



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

**Date:** May 16, 2006

**To:** Council Member Lisa Goodman, Community Development Committee  
Council Member Paul Ostrow, Ways & Means Budget/Committee

**Subject:** Request to reprogram up to \$500,000 of Residential Finance Mortgage program income to Heritage Housing, LLC to be provided to qualified purchasers as second mortgage loans under the Summerfield Affordable Ownership Program.

**Recommendation:**

- 1) Provide up to \$500,000 of Residential Finance Mortgage program income to Heritage Housing, LLC to be used as affordability loans for the Heritage Park Redevelopment Project.
- 2) Authorize amending the 2006 Appropriation Resolution by increasing the Community Planning & Economic Development Agency Fund SRF-Residential Finance Mortgage Fund (SRF0-890-8952) by \$500,000.

**Previous Directives:** On May 2, 2003, the MCDA Board of Commissioners authorized staff to enter into negotiations with Heritage Housing L. L. C. based on their proposed Scope of Services, returning with a term sheet within 90 days.

On August 8, 2003, the City Council approved the business terms and conditions for the Development Agreement for Heritage Park Phases 1 and 2, with Heritage Housing, LLC; increased the appropriation and revenue in Fund SDA by \$668,000. On August 8, 2003, the MCDA Board of Commissioners authorized the sale of property to Heritage Housing, LLC; approved the business terms and conditions; and authorized the execution of a Development Agreement with Heritage Housing, LLC for Phases 1 and 2 of the Heritage Park Redevelopment Project.

On May 28, 2004, the City Council authorized the appropriate City officials to execute an amendment to the Phase 1 and 2 Heritage Park Redevelopment Contract with Heritage Housing, LLC increasing the total number of for-sale units to be developed and providing an option for a future commercial component. On May 28, 2004, the City Council authorized amending the 2004 General Appropriation Resolution by increasing the Community Planning & Economic Development Agency, Fund CPO – Capital Projects Other (CPO0-890-8952) appropriation by \$16,000 and increase the 2004 Revenue Budget for the Community Planning & Economic Development Agency Fund CPO – Capital Projects Other (CPO0-890-8490) by \$16,000.

On April 29, 2005, the City Council authorized a second amendment to the Heritage Park Redevelopment Contract with Heritage Housing, LLC extending the commencement and completion timeframes for Phases 1 and 2; amending Section 5.05 Construction Plans and Specifications and amending Section 11.02 Phases 3 and 4 Improvements.

**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

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**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 (use any categories that apply)**

Neighborhood Notification: The Near Northside Master Plan, which includes Phases 1 and 2 of Heritage Park, was comprised with extensive community involvement in 2000. In March 2003 residents from both the Harrison and Near North neighborhoods selected Heritage Housing, LLC as the recommended developer for the ownership housing to be developed in Heritage Park. On April 15, 2003 the Harrison neighborhood housing committee and board recommended Heritage Housing, LLC to develop the for sale housing in the first phase of Heritage Park, based on responses from community meetings. On February 17, 2004, the Harrison neighborhood housing committee approved Heritage Housing, LLC's request to develop a mixed-use building at Heritage Park.

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: Sections 4.09, 4.10 and 4.15: Minneapolis will grow by increasing its supply of housing and will increase the housing that is affordable to low and moderate income households. 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: Projects will comply.

Other: N/A

**Background/Supporting Information**

Heritage Housing LLC, acting as the Master For-Sale Developer (Redeveloper) for Phases 1 and 2 in the Heritage Park Redevelopment Project, is responsible for the land development, architectural and site coordination functions resulting in buildable lots for sale to individual builder/developers. The Redeveloper anticipates developing 171 units containing a mix of 74 single family homes and 96 multi-family units comprised of duplex, townhouses, senior cottages, and condominium units, including all landscaping in accordance with construction plans that are pre-approved by CPED

(formerly the MCDA). Of the 171 ownership units to be constructed in Phases 1 and 2, 26 units (15% of the total number of units) will be sold to purchasers with incomes below 60% of the area median income (AMI). The Redeveloper is working with Twin Cities Habitat for Humanity (Habitat), as a developer who is constructing and marketing these units through their existing program. An additional 26 units (15% of the total number of units) will be sold to purchasers with incomes below 80% AMI. The Redeveloper is working with several non-profit developers including, Northside Residents Redevelopment Council (NRRRC), Greater Metropolitan Housing Corporation (GMHC), Project for Pride in Living (PPL), and Powderhorn Residents Group (PRG) to construct and market these units to qualified buyers.

HHLLC has contracted with Center for Energy and Environment (CEE) as the origination administrator. CEE works with the first mortgage lenders, obtaining all the necessary financial documentation needed to ensure the purchasers qualify for these second mortgage funds. Attached as exhibit A, is a copy of the Summerfield at Heritage Park Affordable Ownership Program guidelines and buyer restrictions which is given to realtors marketing the for-sale properties in the Heritage Park community.

Initially, CPED provided \$261,000 of mortgage revenue bond financing as affordability funds to the Redeveloper. These funds are used to bridge the gap between the first mortgage amount the purchaser can qualify for and the fair market value (or sales price) of the units. Since then, the Redeveloper has submitted numerous applications to various funders seeking additional affordability resources. HHLLC has successfully received \$125,000 from Empowerment Zone along with two funding awards from Minnesota Housing Finance Agency (MHFA) Community Reinvestment Fund Program (CRV) (\$240,000; \$200,000). While these funds have been helpful, it is not enough to fund 26 households. The buyer demand for affordability assistance has consistently exceeded the amount of funds available, which has caused the development to lose several qualified buyers who are unable to wait until the Redeveloper can secure additional funding.

As of April 4, 2006 the Heritage Park Affordability Fund had a fund balance of \$235,000 for qualified purchasers. In early May, MHFA announced another award of CRV funds to Heritage Park in the amount of \$150,000. Presently five buyers have received affordability funds to purchase a home within this development. With long-term mortgage rates beginning to increase, the demand for second mortgage funds and the amount needed, for households earning less than 80% AMI, also increases.

HHLLC has a contractual obligation with the City and the community to provide up to 26 for-sale opportunities that are affordable to households earning between 60%-80% AMI. At an upcoming meeting, the Family Housing Fund will be considering a request to award up to \$200,000 to HHLLC for the Heritage Park Affordability Fund. Staff is recommending the Council authorize up to \$500,000 of [Residential Finance Mortgage](#) program income to HHLLC to be provided as second mortgage funds and approve the attached resolution amending the 2006 General Appropriation. These additional amounts matched with the remaining MHFA CRV funds will greatly enhance the opportunities available to low-to-moderate income households to purchase a home in Minneapolis' newest neighborhood Heritage Park. It is projected that the [Residential Finance Mortgage](#) funds, combined with the MHFA and Family Housing Fund awards, should be sufficient to complete all 26 affordable units in Phases 1 and 2.

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#### Attachments

City Council Resolution  
Summerfield Affordable Ownership Program