Community Development Authority Meeting Minutes Friday, February 10, 2023 at 9:00 a.m.

Present: Jon Krouse (Chair), Jessica Carpenter, Mike Dawson, Tr. Arthur Ircink, Tr. Kathy Stokebrand and Wesley Warren

Excused: Joe LeSage

Also present: Teig Whaley-Smith, Tom Baade, Village Manager Rebecca Ewald; and Planning & Development Director Bart Griepentrog

1. **Call to order.**

   The meeting was called to order at 9:17 am.

2. **Consider November 4, 2022 meeting minutes.**

   Tr. Stokebrand moved to approve the minutes, as drafted; seconded by Mr. Warren. Vote 6-0.

3. **Review of successful Milwaukee County ARPA applications – Teig Whaley-Smith, Community Development Alliance.**

   Mr. Whaley-Smith stated that the primary purpose of his presentation was to provide an update of Milwaukee County's efforts to increase affordable housing in the suburbs, which might help Shorewood develop its own affordable housing strategies moving forward.

   Mr. Whaley-Smith noted that the County allocated $15 million of American Rescue Plan Act (ARPA) funding towards affordable housing; $12 million of which was directed towards the suburbs. He stated that the Community Development Alliance partnered with the County to issue a rolling Request For Proposals to utilize those funds. After four rounds of review, a notice of intent has been issued to award the full amount to five different projects in the county. Those projects will be in locations such as Brown Deer, Wauwatosa, Greenfield and South Milwaukee. He noted that half of the projects are contingent upon receiving Low Income Housing Tax Credits (LIHTCs). If those projects are not successful in their LIHTC applications, about $6 million would become available again in about July 2023.

   Mr. Whaley-Smith provided an overview of the average project that was awarded the County's ARPA funds. He stated that the average project integrated affordable housing at the community level, as opposed to the building level. He explained that integration at the community level involved more affordable units within the building to offset the surrounding area that did not have affordable housing. He referenced an 80% affordable to 20% market rate proportion of units within the building. He noted that this was the biggest differentiation of why most projects were selected.

   Mr. Whaley-Smith pointed out that the average successful project partnered with LIHTC. He noted that LIHTC are a federal tax credit that is awarded from the State through a competitive process every year. He stated that only about one out of every five projects is awarded those credits. He stated that a project in Shorewood would be positioned to score well.

   Mr. Whaley-Smith noted that the average successful project was about four stories with a total of 80 units and that 80% of the units, or about 60 total units, were designated to be affordable. Of the affordable units, about 1/3 of them would each rent at $650, $1,000 and $1,250. He stated that the average development cost per unit was $300,000 and that public subsidy accounted for about $280,000 of that. He noted that LIHTC covered the majority of that subsidy, but that a $40,000 per unit subsidy was also required from a local source, which in this case came from ARPA funds.

Tr. Stokebrand pointed out that Shorewood has two, four-story developments being constructed with approximately 40 units each, and that it does not have larger lots to accommodate the type of development that was awarded. Mr. Whaley-Smith pointed out that buildings could go higher to accommodate more units, which was a local policy decision.

Mr. Whaley-Smith noted that one successful project was an outlier from the averages that were discussed. That project was in Wauwatosa. He noted that it was integrated at the building level, did not utilize LIHTC, was 5 stories with 94 total units and only 20% of those units were to be affordable. He pointed out that the development cost per unit was still about $300,000, but since LIHTCs were not a part of the project, the entire $280,000 local subsidy for each of the affordable units had to come from local sources. He stated that the local subsidy was equally split between TIF and ARPA funds. He noted that this development provided half of its affordable units at $650 per month and the other half at $1,000.

Mr. Whaley-Smith suggested that Shorewood's biggest policy decision would be whether to integrate affordable housing at the building or neighborhood level. At the building level he noted that the buildings typically are larger, only provide 20% affordable units, require a higher level of local subsidy and rely on a smaller pool of developers. He explained that the smaller pool of developers related to Wisconsin's prohibition of inclusionary zoning, which would require developers to include percentages of affordable housing. Without that as an available tool, local developers have not been trained to build that type of project. At the neighborhood level he noted that various-sized buildings can co-exist with a single development that features a higher proportion (80%) of affordable housing but still looks like all the other ones. In this scenario, the development would qualify for LIHTC, which are competitive and add a level of risk, but if awarded, a smaller local subsidy would be required. He stated that more local developers are skilled in this type of project.

Mr. Whaley-Smith noted that community-level integration could also be considered. Rather than focusing on a neighborhood or block level, the entire community could be integrated with a mix of affordable building in various quantities and sizes. The drawback of this model is that it typically requires access to a lot of land, which Shorewood does not have.

Chair Krouse confirmed that all the awarded projects were new construction and asked whether any applications sought to renovate existing buildings. Mr. Whaley-Smith stated that no such applications were received and suggested it had to do with being limited to suburban areas, which typically have less options for renovating large, vacant buildings. Chair Krouse questioned if renovating an existing apartment building was possible. Mr. Whaley-Smith noted that it was possible, but that relocation of existing tenants would be required and problematic.

Mr. Whaley-Smith shared data on Shorewood from the Community Development Alliance's housing dashboard. He cautioned that all figures had a margin of error. The data showed that Shorewood has more renters who can afford units under $650 than units available. He also noted that a gap between household earning and available units existed on the other end of the income perspective, but that likely related to a lack of homeownership opportunities. He pointed out the number of families living in Shorewood who can afford units under $650 has declined by about 500 households (or 1/3rd) in the last 10 years. He stated those households either moved out of the Village or attained higher incomes. Similarly, the number of units renting under $650 decreased by about 500. Chair Krouse questioned if the numbers were adjusted for inflation and was informed that they were not. Chair Krouse shared his understanding that when duplexes turn over to new owners the rent goes up.
Mr. Whaley-Smith noted that homeownership data showed that Shorewood lacked racial equity in both Asian and African American/Black households. He pointed out that white homeownership rates have

remained relatively stable and that Hispanic or Latino homeownership in Shorewood has seen both decreases and increases, likely due to high margins of error. He noted that African American/Black homeownership rates in Shorewood were low to begin with at 18% (compared to 25-30% at the county level) but had also now declined to about 5%.

In terms of possible strategies, Mr. Whaley-Smith encouraged members to consider homeownership opportunities as affordable housing. He noted that higher density options, such as rowhouses or condos could be considered. He also stated that shared equity models, such as land trusts, are options to preserve affordable homeownership in the long-term.

Tr. Ircink questioned if the shared equity model hurt generational wealth. Mr. Whaley-Smith acknowledged that it did, but that it provided the stability of housing. He also said that preserving affordability assisted intergenerational wealth.

Ms. Carpenter stated that she was most interested in building affordable homeownership opportunities. She believed they would fit the community best, but stated that property taxes in Shorewood were a roadblock. Mr. Whaley-Smith pointed out that if the value of the property is deed restricted, it should be assessed and taxed at a lower rate. Ms. Carpenter questioned if this type of project would qualify for LIHTC. Mr. Whaley-Smith noted that LIHTC projects were required to be rented for 15 years, but could transition after that. If the Village controlled land and offered it to a developer through a competitive process, these types of requirements could be built into an agreement. Mr. Whaley-Smith noted that affordable condos could also be developed with “vertical” land.

Mr. Warren asked for additional detail as to why Shorewood was well-positioned for a LIHTC project. Mr. Whaley-Smith noted that the State has made a policy decision to build affordable housing in already-stable communities. The scoring mechanism associated with the competitive applications is manipulated to favor projects that fit those characteristics, such as income and quality of schools.

Mr. Whaley-Smith encouraged members to not lose sight of racial equity in whatever path it chose, understanding that to be one of the initial reasons why this topic was being explored. He suggested that if Shorewood simply built affordable rowhomes, for example, and offered them on a first-come, first-served basis, it may actually increase its racial equity gap. Tr. Ircink questioned how Shorewood could avoid that. Mr. Whaley-Smith stated that there were many tools to consider that fit within the standards of Fair Housing. He suggested that offering the units to first-generation homebuyers was an option, but noted that other options also existed. Tr. Ircink questioned where the future wealth of an affordable row house development would go. Mr. Whaley-Smith stated that if the development were built within a land trust, it would remain within that entity. Mr. Warren stated that deed restrictions didn’t feel great to him, but confirmed that there was flexibility in how that restriction was developed.

Ms. Carpenter questioned if the affordable housing money that has been set aside has a deadline to spend. It was noted that it did not. She suggested that it would be ideal to find a way to make the money go further, and suggested that pairing it with other funds, such as LIHTC would be beneficial. Tr. Stokebrand noted that the CDA and Village Board had already provided direction to pursue a rental offense strategy. Mr. Whaley-Smith pointed out that LIHTCs are associated with rental units. He reiterated that the primary barrier is finding either horizontal or vertical land to develop. He said that Shorewood could not pursue LIHTC as a strategy until it had control of a site. On a conceptual basis, Village Manager Ewald noted that the Village’s current Public Works site would score well on a LIHTC application. She also noted that it would be her recommendation that the CDA extend all its TIDs for the purpose of affordable housing to maximize available funding. She stated that for reasons such as this, TIDs have value as a local tool.

Mr. Whaley-Smith pointed out that Wauwatosa was embarking on a land trust strategy. Village Manager Ewald stated that Shorewood would be watching what they’re creating because it would be easier to pursue that type of strategy together with other partners. Mr. Whaley-Smith stated that scattered site acquisitions could be put into such a trust. Village Manager Ewald noted that Milwaukee County was beginning to consider that with its foreclosed properties and pointed out that they have one such house in Shorewood just south of the Downer Mobil gas station. Tr. Stokebrand questioned if property in a land trust was taken off the tax roll. Mr. Whaley-Smith confirmed that it was not, but that it was taxed at a lower value due to its shared equity restrictions.

Tr. Stokebrand questioned how these options aligned with the rental offense strategy that was already selected. Village Manager Ewald noted that any strategy would likely take time to develop and that we look forward to reconnecting with Milwaukee on staff assistance in attracting Shorewood landlords. Chair Krouse noted that we would likely need to develop a process to incentivize landlords to participate.

Mr. Warren requested that the group debrief on what it just learned at its next meeting. Ms. Carpenter agreed and stated that getting things right was important, even if it took longer to develop. She appreciated learning more about these different options. Tr. Ircink stated that the Public Works site offered huge potential and that the Village may need to have funds available to make that work. He wanted to further evaluate possibilities on that site.

4. Review of Three Leaf Development Milwaukee County ARPA application – Tom Baade, three Leaf/Catalyst Development.

Tom Baade introduced himself as the developer of the multi-unit housing project currently under construction at the corner of Capitol and Stowell. He noted the project was originally conceived with an affordable component, but that they were unable to make it work. He noted that they recently put in an application to utilize Milwaukee County's ARPA funds to make some of the units affordable, but that application was unsuccessful. He stated that the project was going to proceed with market rate units built to Shorewood standards.

Mr. Baade provided an overview of their unsuccessful application in relation to the average project that Mr. Whaley-Smith discussed in the previous agenda item. He stated that their request amounted to about $500,000 per unit in subsidy to make affordable units work in the development. He noted that the application offered affordable rental units for 30 years at $650 a month. He stated that they asked for 2 units to be funded with ARPA funds and that they were going to ask that the Village fund an additional 4 units with its TID extension funds. With that formula, 6 units would've been funded with a total of $3 million in subsidy, leaving the other 33 units to cover the debt of the remaining development.

Chair Krouse asked Mr. Baade to discuss what he meant by Shorewood standards. He noted that the community may need to understand the difference between what it wants built and what can be built affordably. Mr. Baade said there were two components to the answer. One related to the market of what people who want to live in Shorewood expect. He said that drives up the cost of finish materials, the common areas and the amenities, including enclosed parking. He also noted that land cost comes at a premium in Shorewood. The second part of his answer related to architectural detailing, such as the amount of brick on the façade and things like recessed balconies.

Mr. Baade pointed out that small scale developments are difficult to make work from an affordable housing financing standpoint. He believed that developments of 100 units were more typical. He also noted that being able to finance affordable projects with sources that did not involve private financing was critical.

Ms. Dawson questioned if Three Leaf applied for LIHTC for this project. Mr. Baade stated that they did not because they believed the project was too small to compete within the competitive process. He noted that the non-competitive credits did not work for this project either.

Mr. Baade provided an overview of how the tax credit works from the developer's perspective. He noted that the State awards tax credits to qualifying developments. In turn, developers sell those tax credits to investors who are required to invest money into the community, such as a bank or insurance company. For example, he stated that if a project was awarded $10 million in tax credits they could be sold at 85 cents on the dollar amounting to $8.5 million in equity to finance the development and offset the lost revenue of the affordable units. He said the whole process typically takes a year or two to be put together. Mr. Whaley-Smith suggested that for all intents and purposes the tax credits work like a grant and are the most powerful resource available to build affordable housing, which is why it's so competitive. He pointed out that the non-competitive tax credits contribute less money to the deal and that developers have to pick up those expenses through rent payments, which limits their effectiveness in providing affordable units.

5. Consider receipt of annual update to the Village of Shorewood Housing Availability Report.

Ms. Carpenter motioned to accept receipt of the annual update to the Village of Shorewood Housing Availability Report; seconded by Mr. Warren. Vote 6-0.

6. Adjournment.

Ms. Dawson motioned to adjourn the meeting at 10:43 am; seconded by Tr. Ircink. Vote 6-0.

Respectfully submitted,

Bart Griepentrog

Bart Griepentrog, AICP
Planning & Development Director