

Request for City Council Committee Action from the Department of Community Planning and Economic Development - CPED

Date: May 15, 2007

To: Council Member Lisa Goodman, Community Development Committee

Subject: Feasibility re: Market-Rate Requirements for Multifamily Housing

Revenue Bonds

Recommendation: Revise the Multifamily Housing Revenue Bond program guidelines to create a priority for projects in impacted areas where at least 20% of the units are market rate.

Previous Directives: On April 13th, the City Council directed staff to "determine the feasibility of preparing guidelines which require that in projects in impacted areas, a percentage of units be market rate in affordable housing projects which use Housing Revenue Bonds."

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Approved by: Elizabeth Ryan, Director of Presenters in Committee: Cynthia Lee	Housing Policy & Dev.	
Reviews		
Permanent Review Committee (PRC): Policy Review Group (PRG):	Approval Date Approval Date	
Financial Impact X_ No financial impact 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 Action is within the Business Plan Action requires a change to the Business Plan Other financial impact Request provided to the Finance Department when provided to the Committee Coordinator		

Community Impact

Neighborhood Notification: Not applicable.

City Goals: A Safe Place to Call Home: 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.

Sustainability Targets: Affordable housing production

Comprehensive Plan: 4.10 Minneapolis will increase its housing that is affordable to low and moderate income households. 4.9.1 Minneapolis will grow by increasing its supply of housing. 4.15 Minneapolis will carefully identify project sites where housing redevelopment and/or housing revitalization are the appropriate responses to neighborhood conditions and market demand.

Zoning Code: Will comply		
Living Wage/Business Subsidy Agreement	Yes	Nox
Job Linkage	Yes	Nox
Other		

Supporting Information

Pursuant to Council direction, the feasibility of creating a market-rate unit requirement for Multifamily Housing Revenue Bonds (HRBs) is discussed below.

For entitlement bonds, state statute establishes affordability requirements for HRBs that are essentially aligned with Low Income Housing Tax Credits. The project must provide at least 20% of the units affordable at <50% MMI or 40% at <60% MMI, plus at least 20% of the units must be rented below established Fair Market Rent (FMR) levels, which in some cases fall below the <50% MMI level. A mix of incomes is allowable, however, the greater the number of tax-credit (affordable) units, the greater the potential for tax credit equity. The tax credit equity per unit for HRBs can be over \$50,000/unit. In impacted areas, market rents may actually fall below the <50% or <60% MMI level. Without access to tax credit equity, the market rate units may in fact jeopardize the financial feasibility of the project.

Other types of Multifamily Housing Revenue Bonds (501c3 bonds, Senior/Elderly bonds, Student housing bonds, etc.) may have different affordability requirements, generally less restrictive (<80% MMI) than the entitlement bonds. These types of bonds do not include the automatic 4% tax credits, so the potential loss of tax credit equity is not at issue.

The City's Unified Housing Policy requires that at least 20% of the units must be affordable at <50% MMI. The policy also states that: 'The City of Minneapolis shall have as a clearly stated goal, consistent with The Minneapolis Plan, to grow the population and to have <u>no net loss of housing across all income levels</u>. The City policy will be <u>positive gain on affordable housing units</u>.' The recently adopted "Heading Home Hennepin" homeless plan directs the city and county to 'ensure the preservation of current affordable and supportive housing'.

Adopting a requirement mandating a percentage of market rate units would make preservation of 100% project-based Section 8 properties very difficult. In recent years, housing revenue bonds have been used to achieve stabilization and preservation of Cecil Newman, 2100 Bloomington, Whittier Townhomes, Albright Townhomes, Trinity Apartments, Olson Townhomes, and other projects. Preservation is identified as a priority under the city's Unified Housing Policy as follows: 'The preservation and stabilization of federally (HUD) subsidized rental housing that is in danger of converting to market-rate housing, having subsidies expire, or is deteriorating due to poor management, is a priority for the City. The highest priority is the preservation of subsidized housing for families with children (2+ bedroom units).' The potential loss of scarce project-based Section 8 rental assistance resources should be given consideration in this analysis.

If the City were to create an overly restrictive requirement for the HRB program, developers would likely seek other options for HRB financing from other issuers (MHFA, Hennepin County through the state pool, etc.).

It should also be noted that the City's Multifamily HRB program generates issuer fee revenue, which may be used for staffing and capital for other housing programs (AOHP, CARF, etc.)

The City could consider several different options:

- 1. Create a mandatory requirement that a designated percentage of units must be market rate for all CPED Multifamily housing revenue bond financing for projects in impacted areas.
- 2. Create a specific requirement for new construction projects in impacted areas.
- 3. Create a <u>priority</u> for projects in impacted areas with market rate units, where feasible. Currently, the administrative HRB guidelines give priority to mixed-income projects based on the percentage of units at <50% MMI in relation to the total units in the project (up to 20 points). An additional criteria could be added as follows: 'Projects in impacted areas providing at least 20% of total units as non-income restricted, market rate housing (20 points).'

Options 1 and 2 would require CPED's formal guideline revision process, including a 45-day public review and comment period prior to Council approval. Option 3 could be implemented as an administrative change without further approvals.