



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

**Date:** March 23, 2004

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

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**Presenter in  
Committee:** Earl Pettiford

**Approved by:** Chuck Lutz, Deputy CPED Director \_\_\_\_\_  
Lee Pao Xiong, Director, Housing \_\_\_\_\_

**Subject:** Approval of the Perpetual Affordability Program Guidelines

**RECOMMENDATION:** Approve the program guidelines for a Perpetual Affordability Program

**Previous Directives:** Funding for this program was approved during the 2004 budget process.

**Financial Impact** (Check those that apply)

- No financial impact - or - Action is within current department budget.  
(If checked, go directly to Background/Supporting Information)
- 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**

**Ward:** City Wide

**Neighborhood Notification:** A Program draft was previously sent out for 45 day review.

**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:** 4.9 Minneapolis will grow by increasing its supply of housing.  
4.10 Minneapolis will increase its housing that is affordable to low and moderate income households.

**Zoning Code:** Not Applicable

**Living Wage/Job Linkage:** Not Applicable

### **Background/Supporting Information**

In the 2004 budget process the City Council approved \$500,000 to fund a program to create perpetual affordability to provide home ownership opportunities for people at or below 50% of metropolitan median income (MMI).

The intent of this program is to ascertain that funds used now to provide home ownership opportunities to buyers whose income is at or below 50% of MMI will remain available to the same income group into the future. In order to accomplish this, this program will be made available to both developers and homebuyers. All first time home buyers will be required to participate in homebuyer work shops.

One major issue with attempting to create home ownership opportunities for buyers at or below 50% of MMI is related to financial feasibility and readiness. A perpetual affordability program geared towards homebuyers would need to demonstrate mortgage lenders and MHFA willingness to participate, considering the significant increase of risk with buyers at this income level. A large factor in that risk is whether or not future expenses, i.e. taxes, maintenance, insurance, etc., may occur or rise at a rate faster than the income of the homeowner.

With this in mind, focusing on substantially rehabilitated homes or new homes reduces the risk of expensive home repairs which can jeopardize the ability of a low-income homeowner to continue to remain in ownership during the early years. Therefore, staff believes that these programs should be limited to either new construction or substantially rehabilitated homes.

In an effort to obtain input into a perpetual affordability program, a draft outline of a program was mailed out for 45-day review and comment. The only comments that were received were from Jeff Washburne at the City of Lakes Land Trust which is attached.

Since that time staff has done additional analysis of the program and determined that it is appropriate to proceed with a program that would provide two program options for the creation of approximately 15 affordable home ownership opportunities. This would include the option to place properties in a land trust (project base) or use of affordability loans (homebuyer base). \$300,000 will be provided for project based funding and will be committed through a Request for Proposal process. \$200,000 will be provided for the buyer affordability loans which will be committed on a project by project basis.

## Guidelines:

### Project Based housing:

- Maximum subsidy per property is \$33,000. A priority will be given to projects that provide matching funds.
- All funds will be provided at a rate of 3% interest on a second mortgage to be repaid at the time of sale or transfer of the property unless the new owner meets the current income guidelines. If a property is removed from the land trust and therefore no longer subject to the affordability requirements the funds provided to the project will be immediately due and payable.
- The funding provided will be for either a documented construction gap or land write down.
- New construction homes or rehabilitated ones will be developed either privately or on lots purchased from CPED and placed into a land trust.
- Where appropriate homes will be rehabilitated and upon completion placed into a land trust.

### Buyer Financing:

- Establish a revolving loan fund –
  - ◇ Maximum subsidy per property will be \$50,000.
  - ◇ All funds provided will be a 3% interest bearing second mortgage due upon sale of the property.
  - ◇ Funds will be provided to individual home buyers based upon application and verification of income.
  - ◇ Funds will be provided to home buyers who are purchasing homes developed on lots purchased from CPED based on application and income verification as well as buyer initiated land trust units.
  - ◇ Loans can be assumable by the new purchaser based upon application and provided they meet the income restrictions.