



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

Date: October 12, 2004

To: Council Member Lisa Goodman, Community Development Cmte

Prepared by: Tiffany Glasper, Phone 612-673-5221

**Presenter in
Committee:** Tiffany Glasper

Approved by: Chuck Lutz, Deputy CPED Director _____
Elizabeth Ryan, Director, Housing _____

Subject: Perpetual Affordability Program

RECOMMENDATION: To provide \$215,000 in funding through the Perpetual Affordability Program to the qualified applicants as outlined in this report and further authorize staff to advertise the remaining \$285,000 on a first come, first served basis.

Previous Directives: During the 2004 Budget process the City Council approved \$500,000 for the Perpetual Affordability Program.

On March 23, 2004, the Community Development Committee approved the guidelines for the Perpetual Affordability Pilot Program.

Financial Impact (Check those that apply)

- No financial impact - or - Action is within current department budget.
(If checked, go directly to next box)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain):
- Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (Summarize below)

Ward: City Wide

Neighborhood Notification: On June 16, 2004 a Request for Proposal was issued for this program which was sent to all of the neighborhood groups, about 35 developers and was advertised in the Star Tribune and on the CPED's

website.

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 city-wide through preservation of existing housing and new construction.

Zoning Code: N/A

Living Wage/Job Linkage: N/A

Background/Supporting Information

On June 16, 2004, staff issued a Request for Proposal (RFP) for the Perpetual Affordability Program (PA). The RFP was advertised in the Star Tribune in the Legal Notice Section and advertised on the Department of Community Planning & Economic Development's (CPED) website. Additionally, it was mailed out to all of the neighborhood groups and approximately 35 developers. Proposals were due on Friday, July 30, 2004 at 4:00 pm.

The PA program is specifically designed to assist both for-profit and non-profit developers in the development of single family and duplex homes in Minneapolis for sale to owner-occupants whose income is at or below 50% MMI. The PA program funds will be provided as a grant for new construction and rehabilitation projects which need gap financing assistance to cover the difference between total development costs and the amount for which a completed property can be sold (appraised value) or as a 2% affordability deferred loan (see attached) for the buyer based on verification of need. Developers must provide documentation that the project will remain affordable to the same income group for more than 30 years. The RFP further required a 100% match of the program's funds.

To be eligible for the PA program funding, a project must be proposed for a property that is currently a vacant lot, single family home or duplex that has been or will be acquired by a developer and that either needs substantial rehabilitation or should be demolished for new construction. The property can be either publicly or privately owned.

Any developer who submits a proposal for a property that is being privately acquired must provide evidence of site control in the form of a purchase agreement. Actual ownership of a property is not necessary at the time the proposal is submitted and acquisition is not advisable until the actual award is announced.

The following proposals, totaling \$656,000, were received in response to the RFP and represent \$156,000 over the allocated amount.

- Powderhorn Residents Group—\$50,000
- Powderhorn Residents Group—\$240,000
- Project for Pride in Living—\$33,000
- City of Lakes Community Land Trust—\$250,000
- Prima Land, Inc.—\$50,000
- Mississippi Pathway Development Company, LLC—\$33,000

Powderhorn Residents Group (PRG): Village In Phillips Phase I (VIP)—PRG is requesting \$50,000 that will be used as gap financing for three (3) units which will be affordable to households at or below 50% MMI. This phase of VIP is a fully funded project located at 24th and Bloomington in the Phillips Neighborhood. Originally there was a commitment from MPHA to fund three (3) units in the project. Since that time, the nature of the project has changed and MPHA is no longer involved. This funding is necessary to meet PRG's commitment to the neighborhood to provide three (3) affordable units at 50% MMI. In addition, to insure that these units will remain affordable to the target income group, PRG has negotiated that the units be part of the City of Lakes Community Land Trust's inventory. Staff believes that this proposal is immediately ready to proceed, insures long term affordability to the target population and is appropriate to fund under this program.

Powderhorn Residents Group: Village In Phillips Phase II—PRG is requesting \$240,000. PRG working with the Twin Cities Habitat for Humanity, Inc. (TCHFH) is requesting an affordability subsidy of \$30,000 per unit for eight (8) units which will combine with other affordability subsidy funds and will create an affordable home ownership opportunity for eight (8) households at or below 50% MMI within the second phase of the Village In Phillips Project. At this time, the second phase of the VIP project, although approved in concept, has not been approved for funding by CPED and is still in the planning phase. Staff believes it is premature to commit funds to this project at this time and is not recommending approval of PRG's proposal.

Project For Pride In Living, Inc. is requesting \$33,000 and is proposing to demolish an existing duplex located at 3822 Stevens Avenue South. This is a property that they have operated as affordable rental housing for many years. At this time, PPL has evaluated the condition of the duplex and believes that based on the cost to rehabilitate the structure and long term operating deficits, demolition is appropriate. They plan to construct a new single family home on the site to be included in the City of Lakes Community Land Trust and sold to an eligible owner-occupant. Staff believes that this project is ready to proceed and will provide long term affordability to the target population and are recommending approval of the proposal.

City of Lakes Community Land Trust has eight (8) pre-qualified buyers who are at or below 50% MMI and are prepared to purchase homes. They are interested in moving forward with these buyers through their Homebuyer Initiated Program (HIP). At this time, none of the buyers have identified properties nor have they entered into purchase agreements. CLCLT has not encouraged any of the buyers to proceed to identify properties because the timeline for approval of the funding was unknown. The RFP language encouraged all of the proposers to refrain from acquisition until the award was announced. As part of the proposal, all of the buyers will be required to purchase homes in non-impacted areas of the City. CLCLT is requesting \$250,000 to support this endeavor. In addition to the PA funds, CLCLT is anticipating additional funds from other funding sources including \$275,000 already awarded from the Minnesota Housing Finance Agency to support its HIP efforts. At this time, staff is recommending \$132,000 to support at least four (4) units in the HIP program in non-impacted areas of the City. Staff is not recommending the full amount at this time, considering the MHFA matching funds are not restricted to non-impacted areas of the City and as a result could be used up faster, thus eliminating a potential match.

Staff makes this recommendation for funding contingent upon CLCLT submitting fully executed purchase agreements on a property-by-property basis.

Prima Land, Inc. has proposed to construct two (2) handicapped accessible single-family homes at 1400-1408 E. 27th Street currently owned by MCDA/CPED. They are requesting \$50,000 in PA funding. This property has not yet been advertised for sale due to title problems which have yet to be corrected. Although staff is aware that the neighborhood invited this developer to investigate developing this land, staff has received numerous inquiries from other interested parties as well. In the past, staff has informed the neighborhood and the other interested parties that these lots, once the title issues are corrected, will be advertised and all offers received will be submitted to the neighborhood group for a 45-day review as required. Staff does not believe that sale of these properties prior to correcting the title problems is appropriate. As a result, staff is not recommending approval of Prima Land, Inc.'s proposal at this time.

Mississippi Pathway Development Company, LLC (MPDC) which is the development subsidiary of Northside Residents Redevelopment Council (NRRC), is requesting \$33,000 in PA funding to purchase an MCDA-owned lot at 1313 Golden Valley Road which will be combined with an adjacent property that they currently own at 1315½ Golden Valley Road. Once the site is assembled they will construct a single family home which will be sold for owner occupancy to a buyer at or below 50% MMI. The property will be included in the CLCLT inventory which will provide for long term affordability to the target market. Staff believes that this proposal is ready to proceed and provides long term affordability. However, upon staff's review of the configuration of the lots in question it appears that an assemblage is not appropriate. 1315½ lies across a vacated alley from both 1313 and 1315 Golden Valley Road. The parcel at 1313 Golden Valley Road, although slightly on the small side, is a buildable lot.

However, staff is uncomfortable with MPDC's proposal to assemble this parcel with 1315½ Golden Valley Road. In addition, the parcel in question at 1313 Golden Valley Road is not currently being advertised. Once the parcel is ready to be publicly marketed, it will be advertised and all offers received will be submitted to the neighborhood group for a 45-day review as required. Staff is not recommending funding this project.

The total amount of funds available for this program is \$500,000. Based on review of the above projects, staff is recommending funding in the amount of \$215,000. This breaks down as follow:

Agency	Award Recommendation
City of Lakes Community Land Trust	\$132,000.00
Powderhorn Residents Group: Village In Phillips Phase I	50,000.00
Project for Pride in Living	33,000.00
Total	\$215,000.00

Staff believes that though all of the proposals had some interesting aspects, it is unfortunate that not all of them warranted full or partial support. In addition, staff is recommending that the remaining \$285,000 be advertised as available on a first come, first served basis. It is hopeful that the other developers will strengthen their proposals to meet the stated program guidelines and resubmit for future consideration.

ccDocument No. 2002-257M
Request for City Council Action

Date: October 28, 2002

To: Council Member Lisa Goodman, Community Development Committee

Forward to: MCDA Board of Commissioners

Prepared by Cynthia Lee, Manager, Multi-Family Housing Division, Phone 673-5266

Approved by Chuck Lutz, MCDA Interim Executive Director _____

**SUBJECT: Proposed Second Mortgage Terms for Affordable Multifamily
Ownership Housing Units**

Previous Directives: None.

Ward: City-wide

Neighborhood Group Notification: Not applicable.

Consistency with *Building a City That Works*: Consistent with Goal 2, objective H, "Ensure that an array of housing choices exists to meet the needs of our current residents and attract new residents to the city; increase homeownership."

Comprehensive Plan Compliance: Complies.

Zoning Code Compliance: Not applicable.

Impact on MCDA Budget: No impact.

Living Wage / Business Subsidy: Not applicable.

Job Linkage: Not applicable.

Affirmative Action Compliance: Not applicable.

Recommendation:

City Council: Approval of second mortgage terms for affordable multifamily ownership housing units.

MCDA Board of Commissioners: Approval of second mortgage terms for affordable multifamily ownership housing units.

Under the city's Affordable Housing Policy, ownership housing projects of 10 or more units must create a financing mechanism to make at least 20% of those units affordable at <50% of median income. A second mortgage strategy is needed for the affordability assistance for those units.

MCDA has been working with a group of experienced housing professionals to design appropriate second mortgage terms for affordable multifamily ownership housing units. There are a number of ways to structure second mortgage assistance, depending on the goals that the city is trying to achieve. We understand that one of the city's primary goals is long-term affordability of the original housing unit. The working group spent quite a bit of time researching this issue and exploring other models used around the country. This group has arrived at a solid, workable model that is intended to meet the city's primary goal, plus a secondary goal of simplicity of administration.

This model is intended as a preferred approach to structuring financing for affordable multifamily ownership projects. It is project-specific and site-specific at this time and will not necessarily replace existing second mortgage program guidelines such as those used for the GMHC Homeownership program. This approach will be used for multifamily affordable ownership projects, all of which have some defined source of affordability financing specifically for that project (TIF, MHFA, NRP, EZ, etc.). It will be used for all affordable units, not just the required units at <50%. The maximum loan amount (or amounts if there are different levels of affordability) will be determined on a project by project basis.

- Term: the loan will be structured with a 40-year term. At maturity, the loan principal is due but all accrued interest is forgiven as long as the property has continued to be owned and occupied by low-income buyers. The seller should not incur taxes on forgiven accrued interest as long as they have not deducted accruing interest over time.
- Interest rate: 3% fixed, simple interest.
- Assumption: the loan is assumable only if the new purchaser is a qualified low-income buyer and owner occupant, in which case the accrued interest is forgiven.
- Amount: equal to the affordability gap, based on the buyer's first mortgage capacity (using non-aggressive underwriting criteria that do not put buyer at the absolute loan maximum) subtracted from the sales price (market value). MCDA will establish a maximum second mortgage amount for each project.
- Lender: originally the developer will act as the lender, however loans will be assigned to a permanent lender entity (MCDA or, as suggested for our TIF loans, Family Housing Fund).

- Other: qualified low-income buyers will be sought from home buyer workshops and other similar sources.

This approach provides for long-term affordability by creating an incentive to sell to a new low-income buyer. If the unit does not sell to a low-income buyer, the lender recaptures the subsidy (plus interest) to apply to another affordable housing unit elsewhere. It also allows owners access to the same level of appreciation as any other owner. The 40 year term is structured to prevent the balloon payment hitting at the same time as the end of the first mortgage term. The loans are non-recourse so that repayment occurs only to the extent there are proceeds. The loans will be subordinate to first mortgage debt but not necessarily other soft debt, subject to individual circumstances. If the buyer later refinances the first mortgage, the subordination request would be subject to the existing MCDA subordination policy and procedure.

The working group explored the concept of equity-sharing as an alternative to fixed interest. Any model for a deferred second mortgage can create confusion for the borrower because of the difficulty of comprehending the accrual of interest. MCDA has, however, found that simple interest loans are more understandable to the borrower than the equity sharing loans and there is much less buyer resistance. The Family Housing Fund, in fact, used an equity-sharing model in the past, but they converted to 3% simple interest, primarily for the above reasons.

This approach should be fairly straightforward for buyers and future administrators and seems to address most of the city goals we initially identified. This model would be used for all MCDA TIF, NRP, EZ and MHFA second mortgage affordability loans according to a set of consistent loan documents. The Lofts on Arts Avenue project is expected to be the first to use this model.

This report was prepared by Cynthia Lee. For more information, call 612-673-5266.