



# MEMORANDUM

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“...meeting community needs...enhancing quality of life.”

TO: Community and Economic Development Committee  
FROM: Laura Bonnet, Housing Coordinator  
DATE: September 19, 2013  
RE: Elimination of the Rental Rehabilitation Loan Program

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The City of Appleton has operated the Rental Rehabilitation Loan Program since 1985 using a combination of Community Development Block Grants (CDBG) and HOME Rental Rehabilitation Funds. Since its inception, the Program has rehabbed over 100 rental properties in the City of Appleton and has generated approximately \$650,000 in outstanding loans.

Financial assistance is provided in the form of a 0% interest, deferred payment loan. The City places a lien on the property for the amount being spent on the rehabilitation, and the owner pays the loan back when the property is sold or vacated. When loans are repaid, the City recycles the Program Income into a revolving loan fund so that the funds can be re-used on new loans through the program.

In recent years, both funding sources for the Program (CDBG and HOME) have been reduced on a federal level. The Program operated on Program Income for several years. However, that source of funds is currently now depleted. The City is faced with the option of either eliminating the program or utilizing its CDBG funds (which become more competitive as that pool of funds decreases) in order to maintain the program.

The Community and Economic Development Department is proposing to eliminate the Rental Rehabilitation Loan Program for the following reasons:

- The Program is increasingly becoming more time consuming and has no administration dollars coming in. Even when Program Income fully funded the program, the funds that were allowed to be utilized for administration did not sufficiently cover the time to administer the program. In a typical year, administration dollars funded approximately 50% of the actual cost of managing the program, with the Homeowner Rehabilitation Program subsidizing the remainder of the program administration.
- The majority of the rehabilitated units have been referrals from other departments (primarily Health and Inspections). The properties are often owned by property owners who prefer not to fix the property up but are being forced to in order to correct code violations, lead paint hazards, or other problems with the property. Landlords (or tenants) who are not voluntarily applying for the program are often less interested in cooperating with the program requirements. This makes program management more difficult.
- Due to the lack of funds, there is a waiting list of 3-5 years for the program with 20 properties on the list. At one time, the waiting list had over 100 properties on it. The waiting list was closed in

April, 2012 due to the fact that it was continuously revolving with the same properties. What this means is that a property owner at the top of the list would be contacted to let him/her know there were funds available to rehabilitate the property. Many of the property owners would decide they weren't ready yet but wanted to remain on the waiting list. Those properties would then be added to the bottom of the waiting list. On average, the Housing Coordinator would contact 5 property owners in order to find one that was ready to be rehabilitated. Typically 3 of the 4 other property owners would ask to be put back on the list within a month of coming off the list. The revolving waiting list was a drain on staff time so it was closed.

- Due to the funding requirements that units remain affordable to low-income tenants for the first five years of the loan, there is additional (unfunded) program administration on each unit for those five years. Again, this can be time-consuming when the property owner may have been reluctant to fix the property to begin with. Once the loan is provided and the rehabilitation is complete, it is difficult to get the reluctant property owners to comply with the affordability requirements.
- Other Programs in the City also serve low-income residents using the same sources of funding. In order to not duplicate services or compete with these other programs for diminishing funding, the City would prefer to eliminate its program.
- The Program typically rehabilitates 5-10 housing units per year (average: 7). This does not seem to have a significant impact on the City as a whole.
- Although neither the Homeowner nor the Rental Rehabilitation Program has experienced a significant loss from foreclosure, there is a greater risk of losing our funds due to foreclosure on rental properties than there is on owner-occupied properties.
- The Housing Coordinator has contacted other departments that work closely with the housing rehabilitation programs (most importantly, Health and Inspections, although Police and Fire were also contacted). These other departments said that the elimination of the Rental Rehabilitation Program would not have a significant effect on those departments or the customers they work with.
- The Housing Coordinator has contacted other housing providers through the Fox Cities Housing Coalition, some of which work closely with the housing rehabilitation programs. These other programs said that the elimination of the Rental Rehabilitation Program would not have a significant effect on low-income renters since several programs already serve that population.

After careful consideration, the Community and Economic Development Department has determined that staff and monetary resources could be more efficiently spent on the Homeowner Rehabilitation Program where there is a higher need and demand for the program, a greater impact on the City as a whole, a higher rate of compliance with the program requirements from property owners, and a reduced risk of losing revenue from foreclosure. Any future program income from the Rental Rehabilitation Loan Program would be used in the Homeowner Rehabilitation Loan Program (upon approval from the State of Wisconsin Division of Housing).

#### **RECOMMENDATION:**

The Committee approve the recommendation to eliminate the Rental Rehabilitation Loan Program and move future program income to the Homeowner Rehabilitation Loan Program.