



## Legislation Text

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**File #:** 20749, **Version:** 2

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### **Fiscal Note**

\$300,000 is authorized in the 2011 DPCED Adopted Capital budget for the TID 32 Small Cap Loan program, Project No. 3, TID 32- Upper State Street Account No. 823201. Tax increments currently available in TID #32 are sufficient to capitalize loans from this program. Therefore, no City borrowing will be required. TIF Law requires that the District must close when tax increments recover all the District expenditures.

### **Title**

SUBSTITUTE Authorizing the creation of a Mansion Hill-James Madison Park Neighborhood Small Cap TIF Program in Tax Incremental District #32 (Upper State Street) to provide funding for the purchase and/or rehabilitation of rental properties to owner-occupied properties.

### **Body**

Since 1990, over 3,700 new housing units have been approved through Planned Unit Developments in the downtown/near campus area. Of that number, over 1,800 units have been created primarily for students. Within those units, over 4,800 bedrooms have been created. Housing development projects within or adjacent to the Mansion Hill-James Madison Park Neighborhood account for over 600 of the units and 1,100 of the bedrooms. This translates into 33% of the total student-oriented units and 23% of the student-oriented bedrooms for the downtown/near campus area. As the market for student housing has shifted dramatically in the past few years to the newer and larger units, the older existing housing stock in Mansion Hill-James Madison Park Neighborhood is coming into the market. Furthermore, with the recent slowdown in the condominium market in downtown Madison, a slowdown in the acquisition of properties for redevelopment has also occurred.

With the adoption of TID 32, tax increment generated by new development has created an opportunity to fund a program that would help those households interested in buying and rehabilitating an existing rental property by converting units that may have housed large numbers of students to an owner-occupied property of one to three units. Such a program would provide funding that will help close the gap between what a building might generate as a rental property in an increasingly soft market, and some of the costs associated with rehabilitating a building to more closely align with its original use as an owner-occupied property.

WHEREAS on July 1, 2003, the Common Council of the City of Madison adopted Resolution No. 60,678, I.D. 33,974 creating a boundary and Project Plan for Tax Incremental District (TID) #32 - Upper State Street ("District") as set forth by Wis. Stats. 66.1105 ("TIF Law"); and

WHEREAS on July 18, 2006, the Common Council of the City of Madison adopted RES 06-00603 adopting a first amendment to the boundary and Project Plan for the District as set forth by TIF Law; and

WHEREAS on September 21, 2010, the Common Council of the City of Madison adopted RES 10-00758 adopting a second amendment to the boundary and Project Plan for the District as set forth by TIF Law; and

WHEREAS TIF Law enables the City, among other things, to make capital expenditures "which are found to be necessary and convenient to the creation of tax incremental districts or the implementation of project plans;" and

WHEREAS the City of Madison TIF Policy ("TIF Policy") adopted on April 17, 2001, set forth the following objectives pertaining to housing: "Provide a variety of housing choices through renovation or rehabilitation of existing buildings...in selected areas to increase the number and diversity of downtown residents" (TIF

Objective 1(b)) "Increase the supply and variety of high-quality home-ownership opportunities" (TIF Objective 2(e)); and

WHEREAS the proposed Mansion Hill-James Madison Park Neighborhood Small Cap TIF Program ("Program") would make loans to "Borrower" purchasing and renovating rental property in the District to convert into one or more owner-occupied units, to be occupied by the Borrower as a principal residence for a period of not less than ten (10) years; and

WHEREAS implementation of the Program would further achieve the TIF Policy housing objectives included herein; and

WHEREAS the City of Madison hereby declares the housing objectives included herein to be a public purpose; and

WHEREAS the high market value of the rental properties in the District often makes it infeasible for buyers to convert them to owner-occupied properties, so that "but for" TIF assistance, such projects would not occur; and

WHEREAS the Program shall comply with TIF Policy and TIF Law and applicable municipal ordinances; and

WHEREAS staff has developed program criteria for the Program as outlined herein.

NOW THEREFORE BE IT RESOLVED that the Common Council of the City of Madison hereby authorizes the creation of Mansion Hill-James Madison Park Neighborhood Small Cap TIF Program within TID# 32 (Upper State Street) to provide funding for the purchase and/or conversion of rental properties to owner-occupied properties based on the following objectives and policies:

- 1) Program Objectives: Elimination of blighting influences and conversion of rental properties to long-term owner-occupied properties.
- 2) Program Definition: Provide forgivable loans for the purchase and/or rehabilitation of a rental property ("Property"), located within the TID# 32 boundary, into no more than three (3) dwelling units with at least one (1) unit being owned and occupied by the Borrower as a principal residence for a period of ten (10) years commencing on the date of loan closing.
- 3) Program Area: TID# 32 (Upper State Street) boundary (see attached map)
- 4) Amount of Loan: Rehabilitation costs plus up to 15% of purchase price not to exceed \$60,000 for a single family residential property, \$70,000 for a two-unit property, and \$80,000 for a three-unit property. ~~in the aggregate per Property.~~
- 5) Loan Terms:
  - Ten (10) year note secured by second mortgage on the Property
  - 0% interest.
  - No debt service payments. Principal balance owed declines by 10% for each year the Property remains owner-occupied and is forgivable after ten (10) years
  - At loan closing, funds are available for purchase and escrowed for rehabilitation.
- 6) Requirements:
  - No Borrower income limits.
  - Borrower must invest a minimum down payment of 3% of the purchase price.
  - At least 10% of City loan funds must go towards exterior renovation(s).
  - Borrower must demonstrate credit-worthiness in the form of a bank commitment to purchase and/or convert the Property to owner-occupied.
  - Property after rehabilitation shall contain no more than three (3) units, with at least one (1) unit being occupied by the Borrower as owner-occupant and serving as the principal residence of the Borrower.

- Borrower must convert her/his unit to owner-occupied within twelve (12) months of loan closing or the entire loan shall be immediately due and payable.
- Borrower must own and occupy her/his unit for a period of at least ten (10) years as a principal residence. If Borrower sells the Property during the 10-year period or fails to use the Property as his or her principal residence for ten years, the outstanding loan balance is due to the City.
- Borrower may lease his/her unit once during the 10-year period for a period not to exceed twelve (12) months. Borrower shall notify City thirty (30) days in advance of such intention to lease prior to executing the lease. If leased beyond this period the declining balance formula is revoked and original loan amount is immediately due and payable.
- Borrower shall comply with all applicable City ordinances including, but not limited to: Affirmative Action, Accessibility, Non-Discrimination, Best Value Contracting, Equal Opportunity and nondiscrimination against recipients of government housing subsidies.
- Borrower agrees to sign a Land Use Restriction Agreement at loan closing
- Borrower shall allow the maximum feasible opportunity to small business enterprises to compete for any contracts entered into as a part of this Program.

BE IT FURTHER RESOLVED that the Common Council declares the purchase plus rehabilitation of rental properties into owner-occupied properties in the District to be a public purpose.