



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

Date: February 1, 2005

To: Council Member Lisa Goodman, Community Development Cmte

Prepared by: Tiffany Glasper, Sr. Project Coordinator, Phone 612-673-5221

Presenter in Committee: Tiffany Glasper, Sr. Project Coordinator, Phone 612-673-5221

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

Subject: Perpetual Affordability Program

RECOMMENDATION: Approve staff-recommended changes in Perpetual Affordability funding for projects associated with the City of Lakes Community Land Trust, as follows:

- The Project for Pride in Living and Powderhorn Residents Group projects receive funding in the form of 2% deferred loans secured with a mortgage against the land interest instead of as affordability loans directly to the buyer.
- That the vacancy and substantial rehabilitation requirements stated in the initial RFP be waived only for the City of Lakes Community Land Trust's Homebuyer Initiated Program.

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.

On October 12, 2004, the Community Development Committee approved \$215,000 in Perpetual Affordability funding for Powderhorn Residents Group's Village in Phillips - Phase I, Project for Pride in Living – 3822 Stevens Avenue South and the City of Lakes Community Land Trust – Homebuyer Initiated Program (HIP).

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 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% of MMI. The original PA program RFP stated that funds would be provided either as a grant for new construction and rehabilitation projects which 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"). 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.

The original RFP stated that to be eligible for the PA program funding, a project must be proposed for a property that is a vacant lot, single family home or duplex that has been or will be acquired by a developer and that 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 before the funds are released. 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 RFP also required that properties being privately or publicly acquired be vacant at the time of acquisition.

On October 12, 2004, staff brought funding recommendations forward to the Community Development Committee for Powderhorn Residents Group (PRG), Project for Pride in Living (PPL) and the City of Lakes Community Land Trust (CLCLT). All proposals identified the land trust model as the mechanism that would foster the perpetual affordability requirements. Staff's recommendations were approved at that time. The PPL and PRG properties are in impacted areas and the CLCLT Homebuyer Initiated Program (HIP) focuses on non-impacted areas of the City.

Since the approval, we have been informed by PPL and PRG that they misinterpreted language in the RFP related to the 2% affordability loan. Representatives from both were unclear on the requirements and terms of repayment of the 2% affordability loan. This lack of clarity has resulted in two buyer closings which have occurred without our funds being disbursed and without the developers taking a second mortgage from the buyers. It is not feasible at this point to attempt to convince these buyers to sign an additional note for the affordability funds as they were not fully advised of this requirement prior to closing.

To address this issue, PPL, PRG (both are using the land trust model to accomplish the perpetual affordability requirements) and the CLCLT have requested that we provide the Affordability Gap assistance directly to the developers (PPL and PRG) rather than to the buyers and take back a second mortgage to the title of the land as opposed to the improvements. Additionally, they are requesting that we restructure the terms of such loans to be forgiven at Year 30 or, alternatively, renewed with a forgiveness of interest so as to continue the perpetual affordability to households earning less than 50% of MMI. Their position is that in 30 years, more of a subsidy may be required in order to

meet the established income limits and they will need the funds to make the home affordable to the next income-qualifying borrower.

Staff does not agree with the approach suggested by the PPL, PRG and CLCLT. Staff is recommending that the 2% affordability deferred loan funds be provided as reimbursement loans to PPL and PRG and that the City take back mortgages against the land interests. Staff further recommends that the loan principal and interest become due and payable upon sale of the home to a non-income qualified buyer regardless of when that sale occurs. Staff believes this is a reasonable compromise, considering that the focus of both the Land Trust and the Perpetual Affordability Pilot Program is to provide opportunities for long-term affordable housing.

Staff believes that this is much less of an issue on the CLCLT's Homebuyer Initiated Program (HIP). The HIP focuses on providing affordable housing opportunity in non-impacted areas of the City. Affordable housing in non-impacted areas of the City is much more likely to increase in value over time, making the shared equity component more workable for both the CLCLT and the homebuyers.

The CLCLT's HIP is a buyer- and market-driven program where, in many cases, participants will be potentially purchasing properties off the open market. Some of the properties could be occupied. The original RFP called for the properties to be vacant. One rationale for this requirement was to avoid the payment of relocation costs. Considering the nature of the program and the fact that for those units that may be occupied, the majority will be occupied by willing owner-sellers that would not be entitled to relocation benefits under the City's relocation policy, the CLCLT is requesting our waiving the vacancy requirement. In the event that the property is occupied by tenants, the CLCLT would secure a relocation waiver from the tenants or pay the relocation benefits from non- PA funds.

Additionally, it is unlikely that properties funded through the CLCLT's HIP will require major rehabilitation based on the HIP requirement to purchase properties in non-impacted areas of the City. Therefore, this requirement does not apply to the CLCLT. Staff is comfortable addressing rehab issues under the HIP on a case-by-case basis considering that the ultimate goal of perpetual affordability will be achieved.

Considering this and also considering the opportunity this program provides for the City, staff is recommending that the vacancy requirement be waived for the CLCLT HIP allowing the program to proceed as originally designed.

With this in mind, staff recommends the following:

- The Project for Pride in Living and Powderhorn Residents Group projects receive funding in the form of 2% deferred loans secured with a mortgage against the land interest instead of as affordability loans directly to the buyer.

- That the vacancy and substantial rehabilitation requirements stated in the initial RFP be waived only for the City of Lakes Community Land Trust's Homebuyer Initiated Program.