



Legislation Text

File #: 74454, **Version:** 1

Fiscal Note

The proposed resolution awards up to \$8,950,000 from the City's Affordable Housing Fund to support three affordable housing development projects selected through a Request for Proposal process. The resolution also authorizes the mayor and city clerk to execute loan agreements and other documents with the developers to proceed with the approved financial commitments. The Community Development Division's (CDD) 2023 adopted capital budget includes \$10 million for Affordable Housing Development Projects, which will be the source of funding for these projects. No additional appropriation is required.

Title

Awarding up to \$8,950,000 from the Affordable Housing Fund to support three affordable housing development projects, selected through a City Request for Proposals (RFP) process, that will support construction of approximately 500 units of new rental housing in Madison, 344 of which will be affordable, and authorizing the Mayor and City Clerk to execute loan agreements with the developers of those projects.

Body

Background

The City of Madison's 2023 Executive Capital Budget increases the City's annual commitment to the Affordable Housing Fund (AHF) from \$7,000,000 in 2022 to \$10,000,000, beginning in 2023. The recommended awards described in this resolution draw from funds authorized for 2023. The Common Council established the AHF in the 2015 Capital Budget to help increase and/or preserve the supply of affordable rental housing. 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.

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 income levels. Initially, the receipt of AHF funds required developers to commit to a 30-year period of affordability, however, beginning in 2020, the required commitment was extended to 40 years. Furthermore, in this year's RFP, applicants willing to commit to permanent affordability through a recorded Land Use Restriction Agreement (LURA) can receive more favorable loan terms.

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 leveraging of other financial resources.

In determining how to allocate City AHF assistance, CDD conducts its own competitive Request for Proposals (RFP) process. That process is scheduled to coincide with WHEDA's cycle such that City funds are awarded in time to benefit developers seeking tax credits from WHEDA. WHEDA's next application deadline is January 27, 2023.

Most of the funds that will be allocated to support these developments are unlikely to be drawn until 2024. However, in order for the City's financial commitments to be recognized in WHEDA's funding process, those funds must be authorized in the City's 2023 budget.

This resolution is intended to authorize the commitment of City funds, for the developments 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 the corresponding loan agreements and other documents necessary to proceed with the approved financial commitments.

ACTION

WHEREAS, as part of ongoing efforts to advance the City's objective of expanding the supply of affordable rental housing called for in the 2023 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 June 2022 seeking tax credit-eligible development proposals; and,

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

1. Washington Avenue Lofts, submitted by Gorman & Company, LLC
2. Scattered Site Rehab (71-units) and New Construction (8-unit), submitted by Movin' Out, Inc. and Housing Initiatives, Inc.
3. Merchant Place Apartments, submitted by Northpointe Development and Dreamlane Real Estate Group
4. Gardner Bakery Redevelopment, submitted by Wisconsin Housing Preservation Corporation (WHPC)
5. St. John's Lutheran Church Redevelopment, submitted by St John's Lutheran Church, in partnership with Urban Land Interests
6. The North End, submitted by MSP Real Estate; and

WHEREAS, MSP Real Estate subsequently withdrew its The North End application from 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 locations with respect to nearby amenities such as public transit, especially the adopted Metro Network Redesign, schools, retail and employment opportunities, etc.; financial viability; gap financing needed; per-unit subsidy requested; incorporation of energy efficiency, renewable energy and other sustainability features; development team experience; likelihood of the developer securing needed land use approvals; and anticipated scores in WHEDA's LIHTC application process; and,

WHEREAS, based on this review, the staff team concluded that three remaining projects were sufficiently responsive to the City's criteria, in position to proceed and, with City financial support, deemed likely to secure WHEDA LIHTCs; and,

WHEREAS, in addition to this review, the CDD staff team also evaluated each proposal for its consistency with the goals and requirements set forth in the City's 2020-2024 Five-Year Consolidated Plan, formally adopted by the Common Council on February 25, 2020, which guides the use of U.S. Department of Housing and Urban Development funds; and,

WHEREAS, based on these reviews, the CDD staff team formulated the following recommendations that

seek to allocate \$8,950,000 in City AHF funds to support the following three development proposals to construct approximately 500 units of rental housing, 108 of which will be maintained as affordable for at least 40 years and 236 of which will remain permanently affordable:

- Up to \$3,500,000 to St. John's Lutheran Church, in partnership with Urban Land Interests, for St. John's Lutheran Church Redevelopment (130 total units/108 affordable)
- Up to \$2,500,000 to Northpointe Development and Dreamlane Real Estate Group for Merchant Place Apartments (124 total units/75 affordable)
- Up to \$2,950,000 to Wisconsin Housing Preservation Corporation (WHPC) for Gardner Bakery Redevelopment (245 total units/161 affordable); and,

WHEREAS, as development projects proceed through final design stages and WHEDA's application process, developers 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 subsequent to adoption of this resolution, including City Tax Increment Financing (TIF), may be used to reduce the financial contribution to the project from AHF, 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 loan agreements and related loan documents with the City.

NOW, THEREFORE, BE IT RESOLVED, that the Mayor and the Common Council approve the recommended funding commitments as outlined below and authorize the issuance of letters of funding commitments for the identified proposals no later than January 27, 2023, or the deadline for the WHEDA tax credit applications, whichever is sooner; and,

BE IT FURTHER RESOLVED, that the Council authorizes CDD staff to approve minor alterations to development projects, including to the number and mix of housing units, if such changes are deemed necessary to improve prospects for securing LIHTCs and/or comply with City land use requirements, but staff may not increase the level of City financial assistance without Council approval; and,

BE IT STILL FURTHER RESOLVED, that the Council authorizes the Mayor and City Clerk to execute loan agreements, utilizing CDD-administered funds, for these three 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:

Developers, Projects and Loan Amounts

- Up to \$3,500,000 to St. John's Lutheran Church, in partnership with Urban Land Interests, or an affiliate LLC, for St. John's Lutheran Church Redevelopment, a 130-unit rental housing development with 108 units with rents affordable to households with incomes at or below 30%, 50%, or 60% CMI
- Up to \$2,500,000 to Northpointe Development and Dreamlane Real Estate Group, or an affiliate LLC, for Merchant Place Apartments, a 124-unit rental housing development with 75 units with rents affordable to households with incomes at or below 30% or 50% CMI
- Up to \$2,950,000 to Wisconsin Housing Preservation Corporation (WHPC), or an affiliate LLC, for Gardner Bakery Redevelopment, a 245-unit rental housing development with 161 units with rents affordable to households with incomes at or below 30%, 50%, or 60% CMI

Form of Loans

- The City financial 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, unless a waiver of shared appreciation is granted in exchange for a commitment to permanent affordability through a recorded LURA; and
- The AHF loan will be secured by a subordinate mortgage, note(s), and Land Use Restriction Agreement securing a minimum period of affordability of 40 years unless a waiver of shared appreciation is granted in exchange for a commitment to permanent affordability through a recorded LURA; 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 designated as affordable housing, with restricted rents and for 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.

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 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 Council authorizes the Mayor and City Clerk 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.