



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

<b>AGENDA DATE:</b>	October 11, 2018
<b>SUBJECT:</b>	Request by Cardinal Capital Management for a CDBG Multifamily Loan
<b>PREPARED BY:</b>	Matthew Rejc, Manager of Housing and Community Development

**EXECUTIVE SUMMARY:**

Department of City Development - Division of Housing and Community Development requests that the Loan Board of Review recommend approval of a resolution authorizing a \$600,000 CDBG Multifamily loan to Cardinal Capital Management for the development of the former Walker-Ajax manufacturing plant into multifamily housing.

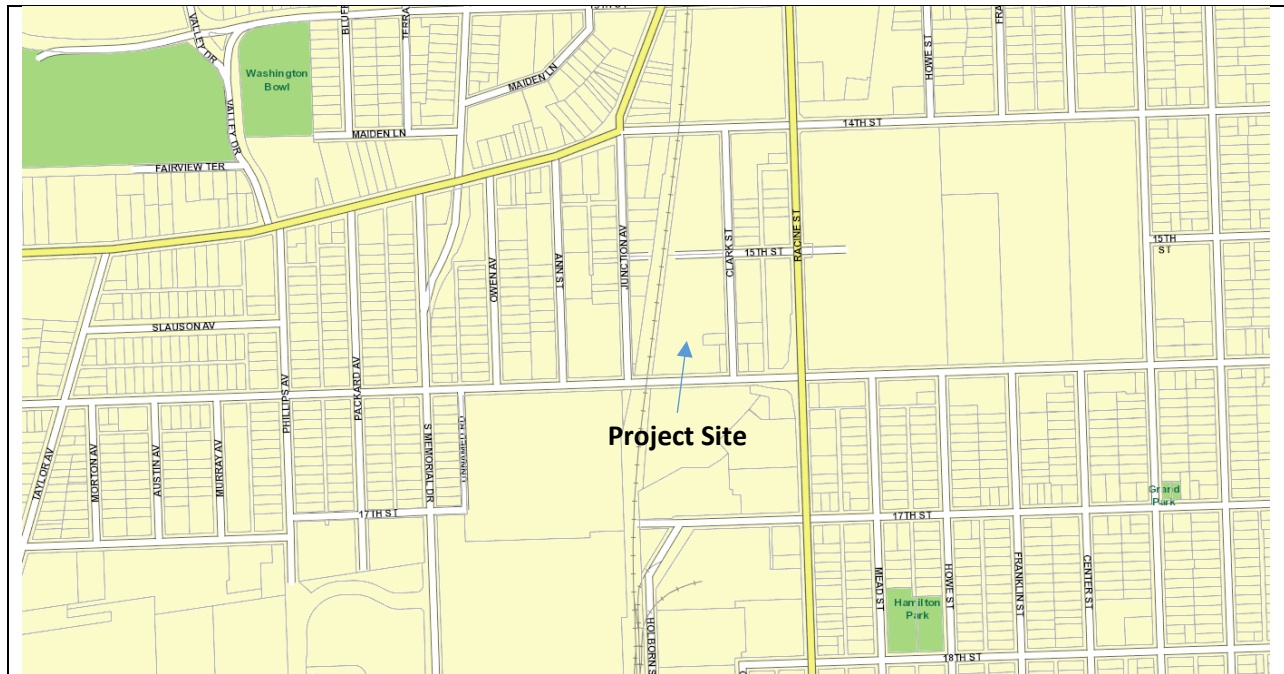
**BACKGROUND AND ANALYSIS:**

Cardinal Capital Management intends to develop the former Ajax-Walker manufacturing plant, located at 1520 Clark Street, into 48 units distributed among one-, two-, and three-bedroom apartments and townhomes. The project would consist entirely of new construction on the site following demolition of 19 existing industrial buildings primarily owned by the Redevelopment Authority of the City of Racine (RDA). The development team has executed an option agreement with the RDA to secure the site. The project is being recommended for full funding due to the RDA's ownership of the site and the City's history with the project location, and also the location of the project within the Greater Uptown NRSA.

Below are other details about the project based on the submitted application:

- Cardinal Capital Management will directly provide property management services to the development
- Developer tentatively expects to distribute units in two structures, one facing 16<sup>th</sup> Street and the other toward the north of the site
- Cardinal Capital Management applied for a \$600,000 CDBG loan
- Units will be mixed-income (market-rate, 60%, 50%, and 30% AMI).
- 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**

Cardinal Capital Management (Developer): Based in West Allis, Wisconsin. Cardinal Capital has developed 8 LIHTC projects across Wisconsin, Iowa, and Colorado since 2013, consisting of a total of 361 units. Many of these projects have also made use of HUD financing. Cardinal Capital Management also provides property management services to at least 9 LIHTC-developed complexes consisting of 517 units.

### **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 are 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 \$15,000/unit per project.

**Staff Loan Recommendation**

Staff recommends a \$600,000 loan at 1% interest over 20 years contingent on cash flow. Approval of Cardinal Capital Management’s application will be contingent on obtaining all financing described in the application, including the LIHTC. 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 enough 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.

**BUDGETARY IMPACT:**

A total of \$600,000 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.

**RECOMMENDED ACTION:**

Staff recommends that the Loan Board of Review forward a resolution to the Common Council with a recommendation to approve a loan to Cardinal Capital Management for \$400,000 related to the multifamily housing development at 1520 Clark Street 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 federal, state, and local regulations.