



**NOTICE AND AGENDA**

**Beloit City Council**

Special Meeting

Monday, August 22, 2011

5:30 p.m.

City Hall Forum

City Hall – 100 State Street

Beloit, WI 53511

CALL OF MEETING OF CITY OF BELOIT COUNCIL  
CITY OF BELOIT, WISCONSIN

**NOTICE IS HEREBY GIVEN** that in accordance with Section 2.02(3) of City Code a Special Meeting of the City Council of the City of Beloit, Rock County, Wisconsin, is being called.

1. Roll call.
2. Resolution authorizing **Participation in Trail Connection Studies** Currently Underway (Arft)
3. Resolution authorizing the City Manager to enter into a Contract with Wisconsin Counties Association Group Health Trust/UMR and the Employer Health Care Alliance Cooperative, to provide Third Party Administrator Services and preferred provider Networks for the **City's Group Health Insurance** (York)
4. Resolution confirming Financing Commitments for **Phase 2 of the Redevelopment of 66 Public Housing Units** (Christensen)
5. Motion to adjourn.

Larry N. Arft, City Manager

Dated: August 18, 2011  
Rebecca S. Houseman  
City Clerk

\*\*Please note that, upon reasonable notice, at least 24 hours in advance, efforts will be made to accommodate the needs of disabled individuals through appropriate aids and services. For additional information to request this service, please contact the City Clerk's Office at 364-6680, 100 State Street, Beloit, WI 53511

**RESOLUTION  
AUTHORIZING PARTICIPATION IN  
TRAIL CONNECTION STUDIES CURRENTLY UNDERWAY**

**WHEREAS**, the City has been contacted by Beloit 2020 and requested to participate in the cost of a planning study anticipated to address a number of issues related primarily to South Beloit's planned upgrades with a portion of the study focusing on pedestrian/bicycle trail connections across the Stateline and between the two cities; and

**WHEREAS**, the City has also been contacted by a representative of the Rock County Trail Coalition requesting participation in a planning study looking at making a connection from the proposed terminus of the expanded Janesville pedestrian/bicycle trail running south, generally paralleling County Route D, to extend that off-road trail at least to Big Hills Park and possibly a routing along the west bank of the river, connecting to the north end of the City's existing trail system along Shore Drive; and

**WHEREAS**, the City is desirous of participating in these planning initiatives to further enhance the quality of life by providing pedestrian/bicycle trail connections running both north and south of the City; and

**WHEREAS**, in 2009 the City included in its opted budget an allocation of \$65,000 for park master planning services; and

**WHEREAS**, following receipt of competitive proposals, the planning study ended up costing considerably less than originally projected and funds are remaining in that planning account.

**NOW, THEREFORE, BE IT RESOLVED**, that the City Council of the City of Beloit authorizes the City Manager to participate along with other parties in the two proposed planning studies regarding connection of existing pedestrian/bicycle trails to regional systems both north and south of the City, not to exceed \$35,000, utilizing the existing appropriation for park planning services included in account #P2910122-5240-2009 as part of the 2009 Capital Budget.

Adopted this 22<sup>nd</sup> day of August, 2011.

\_\_\_\_\_  
Kevin D. Leavy, Council President

**ATTEST:**

\_\_\_\_\_  
Rebecca S. Houseman, City Clerk

**RESOLUTION AUTHORIZING THE  
CITY MANAGER TO ENTER INTO A CONTRACT  
WITH THE WISCONSIN COUNTIES ASSOCIATION GROUP HEALTH TRUST/UMR  
AND THE EMPLOYER HEALTH CARE ALLIANCE COOPERATIVE,  
TO PROVIDE THIRD PARTY ADMINISTRATOR  
SERVICES AND PREFERRED PROVIDER NETWORKS FOR  
THE CITY'S GROUP HEALTH INSURANCE PROGRAM**

**WHEREAS**, the City provides a comprehensive group health and dental benefits program for its employees, retirees and their dependents; and

**WHEREAS**, in recent years the City has realized significant cost increases in the administration of its group health and dental benefits program because of increased utilization among the plan participants, combined with more and more out-of-network claims, resulting in the City expending additional time exploring potential cost saving alternatives; and

**WHEREAS**, the Horton Group, the City's long standing benefits insurance consultant suggested that the City initiate a formal Request for Proposal process to determine if more advantageous options for both the administration of the program and the preferred provider networks might be available; and

**WHEREAS**, the City authorized a Request for Proposal, which was dated May 2, 2011 and distributed to numerous Third Party Administrators (TPA's), as well as insurance companies and provider networks; and

**WHEREAS**, the City received proposals from eight different companies, representing a broad cross section of the available market place; and

**WHEREAS**, following an analysis of all proposals, four firms were selected for interview; and

**WHEREAS**, on June 22, 2011, formal interviews were scheduled before a group of City employees representing the City's management team, the Division of Human Resources, and all of the City's collective bargaining units; and

**WHEREAS**, subsequent to those proposals, the City selected two finalists: the Wisconsin Counties Association GHT/UMR and Humana, and, along with our incumbent provider, First Choice Benefits Management, scheduled all three for interviews which were held on Monday, July 11, 2011 before the same interview panel with the addition of the City Manager; and

**WHEREAS**, subsequent discussion by the interview panel and evaluation by the City's consultant led to a recommendation that the City enter into a contractual arrangement with the Wisconsin Counties Association GHT/UMR to provide Third Party Administrator services for the City's group health and dental benefits program, which would be affiliated with the Employer Health Care Alliance Cooperative (Alliance) for the City's local network, with a "wrap" to provide in-network negotiated pricing in virtually every area of the United States; and

**WHEREAS**, this recommendation was presented to the Beloit City Council at a workshop, also held on Monday, July 11, 2011; and

**WHEREAS**, the City Council concurs and finds that it is in the best interest of the City to engage the services of the Wisconsin Counties Association GHT/UMR along with the Alliance Network to provide overall administration of the City's group health insurance program effective October 1, 2011, or as soon thereafter as practicable.

**NOW, THEREFORE, BE IT RESOLVED** that the City Council of the City of Beloit hereby authorizes and directs the City Manager to enter into the necessary contractual relationships with the Wisconsin Counties Association GHT/UMR, along with the Alliance Network, and a national "wrap" network approved by the Horton Group per the terms and conditions of the written proposal dated May 18, 2011 and the attached summary and recommendation prepared by the Horton Group, to provide third party administrator and preferred provider network services for the City's group health insurance program effective October 1, 2011 or as soon thereafter as practicable and to take the necessary steps to implement and administer the new administrative and preferred provider relationships.

Adopted this 22<sup>nd</sup> day of August, 2011.

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Kevin D. Leavy, Council President

**ATTEST:**

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Rebecca S. Houseman, City Clerk



August 16, 2011

## Executive Summary and Final Recommendation

Prepared for:

**City of Beloit**

Presented by:  
Rae Anne Beaudry, Executive Vice President, HBS Division  
**The Horton Group**

## **Initial Report for Request for Proposal**

The City of Beloit engaged The Horton Group to release a Request for Proposal (RFP) to the marketplace in order to review all available vendor options for administration of health insurance plans and claims management. The Request for Proposal (RFP) released was for Third Party Administration (TPA) services for medical and dental claims management. The marketplace and the recommendations by service are outlined below.

### **Medical Administration Services Marketing Overview**

The Southeastern Wisconsin medical plan marketplace is somewhat limited in the quantity of Third Party Administrators available. The RFP was released to 13 TPA's on May 2nd. We received quotes from eight administrators, three declines and two of the TPA's did not respond.

The Horton Group and the City of Beloit met on June 2 to review the initial report regarding the Request for Proposal for TPA Services for Medical Benefits. Prescription Drugs and Stop Loss were not part of this initial RFP process. At this meeting it was determined that The Horton Group would invite the following carriers and third party administrators in for Finalist Interviews. The carriers invited were:

1. Anthem Blue Cross Blue Shield
2. Humana
3. Prairie States
4. WCA/Group Health Trust/UMR

These finalists were chosen for their ability to administer current benefit designs, the provider networks proposed and the savings associated with these networks and the overall responses to the RFP.

On June 22 the finalists met with representatives from the City of Beloit Management, The Horton Group, and representatives from the, Fire, Police, Clerical and Public Works Unions.

The finalists were each given a 1½ hour time period to make a formal presentation on their response to the RFP. The first ½ hour was to provide an overview of their proposal with the last hour devoted to questions and answers. The finalists were to be prepared to discuss in detail any benefit deviations, their networks and the costs associated with both their discounts and administrative services.

As a result of these preliminary interviews, it was decided to have a final interview to determine the recommended vendor for TPA services. On July 11 final interviews were held with Humana, WCA/GHT/UMR and the incumbent First Choice.

Humana and WCA were instructed to bring the staff that would be working with the City on a day-to-day basis and First Choice was asked to be prepared to discuss the administrative issues that have been a problem over the past few years as well as the remedies that have been implemented to resolve these issues.

### **Final Recommendation**

All vendors presenting a Response to the RFP are very capable of providing Third Party Administrator Services for the city. However, based on the proposals submitted, the

interviews conducted and the flexibility of plan designs, cost, network savings and a unique ability to provide a fully funded plan option and rates for the City's consideration, The Horton Group recommended the City consider a transition to WCA/GHT on October 1, 2011.

However, should the City remain Self-Funded this move would provide a guaranteed stop loss policy; the network would provide additional discount opportunities and a reduced stop loss rate because of their contracts and name recognition.

Dental claims administration could also be housed there.

Horton provided an alternate recommendation if the City were to fully fund the medical plan due to cost, savings and budget stability. If this were to occur, Horton would recommend a move to Humana for the dental plan. The City could look at a two (2) year fully funded dental proposal, utilizing the Humana national network and could also offer, on a package savings basis, a voluntary vision proposal. Voluntary vision would only require ten (10) employees to enroll, but would result in additional savings to the City.

### **Final Decision** **WCA/GHT/UMR**

It is the intent of the City of Beloit to enter into a contract with the Wisconsin Counties Association, Group Health Trust with administration through UMR, a wholly owned subsidiary of United Healthcare. This contract would be based on the their initial response to the Request For Proposal (RFP) submitted to The Horton Group on 5/20/2011 as well as their subsequent responses to questions related to the RFP.

WCA offers a Rock County concentric network, The Alliance, as well as a national and statewide network through Choice Plus (A United Health Care national network). The City of Beloit would become an owner member with the Alliance. The Alliance provided a claims repricing report which shows approximately \$1,480,000 in savings available to the City through additional discounting. They have the ability to interface with our current Pharmacy Benefit Manager, Serve You and our Stop Loss carrier, SLG Benefits. They have also guaranteed stop loss coverage will be available to the City.

The City would be a member of a Wisconsin Statewide Consortium for local government employees only.

Fixed fees are at 5% of expected budget numbers and lower than those provided by Humana. Additionally, as previously stated WCA can match and adjudicate claims for all of the City's active and retiree health programs. They can work within a very short time frame for implementation and we would have few transition issues.

The administrative fees including utilization review and large case management are \$19.15 per employee per month, slightly less than the \$19.90 proposed by the incumbent. Additionally, we have the option of purchasing Disease Management for an additional \$4.00 per employee per month.

Although there are additional fees associated with the medical trust and the new network, the estimated savings to the City of Beloit including provider discounts is \$1,237,879. The estimated renewal costs with the changes in TPA's and the increase in 2012 Stop Loss costs are approximately 6% less than was originally projected. This equates to an overall plan savings of \$443,000 for the City.

**EMPLOYER HEALTH CARE ALLIANCE COOPERATIVE  
COOPERATIVE MEMBERSHIP  
STOCK SUBSCRIPTION AND ACCESS AGREEMENT**

THIS AGREEMENT is made by and between the undersigned member (the “Member”), lawfully doing business in the State of Wisconsin, and THE EMPLOYER HEALTH CARE ALLIANCE COOPERATIVE, a cooperative corporation organized under the laws of the State of Wisconsin pursuant to Chapter 185 of the Wisconsin Statutes (“The Alliance” or the “Cooperative”).

**RECITALS**

- A. The Member sponsors a health plan that provides health insurance benefits to those employees, beneficiaries and their dependents who qualify for participation in the health plan.
- B. The Alliance provides services to its cooperative members designed to manage health care costs and improve the affordability, effectiveness and efficiency of health care in the community.
- C. The Member desires to become a member of the cooperative and participate in the manner described in this Agreement.

**AGREEMENTS**

In consideration of the Recitals and the mutual agreements that follow, the parties agree as follows:

**1. Payments.**

(a) **Access and Subscription Fees.** The Member shall make the following payments to the Cooperative:

- (i) **Access Fee.** A monthly access fee of \$1.00 per employee subject to enrollment, but no less than \$50 per month (“Access Fee”).
- (ii) **Retainage Fee.** A monthly fee of 4.3% of savings, capped at \$12.75 per employee per month using an annual basis of enrollment (“Retainage Fee”).
- (iii) **Membership Stock.** Subscription for one share of membership stock with par value of \$10 (“Membership Stock Subscription Fee”).
- (iv) **Capital Equity Stock.** Subscription for one share of capital stock of the Cooperative per enrolled employee, each share having par value of \$10, that is \_\_\_\_\_ shares having a total par value of \$\_\_\_\_\_; subject to a minimum of 25 shares or \$250 for members with 25 or fewer enrolled employees and a minimum of \$500 for members with 50 or fewer enrolled employees (“Equity Subscription Fee”).
- (v) **Amendment.** The fees described in this section 1(a) are subject to change at the Cooperative’s discretion.

**(b) Payments.**

- i) The Member shall remit the Membership Stock Subscription Fee and Equity Subscription Fee within 30 days of the Effective Date of this Agreement. Upon acceptance, in its sole discretion, of this Agreement and receipt of all payments described herein by the Cooperative, the Cooperative shall record the Member’s subscribed membership and capital interest in the Cooperative and shall issue appropriate certificates of the Member’s membership and capital interests.
- (ii) The Access Fee and Retainage Fee monthly invoice shall be due and payable in full within 30 days. As described in The Alliance Employer Administrative Handbook (the “Handbook”), the Cooperative may, in its sole discretion, suspend or terminate the Member’s membership, including this Agreement and all exhibits hereto, if the Access Fee and Retainage Fee have not been received by The Alliance when due.



2. **Term.** The term of this Agreement and the first month of The Alliance's services as described in the Handbook shall commence on \_\_\_\_\_, 201\_\_ the ("Effective Date") and shall continue for an initial term of 12 months, renewing thereafter for consecutive annual terms unless written notice of termination is received by the Cooperative not less than 30 days nor more than 60 days prior to the anniversary of the Effective Date or earlier terminated pursuant to the Handbook or applicable law.

3. **Obligations and Agreements.** The Member's membership in the Cooperative and access to The Alliance services are subject to all policies, rules and requirements of the Cooperative, as amended from time to time, including, but not limited to, those contained in the Handbook, which is incorporated by reference, attached hereto as Exhibit A and amended from time to time. The Member and the Cooperative agree to abide by the terms and conditions set forth in the Handbook, including Cooperative's Articles and Bylaws, and all other restrictions as may be provided by law.

This document has been prepared by the Cooperative proceeding in good faith pursuant to Chapter 185 of the Wisconsin Statutes and, upon acceptance, is binding upon the Cooperative. However, this Agreement is not presented as a solicitation of membership nor as an offer to sell shares in the Cooperative and the Cooperative reserves the rights not to approve any membership application and not to accept any tendered subscription agreement or enrollment in its exclusive discretion. Section 551.22(12) of the Wisconsin Statutes provides that the securities of a cooperative corporation organized under Chapter 185 are exempt from registration with the Wisconsin Commissioner of Securities.

Agreed and signed this \_\_\_\_ day of \_\_\_\_\_, 201\_\_.

Member: \_\_\_\_\_

Federal Employer I.D. No: \_\_\_\_\_

Contact Name: \_\_\_\_\_

Title: \_\_\_\_\_

Phone Number: \_\_\_\_\_

Number of Employees Subject to Initial Access: \_\_\_\_\_

**\*Authorized Signature:** \_\_\_\_\_

Health Plan: \_\_\_\_\_

**\*Authorized Signature:** \_\_\_\_\_

\* \* \*

Accepted by the Cooperative this \_\_\_\_ day of \_\_\_\_\_, 201\_\_.

For the Cooperative  
Authorized Director: \_\_\_\_\_  
Cheryl A. DeMars, CEO

**\*Two signatures are required, one on behalf of the employer, and one on behalf of the health plan. Both signatures can be the same.**

# WCA GROUP HEALTH TRUST AFFILIATION AGREEMENT

This agreement is made on October 1st, 2011, by WCA Group Health Trust ("Trust") and the City of Beloit, a Wisconsin municipal corporation ("City").

WHEREAS, the Wisconsin Counties Association, by a Trust Agreement, has created the Trust;

WHEREAS, the City has created one or more Plans to provide benefits to Employees of the City and allowing the City to obtain benefits for its Employees; and

WHEREAS, the City is a non-member of the Wisconsin Counties Association and seeks to provide to its Employees various employee benefits under one or more of the Plans; and

WHEREAS, the City wishes to become affiliated with the Trust under the terms of this Affiliation Agreement;

THEREFORE, IT IS HEREBY AGREED:

1. *Definitions.* As used in this Agreement:
  - a. "Plan" means a self-funded employee health and welfare benefit plan (including any schedules, attachments, and amendments) created by the City and administered by the City.
  - b. "Employee" means an individual participating in a Plan who is an active employee of the City, a retired employee of the City, a former employee of the City who is eligible for continuation of coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) or section 632.897, Wisconsin Statutes, or an employee on leave under the Family and Medical Leave Act of 1993 or section 103.10, Wisconsin Statutes, all as amended from time to time.
  - c. "Trust Board" means board of trustees of the Trust.
  - d. "Month" means calendar month.
2. *Affiliation.* The City shall be affiliated with the Trust on the terms stated in this Agreement. The City shall provide one or more Plans, which, as amended from time to time, shall be administered as provided in this Agreement. The City shall not be participating in the Trust, within the meaning of the Trust Agreement, unless separately agreed in writing by the City and the Trust.

3. *Fees and Costs.* The City or its Employees shall contribute to the City all fees, costs, contributions, and other payments which the City or its Employees are required to pay according to the terms of the Plans.
4. *Obligations of City and Employees.*
  - a. The City shall pay the Trust a fee of \$3.00 per Employee per Month. Fees for a Month shall be payable on the 1st day of the Month. Fees shall be payable for any Employee enrolled in a Plan on the first day of the Month or enrolling in a Plan between the first and fifteenth day of the Month. If an Employee enrolls in a Plan after the fifteenth day of any Month, no fee for that Employee shall be payable until the following Month.
  - b. The City shall enter into an agreement with UMR, selected by the City, for the administration of its Plans. The provisions of the agreement setting the fees payable to UMR shall be approved in advance by the Trust. The Trust shall not be a party to the agreement between the City and the third-party administrator. The Trust shall not have any responsibility for administration of the Plans or for determination or payment of claims.
  - c. The City shall assure that the Plans are properly self-funded. The Trust shall not have any responsibility for the funding of the Plans.
  - d. The City shall fully disclose to its Employees that the Plans are self-funded by the City and are not insured.
  - e. The City shall not use the Trust's name in connection with the Plans without the prior written approval of the Trust in each instance.
  - f. The City and its Employees shall comply fully with all provisions of the Plans which impose an obligation on the City and its Employees.

***Obligations of the Trust.***

- a. The Trust shall arrange for the City to be provided with stop loss coverage for its Plans issued by an insurer selected and placed by the Trust. The Trust shall pay the premiums for the stop loss insurance. The insurance coverage shall be provided solely from the stop loss insurer to the City. The Trust shall not be liable to the City for any claims.

- b. The Trust shall provide utilization management services to the City through a utilization management provider selected by the City. The Trust shall pay the fees of the utilization management provider. The utilization management services shall be provided by the utilization management provider to the City. The Trust shall not be liable to the City for any negligence, error, or omission of the utilization management provider.
  - c. The Trust shall comply fully with all provisions of the Trust Agreement which impose an obligation on the Trust.
  - d. The Trust shall pay the fees of the third party administrator selected by the City, as provided in the agreement between the City and UMR.
5. *Operating Parameters.* Participation in a Plan shall be offered to all Employees in eligible classes as defined in the Plans.
  6. *Term of this Agreement.* The term of this Agreement shall be from October 1, 2011 through September 30, 2012.
  7. *Termination.* The Trust may terminate this Agreement at any time if the City fails to pay any fees when due or breaches any other obligation of this Agreement.
  8. *Entire Agreement.* The Trust Agreement, this Affiliation Agreement, and the Plans incorporated in this Affiliation Agreement constitute the entire agreement among the parties and supersede all prior agreements and negotiations concerning the same subject.
  9. *Severability.* If any part of this Affiliation Agreement is invalid, the rest of this Affiliation Agreement shall remain in effect.

CITY OF BELOIT

WCA GROUP HEALTH TRUST

BY \_\_\_\_\_  
(Signature)

BY \_\_\_\_\_  
(Signature)

NAME \_\_\_\_\_  
Print or Type

NAME \_\_\_\_\_  
Print or Type

TITLE \_\_\_\_\_  
Print or Type

TITLE \_\_\_\_\_  
Print or Type

DATE \_\_\_\_\_, 2011

DATE \_\_\_\_\_, 2011

**RESOLUTION CONFIRMING FINANCING COMMITMENTS FOR PHASE 2 OF THE  
REDEVELOPMENT OF 66 PUBLIC HOUSING UNITS (“PROJECT”)**

**WHEREAS**, the Community Development Authority of the City of Beloit, Wisconsin (the “CDA”) has identified the need to renovate and upgrade its public housing stock and has developed a concept and financing plan to oversee, manage and finance this Project; and

**WHEREAS**, the City Council of the City of Beloit (the “City Council”) has endorsed this Project and the concept by resolution on March 15, 2010 and has agreed to guaranty certain short-term obligations of Beloit Apartments Redevelopment-Phase 2, LLC, the borrower of a construction loan in the approximate of \$8,300,000.00 from Wisconsin Community Bank, by resolution on March 7, 2011; and

**WHEREAS**, the City Council agrees to further assist the CDA by authorizing three recoverable grants of varying amounts and terms and an operating guaranty as follows. The three recoverable grants are assumed to be infused in the fourth quarter of 2012.

- A \$540,000 recoverable grant advance representing the value of the nine single family homes that will eventually be sold. Repayment of this advance will be repaid from a combination of (i) the market sale of nine existing single family homes currently owned by the CDA; (ii) available cash flow from the CDA real estate portfolio; and (iii) HUD Capital Grant Funds.
- A \$600,000 recoverable grant advance representing a portion of the previously assumed \$830,000 HUD Capital Funds Financing Program proceeds. Repayment of this advance will come from CDA cash reserves available after final tax credit equity payments at conclusion of construction and final approval by WHEDA of development occupancy and cost documents.
- A \$230,000 recoverable grant advance representing the remaining portion of the previously assumed \$830,000 HUD Capital Funds Financing Program proceeds. Repayment of this advance will be repaid from a combination of (i) the market sale of nine existing single family homes currently owned by the CDA; (ii) available cash flow from the CDA real estate portfolio; and (iii) HUD Capital Grant Funds.
- Provide a limited operating guaranty to the Project investor in an amount not to exceed \$280,000.00 for the full term of the tax-credit compliance period (the “Operating Guaranty”).

**NOW, THEREFORE, BE IT RESOLVED THAT**, the City Council of the City of Beloit does hereby reaffirm support for this Project, including specifically by authorizing the Recoverable Grant and the Operating Guaranty and authorizes the City Manager to execute the necessary documents consistent with this plan.

Adopted this 22<sup>nd</sup> day of August, 2011

\_\_\_\_\_  
Kevin D. Leavy, Council President

ATTEST:

\_\_\_\_\_  
Rebecca S. Houseman, City Clerk

# CITY OF BELOIT

## REPORT TO THE COMMUNITY DEVELOPMENT AUTHORITY

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**Topic:** Consideration of a resolution confirming the financing commitments for Phase 2 of the redevelopment of 66 public housing units

**Date:** August 22, 2011

**Presenter:** Julie Christensen – Executive Director

**Department:** Community Development Authority

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### **Overview/Background Information:**

The Housing Authority is responsible for providing decent, safe, and sanitary affordable housing for residents of the City of Beloit. The Authority manages 131 units, many of which were constructed 30 or more years ago. A recent needs assessment identified significant capital investment was needed to upgrade interiors and mechanical systems to provide for more energy efficient and modern units. The Housing Authority relies on Federal support from the Department of Housing and Urban Development to fund public housing modernization programs. These funds have not been sufficient to implement a comprehensive redevelopment/renovation program to meet the Authority's projected needs.

The Authority authorized the hiring of Dimension Development to formulate a proposal which would utilize HUD modernization funds and other sources to produce a comprehensive modernization plan for existing units in existing locations. The majority of the funding for the renovations would come from Low Income Housing tax credits allocated by the State of Wisconsin through the Wisconsin Housing and Economic Development Authority. Phase 1 of the redevelopment, which includes 65 of the public units, is mostly complete. Phase 2, which includes the remaining 66 units, would begin in early fall, if the resolution is approved.

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### **Key Issues (maximum of 5):**

1. Phase 2 includes the reconstruction of Parker Bluff (the 41 units located at 220 Portland Avenue), the construction of nine townhomes on property located at 840 Fifth Street, and the rehabilitation of 16 single family public housing units scattered throughout the city.
2. On March 15, 2010, the City Council endorsed this project and the concept and agreed to guaranty certain short-term obligations of the LLC created for this project and the Wisconsin Community Bank construction loan in the amount of \$8.3 million.
3. This project was planned to be completed using the following sources of funds: WHEDA Low Income Housing Tax Credits in the amount of \$9,436,984; Affordable Housing Program funds from the Federal Home Loan Bank in the amount of \$256,500; \$830,000 in Capital Fund Financing (CFFP) Program funds; and \$540,000 from the sales proceeds from selling the 9 houses.
4. In the past few months, a few issues have arisen with regard to the financing. First, the \$540,000 from the sales proceeds for selling the 9 houses seems rather unlikely given the current housing market. We have developed an alternative plan to retain those homes for now and pursue project-based Section 8 vouchers with HUD and/or rent those units and make them available to the current Section 8 voucher holders. When the housing market turns, we would then re-evaluate whether to sell them. In the interim, the Housing Authority would receive rental income from the nine units.
5. The second issue that has arisen is the use of Capital Fund Financing Program funds. These funds were to be repaid with future Capital Fund Program (CFP) funds. The Department of Housing and Urban Development has reduced the BHA's capital funds by 20 percent. There is a concern that we might not be able to pay back this financing. HUD has already reduced their commitment to CFFP funding for this project from the \$830,000 in the budget to \$600,000. Consequently, we are proposing to come up with \$600,000 of the \$830,000 through

developer fees that will be received by the BHA at the end of the project and the remaining \$230,000 through alternative financing.

6. The two alternatives for the problems that have arisen leave the project with a shortfall in funds in the early stages. Therefore, we are requesting the City provide a recoverable grant to the CDA for the short-term financial shortfalls. These are presented in the attached resolution. It is the intention of the CDA to continue to work obtain financing so that the City would not have to contribute any funds to this project, but in order to close on the tax credits and satisfy the equity investor, we are requesting the City's short-term financial support.
7. Tom Landgraf will be at the meeting to answer any questions you may have. Attached to this report two hand-outs prepared by Tom Landgraf. The first outlines some of the issues we are currently experiencing. The second hand-out provides the budgetary changes which have occurred since the project started.
8. The resolution on the agenda for action reaffirms support for the project and authorizes the Recoverable Grant and Operating Guaranty, and authorizes the City Manager to execute the necessary documents consistent with this plan.

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**Conformance to Strategic Plan (List key goals this action would support and briefly discuss its impact on the City's mission.):**

This action conforms to Goal 4 in the Strategic Plan.

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**Sustainability (Briefly comment on the sustainable long term impact of this policy or program related to how it will impact both the built and natural environment utilizing the four following eco-municipality guidelines.):**

- **Reduce dependence upon fossil fuels**

Environmentally friendly "Green" building practices will be incorporated to the extent possible. All appliances and many fixtures will be more energy efficient.

- **Reduce dependence on chemicals and other manufacturing substances that accumulate in nature**

N/A

- **Reduce dependence on activities that harm life sustaining eco-systems**

N/A

- **Meet the hierarchy of present and future human needs fairly and efficiently**

This plan would provide for a more modern and energy efficient living unit for public housing occupants.

**If any of the four criteria are not applicable to your specific policy or program, an N/A should be entered in that space.**

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**Action required/Recommendation:**

Approval of the attached resolution

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**Fiscal Note/Budget Impact:**

This proposal does have a financial impact on the City.

**City Council Briefing Outline  
Phase 2 of Tax Credit Redevelopment**

**Issues**      **Commentary**

- 1      Recent Federal budget deliberations resulted in a 20% reduction in annual HUD Capital Funds (\$203,000 reduced to \$162,000).  
Reduced HUD Capital Funds reduce reserves that could be used to support operating shortfalls.  
The tax credit Investor for Phase 2 is concerned. So is Beloit PHA staff. Therefore, some changes to original funding plans are needed.
- 2      The original funding plans for Phase 2 assumed a City advance of \$540,000, which was to be repaid when nine surplus single family homes were sold.  
The current Housing market begs the question as to when sale could take place, and what the likely net sale proceeds would be.  
If sales are delayed due to market conditions, what would be done with vacant homes? How would the City be repaid? What about carry costs?
- 3      The original funding Sources assumed a "CFFP" loan of \$830,000, to be obtained from a third party lender, for a 20 year term.  
Current HUD underwriting, assuming the 20% funding reduction referenced above, would reduce CFFP loan to \$600,000.  
This GAP of \$230,000 needs to be made up.

**Solutions**      **Commentary**

- 1      Eliminate the planned 20 year long term CFFP borrowing and replace it with a shorter term HUD Recoverable Grant program, funded using annual surplus Capital Funds  
This will reduce the mandatory operating demand on the Capital Funds by roughly \$54,000 annually, giving more operating flexibility to the PHA.  
The PHA could then use the \$54,000 as at least one source of funding for annual repayment of the City Advance.
- 2      Operate the nine homes affordable rentals for larger families, supported with Section 8 Project Based Vouchers, until each home can be sold.  
Net Operating Income from the portfolio is expected to initially be approximately \$50,000 annually.
- 3      Use \$600,000 of PHA Developer Fee, chandelled through the City accounts, to replace the original \$600,000 CFFP long term third party borrowing.  
Initial a new City short term loan of \$230,000 to be repaid using HUD Capital funding and cash flow from the PHA's non Public Housing portfolio.

NOTE: The operating advances of \$540,000, \$600,000, and \$230,000 would be obtained from Forward Community Investments ("FCI") at below market rate terms.

**Summary**      **Commentary**

The above plan eliminates long term third party borrowing until Federal Budget funding amounts can be determined in more certainty.  
Until resale of the nine homes is feasible, the above plan converts the nine single family home portfolio into a short term cash generator, versus a cash drain.  
The above plan allows annual use of surplus PHA Capital funding, which up to this time would not have been possible under HUD Regulations.  
Under the above plan the City and PHA can determine repayment of funds advanced on an internal basis, which coincides with internal operating needs.  
Repayment of the \$600,000 advance is from PHA Developer Fee. Repayment of the \$540,000 is from cash flow, PHA Capital Funds, and property sales.  
Repayment of the \$230,000 is from PHA property cash flows, and surplus Capital funds. This component is, at the end of the day, the largest risk component.  
Based on expected property operations after modineraxation of the entire PHA portfolio, it is anticipated that sufficient surplus HUD Capital funds will materialize in the first four years.



**Summary of Options for Phase 2 Housing Redevelopment**

	<b>Budget as approved</b>	<b>Budget As Adjusted</b>		<b>Budget As Adjusted</b>		<b>Final Budget</b>		<b>Final Budget versus Original Budget</b>		
<b>Sources</b>										
Units	66		66		66		66		66	
Equity Price	\$0.68		\$0.70		\$0.72		\$0.72		\$0.78	\$0.10
Tax Credit Equity	\$8,259,169		\$8,502,085	\$242,916		\$8,745,003	\$242,918		\$7,782,237	\$962,766
HUD CFFP	920,820		800,000	-120,820		800,000	0		800,000	0
WHEDA GAP Funds	728,832		606,736	-122,096		363,818	-242,918		183,576	180,242
CDA GAP Funds	362,732		362,732	0		362,732	0		362,732	0
Sales Proceeds	540,000		540,000	0		540,000	0		540,000	0
AHP Loan - Grant	0		0			0			0	
Capital Lease	1,410,000		1,410,000	0		1,410,000	0		1,410,000	0
Deferred Fees	3,063		3,063	0		3,063	0		3,063	0
									0	0
<b>Total</b>	<b>\$ 12,224,616</b>		12,224,617	0		12,224,616	0		<b>\$11,081,608</b>	<b>\$1,143,008</b>
<b>Uses</b>										
Hard Cost	\$8,079,760		\$8,079,760	\$0		\$8,079,760	0		\$6,936,752	-\$1,143,008
Soft Cost	1,814,956		1,814,956	0		1,814,956	0		1,814,956	0
Reserves	235,000		235,000	0		235,000	0		235,000	0
Acquisition	1,410,000		1,410,000	0		1,410,000	0		1,410,000	0
CDA Developer Fee	684,900		684,900	0		684,900	0		684,900	0
										0
<b>Total</b>	<b>\$12,224,616</b>		\$12,224,616	\$0		\$12,224,616	0		<b>\$11,081,608</b>	<b>-\$1,143,008</b>
									\$12,513,894	\$289,278

## Discussion Items for July 12, 2011 Meeting

### Issues:

Federal budget deliberations are not looking good for Public Housing funding. Some cuts are likely. The thought is perhaps 10 - 20%.

Reduced HUD support means an operating shortfall is likely for both Phase 1 and Phase 2.

Investor for Phase 1 is not able to make modifications to transaction. Investor for Phase 2 is concerned. Some changes will be needed to shore up both phases.

Sale of the nine larger single family homes was always contemplated.

Sale proceeds were to include original City loan of \$540,000, plus holding costs, and any "fix up to sell" costs".

Current Housing market has not improved, which raises questions as to when a sale could take place, and what the likely proceeds would be.

If sale was delayed, what would be done with vacant homes.

Original Sources assumed a "CFFP" loan of \$830,000.

Current HUD underwriting would allow a \$600,000 CFFP loan.

This GAP of \$230,000 needs to be made up.

Small housing authorities are allowed by HUD to use some of their Capital Funding to support operations.

Assuming a worst case scenario, Beloit PHA Capital Fund reliance is as follows:

	Capital Funds (Current)		Capital Funds (2008 Number)		Capital Funds (Reduced by 20%)	
Total Capital Funds	\$	203,033.00	\$	204,788.00	\$	162,426.40
Used for CFFP Debt Service (Note 1)	\$	54,133.00	\$	54,133.00	\$	54,133.00
Used for Phase 1 Replacement Reserve	\$	19,500.00	\$	19,500.00	\$	19,500.00
Used for Phase 1 Operating Expenses	\$	-	\$	-	\$	-
Used for Phase 2 Operating Expenses (Note 2)	\$	33,201.02	\$	33,201.02	\$	33,201.02
Used for Phase 2 Replacement Reserve	\$	19,800.00	\$	19,800.00	\$	19,800.00
<b>Available for Capital Expenditures</b>	<b>\$</b>	<b>76,398.98</b>	<b>\$</b>	<b>78,153.98</b>	<b>\$</b>	<b>35,792.38</b>
Memo: Available funding without CFFP Debt	\$	130,531.98	\$	132,286.98	\$	89,925.38

Note 1: As anticipated, the CFFP loan would come from a third party lender, versus the City, but a City guarantee of the CDA guarantee would be needed.

Note 2: \$20,000 of this amount is due to a change in insurance carriers.

Memo: Phase 1 funded operating reserves	\$306,000
Phase 2 funded operating reserve	\$470,000
Current CDA Operating Reserves	\$250,000

## **Proposed Solutions:**

### **Nine Single Family homes (plus the two bedroom home at Parker Bluff):**

Until the housing market improves, keep the nine homes in the PHA inventory, but outside of the Public Housing Program (to retain flexibility).

Project Base a Section 8 voucher to each home, and leave the voucher in place until the home is sold.

PHA would fill these homes from it's waiting lists. PHA would manage these homes during the "holding period".

Net cash flow (after covering operating expenses and maintenance) would be about \$7,000 per home - per year, or \$70,000 in total).

PHA would use about \$20,000 of net proceeds to fund additional security - remainder is available for CDA use (i.e. about \$50,000 per year).

Retain the two bedroom home at Parker bluff to facilitate control of entire site (e.g. only sell the nine surplus homes).

### **Increase options for use of the PHA Capital Funding:**

Use \$600,000 of CDA developer fee to replace the CFFP loan. This frees up about \$54,000 annually of Capital Funds.

As planned originally, keep \$540,000 advance of home resale in place to be repaid with home sale funds.

Add a short term note of \$230,000 to be repaid using surplus funds from ten - home portfolio, and annual "sweep" of Capital Funding.

Assuming all goes as planned, the \$230,000 could be repaid in two years after stabilization (or three years if a 20% HUD cut became reality).

If Capital Funds are "swept" each year, the CDA - City would need to provide some sort of limited operating guarantee.

The \$600,000, \$540,000 and \$230,000 would be set up as "recoverable grants", not loans. This allows the annual use of Capital Funds to repay all loans.

Recoverable grants are based on available cash flow, so the CDA - City retain the options to direct Capital funds to the highest and best source.

Recoverable Grants can have annual interest payments to keep CDA - City "whole" on use of invested funds.

## **Risks and Opportunities:**

### **Risks:**

HUD budget cuts could be deeper and longer in duration than planned

If some of the Developer fee was deployed in the Phase 2 redevelopment, this would increase the \$230,000 short term City loan.

One or both of the above occurring would extend the repayment of the CDA - City loan.

This is a change from previously assumed financing structure which could extend the approval time at the CDA - City.

### **Opportunities:**

CDA - City retain 100% flexibility to deploy Capital Funding to highest and best use.

Holding cost for nine home sale portfolio is covered.

Operating the nine homes during interium period generates available cash flow of roughly \$70,000 per year.

Using the "Recoverable Grant" concept allows CDA - City to use surplus Capital Funds each year with only Milwaukee HUD Office approval.