

**STATUS REPORT  
AND RECOMMENDATIONS  
ON THE  
DESIGN OF THE  
  
MADISON  
AFFORDABLE HOUSING TRUST  
FUND**

**Presented to the Madison Common Council,  
The CDBG Commission and  
The Madison Housing Committee**

**December, 2002**

**A report of the  
Affordable Housing Trust Fund Work Group  
An ad hoc group of the Community Development Block Grant Commission and  
The Housing Committee Affordability Subcommittee**

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## STATUS REPORT AND RECOMMENDATION ON THE DESIGN OF THE MADISON HOUSING TRUST FUND

### BACKGROUND:

The Common Council adopted a resolution to establish the Housing Trust Fund Work Group November, 2001 as a joint effort between two City committees, the CDBG Commission and the Housing Committee, to explore the design and primary policies of a housing trust fund. Members include Patrick DePula, Tom Hirsch, Gigi Holland, Alder Tom Powell, Alder Cindy Thomas, and Cindy Donais. The Work Group was appointed in January and held it first meeting on February 28, 2002.

The Housing Trust Fund Work Group has held a series of meetings since then to hear from developers of affordable housing, housing advocates, and interested citizens to discuss various aspects of the policy and operations of a trust fund to promote new housing. The Work Group developed recommendations concerning the design, use, and potential revenue sources for a trust fund aimed at increasing the supply of affordable housing within the city of Madison. The recommendations seek to tap public and private sources to capitalize a trust fund whose revenue would assist *both* non-profit and for-profit developers to build new housing units for both owners and renters. The Trust Fund would be a revolving fund, with a build-up period until it has reached a capitalization of \$10 million. The proceeds from investments from the principle, plus repayments from previous housing loans, would be made available for further investments in affordable housing.

The Work Group recommends that at least 60% of the resources be used to help increase housing for households at the 50% of median income level. (This is \$28,500 for a household of 2 and \$35,650 for a household of four.) It is this segment of the population that is currently severely underserved by our present affordable housing shortage in Madison.

The Work Group suggests several potential sources of funding, including the use of TIF equity kickers. The Work Group's recommendation to tap the equity kickers from Tax Incremental Finance Districts has already been implemented by Mayor Bauman's initiative and the Common Council's decision to place the proceeds from the re-financing of Alexander's TIF projects into the Housing Trust Fund. In addition, the Work Group sought to limit the use of property local tax dollars to a start-up period while the fund builds to a capitalization of \$10 million. Partly on the basis of comments heard at several meetings and a public hearing, the Work Group recommends that 25% of the funds raised during the capitalization period be used to assist housing development, while the remainder is placed into the Trust Fund until the capitalization goal of \$10 million is reached. The Group estimates the Fund would help produce between 30 and 40 new units of affordable housing each year.

The Work Group recommends that the Fund be named "The Sol Levin Housing Trust Fund" in recognition of Mr. Levin's many years of leadership and community work on housing issues.

These recommendations are the fruition of eight months of work for the group. The final recommendations will be presented to the full Common Council for action in January.

The full recommendations can be viewed on the following website, [www.ci.madison.wi.us/cdbg](http://www.ci.madison.wi.us/cdbg), or can be obtained from the CDBG Office by calling 267-0740. The Work Group will also continue to accept comments via e-mail to [cdbg@ci.madison.wi.us](mailto:cdbg@ci.madison.wi.us) or written comments to P.O. Box 2985, c/o CDBG Office, Madison, WI 53701-2985.

### Charge of the Housing Trust Fund Work Group:

Propose to the Common Council the criteria and policies for how the housing trust funds can be utilized, given the goal of expanding the affordable housing supply within the City of Madison.

#### SYNOPSIS OF HOUSING TRUST FUND WORK GROUP DECISION-MAKING:

The work group recommends these working principles as the basis for the development of a City ordinance:

- Y The Housing Trust Fund should offer a one-time assistance for acquisition, capital and soft costs related to the development of affordable housing, rather than an ongoing subsidy.
- Y The Fund should define 'affordability' as 30% of household income, with an adjustment up to 33% of household income for for-sale units meeting Energy Star ratings of 86 or higher.
- Y The Fund should provide the assistance directly to the developer of the housing, rather than direct assistance to the occupant or homebuyer.
- Y The Fund should target its assistance to particular units and focus its conditions on those assisted units, rather than on the entire complex. (The Fund may assist up to 100% of the units within a building or a subdivision of one to nine units, up to 50% within a building or subdivision of 10 to 15, and up to 25% within a building or subdivision of 16 or more units. It is the preference of the Work Group that the assisted units be scattered throughout the building, the subdivision and the community.)
- Y The Fund should give some preference to units not located in an active Tax Incremental District, since the City makes available other forms of assistance for affordable housing units in those districts.
- Y The Fund should target housing for beneficiary households at 80% or less than the median, with at least 60% of the funds going to assist housing for those at 50% or less.
- Y The Fund should encourage a set of building standards or initial improvements that lead to lower, long-term operational costs for occupants. The specific set of these standards and improvements include the following: a) complying with such health and safety standards as direct vent hot water units when individual hot water heating units are provided within the dwelling unit; b) protection from radon by proper sealing of the dwelling unit; c) a passive solar-slab ventilation system when sub-grade areas are exposed during construction or rehabilitation; and d) within the assisted unit, features that help achieve an Wisconsin Energy Star Homes rating of 86 or higher.
- Y The Fund should establish a 'program' wide goal of helping create at least one accessible unit out of every five it assists. An accessible unit shall have accessible features as defined by Commerce Chapter 57 Subchapter 11 as modified, and include one curb-less shower and a step-free entry into the unit.
- Y The Fund should provide its assistance to affordable units that remain affordable for the longest period possible. In cases where the assisted property is sold or transferred, or where the assisted units no longer remain affordable, the owner would be obligated to repay the original Trust Fund investment plus a pro-rated percentage of the appreciated value of the assisted units. If the property is held for more than 50 years, the Fund could forego the payback provision. The Work Group does recommend that the future oversight committee periodically review the terms of assistance and structure these terms to encourage the longest period of affordability possible.
- Y The Fund should try to draw from several sources, in order to build up a favorable revenue stream sufficient to assist a targeted number of projects each year. (See attached sheets on preferred sources and target capitalization schedule.) The recommended goal is to build a Housing Trust Fund with a capitalization of \$10 million so that the investment revenue stream can be used for housing project assistance.
- Y The investments of the Fund in particular projects should be decided by a subcommittee of the CDBG Commission, which is an existing City commission with elected representatives and a broad range of people interested in housing and community development. The Work Group is recommending that this subcommittee be appointed by the Mayor and confirmed by the Council and consist of eight members: two alderpersons, two CDBG Commissioners, one Housing Committee Housing Affordability Subcommittee member, one lender representative and two developers (one of whom would represent non-profits). The actual investments should be administered through the CDBG Office in order to coordinate the City's range of investments in affordable housing, and mesh with other City processes for affordable housing and neighborhood development.

## **HOUSING TRUST FUND WORK GROUP: Potential Revenue Sources (November 25, 2002)**

The Housing Trust Fund Work Group recommends that the Council adopt a goal of \$10 million to capitalize the Housing Trust Fund, and use the following sources to help establish it as a viable funding source for affordable housing.

### **Potential sources that are non-routine or difficult to predict:**

#### TIF Equity Kicker:

When the City enters into a TIF assistance agreement with a developer, the City has sometimes required a developer to provide an 'equity kicker' payment to the City if the developer sells or refinances the assisted property. These funds are not considered TIF repayments, to be shared with the other taxing entities. The City received \$150,000 from the refinancing of a Kenton Peters' project in 2001, and some current TIF agreements appear to require upcoming 'kickers' over the next few years. As a funding source, it appears to be significant, and large enough to help capitalize a Housing Trust Fund, although the capital additions may not be predictable, since they will depend upon TIF agreements and refinancing or resale trends in assisted projects.

#### Residual Contingent Reserve:

The City budgets a contingency fund for unforeseen emergencies, like unusual weather or events that may require extra expenditures during the operating budget year. The Comptroller has suggested that the Work Group consider recommending a policy that would take a portion of the unspent contingency reserve at the end of the year and use it for the Housing Trust Fund. While unpredictable, this may be a way of adding to the capital pool for a Trust Fund.

#### Unspent Surplus Funds:

The City often has a cash amount remaining in its operating budget accounts at the end of the fiscal year. The Work Group suggests that 20% of that amount be transferred into the housing trust fund for five years as a way to capitalize the Fund.

#### Land Use Value Assessment Penalty:

A recent State law permits the City to collect a 'penalty' at the time land zoned agricultural is sold and redeveloped for other uses. The intent of the law was to help preserve farmland by valuing it at an agricultural use level, yet share in the rapid appreciation of the property and foregone taxes when the use is changed to non-agricultural. The first of these penalties will be collected during 2002-2003, and may amount to a net of \$250,000 for the City of Madison. As a funding source, it appears to be significant, novel, and large enough to help capitalize a Housing Trust Fund, although the capital additions may not be predictable, since they will depend upon rezoning changes in individual parcels.

#### Sale Proceeds or Use of City Surplus Property:

From time to time, the City obtains and disposes of property that may be sold for a price or available for use as affordable housing development. The recent sale of the Dayton Street property with Council and Mayor supporting the use of the net proceeds for the Housing Trust Fund is one example. The lease of air rights over public property, such as the McCormick ramp, may be another possibility as the downtown market develops.

#### Private Contributions:

The City has been able to solicit and receive some major capital contributions to some of its activities, or leverage its own public funds with those from the private sector. The Trust Fund may be able to establish ways to accept contributions to the general housing trust fund or to channel some contributions in tandem with other sources for specific projects or types of activities, like home purchases or special needs housing.

#### Payment in Lieu of Participation in a City Inclusionary Zoning/Density Bonus Program:

The City is considering requiring or encouraging the inclusion of affordable units within new developments, depending upon size and tenure type. Where the inclusion of affordable units does not

appear to be feasible or affordable, a City committee has discussed the provision of off-site affordable units or a payment in lieu of the affordable units (to the Trust Fund) as an alternative. While not yet adopted, this has some potential for a revenue source for the Trust Fund, and the Trust Fund may help facilitate some of the developments in their efforts to provide affordable units.

Federal Match Funds:

The Senate has adopted a bill that would provide local government housing trust funds with a 1:1 match from Federal dollars. The City of Madison would be in a good position to seek these funds if the Council appropriated some funds this year for 2004 use.

**Steady potential sources that are somewhat predictable:**

Fees with Dedicated Uses Related to Housing:

The Council could choose to raise certain fees, such as the re-inspection fees, and place an equivalent amount in the Trust Fund as a way to peg transfers into the fund to a regular income source somewhat related to housing issues. Since fees are required to be related to costs of providing the service, the actual fee increases could not be channeled to the Trust Fund directly, but the Council could use the increases in fees as a target measure of their contributions from the operating budget.

Operating Budget:

The City develops an annual operating budget that could serve as the initial funding device to facilitate early capital infusion to the Housing Trust Fund. The City could choose to commit to a planned budgeting of \$400,000/year for the first five years as one means to jump start the Trust Fund and to use it to leverage other funds, such the national Housing Trust Fund under discussion in Congress.

**Capitalization Strategy:**

The Work Group recommends that the Council consider using the above sources in some combination over the next 10 years to reach the capitalization goal of \$10 million for the Trust Fund. In addition, the Work Group recommends that during this period of capitalization, 75% of the initial contributions from the selected sources should be allocated toward the capital portion of the Fund, and 25% of the initial capitalization contributions be used to finance investments in affordable housing projects. The Work Group believes that this dual strategy, of building the Fund while making investments, will generate tangible results for the Fund in its first years of operation, demonstrate its viability as a positive force for decent housing, and attract additional sources of funding and contributions on the basis of its performance.

**POTENTIAL SOURCES OF FUNDS FOR A HOUSING TRUST FUND:  
USE SOME EARLY FUNDS FOR INVESTMENTS**

**ASSUMPTION: Use 75% for capitalization of the fund, 25% for housing unit assistance until Fund reaches \$10 million**

		2003-4	2005-6	2007-8	2009-10	2011-12
<b>Steady and slow</b>						
Fees	Calculate amount on increase in revenue from re-inspection fees: 25% of \$70,000, with 2% inflation/year	\$17,500	\$17,850	\$18,207	\$18,571	\$18,943
Operating budget	\$400,000/year for 5 years, as a way to help jump start the funds	\$800,000	\$800,000	\$400,000	\$0	\$0
<b>Predictable but uncertain</b>						
TIF Equity kicker	City equity share from TIF-assisted property refinanced or sold in excess of estimates; NOTE: This is a preliminary estimate; in 2002, the City committed almost \$1,038,000 from this source.	\$1,000,000	\$100,000	\$200,000	\$20,000	\$100,000
Contingency residual	50% of remainder of contingency from operating budget at the end of the year	\$50,000	\$200,000	\$200,000	\$200,000	\$300,000
Surplus from operating budget	20% of the remaining surplus funds from the operating budget at the end of the fiscal year	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Use value assessment penalty		\$250,000	\$400,000	\$400,000	\$200,000	\$200,000
Sale: surplus property of air rights	In 2001, the council allocated the sale proceeds from a Dayton St. lot owned by the City.	\$10,000	\$25,000	\$100,000	\$100,000	\$100,000
Private contributions	The Work Group believes that this is a realistic estimate.	\$20,000	\$50,000	\$75,000	\$100,000	\$100,000
Developer contributions in lieu of units	This amount will depend upon Council adoption of an inclusionary of PUD housing ordinance with this provision.	\$20,000	\$40,000	\$60,000	\$80,000	\$80,000
Federal Housing Trust Fund		\$400,000	\$800,000	\$400,000	\$400,000	\$300,000
Possible bi-annual total		\$2,667,500	\$2,532,850	\$1,953,207	\$1,218,571	\$1,298,943
BI-ANNUAL TOTAL SPLIT two ways:						
AMOUNT DEDICATED TO FUND 0.75		\$2,000,625	\$1,899,638	\$1,464,905	\$913,928	\$974,207
AMOUNT USED FOR ASSISTANCE 0.25		\$666,875	\$633,213	\$488,302	\$304,643	\$324,736
<b>ACCUMULATED AMOUNT FOR TRUST FUND CAPITAL</b>		<b>\$2,000,625</b>	<b>\$3,900,263</b>	<b>\$5,365,168</b>	<b>\$6,279,096</b>	<b>\$7,253,303</b>
Yield from cumulative total (assuming 7% interest, average 50%)		\$70,022	\$136,509	\$187,781	\$219,768	\$253,866
Repayments from earlier housing investments						\$100,000
<b>TOTAL AVAILABLE FOR ASSISTANCE</b>		<b>\$736,897</b>	<b>\$769,722</b>	<b>\$676,083</b>	<b>\$524,411</b>	<b>\$678,601</b>
<b>RESULTS</b>						
Affordable Units	Investment/affordable unit (using investment yield only)	\$20,000	\$20,600	\$21,218	\$21,855	\$22,510
	Total units annually	37	37	32	24	30
						<b>160</b>

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