



## Legislation Text

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**File #:** 58032, **Version:** 1

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### **Fiscal Note**

The proposed resolution authorizes a \$450,000 loan to Block 88, LLC, or another LLC owned or controlled by Stone House Development, for the 161-unit rental housing redevelopment at Judge Doyle Square with at least 20 units affordable to households with incomes at or below 60% of the county median income (CMI) and at least 17 more affordable to households with incomes at or below 80% of the CMI.

The proposed 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 \$2,040,000. No additional City appropriation is required for the proposed loan. The 2020 Executive Capital Budget includes an additional \$5 million for the Affordable Housing-Development Projects capital program.

### **Title**

Awarding up to \$450,000 from the Affordable Housing Fund to support a rental housing development project, proposed by Stone House Development selected through a City Request for Proposals (RFP) process, that will construct approximately 20 units of rental housing in Madison, affordable to households with incomes at or below 60% of the county median income, and authorizing the Mayor and City Clerk to execute a loan agreement with the project developer.

### **Body**

The City of Madison's 2020 Executive Capital Budget is expected to increase the City's commitment to the Affordable Housing Fund by \$500,000, to an annual level of \$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 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 respective income levels 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, however, AHF support has been considered for developments arising from other City inspired initiatives and a corresponding RFP for a city owned or controlled site. The redevelopment of Judge Doyle Square (Block 88) is one such instance.

The City has worked to position Block 88 for redevelopment for nearly ten years. Earlier this year, the Common Council authorized the release of an RFP to solicit development proposals for Block 88 that included a housing or mixed-use purpose, including a workforce housing component. Subsequently, the Council selected Stone House Development to undertake the development and assigned a staff team to negotiate project details.

Stone House Development proposes to develop 161 units of rental housing. The proposal calls for 37 units to be income- and rent-restricted, 20 of which will be rented to households with incomes at or below 60% of

the County Median Income (CMI) and 17 units to be rented to households with incomes at or below 80% of the CMI. As proposed, the below market rents in the development are made possible with financial assistance from the City's Affordable Housing Fund.

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, on February 26, 2019 following recommendations from five city committees, the Common Council adopted Resolution RES-19-00161 to issue a Request for Proposals seeking a developer to complete the remaining private portion of the Block 88 redevelopment project, involving the air-rights above the Podium; and

WHEREAS, on August 26, 2019, the Common Council adopted Resolution RES-19-00593 approving the selection of Stone House Development as the Judge Doyle - Block 88 Development Team and directing a staff team to initiate negotiations with the selected development team; and

WHEREAS, Stone House Development proposes the development of 161 units of rental housing including 20 units income- and rent-restricted for households with incomes at or below 60% of the CMI and 17 units income- and rent-restricted for households with incomes at or below 80% of the CMI; and

WHEREAS, consistent with the City's objective to expand the supply of affordable rental housing called for in the 2020 Executive Capital Budget, and using City-administered resources in concert with other financing tools, such as the Wisconsin Housing and Economic Development Authority's (WHEDA) 7/10 Flex Financing, which requires that 20% of the units within a development be income- and rent-restricted for households with incomes at or below 80% of the CMI; and

WHEREAS, as the lead for the City's Affordable Housing Initiative, the Community Development Division (CDD) solicited an application for Affordable Housing Funds from Stone House Development which was received on October 16, 2019; 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 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 objective of producing affordable units within the larger market-rate housing development proposed on Block 88; and,

WHEREAS, staff, therefore, recommend that the City allocate up to \$450,000 in City AHF funds to support Stone House Development's proposal to construct 161 units of housing on Block 88, at least 20 of which will be maintained as income- and rent-restricted for households with incomes at or below 60% of the CMI for at least 30 years, and at least 17 more of which will be maintained as income- and rent-restricted for households with incomes at or below 80% 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 project 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 upon request of up to \$450,000 to support the proposed redevelopment on Block 88; 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 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 \$450,000 from AHF to Block 88, LLC, or another LLC owned or controlled by Stone House Development, for the 161-unit rental housing redevelopment at Judge Doyle Square with at least 20 units affordable to households with incomes at or below 60% of the CMI and at least 17 more affordable to households with incomes at or below 80% of the CMI.
- Form of Loan
  - The AHF assistance will be provided in the form of a loan, 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 project developer demonstrating that it has (1) secured financing sufficient to complete the project, including WHEDA 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.