



# CITY OF MIDDLETON REPORT OF THE WORKFORCE HOUSING COMMITTEE ON AFFORDABLE HOME OWNERSHIP

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To: Mayor Brar & the Middleton Common Council  
From: Mike Davis, City Administrator, on behalf of the Workforce Housing Committee  
Re: Recommendations for an Affordable Home Ownership Strategy in Middleton (WHC of 4/18/22)  
Date: April 26, 2022

## The Problem with Affordable Home Ownership

It is a national problem for highly desirable communities where the demand exceeds supply, thereby increasing prices of land. Compounded with supply chain issues during the pandemic and ensuing construction cost increases, the problem grows worse. Even townhomes at Conservancy Bend are on the market for at least \$450,000, well over the amount affordable to anyone at the median income (about \$103,000 for a family of 3 in Dane County as of 2022) and who don't have substantial savings for a down payment. This is a matter of great urgency for equity among Middleton's workers who can't afford to live in, let alone near, the city. Current income/rent limits are here:

<https://www.wheda.com/globalassets/documents/tax-credits/htc/2022/2022-standard-mtsp.pdf>

Presumably, condominium development could help to fill the void with lower square footage and shared property maintenance costs. However, the following article explains why condominium development has not rebounded after the Great Recession of 2007-2009:

<https://www.urban.org/urban-wire/housing-market-needs-more-condos-why-are-so-few-being-built>

Although alternatives are few, the Workforce Housing Committee recommends consideration of the following components of a city strategy most of which are included in the city's comprehensive plan's housing section (see page 67:

[https://www.cityofmiddleton.us/DocumentCenter/View/8030/2021-Comp-Plan\\_3-2-2021](https://www.cityofmiddleton.us/DocumentCenter/View/8030/2021-Comp-Plan_3-2-2021)

## 1. Develop Land Bank with the Madison Area Community Land Trust

Madison Area Community Land Trust (MACLT) serves all of Dane County, but so far has only developed homes within the City of Madison because there are sources of funding available (CDBG, HOME, City's Affordable Housing Fund) that enable home development. MACLT has worked with the city assessor to reduce the property taxes paid by the homeowner. There is a controlled rate of tax increase based on the resale formula, which is less than it would be for a conventional homeowner. CLT homes pay property taxes, but at a lower rate than conventional single-family homes.

The City of Madison has an affordable housing fund for these types of developments made possible by the Tax Increment Finance law passed by the Wisconsin legislature in 2009.

MACLT sustainability/business model – MACLT gets a developer fee when they develop new homes on the land that MACLT owns. For single family homes, MACLT is the developer. For larger projects they partner with a developer. MACLT gets \$50/month (\$600/year) for condos and \$75/month (\$900/year) for houses from owners as the land lease fee.

Sources of development funding in Middleton – In any given year, the County has minimal funds (\$600,000) available through HOME funds from HUD that can be used for homeownership, and they typically try to spread these funds out to multiple organizations and communities. More federal funding is expected to come to Dane County for affordable housing in the next year or two from the American Rescue Plan Act and the Infrastructure Bill, that should be able to be used in Middleton for CLT homeownership projects over the next 5 years.

The City of Middleton also expects to have a Tax Increment Finance (TIF) District #3 close in 2030. Due to the Wisconsin state law that allows a TID to accumulate funds in its final year for affordable housing anywhere in the City, Middleton expects some funds to be available after 2030 for this purpose. Even within current TIDs, if there are projects for CLT development that would increase

density and therefore tax revenue for a particular parcel, those projects possibly could be eligible for regular TIF funds in the present.

The City of Middleton could establish a Land bank to buy and facilitate the development of property for the purpose of creating affordable ownership housing. Land banking is useful to quickly acquire and then hold property to time property transfer to non-profit organizations when they are ready to develop. The Center for Community Progress is the organization that has drafted most land banking policies in the US and they have considerable resources on their website:

<https://communityprogress.org/resources/land-banks/> See also this article from Oct 2020 on Land banks and CLTs: <https://www.lincolninst.edu/publications/articles/2020-10-opening-doors-land-banks-community-land-trusts-partner-affordable-housing>

Mortgage-type - Home owners need to get a leasehold mortgage. Freddy Mac and Fannie Mae offer these. MACLT has been vetted by some local lenders. The four local banks and credit unions that currently work with MACLT homebuyers are Summit, Heartland, Monona, and Old National Bank. For construction loans MACLT has a good relationship with Monona Bank and with Forward Community Investments.

Another means by which to bank land is through property forfeitures. If a property is delinquent on their property taxes for more than three years, state statute defines the following steps to resolve the issue: (1) Dane County can pay down taxes and keep the property under County ownership. (2) If the County opts not to keep the parcel, the municipality that the parcel is within might have the option to buy it. The city pays 1% of the property's assessed value plus the taxes that are due. (3) If the municipality and county do not want the property, the property would have to go to a public auction based on state statute. Middleton could work with Dane County to acquire tax-foreclosed properties, acquiring any suitable land within city limits for transfer to the CLT.

## **2. Partner with Habitat for Humanity (HFH) of Dane County**

HFH has a tremendous track record, and they have previously partnered with Springs Window Fashions in the development of a small subdivision on Century Place. HFH uses a combination of community volunteer support, prospective homeowner sweat equity and donated land to enable development of single-family homes averaging about 1,100 square feet. If undeveloped land (or potential rehabs) can be located, it does help HFH select a municipality if the community provides financial support. For example, Sun Prairie contributed \$950,000 for a sanitary sewer. Oregon provided \$150,000 towards water management and applied for \$631,000 to the state for overall project development. HFH would be interested in TIF, but they typically don't qualify as single-family home development. They do not make a profit on their 0% home mortgages and need money to cover staff costs; hence, assistance from municipalities helps them decide where to put their scarce resources.

HFH watches for land and potential homes of appropriate size/neighborhoods that they could purchase at affordable market rates, or negotiate for purchase, or have donated to their mission. Prospects could include for-profit developers, individuals moving out of their homes and investors no longer needing land, and it could be residential lots of land suitable for larger scale development.

City building inspectors could be the eyes and ears for prospective sites by watching for homes that might be candidates for donation/sale to Habitat. This includes rental homes not being maintained or long-term homes no longer occupied.

Large employers might be interested in having a team building "Frame Up" in their parking lot for \$15,000. Habitat has partnered like this with Spring Window Fashions, John Deere Financial, Mead & Hunt, and Erdman all of which are on the west side of Madison/Middleton.

HFH has a formal partnership with MATC and the Sun Prairie School District to build a home. Justin Zander, the tech ed teacher who started the Sun Prairie program is at Middleton High and has asked to implement a similar program there.

## **3. Re-Start the Down Payment Assistance Program (DPAP)**

The Community Development Authority (CDA) had sponsored a DPAP which was active from 2005 until the end of 2010 when the CDA discontinued it, primarily due to concerns for costs of managing the program as well as staff and legal time. There still exists 7 outstanding loans totaling \$87,490 to be paid back in the next few years. For homeowners who stay in place for 15 years, the loans must be paid at the end of the 15 years at 0% interest. Those who leave or sell earlier pay a graduated

amount back on the proceeds of the sale. This provision strongly discourages house flipping for profit.

There are 5 down payment loans outstanding, and the amount owed to the CDA is \$57,490. 10 were fully repaid, 2 were partially repaid (\$1,500 for one and \$2,650 for the other), 1 was fully forgiven. The CDA utilized the services of the Wisconsin Partnership for Affordable Housing for administration of the program. Currently, the CDA is on track for 15 of the 18 DPAP loans (83%) to have been totally successful.

The big question is whether the current CDA would find this program of interest to re-start using anticipated revenues or other existing resources which are already allocated.

#### **4. Consider Long-Term Re-Use of City's Downtown Land in Conjunction with the Community Campus Plan (CCP) for Condominium Development**

Depending on the development parameters of the CCP, there could be land available for condo development in downtown Middleton. The city could issue a request for proposals for developers to build condos on city-owned property with a mix of both market-rate and qualified affordable units. TIF may also be used for downtown parking that also could benefit the development.

The Workforce Housing Committee believes that since the private market is not building condominiums, and the demand conceivably is high for this type of housing, the timing is ripe for the city to intervene in the market to produce housing on land that would continue to be owned by the city or a CLT, either of which addresses property inflation that typically exacerbates affordability problems.

#### **5. Plan to Use the TIF Statute After Expiration of TID #3 in 2030 & TID #5 in 2036**

Utilize the "Affordable Housing Extension" that allows the city to extend the life of a tax increment financing (TIF) district by one year to "benefit affordable housing." Before a TIF district is terminated, it can be repurposed for one additional year to benefit affordable housing and improve housing stock anywhere in the community (even outside of the TIF district boundary). Several Wisconsin communities have taken advantage of the affordable housing extension in the TIF law to fund housing and neighborhood programs, to provide developer incentives for tax credit projects, to implement affordable housing plans, to create low-interest loan programs to renew the existing housing stock, and to fund construction of new affordable owner-occupied housing. Middleton has a strong need for affordable housing and should utilize the affordable housing extension on the closure of TIF district 3 (2030) and TIF district 5 (2036).

Following is a helpful article from the League of Wisconsin Municipalities:

<https://www.lwm-info.org/DocumentCenter/View/1926/Using-TIF-to-Benefit-Affordable-Housing>

Here is the statutory reference: <https://docs.legis.wisconsin.gov/statutes/statutes/66/xi/1105/6/q>

#### **6. Survey Residents to Seek Awareness and Interest in Supporting Affordable Home Ownership in Middleton**

With use of Polco's surveying instrument, the city could present options as those forementioned to gauge resident and business interest and support for investment in affordable home ownership in Middleton.