

Steve Cramer
Executive Director

Request for City Council Action

Date: January 22, 2002

To: Council Member Lisa Goodman, Community Development Committee
Council Member Barbara Johnson, Ways and Means/Budget Committee

Prepared by Cherre' Palenius, Project Coordinator, Phone 612-673-5241

Approved by Steve Cramer, MCDA Executive Director _____

Subject: Approval of an appropriation in Fund SHW, Home Ownership Works.

Previous Directives: On August 27, 1990 the City Council gave approval of the Minneapolis Neighborhood Housing Recycling program and appropriation of Development Account Funds. On July 29, 1996 the City Council approved use of \$2,000,000 in Development Account funds for the Minneapolis Neighborhood Housing Recycling Program as a revolving line of credit to provide interim construction financing. On September 28, 1999 the City Council approved an appropriation increase in Fund SDA (Development Account) on behalf of the Minneapolis Neighborhood Housing Recycling Program. On August 7, 2000 the Executive Director approved a capital advance of \$3 million from Fund CNR, Neighborhood Revitalization Program (NRP) establishing an internal revolving line of credit to pay for construction financing on MCDA owned properties. On August 14th, 2000 the City Council approved an appropriation in Fund SHW on behalf of the Minneapolis Neighborhood Housing Recycling Program aka Home Ownership Works (HOW).

Neighborhood Group Notification: No Neighborhood notification is required for the requested action. Neighborhoods are notified when development will occur in their neighborhoods.

Consistency with *Building a City That Works*: This activity will increase owner occupied housing, increase the affordability of housing to first-time homebuyers and improve the condition of housing stock.

Comprehensive Plan Compliance: Activities are consistent with the Comprehensive Plan and in conformance with all applicable redevelopment plans.

Zoning Code Compliance: All properties treated under the program comply with residential zoning code regulations.

Impact on MCDA Budget: (Check those that apply)

- No financial impact
 Action requires an appropriation increase to the MCDA Budget
 Action provides increased revenue for appropriation increase
 Action requires use of contingency or reserves
 Other financial impact (Explain):

Living Wage / Business Subsidy: Not applicable for the requested action.

Job Linkage: Not applicable for the requested action.

Affirmative Action Compliance: Not applicable for the requested action.

RECOMMENDATION:

That the City Council amend the 2002 MCDA Appropriation Resolution to establish an appropriation in Fund SHW, Home Ownership Works of \$2,000,000 and establish a revenue budget (3858-Land Sale Proceeds) of \$2,000,000 in Fund SHW.

Background/Supporting Information

The Minneapolis Neighborhood Housing Recycling Program aka Home Ownership Works (HOW), a major component of the Agency's rehab initiatives that produces quality affordable housing for low to moderate-income households, is currently without construction financing. The program is funded through the Development Account, (Fund SDA) and the federal HOME program, (Fund FGO). The Development Account provides funds for property management and marketing expenditures on MCDA-owned HOW properties. HOME funds are primarily available for acquisition, seller, and homebuyer closing costs, second mortgages, real estate taxes, and administrative costs.

Locating a funding source for construction has been a long-term program challenge. During the 2000 budget process a determination was made to eliminate using the Development Account to finance construction repairs and locate another source of financing. This decision was necessitated by dwindling cash reserves and additional project demands for Development Account funds. Agency staff met on numerous occasions to identify a new source of interim construction financing. Each external-financing source discussed would require the City to pledge assets for collateral and pay interest on the outstanding balance. Although the Council previously authorized a capital advance from Fund CNR, (NRP) this advance was not implemented and given the current status of Agency and NRP resources will not occur. Agency staff will continue to search for alternative resources to support this program.

This 2002 appropriation request is support by project revenue from land sale proceeds.

Recent Accomplishments

As mortgage interest rates began to drop in late 1998 and more qualified buyers entered the real estate market, demand for quality affordable properties increased dramatically. Since January 1999, the Agency has been receiving multiple offers for the purchase of

MCDA-owned HOW properties. With this rising demand, staff continued to purchase and receive additional properties from other programs increasing our volume greater than our current allocation for construction financing. Consequently we required an appropriation increase to cover current obligations to continue producing high quality low and moderate homeownership opportunities for the benefit of Minneapolis and its residents. In 1999, the program sold a record 28 renovated properties to new home owners, in 2000 another 22 renovated properties were sold, with an additional 19 properties sold in 2001. Throughout this past year, the market has continued to remain very strong.

Current Property Situation

6	MCDA owned properties in bidding process
7	MCDA owned properties presently under rehab
1	MCDA owned properties under purchase agreement
3	MCDA owned properties ready for marketing
<u>8</u>	Properties identified for acquisition.
25	TOTAL

The sale of these 25 properties represent approximately \$2.8 million in sale proceeds. The construction loans are repaid from sale proceeds, with an average time outstanding for a loan of approximately 9 months. The federal HOME program is to be used to fill any gap when the sale price is less than total development costs. It should be noted that new lead-based paint regulations in effect as of April 15th, 2001, have increased construction costs approximately \$15,000 to \$20,000. Staff has continued working with the Minneapolis Lead Hazard Control office identifying lead hazards on all MCDA-owned rehab projects. In addition, acquisition costs of distressed properties have also substantially increased for properties treated through the program.