

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

Date: September, 22, 2009
To: Council Member Lisa Goodman, Chair
Community Development Committee
Referral to:

Subject: Affordable Housing Production Goals (2009-2011)

Recommendation: Establish Affordable Housing Production Goals for the next three years beginning with 2009:

| Year | Goal for units at or below 50% AMI | |
|--------------|---|--|
| 2009 | 575 | |
| 2010 | 450 | <i>(lower as a result of the 2008 recession)</i> |
| 2011 | 530 | |
| Total | 1,555 | |

Previous Directives: The Affordable Housing Policy for the City of Minneapolis was adopted by the City Council on September 7, 1999 and amended on February 16, 2001. The resolution directs the Department of Community Planning & Economic Development to establish affordable housing production goals and to prepare an annual report to the community regarding affordable housing activity based upon the established goals.

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|--|----------|
| Prepared by: Wesley J. Butler | 673-5194 |
| Approved by: Thomas Streitz, Director of Housing Policy & Dev. | _____ |
| Presenters in Committee: Wesley J. Butler | |

Reviews

Permanent Review Committee (PRC): Approval ___ Date _____
Policy Review Group (PRG): Approval ___ Date _____

Financial Impact

- 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: The report was sent to all neighborhoods.

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_____ No x

Job Linkage Yes_____ No x

Other

Supporting Information

Pursuant to the Affordable Housing Policy ("Policy") for the City of Minneapolis adopted by the City Council in 1999 and amended in 2001, CPED and other appropriate departments are required to establish three year goals for the production of affordable housing and prepare an annual evaluation of the City's affordable housing activity which was last reported on April 28th, 2009.

Previous Production Goals

2000 – 2002: 2,110 units (actual production: 1,621 units)

2003 – 2005: 2,100 units (actual production: 2,470 units)

Annual production goals and number achieved for the last three year period (2006, 2007 and 2008) were:

| Year | Goal | Achieved |
|--------------|--------------------|--------------------|
| 2006 | 670 units | 681 units |
| 2007 | 655 units | 332 units |
| 2008 | 645 units | 391 units |
| Total | 1,970 units | 1,404 units |

CPED achieved 71% of the stated goal. Some of this reduction is due to the cyclical nature of development. In 2006 and 2007, there were fewer developers seeking housing revenue bonds, consequently \$32 million of the \$39 million 2007 allocation went to finance single family mortgages through the City Living program. Since that time, the demand for bonds increased and, up until the recession, there were many developers seeking to utilize housing revenue bonds and 4% tax credits.

Setting 2009-2011 Production Goals

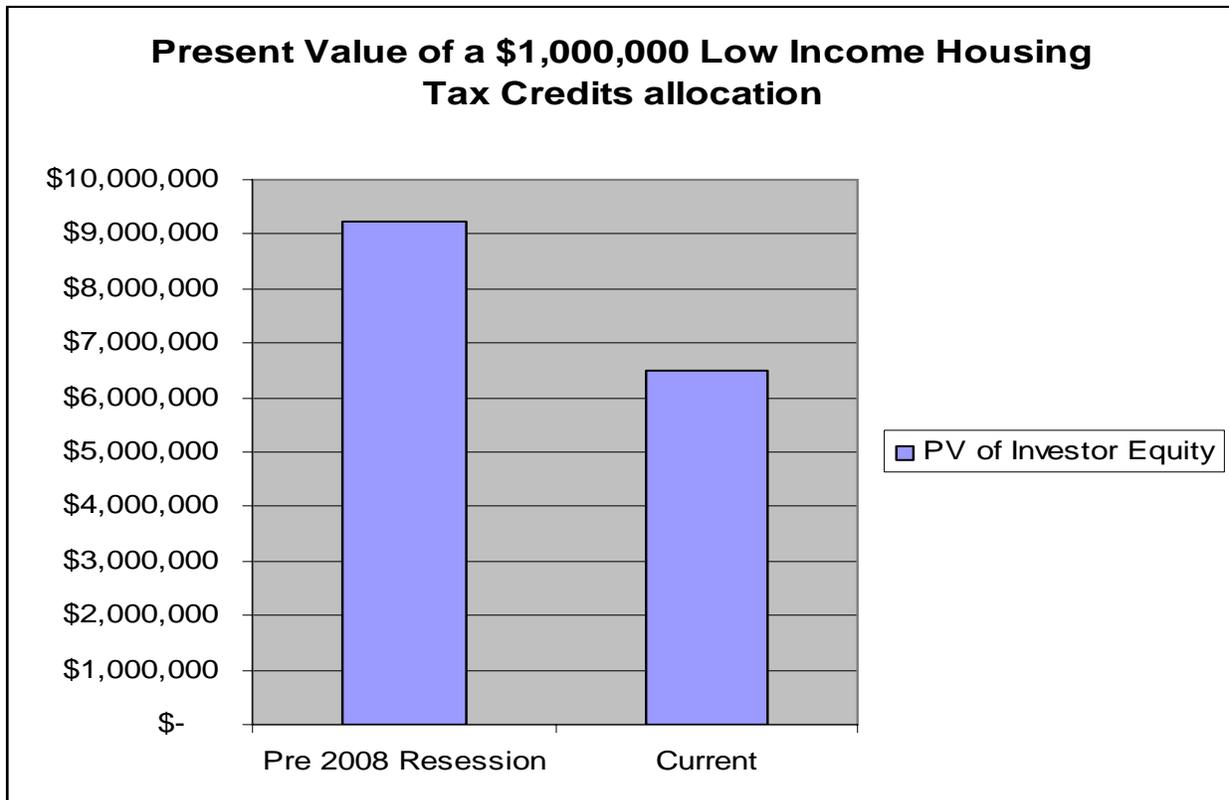
In setting goals for the next three years, there are many variables that must be considered. The 2008-2009 Recession created a negative impact on the ability to market Low Income Housing Tax Credits and Housing Revenue Bonds. These two sources are the financial foundation for affordable housing projects, constituting of at least 50% of the permanent financing.

Low Income Housing Tax Credits

Annually the City receives an allocation of approximately \$1,200,000 in 9% tax credits. Additionally, the city is able to utilize 4% tax credits when a Housing Revenue Bond transaction occurs.

As recent as 20 months ago, the value of a Low Income Housing Tax Credit was \$.90 to \$.95 on the \$1.00. Since the recession, the rate dropped to \$.60 to \$.70 on the \$1.00. **Figure 1** show this reduced amount of development dollars based on a \$1,000,000 allocation of Tax Credits.

Figure 1



As **Figure 1** demonstrates, the reduction in value lowers, by about 30%, the amount of equity for an affordable housing project.

Housing Revenue Bonds

Annually the City of Minneapolis receives approximately \$40 million in Housing Revenue Bonding authority for housing projects. This market is currently stalled though signs indicate bond markets are beginning to gain some traction as the economy improves. Once the bond market recovers, we will see a return to bond financing for projects and the use of 4% tax credits.

With the bond and tax credit markets in a slump, the creation of affordable housing development will continue to be extremely challenging. In addition to the lack of market for these sources, our funding partners (Hennepin County, the Metropolitan Council and MN State Agencies) have cut back on their funding for affordable housing as they deal with their own budget constraints. Our Affordable Housing Trust Fund and our partner's contributions add significant gap financing without which many affordable housing projects are not possible.

Federal Stimulus Response to the Stalled Tax Credit Market

The Federal Government, in an attempt to stimulate economic growth and move the log jam of projects created the Tax Credit Assistance Program (TCAP), which the City of Minneapolis received \$3.3 million. This program will assist 4 tax credit projects and allow them to close on financing yet this year and in early 2010. Further, the City of Minneapolis was allocated additional bonding authority and legislation was passed to allow the city to maintain unused bonding authority without penalty. This equates to a surplus of bonding authority to be used once the bond markets returns.

Goals for 2009, 2010 and 2011

Due to the recession and the eventual recovery, the prediction of production of affordable housing units is difficult, assumptions include \$10 million annual funding of the Affordable Housing Trust Fund, at least \$1,200,000 in Low Income Housing Tax Credit allocation and \$40 million in Housing Revenue Bonds. Additionally, the following development issues must be taken into account: the cost per housing unit, stabilization vs. new construction and unit size i.e. studio/one bedroom.

Given all of these assumptions and issues, CPED Multifamily Housing recommends for approval the following affordable housing goals for years 2009 to 2011:

| Year | Goal for units at or below 50% AMI | |
|--------------|---|--|
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These goals are approximately 80% of the goals established for the previous three year period (1,970). The reduction reflects a careful analysis of current market conditions and a forecast of future development scenarios assuming an economic recovery beginning in late 2009.

It is important to realize in addition to units that are at or below 50% of area median income, CPED Multifamily Development helps to create units affordable to households at or below 60%, 80% and market rate. All of these units add significant sustainability and tax base to the City of Minneapolis.

Closings for 2009

It is anticipated that at least 700 units of housing affordable to households at or below 50% median income will have their financing closed in 2009. This translates to completions in 2010/2011. These combined with closings occurring in 2010 should produce sufficient units for CPED to meet the recommended goals.