



Legislation Text

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Fiscal Note

The proposed \$1.8 million loan will be funded by the Affordable Housing-Development Projects capital program in the Community Development Division's capital budget. After adopting the proposed resolution and loan amount, the available budget for the Affordable Housing-Development Projects capital program will be approximately \$7,900,000. No additional City appropriation is required for the proposed loan. The Community Development Division also has committed loans that have yet to be charged to the capital program. After accounting for these committed loans the remaining available budget for the Affordable Housing-Development Projects capital program will be approximately \$3,500,000.

Title

Awarding up to \$1,800,000 from the Affordable Housing Fund to support a rental housing development project, proposed by Rule Enterprises LLC and Movin' Out, Inc., selected through a City Request for Proposals (RFP) process, that will construct approximately 150 units of rental housing at 1402 S. Park Street in Madison, with 94 units affordable to households with incomes at or below 50% of the county median income, and authorizing the Mayor and City Clerk to execute a loan agreement with the developer.

Body

The City's approved 2020 Capital Budget includes authorization for an additional \$5.5 million of spending for the Affordable Housing Fund (AHF). At present, \$3,500,500 of AHF remain uncommitted to specific housing projects. This resolution draws on that resource to provide up to \$1,800,000 in direct financial support for a proposed affordable housing development.

This resolution, if adopted, will allocate up to \$1,800,000 in City-administered AHF funds to Fourteen02 on Park, LLC, or an affiliate LLC owned or controlled by Rule Enterprises LLC and Movin' Out, Inc., for the proposed rental housing development at Truman Olson outlined below. City funds will contribute to the development of 150 units of affordable rental housing, 94 of which would be available to households with incomes at or below 50% of the county median income (CMI).

Background

The City of Madison's approved 2020 Capital Budget authorizes continued funding, through the Affordable Housing Fund (AHF) to support affordable housing development. The AHF was first authorized in the 2015 Capital Budget to help increase and/or preserve the supply of affordable housing. For purposes of this initiative, affordable rental housing has been defined as that which is reserved for households with incomes at or below 60% of the CMI and with rents restricted at levels affordable to households at those incomes for at least 30 years. The City's primary strategy in deploying AHF is to leverage other resources to help achieve the goal of adding approximately 200 new affordable rental units per year.

In general, the City has allocated AHF funds to development proposals selected through an annual Request for Proposals (RFP) process conducted by the Community Development Division. On occasion, AHF support has also been considered for developments arising from other City inspired initiatives and a corresponding RFP for a City owned or controlled site. The proposed redevelopment of the Truman Olson

site is one such instance.

The City has worked to position Truman Olson for redevelopment for nearly a decade. In 2019, the Common Council authorized the release of an RFP to solicit development proposals for the redevelopment of the Truman Olson site with the following primary objectives: 1) Preserve food access in the area by constructing a grocery store; 2) Complete the connection of Cedar Street; and 3) Meet the relevant planning and zoning requirements. Subsequently, the Council selected Rule Enterprises, LLC to undertake the development and assigned a staff team to negotiate project details.

Rule Enterprises, LLC has since partnered with non-profit affordable housing developer Movin' Out, Inc. for this development. They propose to develop 150 units of rental housing and a grocery store at the site. 100% of the housing units will be income- and rent-restricted to households with incomes at or below 80% of the CMI. Sixty-four (64) of the units will be rented to households with incomes at or below 50% of the CMI; Thirty (30) units will be rented to households with incomes at or below 30% of the CMI. The authorization of City AHF is sought only to support the housing portion of the proposed development. More specifically, AHF funds will ensure that ninety-four (94) units are reserved for households with incomes at or below 50% of the CMI for a period of at least 30 years.

This resolution seeks to authorize the commitment of City funds, to the developer and in the amount specified, for the project proposal as described. It also seeks authorization for the Mayor and City Clerk to execute loan agreements and other documents necessary to proceed with that commitment.

ACTION

WHEREAS, following the rejection without prejudice of the responses to the 2017 Truman Olson RFP, on May 14, 2019, the Common Council adopted Resolution RES-19-00386 directing staff to issue a new RFP for the sale of 1402 South Park Street, the former Truman Olson United States Army Reserve Center (the "Property"), and establishing a process for the review of RFP responses and selection of a buyer of the Property; and,

WHEREAS, on December 3, 2019, the Common Council adopted Resolution RES-19-00819 approving the selection of Rule Enterprises, LLC to acquire and undertake the redevelopment of the Property; granting exclusive rights to the developer to negotiate the purchase of the Property, contingent upon meeting certain conditions; and directing a staff team to initiate negotiations with the selected development team; and,

WHEREAS, on January 16, 2020, Rule Enterprises, LLC, in partnership with Movin' Out, Inc. (jointly, the "Developer") agreed to the terms outlined in the Development Agreement with the City of Madison to undertake the redevelopment as proposed; and,

WHEREAS, the Developer proposes the construction of 150 units of rental housing all of which will be income- and rent-restricted for households with incomes at or below 80% of the CMI including 94 City-assisted units, 64 of which would be income- and rent-restricted for households with incomes at or below 50% of the CMI, plus 30 of which would be income- and rent-restricted for households with incomes at or below 30% of the CMI; and,

WHEREAS, consistent with the City's objective to expand the supply of affordable rental housing called for in the 2020 Adopted Capital Budget, and using City-administered resources in concert with available financing tools, such as the Wisconsin Housing and Economic Development Authority's (WHEDA's) 4% federal and state tax credit programs; and,

WHEREAS, as the lead agency for the City's Affordable Housing Initiative, the Community Development Division (CDD) solicited application materials for Affordable Housing Funds from the Developer which were received on October 25, 2019 and January 13, 2020; and,

WHEREAS, CDD staff and staff members from the negotiating team reviewed and evaluated that application with respect to financial viability; gap financing needed; per-unit subsidy requested; development team experience; and likelihood that the Developer can secure other financing necessary to complete the project; and,

WHEREAS, based on their review, staff concluded that the proposal was sufficiently responsive to the City's criteria and, with City financial support, could successfully meet the other objectives of producing a redevelopment including a grocery store and Cedar Street connection sought in the City's RFP; and,

WHEREAS, staff, therefore, recommend that the City allocate up to \$1,800,000 in City AHF funds to support the Developer's proposal to construct 150 units of housing on the Property, at least 64 of which will be maintained as income- and rent-restricted for households with incomes at or below 50% of the CMI, and at least 30 more of which will be maintained as income- and rent-restricted for households with incomes at or below 30% of the CMI; and,

WHEREAS, as the development proposal proceeds through final design stages and review processes, the Developer may need to make minor project adjustments, including to the number and mix of housing units; and,

WHEREAS, upon securing WHEDA financing, the Developer, via an affiliate LLC, will be prepared to execute a loan agreement and related loan documents with the City.

NOW, THEREFORE, BE IT RESOLVED, that the Mayor and the Common Council hereby authorize the issuance of a letter of funding commitment of up to \$1,800,000 of City AHF funds to support the proposed redevelopment on the Property; and,

BE IT FURTHER RESOLVED, that CDD staff is authorized to approve minor alterations to the development, including to the number and mix of housing units, if such changes are deemed necessary to improve affordability provided by the development and/or comply with City land use requirements, but may not adjust the level of City financial assistance without further Council approval; and,

BE IT FURTHER RESOLVED, that the Mayor and City Clerk are authorized to execute a loan agreement, utilizing CDD-administered funds, for the affordable housing project as described below and reflecting any minor adjustments approved by CDD staff or caused by the application of other resources:

- Developer, Project and Loan Amount

- Up to \$1,800,000 from AHF to Fourteen02 on Park, LLC, or an affiliate LLC for the 150-unit rental housing redevelopment on the Property with at least 64 units affordable to households with incomes at or below 50% of the CMI and at least 30 more affordable to households with incomes at or below 30% of the CMI.
- Form of Loan
 - The AHF assistance will be provided in the form of a loan, up to 50% of which will be amortized over 30 years and payable over 16 years, contingent upon available cash flow, and at least 50% of which will be a 0% interest, long-term deferred loan with shared appreciation, payable upon sale, transfer, or change in the use of the property; and
 - The AHF loan will be secured by a subordinate mortgage, note, and Land Use Restriction Agreement securing a 30-year period of affordability; and
 - The Developer shall apply the proceeds of the loan to the expense of acquiring the property and/or constructing the project, including at least the total number of units and units to be used as affordable housing, for rent to income-eligible households as specified above; and
 - The loan agreement will be in full force and effect until the loan is repaid or at the expiration of the period of affordability, whichever is later.
- Assignment
 - The loan shall not be assigned without permission of the City except for an assignment to an affiliate entity of the developer prior to loan closing.
- Closing
 - Prior to closing, the Developer must submit to the City a standard ALTA commitment for a loan policy of title insurance in the amount of the loan for such Property, which will be subject only to municipal and zoning ordinances and agreements entered under them, recorded easements for the distribution of utility and municipal services, mortgages, security agreements, assignments of leases and rents, regulatory and land use restriction agreements and an extended use commitment pursuant to Section 42 of the Internal Revenue Code, recorded building and use restrictions and covenants, taxes levied in the year of closing, and any other encumbrances acceptable to the City; and
 - Prior to closing, the Developer must provide evidence of property insurance as required by the mortgage, containing a standard loss payee endorsement identifying the City as mortgagee. Developer also agrees to provide evidence of property insurance annually by February 10th or before expiration of existing policy; and,

BE IT STILL FURTHER RESOLVED, that the execution of a loan agreement and disbursement of City funds will be made contingent upon the Developer demonstrating that it has (1) secured financing sufficient to complete the project, including WHEDA LIHTC financing; (2) received from the City all necessary land use and permit approvals; (3) satisfied any other City requirements; and (4) provided any other City-requested documentation; and,

BE IT FINALLY RESOLVED, that the Mayor and City Clerk are hereby authorized to execute, deliver, publish, file and record such other documents, instruments, notices and records, and take such other actions as shall be deemed necessary or desirable to accomplish the purpose of this Resolution, and to comply with and perform the obligations of the City hereunder in a form approved by the City Attorney.