



Request for City Council Committee Action from the Department of Community Planning & Economic Development

Date: July 11, 2006

To: Council Member Lisa Goodman, Community Development

Subject: Acquisition of Blighted Properties in the Northside Home Fund Clusters

Recommendation: 1) Authorize the CPED Director to approve development partners for the pilot program described herein; 2) Approve up to \$1,000,000 of CPED Single Family Housing Vacant & Boarded program (CDBG) funds to approved Northside Home Fund development partners for acquisition and demolition activities consistent with the Northside Home Fund cluster program; and 3) Authorize execution of the appropriate documents as described herein.

Previous Directives: On December 23, 2004, the City Council approved guidelines associated with the creation of a Northside Home Fund (NHF) Cluster concept.

Prepared by:

Elfric K. Porte, II, Manager, Single Family Development and Elizabeth Ryan, Director of Housing Policy and Development
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Approved by:

Chuck Lutz, Deputy Director CPED _____

Elizabeth Ryan, Director of Housing Policy & Development _____

Permanent Review Committee (PRC) Approval Not Applicable

Note: To determine if applicable see <http://insite/finance/purchasing/permanent-review-committee-overview.asp>

Presenter in Committee: Elfric K. Porte, II and Elizabeth Ryan

Financial Impact (Check those that apply)

- No financial impact (If checked, go directly to Background/Supporting Information).
- Action requires an appropriation increase to the Capital Budget or Operating Budget.
- Action provides increased revenue for appropriation increase.
- Action requires use of contingency or reserves.
- Business Plan: Action is within the plan. Action requires a change to plan.
- Other financial impact (Explain):
- Request provided to department's finance contact when provided to the Committee

Coordinator.

Community Impact (use any categories that apply)

Neighborhood Notification: Representatives from the North Minneapolis Neighborhoods in Wards 3, 4 and 5 where the clusters are located sit on the Northside Home Fund Advisory Board.

City Goals: In five years all Minneapolis residents will have a better quality of life and access to housing and services; residents will live in a healthy environment and benefit from healthy lifestyles; the city's infrastructure will be well-maintained and people will feel safe in the city.

Comprehensive Plan: Increase the city's population and tax base by developing and supporting housing choices citywide through preservation of existing housing and new construction.

Zoning Code: Will comply.

Other:

Background/Supporting Information:

In August of 2003, three North Minneapolis community leaders wrote to City elected officials asking the City to commit to developing sustainable solutions to the serious community and economic development issues facing North Minneapolis. Mayor Rybak joined with the Council Members of Wards 3, 4 and 5 along with local leaders to organize an action plan.

To implement the plan, the City of Minneapolis established the Northside Partnership, charged with the task of creating a comprehensive action plan to improve employment, economic development, public safety, the environment and housing in North Minneapolis. A key component of the Northside Partnership's housing effort is the collaborative that makes up the Northside Home Fund Board. Resource partners supporting this effort include North Minneapolis neighborhood organizations, the Family Housing Fund, the McKnight Foundation, the Minnesota Housing Finance Agency (MHFA), the General Mills Foundation, Franklin National Bank, Local Initiatives Support Corporation, Fannie Mae and the City of Minneapolis Department of Community Planning and Economic Development (CPED), Department of Regulatory Services and the Department of Health and Family Support.

- Of the \$42,375,000 initial allocation to the NHF, \$40,650,000 (96%) is in the form of pre-programmed set-asides from existing loan programs.
- Total funds expended from program start to March 31, 2006 are \$16,507,797.
- Initial allocation to the NHF: \$42,375,000
Initial allocation (not including Franklin Bank): \$22,375,000
Initial allocation - Total funds expended from program start to 3/31/06 (not including Franklin Bank): \$12,937,797
Percentage of total funds expended (not including Franklin Bank): 58%

The Chapter 249 nuisance abatement ordinance targets vacant structures, to allow the City to initiate rehab of a boarded property and assess the cost against the owner/ taxpayer, if the owner does not take action to start the rehab within 60 days. The City may also elect to demolish the building if rehab is not deemed feasible. While this change sends an important message to property owners, Chapter 249 is not a true redevelopment tool; it simply requires property owners to address the "nuisance" by bringing the cited property up to code. Code standards establish only the bare minimum required to place the property in service; not the scope of work needed to actually improve the quality of the housing stock.

The mission of the Northside Home Fund (NHF) is to add value to existing neighborhood and institutional efforts to improve the quality of the housing stock in North Minneapolis.

- The City of Minneapolis (CPED, Regulatory Services and Health and Family Support), focuses resources on redeveloping vacant and boarded, blighted houses in the NHF target area.
- The NHF is focused geographically. Currently there are five identified cluster areas.

Proposal

The five Northside Home Fund identified clusters are (See Attachment A—NHF Cluster Map):

Cluster Location	Neighborhood	Date Selected	Development Partner(s)
Demonstration Cluster (25th & James Ave. N.)	Jordan	April 2005	Powderhorn Residents Group and Neighborhood Housing Services
31st & 6th St. N.	Hawthorne	October 2005	TBD
Cottage Park (Ilion & James Ave. N.)	Jordan	January 2006	The Ackerberg Group
33rd & Colfax Ave. N.	McKinley	January 2006	TBD
21st & Penn Ave. N.	Willard-Hay	January 2006	Urban Homeworks, Inc.

Each neighborhood organization is charged with the responsibility of identifying a development partner to work with them in addressing the needs of the cluster area. To date, Jordan Area Community Council (JACC) has identified development partners for their two clusters. The development partner at the 25th & James Cluster is a team of Powderhorn Residents Group and Neighborhood Housing Services of Minneapolis. The Ackerberg Group is the development partner for the cluster at 20th and James Avenues North. Willard-Hay has selected Urban Homeworks, Inc. Two neighborhood groups are currently reviewing results of proposals from their published Request for Qualifications.

To expedite this effort CPED proposes to provide acquisition funds to these development partners and the two subsequent cluster developers using Vacant & Boarded program funds. This allows for an immediate response to the problem of blight; second, it eliminates the holding cost between acquisition and disposition for redevelopment and third it allows these properties to be placed in the Scattered Site TIF.

There will be instances where acquisition by CPED is more appropriate. These instances include where eminent domain might be applied, where relocation is necessary or where the redevelopment is eligible in the Home Ownership Works program.

It has been further researched and confirmed by the City Attorney's Office that the properties acquired by the development partners are eligible for inclusion in the Scattered Site Tax Increment Financing District as if acquired by the City of Minneapolis. By inclusion in the Scattered Site Tax Increment Financing District, the program affords us an opportunity to recapture up to 75% of eligible costs—acquisition, demolition, relocation, engineering, site preparation, pollution

abatement, public improvements and administrative cost directly related to the properties over the life of the district.

In order to assess the effectiveness of this approach, the contract with the development partners will be structured as a two-year demonstration/pilot program. The contract will provide for funding of up to \$1,000,000 of CPED Vacant & Boarded funds for acquisition of up to 40 properties. Eligible uses of funds will include acquisition, demolition, rehabilitation and engineering costs, consistent with eligible activities under the Scattered Site TIF provisions and CDBG regulations. The development partners' administrative and overhead costs will not be eligible program expenditures.

CPED funds will be structured as a zero interest forgivable loan, secured by a note and recorded mortgage, to be released upon completion of the proposed redevelopment. Eligible redevelopment proposals will be limited to owner-occupied housing. The developer shall be responsible for identifying and securing any additional gap funds for the completion of the redevelopment project from NHF partners or other solutions.

Before the contract is executed, the partner must submit a comprehensive program proposal, including developer qualifications and financials, scope of services, evidence of insurance and neighborhood support letter. Required due diligence items for each individual property must be submitted to CPED as described in the attached process description.

Recommendation

This proposal recommends the following:

- 1) Authorize the CPED Director to approve development partners within the Northside Home Fund clusters;
- 2) Approve up to \$1,000,000 of CPED Single Family Housing Vacant & Boarded program (CDBG) funds to approved Northside Home Fund development partners for acquisition and demolition activities consistent with the Northside Home Fund cluster program; and
- 3) Authorize execution of the appropriate documents as described herein.

Up to 75% of these funds will be repaid over time from Scattered Site TIF revenues. Attached is the recommended process for implementing this effort (See Attachment B—NHF Pilot Program: Non-CPED Real Estate Acquisition Process).