



**City of Racine, Wisconsin**  
**AGENDA BRIEFING MEMORANDUM**

<b>AGENDA DATE:</b>	January 10, 2019
<b>SUBJECT:</b>	Request by Lutheran Social Services for a CDBG Multifamily Loan
<b>PREPARED BY:</b>	Matthew Rejc, Manager of Neighborhood Services
<b>EXECUTIVE SUMMARY:</b>	<p>Department of City Development - Division of Housing and Community Development requests that the Loan Board of Review recommend amendment of a Resolution authorizing a \$1,540,000 CDBG Multifamily loan to Lutheran Social Services for conversion of 1701 Packard Ave into housing units ("Gold Medal Lofts").</p>
<b>BACKGROUND AND ANALYSIS:</b>	<p>Lutheran Social Services (LSS) and J. Jeffers &amp; Co intend to co-develop "Gold Medal Lofts", a conversion of the former Gold Medal Furniture Building, located at 1701 Packard Avenue, into seventy-seven one-, two-, and three-bedroom apartments. LSS was awarded a \$720,000 CDBG Multifamily loan at 1% interest over 20 years contingent on cash flow from the City of Racine as part of Resolution 0395-17 passed by the Common Council on November 21, 2017. The Gold Medal Lofts project was also awarded \$300,000 in Federal HOME funds from the City of Racine through Resolution 0410-17.</p> <p>The development team was notified on August 20, 2018 that they have been awarded \$625,000 in LIHTC through a reallocation from WHEDA. The developers were also informed that they were eligible for an additional award of \$955,769 upon submission of an application meeting the WHEDA threshold requirements in the 2018 LIHTC round. The completion of the project is dependent on the LIHTC.</p> <p>Given the elapsed time between the initial application for LIHTC and the previous approval of funds from the City of Racine, the development team requested \$600,000 in additional funds to cover increased costs. This request was presented to and approved by the Loan Board on October 11, 2018, with Common Council formally approving the increased funds on October 16, 2018 through Resolution 0325-18. This action brought the total amount of CDBG funds used in the project to \$1,320,000.</p> <p>Subsequently, the project team has encountered a need for additional acquisition funds, and J. Jeffers and Co. has requested that the award of \$250,000 in CDBG funds (Res. 0328-18) for the Horlick project be vacated and transferred to LSS for the Gold Medal Lofts project. J. Jeffers and Co. is a member of the development team for Gold Medal Lofts. Given the \$20,000 per unit limit placed on the use of funds from the CDBG Multifamily Revolving Loan Fund, the request from J. Jeffers and Co. can only be accommodated up to \$220,000. With that in mind, staff now requests that the Loan Board of Review recommend approval of an amendment to Resolution 0325-18, such that the total amount of CDBG funding provided to LSS for acquisition will be \$1,540,000 at a rate of 1% over a term of 20 years.</p>

The applicant submitted updated application materials, but no substantial changes will be made to the project design. Below are other details about the project based on the previously submitted application:

- Tenant management is planned through Horizon Management Services, Inc.
- Units will be mixed-income (market-rate, 60%, 50%, and 30% AMI).
- The project will achieve a minimum 150 points under the Wisconsin Green Built guidelines
- 51% of units would be affordable for the first year of operation per HUD CDBG guidelines
- The project fits goals outlined in the Uptown Strategic Plan, the Greater Uptown Neighborhood Revitalization Plan (NRSA), and meets overall housing development needs within the City of Racine.

### Project Site:



### Developer and Management Capacity:

**Lutheran Social Services (Co-Developer and Sponsor):** Based in Wisconsin, Lutheran Social Services has 26 years of housing development experience, and has developed more than 450 residential units within 22 projects.

**J. Jeffers & Co. (Co-Developer):** J. Jeffers & Co. was founded in 2011 by Joshua Jeffers and now owns interests in 26 properties. The firm focuses on historic preservation, market rate and affordable housing, and neighborhood revitalization. The firm recently completed a \$22.7 million historic rehabilitation of the Mackie Building and Mitchell Building in Milwaukee.

**Horizon Management Services (Management Company):** Horizon Management Services, Inc. (Horizon) has over thirty years of property management experience with over 2,500 units under

management. Horizon will have a regional manager oversee this property and will have a management staff person onsite. Maintenance will either be handled by an onsite maintenance tech or a roving tech. 24 hour emergency maintenance will be available.

**Program Background:**

The CDBG Multifamily Revolving Loan Fund (RLF) was created by the Loan Board of Review and passed by the Common Council in March, 2017. (Res.0104-17)

The program was created to support high-quality, affordable housing within Racine while earning interest on existing funds to support long-term housing program administration. Interest earned on housing rehabilitation funds not invested in housing projects that sit in City accounts must be returned to the federal government. Interest returned to the City through housing loans is considered "Program Income" and may be used for eligible programs and administration.

To help ensure the return of funds, eligible projects are limited to those receiving WHEDA tax credits, new market tax credits, federal or state historic tax credits, or financed in which at least 50% of units are funded by project-based housing vouchers. These additional funding sources have high long-term rates of financial success and are lower-risk housing investments.

Funds would be made available as low-interest amortizing loans (1-3%).

- All funds in the proposed Multifamily RLF would be revolved Community Development Block Grant (CDBG) funds and subject to all Federal CDBG regulations.
- Funds could be used to rehabilitate existing multifamily housing or convert buildings to housing use.
- All loans made within the Multifamily RLF Program would be subject to Loan Board of Review approval.
- Loan requests would be required to include a full application in response to a published Request for Proposals.
- Not all funds would be required to be loaned each year and would be limited to \$20,000/unit per project.

**Staff Loan Recommendation:**

Staff recommends a \$1,540,000 loan at 1% interest over 20 years contingent on cash flow. Approval of Lutheran Social Services' application will be contingent on obtaining all financing described in the application. All funds would be secured with a mortgage and note as well as a CDBG developer contract. An interest rate of 1% is recommended to ensure the project has sufficient reserves, under conservative financial projects, to meet all operational and building costs through the life of the program yet still ensure a financial return to the City. The loan will be cash flow dependent, but the balance of the amount that is unpaid at the end of the term will be due and payable to the City.

**BUDGETARY IMPACT:**

A total of \$1,540,000 would be loaned from the CDBG Multifamily Loan account for 20 years at 1% interest. Payments would be contingent on demonstrated cash flow and all accrued principle and interest would be due after 20 years. The funds would be secured with a mortgage and note.

The CDBG Multifamily Loan account currently has a balance of \$1.9 million to loan to eligible projects. The proposed update would de-allocate \$250,000 from the Horlick project, re-allocate \$220,000 to the Gold Medal Lofts project, and leave the remaining \$30,000 un-allocated in the Loan Fund.

**RECOMMENDED ACTION:**

Staff recommends that the Loan Board of Review forward a resolution to the Common Council with a recommendation to amend a previously approved loan to Lutheran Social Services up to \$1,540,000, inclusive of the previous award amount, related to the multifamily housing development at 1701 Packard Avenue at 1% interest over 20 years contingent on cash flow. Mortgage, note, and CDBG agreement to be signed at closing and after demonstrating full project financing and demonstrated compliance with all other federal, state, and local regulations.