



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

**Date:** April 18, 2006

**To:** Council Member Lisa Goodman, Community Development Committee

**Subject:** Approval of technical revisions to the Affordable Ownership Housing Program Guidelines

**Recommendation:** The Director recommends the City Council approve the attached revisions for the Affordable Ownership Housing Program. To be effective June 1, 2006.

**Previous Directives:** On January 20, 2004, the Community Development Committee reviewed the Housing Policy Agenda and directed staff to prepare guidelines and criteria for the Workforce Ownership Housing Development Program.

On September 14, 2004, the Community Development Committee approved the guidelines for and implementation of the Workforce Ownership Housing Development Program.

On April 5, 2005, the Community Development Committee approved combining the Workforce Housing, Perpetual Affordability and Limited Equity Cooperative Funding programs creating one consolidated program, the Affordable Ownership Housing Program.

**Prepared by:** Cherre' Palenius, Sr. Project Coordinator **Phone:** 612.673.5241

**Approved by:**

Chuck Lutz, Deputy Director CPED \_\_\_\_\_

Elizabeth Ryan, Directory 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:** Cherre' Palenius, Sr. Project Coordinator

**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:**

Neighborhood Notification: A 45-day notice was sent to all of the neighborhood groups and interested parties on February 14, 2006 with comments due back on March 31, 2006.

City Goals: Foster the development and preservation of a mix of quality housing types that is available, affordable, meets current needs, and promotes future growth.

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: Projects will comply.

Other: None

### **Background/Supporting Information**

The Affordable Ownership Housing Program (AOHP) provides gap financing to assist for-profit and non-profit developers in the development of single-family, duplex or multi unit housing for owner-occupancy and to provide affordability loans to low-moderate income residents to assist them in qualifying for first mortgage financing. The financing is available as a forgivable loan for new construction and rehabilitation projects that need gap financing assistance to either cover the difference between total development costs and the appraised value (construction gap) or as a 2% deferred affordability loan to the buyer based on verification of need (affordability gap) or a combination of both.

The funding is available for properties sold to owner-occupant households whose income is at or below 50% of median income and/or for owner-occupant households whose income is at or below 60% of median income. The AOHP will provide up to half of the total project gap funding. The maximum CPED assistance is \$40,000 per unit for properties sold to households earning  $\leq 50\%$  of median income. The maximum CPED assistance for properties sold to households earning  $\leq 60\%$  of median income is \$20,000 per unit. Developers are required to provide documentation that the project will remain affordable at the same income level for approximately 30 years.

The AOHP guidelines also establishes a maximum per unit total funding gap of \$80,000 from all public funding sources for units affordable at  $\leq 50\%$  MMI and a maximum per unit total funding gap of \$40,000 from all public funding sources for units affordable at  $\leq 60\%$  MMI.

### **Program Guideline Changes**

After reviewing over a dozen development proposals requesting funding through the AOHP in 2005, staff determined a few minor changes to the program guidelines were necessary. Many of the development proposals received were combining multiple programs to obtain the development and affordability gap funding needed to reach the desired households ( $\leq 50\%$  and  $\leq 60\%$  MMI). However, with escalating real estate prices and stagnant workforce wages, the total amount of the development and affordability gap available to produce the affordable units was insufficient. Therefore, staff is recommending that the maximum CPED assistance for properties sold to households earning  $\leq 50\%$  be increased to \$45,000 per unit and the maximum CPED assistance for properties sold to households earning  $\leq 60\%$  be increased to \$30,000 per unit. In addition, staff is recommending the total public funding gaps be eliminated as a program requirement as this is already captured in the program as CPED's funds are available for only half of the total project gap.

Staff made a number of changes to the program evaluation criteria, eliminating the category for assisting households at  $\leq 30\%$  MMI and clarified the employer contribution and private leverage. Also, staff reduced the total points awarded for blighted properties from 25 to 20, bringing this category into alignment with other criteria. Only one public comment was received, requesting the points for the blighted properties remain at 25.

Attachments:

Affordable Ownership Housing Program Guidelines

## AFFORDABLE OWNERSHIP HOUSING DEVELOPMENT PROGRAM

### (Formerly the CPED Workforce Housing, Perpetual Affordability and Limited Equity Cooperative Programs)

The City of Minneapolis through its Community Planning and Economic Development (CPED) department is accepting comments on the Affordable Ownership Housing Development Program, which is a city-wide program to assist developers in the provision rehabilitation and construction of new affordable single-family, duplex or multi unit housing for owner-occupancy, including limited equity cooperatives. The program funds are used to assist housing developments with long-term or perpetual affordability mechanisms.

#### **I. DEFINITIONS**

**Eligible Costs:** The Affordable Ownership Housing Development Program will provide up to half of the total project gap funding. Funds may be used for both development cost gap and/or buyer affordability gap. Developers must provide documentation that the units will remain affordable for 30 years. Cooperative funds will generally be structured as long-term, low-interest deferred loans, as either blanket loans to the cooperative or individual share loans. The maximum CPED assistance will be \$45,000 per unit for properties sold to households earning  $\leq 50\%$  of metropolitan median income (MMI) and the maximum CPED assistance of \$30,000 per unit, for properties sold to households earning  $\leq 60\%$  MMI. CPED staff will undertake sufficient financial analysis of the projects to determine the appropriate amount of CPED assistance. Approximately half of the CPED funds will assist units at  $\leq 50\%$  MMI and approximately half will assist units at  $\leq 60\%$  MMI. For all projects with 10+ units, at least 20% of the units must be affordable to and occupied by households at  $< 50\%$  MMI.

**Development cost gap:** Financing for the difference between the cost of the improvement/construction of a property (including acquisition, demolition, rehabilitation, and construction), and the after-rehab or fair market value of the property upon sale established at the beginning of the project.

**Buyer affordability gap:** Financing for the difference between the fair market value of the property upon sale and the amount the actual homebuyer qualifies to purchase based on ratios similar to the City Living Program criteria of 33/38 if conventional and a 29/41 ratio if FHA.

**Eligible Developers:** A developer may be either a for-profit or non-profit entity.

Developers must be proven development entities and must demonstrate professional development experience, a proven ability to undertake development projects of this type, and the ability to obtain sufficient financing. Land trust models, i.e. City of Lakes Community Land Trust, or limited equity cooperatives, are encouraged to apply.

## **II. PROJECT ELIGIBILITY AND REQUIREMENTS**

- A. Vacant land or single family, duplex and multi unit structures in need of substantial renovation or replacement, or a land trust homebuyer initiated program. No two-unit condominiums are allowed.
- B. Vacant lots owned by the City of Minneapolis (formerly owned by the MCDA) are also eligible for treatment under the program. A list of these lots can be found on our web site at [www.ci.minneapolis.mn.us/cped](http://www.ci.minneapolis.mn.us/cped)
- C. Applications must be accompanied by evidence of site control (i.e. signed purchase agreement or option).
- D. The completed units must be advertised and publicly offered and must be sold to the general public. The advertised price must be the home's fair market (appraised) value. After a six month period CPED may agree to price reductions if property fails to sell. However, A PRICE REDUCTION WILL NOT RESULT IN AN INCREASE IN THE GAP AMOUNT.
- E. All projects must demonstrate compliance with city and federal requirements listed below.

## **III. APPLICATION PROCEDURE**

Required proposal content: submit 4 copies of the following:

Completed CPED Affordable Ownership Program application form including all required attachments

Applications must be received no later than **June XX, 2006 by 4:00 PM.** Applications should be delivered or sent to:

Community Planning and Economic Development  
Crown Roller Mill, Suite 200  
105 - 5th Avenue South  
Minneapolis, MN 55401  
Attention: Cheryl Groettum

**NO LATE PROPOSALS WILL BE ACCEPTED**

**EQUAL HOUSING OPPORTUNITY**

## **IV. SELECTION CRITERIA**

Program evaluation criteria are listed below:

Proximity to jobs and transit (projects that demonstrate transit access and are oriented to primary commercial and community corridors)	(up to 10 points)
Area Employer or other employee contributions	(up to 15 points)
Private leverage (over/and above the first mortgage financing)	(up to 10 points)
Other public leverage (over and above the required match)	(up to 10 points)
Long term affordability/land trust models	(up to 100 points)
Mixed-income (for multi-unit developments only)	(up to 10 points)
Developer experience and capacity	(up to 15 points)
Financial feasibility and readiness	(up to 15 points)

Non-impacted area	(up to 20 points)
Density appropriate to the location	(up to 10 points)
Treatment of blighted property	(up to 20 points)
Zero displacement	(up to 10 points)
Integration with broader city revitalization efforts	(up to 10 points)
Neighborhood support and financial contribution	(up to 15 points)
Reduction of CPED Land Inventory	(up to 15 points)
Preservation of expiring tax credit units	(up to 20 points)
Large family housing	(up to 10 points)
Senior housing	(up to 10 points)
Quality of management plan and cooperative training plan	(up to 10 points)
Quality of design	(up to 10 points)

The City reserves the right to reject any or all proposals or parts of proposals, to negotiate modifications of proposals submitted, and to negotiate specific work elements with a proposer into a project of lesser or greater magnitude than described in this RFP or the proposer's reply.

Staff will review and rank proposals and make recommendations for funding to the City Council. Preliminary funding commitments granted by the Council will be for a twelve-month period during which time developers must demonstrate compliance with program requirements, secure project funding, and conduct the project closing.

Developers are required to submit their proposals to the appropriate neighborhood group for review.

## **V. PROGRAM CLOSING**

- A. Prior to program closing the developer will be required to submit: documents creating or related to any partnership or joint venture arrangement for the project, documents related to purchase and financing, a title binder in a form satisfactory to CPED, evidence of insurance, zoning and utilities and other required documentation. The City of Minneapolis must be a certificate holder/mortgagee on all types of insurance.
- B. Once all requirements are satisfied, the developer and CPED staff will arrange a mutually agreeable closing date.
- C. Funds will be secured by a note and a mortgage recorded against the property.
- D. Development cost gap funds will be disbursed periodically upon CPED inspection, starting at the point of 50% project completion.
- E. Affordability gap funds will be disbursed at the buyer closing.

## **VI. SALE OF THE PROPERTY FOR HOMEOWNERSHIP**

- A. Properties must be completed within 12 months of program closing.

- B. Pursuant to the final inspection, all punch list items must be corrected before closing with a purchaser will be authorized.
- C. For rehab projects, a code compliance certificate or a Truth In Housing and Certificate of Occupancy must be submitted on or before closing.
- D. A Certificate of Occupancy must be submitted for new construction projects.
- E. A copy of the purchase agreement with the buyer must be provided to CPED, including copies of income verifications from all sources and/or a Fannie Mae 1003 application form signed by the home buyer and approved by the lenders underwriter
- F. All homebuyers must attend and provide a certificate of attendance at a pre-purchase workshop and housing maintenance workshop prior to closing (or cooperative training program for limited equity cooperative projects).
- G. Pursuant to the second mortgage strategy adopted by the city council in November of 2002, CPED second mortgage affordability loan documents will be required for all projects, unless the developer is contracting with the City of Lakes Community Land Trust. Cooperative funds will generally be structured as long-term, low-interest deferred loans, as either blanket loans to the cooperative or individual share loans.
- H. At closing, the buyers must sign an affidavit of owner-occupancy.
- I. CPED staff must receive written notice of the developer and the buyer closing at least 10 days prior to closing.
- J. CPED will provide a Satisfaction of Mortgage for development gap financing only.

## **EQUAL HOUSING OPPORTUNITY**

**Program Contacts:**

**Multifamily Housing:** Cherre Palenius (612-673-5241) [cherre.palenius@ci.minneapolis.mn.us](mailto:cherre.palenius@ci.minneapolis.mn.us)

**Single Family Housing:** Earl Pettiford (612-673-5231) [earl.pettiford@ci.minneapolis.mn.us](mailto:earl.pettiford@ci.minneapolis.mn.us)

**Exhibits:** CPED Affordable Ownership Program Application  
CPED Contracting Requirements