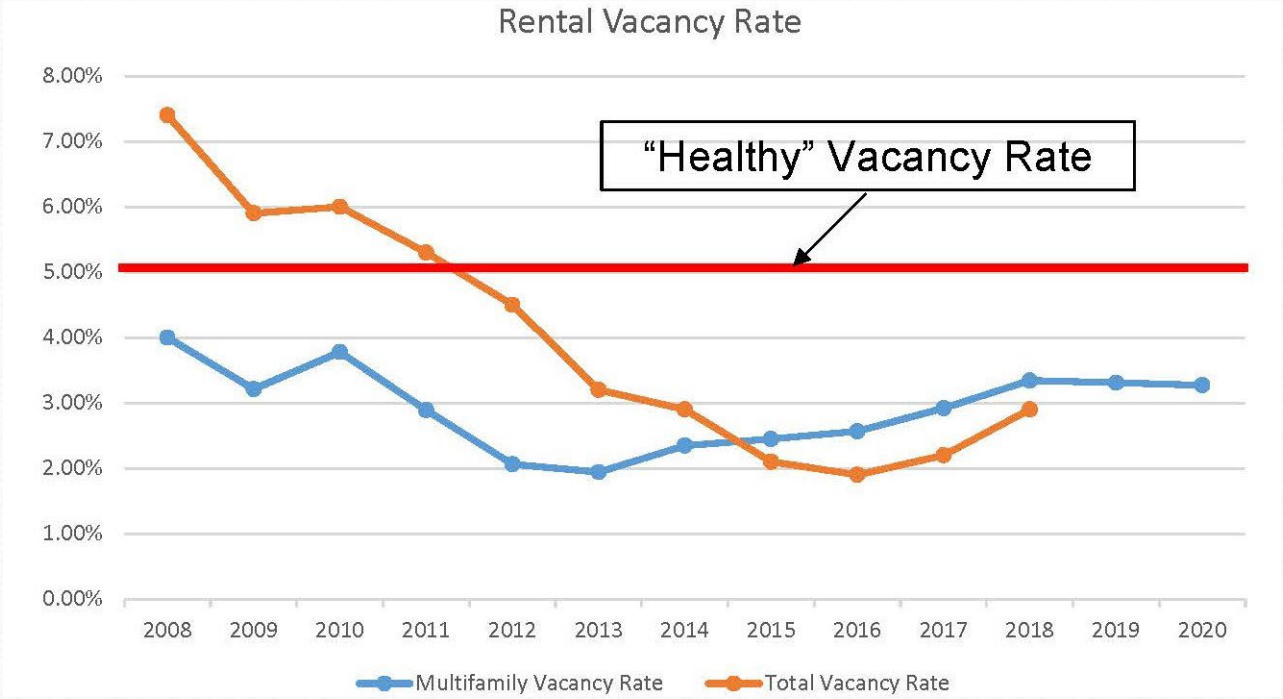
Affordable Housing

Madison, WI's Experience

What is Affordable Housing? Two Sides

- Affordability is considered a housing cost, including utilities, at or below 30% of household income (rent side).
- But who are we targeting? (Income side)
  - Those making below the area median income (AMI)
  - Programs target those making 80% of AMI down to 30% of AMI. The lower the percentage, the higher the subsidy.
- This is a different program than what we use for public housing or homeless shelters. However, it is used for housing first initiatives.



As of 2021, the City is still below 4%.

https://www.cityofmadison.com/cdbg/documents/HsngSnapshotFullRptFINAL072420.pdf

What does that look like in Dane County? Rent Limits by AMI

Median household income in Dane County about $80,000

Income	Studio	1	2	3
30% ami	$606	$649	$778	$899
50%	**$1010**	**$1081**	**$1297**	**$1499**
60%	$1212	$1298	$1557	$1799
80%	$1616	$1731	$2076	$2399

What does that look like in Dane County? Household Income Limits

- Dane (80%) - Salaries based on household size
  - 1. 64,640; 4. 92,240
  - 2. 73,840; 5. 99,680
  - 3. 83,040; 9. 129,200
- Dane (30%) - the median household income for renters is $40,000
  - 1. 24,240 4. 34,590
  - 2. 27,690 5. 37,380
  - 3. 31,140 9. 48,450

Why is affordable housing such a challenge?

- Because buildings, whether affordable or not, cost the same to build.
- But the income for the developer won't be high enough to pay the debt on an affordable project.
- Major problem now because the cost of construction is so high, and keeps rising.
- There has been a substantial undersupply in rental housing units in the Madison housing market since the Great Recession, and developers have not constructed nearly enough rental housing units to meet existing demand and the City's rapidly growing population.
- Another interesting issue: highest brackets "rent down" exacerbating the affordability problem.

https://www.cityofmadison.com/cdbg/documents/HsngSnapshotFullRptFINAL072420.pdf

How are the problems addressed?

- Government Programs:
  - Tax credits – most important, but are subsidies from the Federal Government.
  - TIF
  - Affordable Housing Funds
  - Land Banking
  - Impact fee exemptions
    - Affordable housing units in Madison are exempt from park impact fees, which can save developers hundreds of thousands of dollars.
  - Zoning for greater density
  - Other agreements to avoid state control
    - The City of Madison is preempted from using inclusionary zoning, but has an exception that allows the City to enter "into an agreement with a private person who regulates rent or fees charged for a residential rental dwelling unit."

How are the problems addressed?

- Private side ideas (politically unpopular even if practically reasonable).
  - Smaller units
  - Placing affordable units on lower floors, or otherwise separating those unit
    - This can create a “poor door” problem
    - But in some ways, the separation of units is required for lien security.
  - Cheaper materials and amenities
    - Vinyl floors or carpet instead of wood. Lower quality appliances.

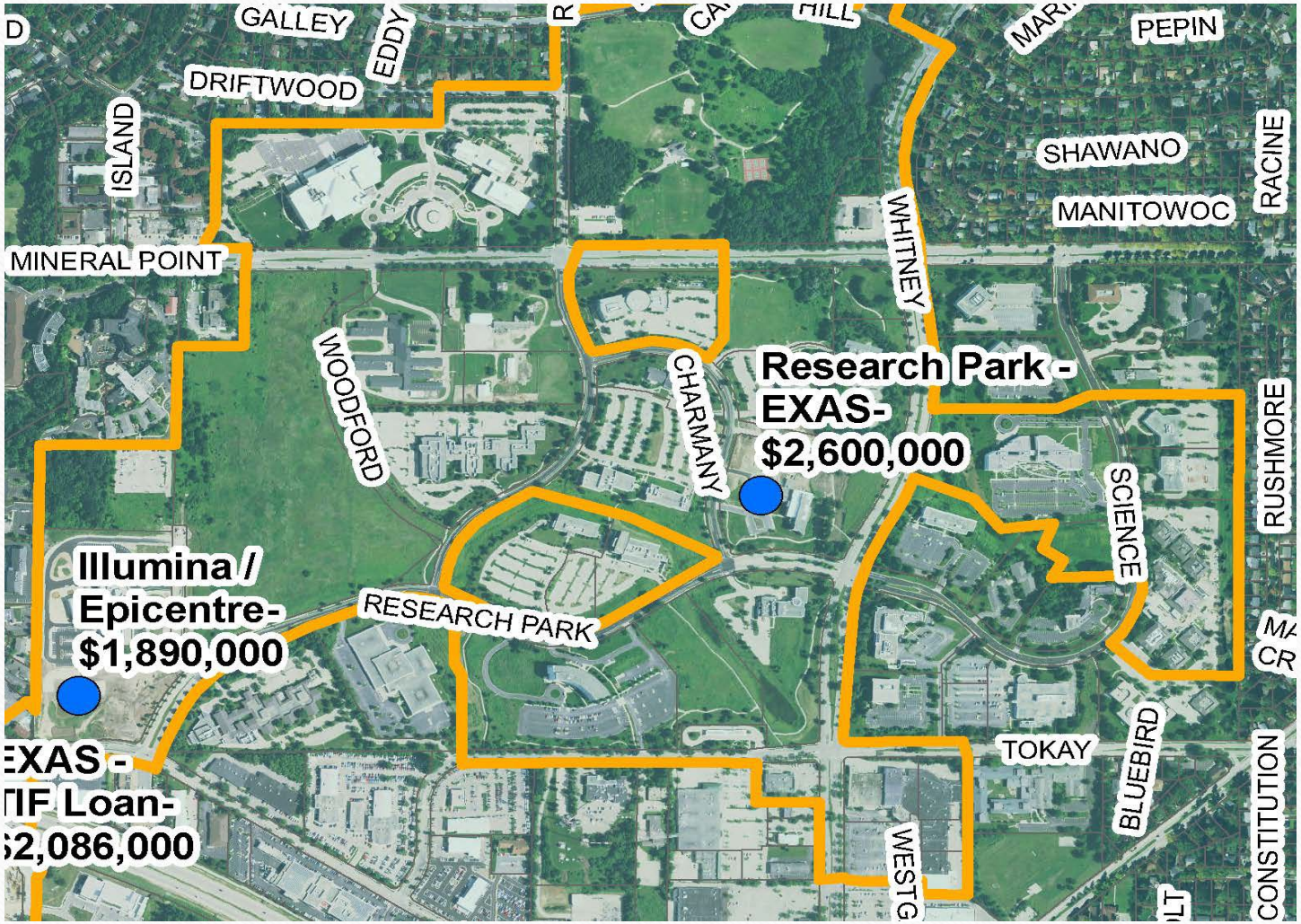
Using Tax Incremental Financing for Affordable Housing

- What is TIF? Using property tax increment from all overlying taxing jurisdictions in a tax incremental district to provide financial assistance for redevelopment projects.
- Affordable housing does not produce value because the rent limits reduce the income produced by the project.
- Note: in Wisconsin, cities cannot raise a sale tax. Cities are entirely dependent on property tax revenue, municipal fees, and borrowing.

Using Tax Incremental Financing for Affordable Housing

- TIF and affordable housing are fundamentally incompatible, but the City has started using a different model to reduce risk
  - Creating districts that have large increment generators and using that increment to back stop the loan to an affordable project in that district.
  - Westgate Project in TID 46 including 81 units of senior affordable housing (Project A), and 68 units of affordable family housing (Project B). Market rate housing of 156 units. Each is a separate financing.
    - WHEDA financed all three. City had AHF funds in Project B, and TIF in Projects A and B.
      - $2.5M TIF; $1.7M AHF creating 41 affordable units of which 27 at or below 50%; 14 at or below 30%.
    - Two backstops: market rate housing; and other commercial development in the TID.

City of Madison TID #46



Using Tax Incremental Financing for Affordable Housing

- Wisconsin allows municipalities to extend the life of a district for up to one year, after it would otherwise close, to collect the increment in a district for use in improving the "housing stock". (Wis. Stat. 66.1105(6)(g)(1)(a))
  - These funds are a separate revenue stream that can be used without the confines of the TIF law.
  - For Madison, this is the primary funding source for the Affordable Housing Fund. But it is dependent on districts closing.
    - Most policy makers wants TIF for everything, and it is a balance to ensure that districts can generate increment and close in a reasonable time. Leaving them open for the full statutory life is only going to limit the AHF.

Madison's Affordable Housing Program

- Goal: Increase the quantity of safe, quality, affordable rental housing throughout the City particularly in locations that are well served by transit and are proximate to places of employment, schools, parks, health care & other basic amenities, especially units affordable to households with incomes at or below 30% of area median income.

Madison's Affordable Housing Program

- Funding sources:
  - TIF extension (previously discussed)
  - Revolving payments from loans paid annually. This is subject to cash flow of the borrower, but the total payment carries forward to the end of the term (30 years, sale, refinance).
  - Shared appreciation – after loan term, the City gets a percentage of the new value based on the percentage of the project cost financed by the City.
  - General obligation borrowing, and general fund.
- Produced about 1500 units of affordable housing over the last 6 years.

Land Banking

- "This program is for the acquisition of land and buildings that could be used for future economic development, affordable housing projects, and other City uses. The goal of this program is to acquire strategic properties for future purposes that might include: assisting displaced businesses, reducing blight, stabilizing housing markets, improving the quality of life of residents and neighborhoods, and preserving land for City purposes." 2021 City of Madison Land Banking Policy
- "[P]rioritizes the identification of land in areas undergoing revitalization, or are in the process of 'gentrifying,' that risks displacement of low-income individuals living in and businesses owned by low-income persons located in those areas."
- Budget is $3M

Key Land Banking Purchase Criteria

- Property close to transit corridors.
- Located in areas identified as gentrifying and enhance neighborhood stability.
- Anticipated use will be compatible with City plans.
- Anticipated use primarily benefits low-income households with emphasis on opportunities for homeownership and household equity/wealth building. Impacts on existing or prospective businesses owned and operated by low-income persons and/or persons of color will also be considered.
- Will promote additional economic development.

Land Banking Disposition

- Goal is to sell property within 5 years.
  - This is important because the neighborhood can change, or the anticipated use might no longer be feasible.
- Compensation: The City will consider both the fair market value of the property and the Property Costs in its determination of compensation for each property. "Property Costs" shall mean the aggregate costs and expenses of the City attributable to the specific property in question, including costs of acquisition, maintenance, repair, demolition, marketing of the property and indirect costs of the operations of the City attributable to the property. Market value of land-banked properties to be acquired or sold by the City shall be determined through a standard third-party appraisal. Below-market sales and/or rights of first refusal may be considered for priority transferees (such as nonprofits) on a case-by-case basis.
  - For example, sale of property at no cost in exchange for a long term land use restriction agreement to preserve affordability. Goal for permanent affordability.

Land Banking – Truman Olson Redevelopment

- Redevelopment of an old Army Reserve facility. City bought the property in 2012 under the Base Closure Community Redevelopment and Homeless Assistance Act of 1994. Paid $1.1M of TIF.
- In 2017, the property was worth $1.7M.
- 2019 – health care company announces plans to open medical facility on land containing only grocery store in the area. City goes to RFP to find developers that will provide a new full service grocery store (24,000 sq.ft.).
- City closed last year on an affordable housing project with 150 affordable units, and a condominium space for the grocery store.

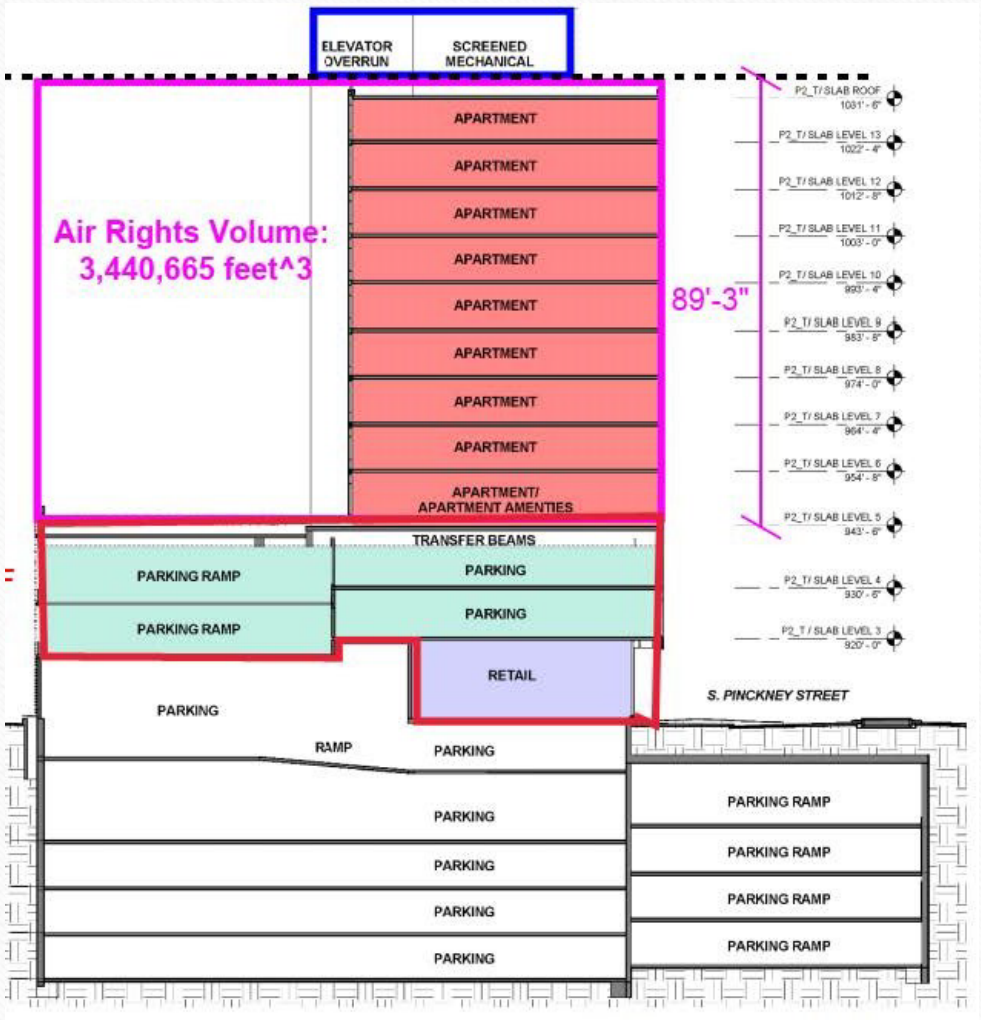
Land Banking – Truman Olson Redevelopment

- Transaction:
  - Free land to the developer – worth $1.7M in exchange for a permanent land use restriction for affordability. How this will play out is unknown, but we expect a renegotiation after year 30.
  - WHEDA was primary lender so all units are restricted to tenants with incomes at or below 80% AMI.
  - AHF from City worth $1.8M for deeper affordability.
    - 64 units for households with incomes at or below 50% of the AMI,
    - 30 units for households with incomes at or below 30% of the AMI.
  - City also built access road prior to selling the land, which would normally have been assessable to the developer. The cost of the road and utilities was about $2M.
  - Due to issues with the grocery store, City guaranteed a payment to developer of $4.6M to complete the capital stack due upon substantial completion of the grocery condo. This has been a mess.

Land Banking – Block 88

- Development starts with the need to replace an aging parking ramp, and to upgrade the City's Municipal Building on the block across the street (Block 88). Flat surface parking behind Municipal Building can also be redeveloped.
- Replaced the parking ramp by undergrounding the parking on Block 88, and sold the air rights. Council decided to "unlock the potential".
- Last full lot for redevelopment in downtown, and extremely valuable property.
- Cost of development on the isthmus is extremely high because of the water table. Undergrounding parking requires dewatering, and underground ramps are known to flood.




ELEVATOR OVERRUN
SCREENED MECHANICAL
Air Rights Volume:
3,440,665 feet^3
89'-3"
APARTMENT
APARTMENT
APARTMENT
APARTMENT
APARTMENT
APARTMENT
APARTMENT
APARTMENT
APARTMENT/
APARTMENT AMENITIES
TRANSFER BEAMS
PARKING RAMP
PARKING
PARKING RAMP
PARKING
RETAIL
PARKING
S. PINCKNEY STREET
RAMP
PARKING
PARKING
PARKING
PARKING
PARKING
PARKING RAMP
PARKING RAMP
PARKING RAMP
PARKING RAMP
P2_T/ SLAB ROOF
1031' - 6"
P2_T/ SLAB LEVEL 13
1022' - 4"
P2_T/ SLAB LEVEL 12
1012' - 8"
P2_T/ SLAB LEVEL 11
1003' - 0"
P2_T/ SLAB LEVEL 10
993' - 4"
P2_T/ SLAB LEVEL 9
983' - 8"
P2_T/ SLAB LEVEL 8
974' - 0"
P2_T/ SLAB LEVEL 7
964' - 4"
P2_T/ SLAB LEVEL 6
954' - 8"
P2_T/ SLAB LEVEL 5
943' - 6"
P2_T/ SLAB LEVEL 4
930' - 6"
P2_T / SLAB LEVEL 3
920' - 0"

Block 88 Deal Structure

- Final cost of construction for the City was $65M.
  - Built 148 parking stalls for the development in the Podium (excludes below grade 400 stalls of public parking).
  - Primarily funded by accumulated cash in TID #25 and Parking Utility reserves.
- Air rights and Podium sold for $5M, plus $1M deferred for 15 years.
- 37 total affordable units: 20 at or below 60%; 17 at or below 80%; Additional 124 market rate units.
- Included a retail space that City also built because we didn't want to be a landlord.
- Gave $450,000 from AHF to support the 60% Units (80% units were covered by WHEDA financing).
- Key to this transaction is the load transferring cap on the Podium.

Affordable Student Housing

- Madison is home to the University of Wisconsin, and we have a problem with students being able to afford the very high rents on campus. The UW does have a program to assist, but we needs more supply.
- Does the AHF program work for student housing? Not necessarily. The program based on household income, and students don't have steady income on which to qualify applicants.
  - Instead of units, we talk about "beds". If 4 people are living in an apartment, each may be paying a different rate.
  - The UW has the family financial data they receive during the application process, so we piggyback on them to determine who is qualified to get an affordable bed. That process is handled in an MOU between the developer and the university.
  - Could use AHF as part of land banking.

Affordable Student Housing Assistance Example 1

- Combining subsidies:
- TIF for infrastructure, "land banking" for air rights.
  - Lake Street ramp project –
    - City needs to replace a parking ramp. Conceptually, the project requires the demolition of the ramp, building a new parking ramp, and support the housing development on top of the ramp.
    - This effectively acts like a subsidy since we are building their footing and foundations. Further, we can give negotiate the land sale price based on the number of affordable beds.
  - City uses $15M in TIF to build the ramp, and sells the air rights for a negotiated price based on economic feasibility of a project with affordable beds. The greater the affordability, the fewer beds, or lower price.
  - Will be subject to a similar MOU and LURA that we used for Oliv.

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Affordable Student Housing
Example 2

- Increase Density – Oliv project
  - Recent project is about to start construction where we allowed a planned development zoning for a property so that the developer could build two additional floors.
  - Adding 2 floors allows the developer to add more expensive units/beds. That additional revenue helps subsidize affordable beds.
  - Politically and Legally Challenging
    - State statute allows the City to enter into an agreement to control rents. But what does this mean?
      - Remember that once the building is built, we cannot chop two floors off.
      - The Agreement needed consideration under contract law, but what is the City giving
    - PD approval? The plan commission didn't want to approve a bad project just because they promised affordability. And we cannot promise that the Council will vote a certain way. So staking the City's consideration on approval of a committee or the Common Council wouldn't work.

Affordable Student Housing

- Security
  - 30 year land use restriction to provide affordable beds and comply with UW MOU.
  - $5M in liquidated damages
  - If UW terminates the MOU, or after the term ends, developer is still required to carry out the program as though the MOU remained in place.
- Key MOU Terms
  - 10 Years
  - 112 beds with a "Student Discount" to "Qualified Students"
    - Student Discount = 40% discount on rent only (i.e. not parking or fees).
    - "Qualified students" = meet the financial need factors established by the UW Office of Financial Aid.
    - Annual report required to be filed with the university.

COMPLIANCE

- Audits
  - Staff needs to actively review projects to ensure compliance.
  - Big issue on projects that aren't using tax credits because of work load.