of a two-unit property to a three-unit property. However, an ADU (accessory dwelling unit) will be allowed (though not funded by program funds) if approved

by City Zoning. If an ADU is authorized, the property owner will be required to occupy the principle residence, not the ADU.

- A primary goal of the Small Cap TIF loan programs is to significantly improve the condition of housing stock in target areas while also converting that same housing stock from rental to owner occupancy. The intended result is an increase in the number of owner residents in the neighborhood. Allowing an increase in the number of units would run contrary to this primary goal, effectively increasing rather than decreasing the number of renter occupants.

2) The City will not make Small Cap TIF loans for projects in which the primary property will be demolished. “Demolition” is as defined per City Building Inspection and Zoning.

- One of the program’s primary goals is to improve existing residential property through renovation. The program was never intended to support demolition or new construction.

3) Add an explicit provision to the program guidelines stating that the City Small Cap TIF program funds may not be used to construct or renovate an ADU.

- The established intent of the Small Cap TIF loan programs is to renovate the primary structure on the property. Allowing funds to be used for construction or renovation of an ADU would encourage rental rather than owner occupancy.

4) The City will not make Small Cap TIF loan funds available to properties held under a land contract.

- This proposed revision is a straightforward clarification of what has been existing practice since the programs began. No Small Cap TIF program loans have been made to properties held under land contract. The City’s program requires that the property owner occupy the subject property. Under a land contract, the seller provides the buyer financing for purchase of the property and allows the buyer to occupy the property. However, the seller retains the legal title to the property until the contract is paid in full.

5) Expand the geographic boundaries of the Greenbush Small Cap TIF loan program, as described on the attached map. This expansion was previously approved by the Joint Review Board on July 12, 2016.

- The proposed expansion was requested by the area Alder, Sara Eskrich, in response to requests from neighborhood residents. Its effect would be to increase the number of properties eligible for residential rehabilitation loans under the Greenbush Small Cap TIF loan program.