



Legislation Text

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Fiscal Note

The proposed resolution authorizes \$6.8 million in loans for four affordable housing projects, identified through a competitive RFP process, which will result in the development of approximately 310 units of affordable rental housing. The \$6.8 million will be funded by \$1.98 million of federal HOME Investment Partnership (HOME) revenue in the Community Development Block Grant (CDBG) fund and \$4.82 million from the Affordable Housing Fund capital program. The federal HOME funds are included in Community Development Division's 2018 Adopted Operating Budget, which includes approximately \$6.4 million Purchased Services budget authority in the CDBG fund. The Affordable Housing Fund capital program currently has \$11.16 million in available budget authority. No additional City appropriation is required.

Title

SECOND SUBSTITUTE - Awarding up to \$4.82 million from the Affordable Housing Fund and \$1,980,000 in Federal HOME funds to support four development projects, selected through a City Request for Proposals (RFP) process, that will construct approximately 310 units of affordable rental housing in Madison, and authorizing the Mayor and City Clerk to execute loan agreements with the developers of those projects.

Body

The 2019 Executive Capital Budget authorizes \$4.5 million of new spending for the Affordable Housing Fund (AHF). In addition, it carries forward the authority to spend \$1,220,500 from the 2018 Adopted Capital Budget not yet committed to specific housing projects. In addition, the 2019 Executive Operating Budget also reflects the availability of at least \$5 million in 2018-2019 funds under the Federal HOME Program. This resolution draws on both resources to provide up to a combined \$6.8 million in direct financial support for four proposed affordable housing developments that will also leverage federal Low-Income Housing Tax Credits allocated by the Wisconsin Housing and Economic Development Authority (WHEDA).

This resolution, if adopted, will allocate up to \$6.8 million in City-administered funds for the four projects outlined below. Collectively, these projects will contribute to the development of approximately 310 units of affordable rental housing. The resolution proposes the following allocation of funds:

- Up to \$2,900,000 million (\$1,910,000 of AHF funds and \$990,000 of HOME funds) - Bayview Foundation, Inc. & Horizon Development Group, Inc., or an affiliate LLC for Bayview Foundation Apartments
- Up to \$1,850,000 million (of AHF funds) - Stone House Development, Inc., or an affiliate LLC for Schroeder Road Apartments
- Up to \$1,100,000 (\$110,000 of AHF funds and \$990,000 of HOME (funds) - Movin' Out', Inc. & Mirus Partners, or an affiliate LLC for The Ace Apartments
- Up to \$950,000 (of AHF funds) - Gorman & Company, LLC, or an affiliate LLC for Valor on Washington Apartments

Background

The City of Madison's 2019 Capital Budget is expected to maintain the City's commitment to the Affordable Housing Fund, at an annual level of \$4.5 million. The AHF was first authorized in the 2015 Capital Budget to help increase and/or preserve the supply of affordable rental housing. For purposes of this initiative, affordable rental housing is defined as that which is reserved, for at least 30 years, for households with incomes at or below 60% of the county median income with rents restricted at levels affordable to those households accordingly. The AHF seeks to leverage other resources, most notably federal Low-Income Housing Tax Credits (LIHTCs), to help achieve the City's goal of adding approximately 200 new affordable rental units per

year.

In Wisconsin, LIHTCs are administered by the Wisconsin Housing and Economic Development Authority (WHEDA). WHEDA allocates credits annually through a competitive statewide process. The review criteria that WHEDA employs favors development proposals that demonstrate significant local financial participation and/or leveraging of other financial resources.

In choosing how to allocate City AHF funds, the Community Development Division conducts its own competitive Request for Proposals (RFP) process. That process is scheduled to coincide with WHEDA's cycle so that City funds can be awarded in time to benefit developers seeking tax credits from WHEDA. WHEDA's next application deadline is December 14, 2018. This resolution is intended to authorize the commitment of City funds, to the developers and in the amounts specified, for project proposals selected in this year's RFP process. It is also intended to authorize the Mayor and City Clerk to execute loan agreements and other documents necessary to proceed with financial contributions to these projects.

ACTION

WHEREAS, in order to achieve the City's objective of expanding the supply of affordable rental housing called for in the 2019 Capital Budget, and using City-administered resources in concert with federal Low-Income Housing Tax Credits, the Community Development Division issued a Request for Proposals (RFP) in May 2018 seeking tax credit-eligible projects; and,

WHEREAS, the RFP anticipated drawing on both City AHF funds and federal HOME Investment Partnership (HOME) funds to support such projects, contingent upon their inclusion in the City's Adopted 2019 Budget; and,

WHEREAS, in response to the RFP, the City received applications seeking assistance for the following six proposed projects:

- Bayview Foundation Apartments, submitted by Bayview Foundation, Inc. & Horizon Development Group, Inc.;
- Packers Flats, submitted by Impact Seven, Inc.;
- Red Caboose Apartments, submitted by Movin' Out, Inc.;
- Schroeder Road Apartments, submitted by Stone House Development, Inc.;
- The Ace Apartments, submitted by Movin' out, Inc. & Mirus Partners, Inc.;
- Valor on Washington, submitted by Gorman & Company, LLC; and,

WHEREAS, the Packers Flats and Red Caboose Apartments applications were withdrawn from further consideration prior to completion of the review process; and,

WHEREAS, a review team, comprised of staff from the City's Community Development, Economic Development, and Planning Divisions evaluated proposals based on criteria that addressed issues such as the number and mix of housing units; project location with respect to nearby amenities such as public transit, schools, retail and employment opportunities, etc .financial viability; gap financing needed; per-unit subsidy requested; development team experience; likelihood of the developer securing needed land use approvals; and anticipated score in WHEDA's LIHTC application process; and,

WHEREAS, based on this review, the staff team concluded that the identified four projects were sufficiently responsive to the City's criteria and, with City financial support, could compete successfully for WHEDA LIHTCs; and,

WHEREAS, in addition to this review, the CDD staff team also evaluated these proposals for their consistency with the goals and requirements set forth in the City's 2015-2019 Five-Year Consolidated Plan, formally

adopted by the Common Council on December 3, 2014, which guides the use of U.S. Department of Housing and Urban Development funds; and

WHEREAS, the CDD staff team determined that offering federal HOME funds to two of these proposed developments would both meet the requirements and further the goals set forth in the 2015-2019 Five-Year Consolidated Plan as well as the RFP, authorized by Common Council on August 7, 2018 to seek proposals to utilize federal funds; and

WHEREAS, based on these reviews, the CDD staff team formulated recommendations that seek to allocate \$4,820,000 in City AHF funds and \$1,980,000 in Federal HOME funds to support four development proposals that promise to construct 355 units of housing, 310 of which will be maintained as affordable for 30 years:

- Bayview Foundation Apartments (130 total units/120 affordable) - \$1,910,000 from AHF and \$990,000 from HOME;
- Schroeder Road Apartments (96 total units/81 affordable) - \$1,850,000 from AHF;
- The Ace Apartments (70 total units/59 affordable) - \$110,000 from AHF and \$990,000 from HOME;
- Valor on Washington (60 total units/50 affordable) - \$950,000 from AHF; and

WHEREAS, as these projects proceed through final design stages and WHEDA's application process, CDD staff may accept the developer's request to make minor alterations to development proposals, including to the number and mix of housing units, if such changes are deemed necessary to improve prospects for success in WHEDA's application process and/or comply with land use requirements; and,

WHEREAS, the receipt of financial assistance from other funding sources, including City Tax Increment Financing (TIF), subsequent to adoption of this resolution, may be used to reduce the financial contribution to the project derived from AHF funds, so that AHF funds remain available to support other projects; and,

WHEREAS, upon securing federal LIHTCs from WHEDA, the developers of these projects, via an affiliate LLC, will be prepared to execute a loan agreement and related loan documents with the City;

and,;

WHEREAS, the Bayview Foundation, Inc. ("Bayview") has given the City a Right of First Refusal ("ROFR") on its property which is effective in the event of a sale to an offeror for a non-affordable housing development; and

WHEREAS, the City also has a Land Use Restriction Agreement on Bayview's property for affordable housing; and

WHEREAS, Bayview will be developing the site with Horizon Development Group, Inc. ("Horizon"), which ownership structure will not cause the ROFR to be effective due to the continued use as affordable housing, and the City will retain its rights under the ROFR in the future; and

WHEREAS Bayview and Horizon have determined that the LIHTCs are the best financial mechanism to complete the much needed redevelopment the property; and

WHEREAS because the preponderance of units will continue to be operated as low and moderate income rental housing and staff believe that the inclusion of 10 market rate units in the proposed redevelopment is consistent with the intent of the deed restriction entered into between the City of Madison and Bayview dated January 26, 2011.

NOW, THEREFORE, BE IT RESOLVED, that the Mayor and the Common Council hereby authorize the

issuance of letters of funding commitments, no later than December 14, 2018, of up to \$2.9 million to support the proposed Bayview Foundation Apartments, up to \$1.85 million to support the proposed Schroeder Road Apartments, up to \$1,100,000 for The Ace Apartments, and up to \$950,000 to support the proposed Valor on Washington development; and

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

o Developers, Projects and Loan Amounts

- Up to \$2.9 million (\$1,910,000 from AHF and \$990,000 from HOME) - Bayview Foundation, Inc. & Horizon Development Group, Inc., or an affiliate LLC for Bayview Foundation Apartments: a 130-unit rental housing redevelopment with 120 units affordable to households with incomes at or below 30%, 50%, or 60% of the County Median Income (CMI); and Up to \$1.85 million (from AHF) - Stone House Development, Inc., or an affiliate LLC for Schroeder Road Apartments: a 96-unit rental housing development with 81 units affordable to households with incomes at or below 30%, 50% or 60% of CMI; and
- Up to \$4.4 1.1 million (\$110,000 from AHF and \$990,000 from HOME) - Movin' out, Inc. & Mirus Partners, Inc., or an affiliate LLC for The Ace Apartments, a 70-unit rental housing development with 59 units affordable to households with incomes at or below 30%, 50% or 60% of CMI; and
- Up to \$950,000 (from AHF) - Gorman & Company, LLC, or an affiliate LLC for Valor on Washington: a 59-unit rental housing development with 50 units affordable to households with incomes at or below 30%, 50% or 60% of CMI; and

o Form of Loans

- 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 0% interest, long-term deferred loans payable upon sale or change in 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 HOME assistance, where applicable, will be provided in the form of a 0% long-term deferred loan with shared appreciation, payable upon sale, transfer, or change in the use of the property; and
- The HOME loan will be secured by a subordinate mortgage combined with the AHF assistance, note, and HOME Land Use Restriction Agreement; 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 respective periods of affordability, whichever is later.

o 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.

o 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 each project developer demonstrating that it has (1) secured financing sufficient to complete the project, including WHEDA LIHTCs; (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