



## Legislation Text

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**File #:** 58033, **Version:** 1

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### **Fiscal Note**

The proposed resolution authorizes a \$500,000 loan to The Salvation Army of Dane County, or another LLC owned or controlled by its corporate entity, for TSA Mifflin Street Apartments: a 44-unit rental housing redevelopment with 37 units affordable to households with incomes at or below 30%, 50%, or 60% of the county median income (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 \$500,000 from the Affordable Housing Fund to support an affordable housing development project, proposed by the Salvation Army of Dane County and selected through a City Request for Proposals (RFP) process, that will construct approximately 40 units of affordable rental housing in Madison, and authorizing the Mayor and City Clerk to execute a loan agreement with the developer of this project.

### **Body**

#### **Background**

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 is defined as that which is reserved for households with incomes at or below 60% of the county median income (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, most notably federal Low-Income Housing Tax Credits (LIHTCs), to help achieve the 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 assistance, 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. The deadline for WHEDA's next application cycle is December 6, 2019.

Funds the Council approves to support this development are unlikely to be drawn until 2021. However, in order for financial leverage points to be awarded under WHEDA's scoring process, the funds must actually be budgeted in 2020, not merely planned for.

This resolution is intended to authorize the commitment of City funds, to the developer and in the amount specified, for a project proposal 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 a financial commitment to this project.

### *ACTION*

WHEREAS, in order to advance the City's objective of expanding the supply of affordable rental housing called for in the 2020 Executive 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 2019 seeking tax credit-eligible development proposals; and,

WHEREAS, the RFP anticipated drawing on both City AHF funds and federal HOME Investment Partnership (HOME) funds to support such developments, contingent upon their inclusion in the City's Adopted 2020 Budget; and,

WHEREAS, in response to the RFP, the City received applications seeking assistance for the following four development proposals:

- Elderberry Place Apartments, submitted by Age Better, Inc. and Gorman & Company, LLC;
- 1212 Huxley Street Apartments, submitted MSP Real Estate, Inc.;
- Red Caboose Apartments, submitted by Movin' Out, Inc.;
- TSA Mifflin Street Apartments, submitted by The Salvation Army; 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, following this review, the Common Council on October 15, 2019 adopted RES-19-0724, approving the allocation of funds to three development proposals Elderberry Place Apartments, 1212 Huxley Street Apartments, and Red Caboose Apartments; and,

WHEREAS, RES-19-0724 also deferred a decision on The Salvation Army proposal due to issues posed by the proposed project's connection to a larger campus redevelopment, of which the TSA Mifflin Street Apartments proposal is but one component; and,

WHEREAS, City staff from the Department of Planning and Community & Economic Development have worked closely with The Salvation Army to address design issues and to more fully engage residents of the surrounding neighborhoods; and,

WHEREAS, The Salvation Army has demonstrated its commitment to the proposed redevelopment by proceeding with the land use process and incorporating feedback provided by City staff, City review bodies and neighborhood residents; and,

WHEREAS, based on review of The Salvation Army's AHF application, the staff team concluded that the proposed project is sufficiently responsive to the City's criteria and, with City financial support, could compete effectively for WHEDA LIHTCs; and,

WHEREAS, based on this review, CDD staff formulated a recommendation that seeks to allocate up to \$500,000 in City AHF funds to support the TSA Mifflin Street Apartments proposal to construct 44 units of housing, 37 of which will be maintained as affordable 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; and,

WHEREAS, as the development proposal continues to proceed through final design stages, City land use reviews and WHEDA's application process, the developer may need to make minor project adjustments, including to the number and mix of housing units, if such changes will 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 assistance, so that AHF funds remain available to support other projects; and,

WHEREAS, upon securing federal LIHTCs from WHEDA, the developer of this project, via an LLC or LP owned or controlled by its corporate entity, will be prepared to execute a loan agreement and related loan documents with the City; and,

NOW, THEREFORE, BE IT RESOLVED, that the Mayor and the Common Council hereby authorize the issuance of a letter of funding commitment, no later than December 6, 2019, or the deadline for the WHEDA tax credit applications, whichever is sooner, of up to \$500,000 to support the proposed TSA Mifflin Street Apartments; 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 prospects for securing federal LIHTCs 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 TIF, HOME or other resources:

- Developer, Project and Loan Amount
  - Up to \$500,000 to The Salvation Army of Dane County, or another LLC owned or controlled by its corporate entity, for TSA Mifflin Street Apartments: a 44-unit rental

housing redevelopment with 37 units affordable to households with incomes at or below 30%, 50%, or 60% 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 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 in a form approved by the City Attorney.