

**Item 23-0072: Request to award ARPA Affordable Housing grant funds to RISE Apartments, LLC for a grant total not to exceed \$1,000,000**

Finance Committee

Mon, Jan 23, 2023 5:30PM

**Alderson Brad Firkus (District 3) 10:38**

Moving on 23-0072 request to award ARPA affordable housing grant funds to rise apartments LLC, for a grand total not to exceed \$1 million.

**Alderson William Siebers (District 1) 10:49**

Move for approval.

**Alderson Brad Firkus (District 3) 10:50**

All right, we have a motion and a second. Guess I'll hand it over to you first, Director Homan if you want to just kind of get us started on kind of where this where we are with this and some of the details. Microphone number, please. All right, thank you.

**Alderson Denise Fenton (District 6) 10:50**

Second.

**Director Kara Homan (Community And Economic Development) 11:11**

So, what you have before you is a request to approve a grant not to exceed \$1 million of ARPA funding for Rise Apartments, LLC. This is a project that the city is currently under development agreement for, initially approved in 2021, since amended in October 2022. It is in alignment with the College Avenue North Neighborhood Plan and will implement 43 rental units that will meet low to moderate income thresholds. The city's TIF incentive is right around \$630,000. So, this would add \$1 million in ARPA funding. Since the project was first conceived construction costs, not just for the city but for developers, have been escalating quite a bit. So, this, in tandem with some potential county ARPA funding and WHEDA tax credits, will make the project cash flow and hopefully be able to bid and start construction.

**Alderson Brad Firkus (District 3) 12:14**

All right, thank you. Does anyone have any questions? Alder Hartzheim? Six again. Okay.

**Alderson Sheri Hartzheim (District 13) 12:23**

Thank you, chair. My concern in this is that now we as a city are supplementing an already existing contract to do something that we've been told was going to be done. I'm very concerned about the fact that this sentence exists "grant award will be used to keep the project financially solvent considering escalating construction costs due to inflationary pressures." We've all seen that. In fact, we just saw it with the city's library project. So, I am concerned about subsidizing that piece when I am curious as to whether the project can be scaled back to rather than using this million dollars to supplement a project we already believed was conceptually ready to go. Thank you.

**Alderson Brad Firkus (District 3) 13:21**

All right. Anyone else? Alder Doran.

**Alderman Chad Doran (District 15) 13:31**

Thank you. I guess I just had shared sort of similar concerns when I first read this too. But I guess I want to just ask the question first, maybe of staff, if there have been conversations with the developers about the project not being able to move forward without the grant? Was that, was that part of the calculation here or not?

**Director Kara Homan (Community And Economic Development) 13:56**

There was a project budget included in the application. We do have the developer here, I believe, if there's project specific questions, but I did not have a one on one with them. A lot of the review happened before I started.

**Alderman Chad Doran (District 15) 14:14**

I don't know if we'd be able to hear from the developer.

**Alderman Brad Firkus (District 3) 14:16**

Sure.

**Alderman Chad Doran (District 15) 14:17**

If they would like to share anything....

**Alderman Brad Firkus (District 3) 14:18**

If you'd like to please come up to the podium. And if you have anything to say, and then if you're willing to answer any questions. Yeah.

**Tom Klister 14:24**

Hello, my name is Tom Klister. I'm part of the development team for MF Housing Partners. So, I think your concerns are not a unique concern. Frankly, ARPA is the only thing that's making affordable housing still being built in the whole state, frankly, probably around the whole country. With—you look at these market rate projects going on and we're primarily a market rate apartment developer. Our partner in this has done tax credit development for the last 15 years so she's kind of the expert in that field, but where we kind of combine into this. But in market rate housing when all these costs have gone up—I mean, rents have gone up ridiculous amounts over the last couple years. Anybody that's got product that's already built is really excited. Anybody trying to build anything is—it's challenging how the rents are going up. The difference in affordable housing is that rents are fixed. Rents are all capped. So, there's got to be something, something that changes to make these projects still get built. And what we've been seeing in surrounding community communities across the state, as I mentioned, is ARPA dollars. Without ARPA dollars, these projects are not getting built. And to answer your question, Chad, yes, without the ARPA dollars, this project will not go forward. And as I think—I don't know if our project, but we're asking for funds from the county as well. And if neither of those requests go through, then the project will not be built. So, I don't know if you have any follow up questions. I'm happy to answer.

**Alderman Chad Doran (District 15) 16:08**

I guess if Tom wants to answer or staff, just clarifying, getting clarification question, I guess. With the additional million dollar grant or award through ARPA there isn't any additional units being proposed or anything like that, right? This is just sort of, in your mind making up some additional costs that you're seeing due to inflation and things like that

**Tom Klister 16:32**

And we actually did change our plan a little bit. Karen—I have not met in person yet, since Karen transitioned out, but we added townhomes to this development. Originally townhomes, were not going to be a part of it. I

know townhomes are a big push in the Neighborhood North plan. So, there are 48 units. Townhomes were planned. And lastly, I think there's another misconception is that in affordable housing development **[audio cuts out briefly]** we get, that doesn't mean the more money a developer makes. I mean, our fees is fixed, whether or not—and then that's the fee whether or not the project goes or not. So more funding isn't more profitability for a developer. I hope that I want to make that clear.

**Alderman Chad Doran (District 15) 17:21**

Thank you. And then I guess just a couple other sort of related questions, I think because the memo sort of touched on it that we had just a couple of applications through the grant process was—did we get any feedback from other developers about the process or the application or any reasons that we feel like that maybe we didn't get more than a few applications for the money that we made available?

**Director Kara Homan (Community And Economic Development) 17:50**

I didn't receive any feedback. I'll turn it over to finance director.

**Director Jeri Ohman (Finance) 17:56**

No, I didn't hear anything, either. We had multiple webinars where applicants could ask questions and understand the process. And through those I do not recall any questions or comments about the process itself.

**Alderman Chad Doran (District 15) 18:11**

Okay. And then I guess this last one. The memo mentions, there's another sort of pending award potentially. Is there a reason that they weren't both brought together at the same time? Just curious, I guess if there's a need to split them, for some reason, so that we could get a kind of full picture of what we're looking at with both of them.

**Director Kara Homan (Community And Economic Development) 18:31**

So, the ARPA grants portfolio just transitioned to me, Jeri, I'd say mid last week. And in particular, this one that we advanced it—the timing of it is tied to some deadlines with the WHEDA tax credits. It's my understanding that the WHEDA tax credits had a contingency to the award that if all financing isn't secured by sometime in February, the WHEDA of tax credits have the potential to go away. And just given where we were at in review, I felt like I didn't have enough time to really dig into the other application to make a solid recommendation. So that's why this one is going separately because of the time the time sensitivity to other financing streams. But we will be working on the other one soon.

**Alderman Chad Doran (District 15) 19:21**

Okay, good. Thank you.

**Director Kara Homan (Community And Economic Development) 19:22**

I have given that applicant a heads up.

**Alderman Brad Firkus (District 3) 19:25**

All right. Thank you. Anyone else? Alder van Zeeland.

**Alderman Katie Van Zeeland (District 5) 19:32**

Thank you Chair. I just wanted to ask I guess this would be to Attorney Behrens, what would happen if, as the developer says the project cannot move forward but we have a development agreement. What happens then?

**Attorney Christopher Behrens** 19:48

The development agreement is incentive-based based on the project moving forward. So, there's no project there's no incentive paid out, and that land remains undeveloped.

**Aldersperson Katie Van Zeeland (District 5)** 20:00

Thank you.

**Aldersperson Brad Firkus (District 3)** 20:04

All right, anyone else? Alder Fenton.

**Aldersperson Denise Fenton (District 6)** 20:08

I would urge that we approve this. As the developer told us, this funding is—when a market rate project faces increased construction costs, they can pass that along in higher rent. And but because these, the rent in this is limited to 60% of the area mean income, we know that incomes are not increasing as fast as construction costs. So, they don't have any way to make up for this. We voted to earmark these \$3 million in ARPA funds for—specifically for affordable housing. And we had a big discussion last week about a market rate project where people were saying, "we need to have more affordable housing, we need to, you know, we would like to make construct restrictions on some of these market rates to earmark". And so, we've got an opportunity to use this money that we've already approved in our budgets that we want to go to affordable housing. We know that if costs were lower, this could go forward without it. But, again, it's a Rescue Plan Act and so we've got an opportunity to use these funds to rescue a project that is going to give us over 40 affordable housing units. And the townhome, the townhomes part is really important to me, because I think our affordable housing units are really short of family housing. So, I am going to vote for this, and I hope the rest of the committee will do. Thank you.

**Aldersperson Brad Firkus (District 3)** 21:57

Thank you. Alder Hartzheim.

**Aldersperson Sheri Hartzheim (District 13)** 22:01

Thank you, Chair. To Aldersperson Fenton's point, could—without this ARPA funding, could this project not be scaled to appropriately be able to build to whatever the current budget is?

**Aldersperson Brad Firkus (District 3)** 22:21

I guess, would you want to?

**Tom Klister** 22:23

Yeah. So. So I guess that the short answer is unfortunately, no. Because WHEDA—so I'm gonna answer this in two ways. One is partially to Chad's on why is there not more applications? Right? It doesn't make sense if this money is there. And I think the answer to that question is you think what if you had a million dollars, how many housing units could you build with just that, right? And if you use traditional debt, or whatever, I mean, it's expensive, and there's really no return on investment. So, what we're doing is we're combining tax credits. So, of our total project costs, a tax credit investor—I mean, about almost \$7 million is coming from tax credits themselves. And because of how the program works, and all of the qualificat—qualifications, you get to your gap where the tax credits are what they are. And there's a few other things you can slide. You can slide your development fee. You can max, you can max that out. That's already maxed out, which essentially means that we—our fee gets cut in half to try to fund that. And then beyond that, it's really up to the tax credit investor and how they underwrite stuff. So, no, I mean, we're it's we're building—we have to build stuff according to green

standards and all of the WHEDA's requirements. So, it's not like we can just build a worst quality building. I mean, it's economically built, but it's still nice.

**Alderson Brad Firkus (District 3) 23:53**

It's just—go ahead. Oh, I'm sorry.

**Alderson Sheri Hartzheim (District 13) 23:57**

I apologize that I didn't make scaling clear. I don't mean lower quality. I mean, size wise.

**Tom Klister 24:04**

Yeah, so size wise, it's all based on rent. So, it's it'd be a whole nother seminar and a whole other time on how you finance these things. But essentially, what you do is you take all your rent, you figure out how much debt traditional debt the project can afford which in this case is small. I mean, it's, it's 20% of the total project costs, 30% of the total project costs. And then beyond that, tax credit equity varies and pricing. And right now, with where the market is, this is where the tax credit equity is priced. So no, reducing size we would get to the same—our gap would probably get bigger. We probably rather than needing to \$2 million. We'd probably be more than that. Because you get less tax credits and all that stuff as well.

**Alderson Brad Firkus (District 3) 24:56**

Go ahead Alder....

**Alderson Kristin Alfheim (District 11) 24:58**

Just comment. This is a—I look at this as an investment. We've had plenty of conversations about affordable housing, but we've also had plenty of conversations about our business environment and needing people to live and fill the positions that we have. So, this is an opportunity for us to lean in with our ARPA funds, and help bring 40 families down into the downtown area, which we want to do. Also alleviating 40 more properties to open up at another lower cost point for other people, as well as have increased employee opportunities to fill all of the positions that we have in the downtown area. So, I look at this as an investment. If we have these dollars, I'm not sure there's a better place to put them than a project like this. There is no one profiting from these dollars being placed. It is a matter of making the books work, so that we can provide this investment in the community. So, I hope the committee supports it.

**Alderson Brad Firkus (District 3) 25:57**

All right. Alder Doran.

**Alderson Chad Doran (District 15) 26:00**

Thank you. Just one more question, I guess. When we—when Community Development works with developers on kind of coming to a sort of development agreement and working through what the, I guess, incentives would be for the TIF program through the TIF for that for the project, it's a pretty rigorous process sort of examining a lot of different requirements and things. So, the city's sort of not funding more than what's necessary, I guess. What was the sort of process we followed, I guess, for the ARPA grants along? Was it similar, a similar sort of process to examining exactly how much would be required from that standpoint?

**Director Kara Homan (Community And Economic Development) 26:55**

Yeah, so it was similar. We have a consultant called Booth Management onboard. They're a CPA firm that specializes in federal compliance. But as part of our application they submitted, I would say, significantly more than we typically see, even for development agreements. So, if we were—if this was a development agreement intake, we would have them apply through the city's application process, they'd submit their pro forma, we'd

review it to make sure the numbers make sense. With regards to the ARPA grants, they had to include a project budget, proof of zoning, proof of ownership, and a whole series of documentation to make sure the project is valid, that it's compliant with federal law, and that it jives from a budget perspective.

**Alderson Chad Doran (District 15) 27:42**

So, I guess from the actual, like, budget perspective of the million dollar award, when we do TIF agreement in projects, it's I forgot what off the top my head what the term was, but we're from the actual like dollar figure amount. It's exactly what's required to make the project work essentially. Right?

**Director Kara Homan (Community And Economic Development) 28:00**

The "but for" clause?

**Alderson Chad Doran (District 15) 28:01**

Yeah. Is that the similar—I guess, do we go through sort of a similar process in the in the ARPA award? Or is it a developer comes in says, "Hey, we think we need a million dollars for this." And then we just...

**Director Kara Homan (Community And Economic Development) 28:13**

That "but for" clause is a statutory provision specifically tied to TIF. Do we have a legal obligation in ARPA to test it for that? I don't think so. But in terms of how we review the budget, we're looking for similar things. I don't think ARPA requires that, but it's my estimation that the project doesn't cashflow now without this. So, when we did the initial intake for the development agreement, that was in '21, and the market has drastically changed for construction costs. And that's really what has changed the pro forma.

**Alderson Chad Doran (District 15) 28:49**

Okay, thank you. I appreciate that. I think it's just important for people to know that we're still giving the same level of scrutiny for these types of awards, just as we do in any other sort of project along these lines. And I I'd say—I guess I would just add, you know, I think from, from my perspective, I appreciate the project and what the developers are working on and trying to bring here. I think it's just, you know, it's interesting. I think, I would have hoped maybe we would have seen more developers come forward with projects. Maybe the markets just difficult in that sense. But when we're talking about trying to add more housing of any level, as we talked last week, it's not just affordable housing that we need, it's housing of all types and income levels. That we would see some projects come forward, that were new, not something that was already in process. But with that, I do feel better and appreciate the information kind of about the need here and that we're laying out the case for it. So, thank you.

**Alderson Brad Firkus (District 3) 29:53**

Thank you. Alder Fenton?

**Alderson Denise Fenton (District 6) 29:55**

One question and I'm going to ask the attorney and the chair to make sure that I'm not off the subject. But with regards to for of applications for this grant funding, and we had applications for what looks like 2 million out of the 3 million. I know that the ARPA funds have to be spent by sometime next year. Is there some concern? Or will we go out and make another invitation?

**Director Kara Homan (Community And Economic Development) 30:27**

Do you want me to take that? So, they need to be obligated by the end of next year and spent by the end of '26.

**Alderpersion Denise Fenton (District 6) 30:34**

Okay.

**Director Kara Homan (Community And Economic Development) 30:35**

So, I would anticipate that we will need to take additional measures to put out more opportunities for affordable housing and possibly the other buckets we've that the Council has allocated.

**Alderpersion Denise Fenton (District 6) 30:47**

Thank you.

**Alderpersion Brad Firkus (District 3) 30:48**

Thank you. Alder Van Zeeland.

**Alderpersion Katie Van Zeeland (District 5) 30:51**

Thank you, Chair, I just wanted to say what makes me feel comfortable about this is knowing that because we had the development agreement in place prior to the grant for ARPA funding, we understand that this isn't just an inflated number. You know, we have the numbers for the project. It's not just a handout. So, I'm going to vote for it. Thank you.

**Alderpersion Brad Firkus (District 3) 31:11**

Thank you. Anyone else? And I think this was answered before but we have—this does not change the TIF agreement that preceded this project at all? So, we're not saying now, we're up to 20% of this plus another million plus? That I think that's clear. The other question was, as far as like the verification, I think this was touched on with Alder Fenton's first question, but we're not just "Okay, here's a check. Go." I mean, kind of like in the same vein of a TIF where we do pay as you go with that type of agreement. This has got some similar, I guess, constraints or checks to verify that, yep, once we say we are going to do this, that we are going to see to it that this happens, and it doesn't just like "Oh, sorry, this couldn't cash flow anymore," but it's been sitting in, you know, somebody else's bank account for the last year or something like that.

**Director Jeri Ohman (Finance) 32:07**

Right. So, these ARPA funds will be reimbursed as the costs are paid. So, it'll be not pay in advance, like we have done with other community grants.

**Alderpersion Brad Firkus (District 3) 32:17**

Okay.

**Director Jeri Ohman (Finance) 32:18**

This one will go as the bills come in.

**Alderpersion Brad Firkus (District 3) 32:19**

Okay. Thank you for the clarification on that.

**Tom Klister 32:22**

If I could just add one more comment. So as an Appleton resident myself, and the way I think through these is because you look at this, and I mean, all these ARPA dollars are crazy, right? I mean, the amount of money that came into these communities is nuts. So, the way to think about these ARPA funds with affordable housing is we're using tax credits to leverage more apartments that we can build. You know, if you just took a million dollars of ARPA funds, you might be able to build 10 or 12 apartments, but combining them with tax credits

under the same program, under the same income restrictions, we're able to build four times as much as that. So, I guess that just from a big picture perspective.

**Alderson Brad Firkus (District 3) 33:05**

Thank you. I imagine even just stepping a little bit beyond just the lifetime of the project, the development itself, but being able to have these extra units is going to make it a little more affordable long term by having more units on the same amount of land. And just the impact, you know—the taxing of the land itself is going to be about the same give or take, but by having more units share that that helps with maybe the rent when this project matures completes and goes to, you know, now the rental market.

**Alderson Brad Firkus (District 3) 33:38**

All right, any other questions? All right, seeing none. Let's go ahead and vote. All those in favor? Aye. Opposed? Abstentions? Motion passes five, zero.