

**City of Minneapolis**  
**Request for Committee Action**

**To:** Community Development & Regulatory Services  
**Date:** 12/1/2015  
**Referral:** N/A  
**From:** Community Planning & Economic Development  
**Prepared by:** Jon T. Clevenger, Manager, Residential Finance  
**Presented by:**  
**File type:** Receive & File  
**Subcategory:** Report

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**Subject:**

Three-Year Evaluation of the Affordable Housing Initiative for the City of Minneapolis for 2012 - 2014.

**Description:**

Receive and File Evaluation Report Concerning the Affordable Housing Initiative of the City of Minneapolis Covering the Three-Year Period 2012 to 2014.

**Previous Actions:**

The Affordable Housing Policy for the City of Minneapolis adopted by the City Council on September 7, 1999 (Resolution 99R-312), amended on February 16, 2001 (Resolution 2001R-057), rescinded and replaced June 18, 2004 (Resolution 2004R-260), as amended October 2, 2009, March 10, 2011, April 26, 2013, and November 1, 2013. The resolution directs the Department of Community Planning & Economic Development (CPED) to prepare annual reports to the community regarding affordable housing activity related to the resolution.

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**Ward/Address:**

All Wards

**Background/Analysis:**

The City of Minneapolis Affordable Housing Policy contains three requirements and eight goals for affordable housing production.

All of the Affordable Housing Initiatives of the City of Minneapolis completed 2012-2014 met the requirements of the City of Minneapolis Affordable Housing Policy. Those requirements are:

- **Requirement 1:** City/CPED must produce more new units affordable at 30-60% Area Median Income (AMI) than the units affordable to 30-60% AMI that are demolished.
- **Requirement 2:** 20% of the units of each City/CPED housing projects of >10 units will be affordable to <60% AMI (housing projects receiving assistance from the City's Affordable Housing Trust Fund (AHTF) need to be affordable at 50% AMI).
- **Requirement 3:** Except for senior housing, all publicly assisted rental projects shall accept Section 8 housing choice vouchers.

The Affordable Housing Initiatives of the City of Minneapolis completed 2012-2014 met three of the eight goals of the City of Minneapolis Affordable Housing Policy. Those goals are:

- **Goal 1:** Total annual CPED investment of \$10 million per year directed to affordable housing production.
- **Goal 2:** CPED Three Year Production/Preservation Goal (2012 – 2014): 2,250 units of new or stabilized affordable housing at or below 60% AMI (1,500 of these units affordable at or below 50% AMI):

	<b>Goal A-Minneapolis Unified Affordable Housing Policy</b>		<b>Goal B-Livable Communities Act (LCA)</b>
	NEW Production / stabilization of affordable housing for households at or below 50% AMI		NEW Production of affordable housing for households at or below 60% AMI
Year	Stabilized/Renovated Units (<50% AMI) (GOAL A UNITS ONLY)	New Production Units (<50% AMI) (GOAL A and B UNITS)*	New Production Units (Between 50% and 60% AMI) (GOAL B UNITS ONLY)
2012	250	250	250
2013	250	250	250
<u>2014</u>	<u>250</u>	<u>250</u>	<u>250</u>
	<b>750</b>	<b>750</b>	<b>750</b>

*\*New production units affordable at or below 50% AMI are included against both the City's Unified Housing Policy (Goal A) and Livable Communities Act (Goal B).*

- **Goal 3:** At least 50% of the units affordable at 50% of the AMI as required in requirement 2 shall be affordable at <30%.
- **Goal 4:** Fifty percent (50%) of the City/CPED's affordable housing funds will be used for the capital cost of units affordable at 30% or below of the AMI.
- **Goal 5:** To allocate 70% of affordable housing funds for units with 2 or more bedrooms and 30% to units with 0-1 bedrooms.
- **Goal 6:** At least 50% of new City-produced affordable housing is to be located in areas of the city where it is presently lacking (non-impacted areas).
- **Goal 7:** Affordable housing emphasis in impacted census tracts – preservation, rehabilitation and stabilization.
- **Goal 8:** Affordable housing emphasis in non-impacted census tracts – construction and positive conversion.

Goals 1, 2B, 3, 4, and 5 were not achieved. Full descriptions and the status of both the requirements and goals are explained in the attached Affordable Housing Initiatives Report.

#### **Participation in the Metropolitan Council Livable Communities Act**

Over the past decade, the City of Minneapolis has received over \$50 million in grants from the Metropolitan Council's Local Housing Incentives Account for affordable housing projects in Minneapolis. These funds, when combined with other sources are essential in closing the financial gap in affordable housing projects which greatly help to increase the tax base of the city.

In December 2010, the City of Minneapolis adopted the Housing Action Plan (HAP) as a requirement for continued participation in the Metropolitan Council's Livable Communities Act Local Housing Incentives Account. This plan specifies that the city has agreed to the current goal of 4,224 units of affordable housing production over the period of 2011 to 2020. CPED's Affordable Housing Initiatives are essential in achieving these goals and continuing the successful funding from the Metropolitan Council.



**B. Housing Production:**

A key component of the Policy is that each year, CPED shall produce more affordable housing units at 60% or below the Area Median Income or AMI through new construction/positive conversion, than the number removed by City/CPED action. The total production of new affordable housing units at or below 60% AMI by CPED for years 2012 – 2014 was 1,085 (1,065 rental and 20 ownership) units.

**Requirement 2: Twenty percent (20%) of the units of each City/CPED assisted housing project of 10 units or more will be affordable to households earning 60% or less of the Area Median Income (AMI). It is understood that these affordable units include any mix of rental and/or homeownership, and can be located on the project site or anywhere in the City of Minneapolis. Any specific project requesting exemptions to this requirement must seek City Council approval on the basis of alternative public purpose.**

**Status: Achieved**

**Summary of Action:** All city-assisted multifamily housing projects (10+ units) placed in service in 2012 - 2014 had at least 20% of the units affordable. In fact, 60.8% of all new production units and 87.8% of all rehabilitation/stabilization rental units were affordable to households with incomes at or below 60% AMI.

**Requirement 3: Except for senior housing, all publicly assisted rental projects shall accept Section 8 housing choice vouchers.**

**Status: Achieved**

**Summary of Action:** CPED has implemented this policy for all rental projects and has included language in its legal documents which will require compliance.

**Resolution Goals**

**Goal 1: City of Minneapolis is directed to increase funds directed to affordable housing production with a goal of a total annual CPED investment of \$10 million per year.**

<b><u>YEAR</u></b>	<b><u>Affordable Housing Trust Fund Budget</u></b>
2012	\$ 7,662,743
2013	\$ 7,911,800
2014	\$ 8,462,591
<b>TOTAL</b>	<b>\$ 24,037,134</b>

**Status: Not Achieved**

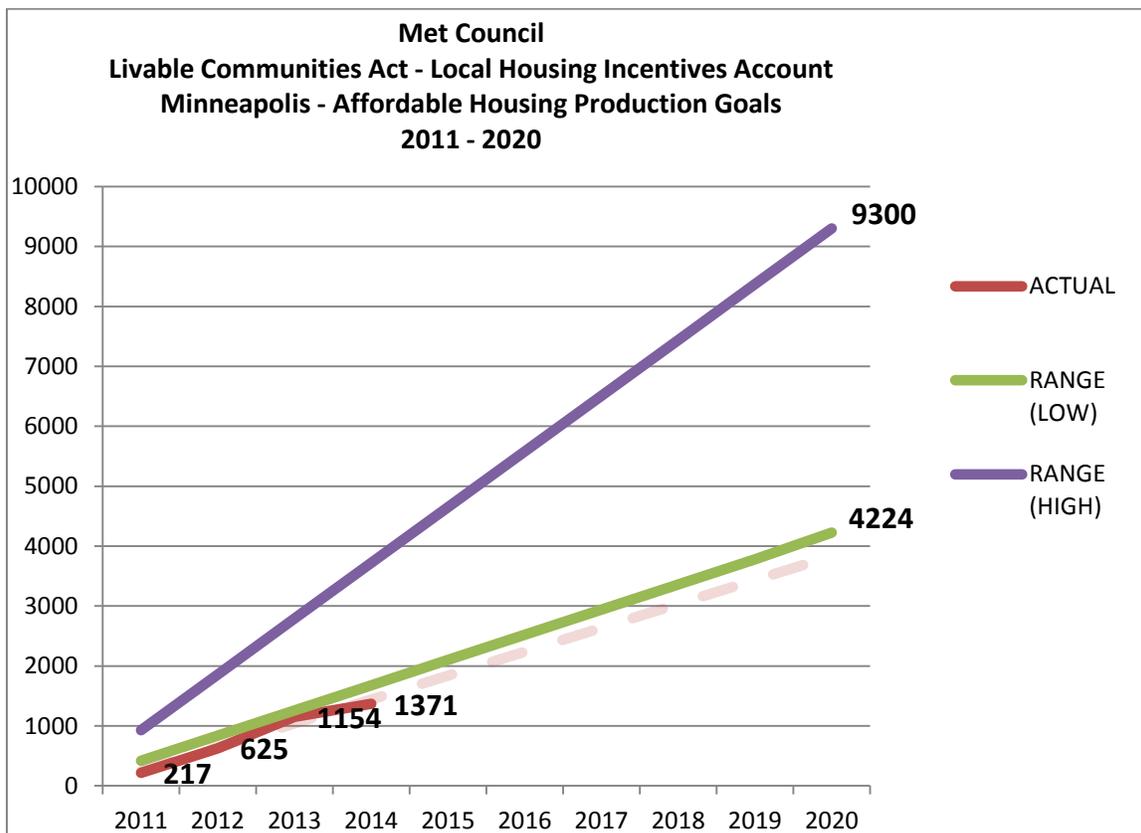
**Summary of Action:** In 2012 – 2014 the Affordable Housing Trust Fund received a cumulative budget amount of \$24,037,134. In addition, the city allocated \$4.1 million in Low Income Housing Tax Credits during this same time, generating an estimated \$40 million in private equity.

**Goal 2: CPED Three Year Production/Preservation Goal 2012-2014**

Year	Goal A-Minneapolis Unified Affordable Housing Policy NEW Production and rehab / stabilization of affordable housing for households at or below 50% AMI		Goal B-Livable Communities Act (LCA) NEW Production of affordable housing for households at or below 60% AMI			
	Stabilized/Renovated Units (<50% AMI)		New Production Units (<50% AMI)		New Production Units (Between 50% and 60% AMI)	
	(GOAL A UNITS ONLY)	UNITS PRODUCED	(GOAL A and B UNITS)*	UNITS PRODUCED	(GOAL B UNITS ONLY)	UNITS PRODUCED
2012	250	732	250	216	250	192
2013	250	79	250	391	250	138
<u>2014</u>	<u>250</u>	<u>103</u>	<u>250</u>	<u>107</u>	<u>250</u>	<u>110</u>
	<b>750</b>	<b>914</b>	<b>750</b>	<b>714</b>	<b>750</b>	<b>440</b>

**Status:**                      **Goal A: Achieved**  
   **Goal B: Not Achieved**

**Summary of Action:** In 2012 - 2014, a total 2,068 new production and rehab / stabilization of affordable housing units was completed. GOAL A: A total of 1,628 new production and rehab /stabilization affordable housing units affordable at or below 50% AMI was completed - sufficient to meet the cumulative 50% AMI new / rehab production GOAL A target of 1,500 units. GOAL B: A total 1,154 new production affordable housing units at or below 60% AMI was completed – insufficient to meet the cumulative 60% new production GOAL B target of 1,500.



**A. Description of Rental Housing Production**

For purposes of this report, production for this goal is defined as new production and preservation/stabilization. In 2012 - 2014, CPED assisted in the development or preservation of 3,364 total rental housing units in Minneapolis. The City’s total direct subsidy of this development totaled \$25 million and leveraged another \$380 million in non-city funding, for a total leverage ratio of more than 15:1.

**Table 2 Rental Housing Production Completed Units Summary 2012-2014**

	Total Units	Direct Subsidy CPED funds	HRB Finance	Leverage non City funds
New Production	1,749 Units	\$20.6 million	\$36.2 million	\$281.3 million
Preservation Of units	1,615 Units	\$ 4.5 million	\$56.5 million	\$ 98.8 million
Total	3,364 Units	\$25.1 million	\$92.7 million	\$380.1 million

**Table 3: Rental Housing Production by Income Groups 2012 - 2014**

Affordability Level	30%	50%	60%	80%	Market
New Production	127	518	420	0	684
Preservation	165	749	505	42	154
Total	3,364	292	1,267	925	838

**Affordable Units at 50% or Below AMI:**

Total Affordable New Production - 645 units

Total Affordable Stabilization/Preservation – 914 units

Exhibit B gives detailed information on all sources of financing used to leverage CPED funds to accomplish program objectives. Exhibit B also shows the household incomes served by the programs.

**Goal 3: CPED will aggressively pursue funding for operating subsidies and/or rental assistance on City/CPED assisted housing projects of 10 units or more from all possible funding sources including but not limited to the Minneapolis Public Housing Authority, Minnesota Housing, Hennepin County, Federal Government and Metropolitan Council. To the extent that leverage resources are available for operating support or project based rental assistance, at least 50% of the units affordable at 50% of the AMI as required in requirement 2 shall be affordable on a project -by-project basis at an income level of 30% or less of AMI. No City or CPED funds or resources shall be used for operating subsidies and/or rental assistance for any units or projects initiated or created under this policy.**

**Status: Not Achieved**

**Summary of Action:** 18.5% of the affordable units completed in 2012 – 2014 were affordable at or below 30% AMI. CPED resources were used for capital costs only. CPED has worked cooperatively with MPHA on the delivery of Project-Based Section 8 subsidies (PBA) since 2001.

**Goal 4: Fifty percent (50%) of the City/CPED’s affordable housing funds will be used for the capital cost of production of units affordable at 30% or below of the AMI. When units require operating subsidies and/or rental assistance, these will be secured through partnership with**



## Senior Housing Initiative

On November 1, 2013, City Council authorized amendment of the Unified Affordable Housing Policy to create the Senior Housing Initiative. The Senior Housing Initiative reflects the following goals for the City of Minneapolis:

**Senior Housing Initiative – Goal 1:** Partner with the community to create one new senior housing project of at least 35 units in each ward of the City by 2025. The table below lists the number of new affordable senior housing units produced since the 2013 adoptions of the Senior Housing Initiative.

<u>WARD</u>	<u>SR. HOUSING PROJECT</u>	<u># UNITS</u>	<u>AHTF</u>	<u>HRB</u>	<u>YR COMPLETED</u>
1					
2					
3	<i>Mill City Quarter and Abiitan</i>	301	\$ 1,500,000	\$ 22,000,000	<i>Anticipated 2016</i>
4					
5					
6	Snelling Apts	60	\$ -	\$ 7,350,000	2014
7					
8					
9	<i>Hi Lake Triangle Apts</i>	64	\$ -	\$ 5,425,000	2015
10					
11					
13					
	<b>TOTAL:</b>	<b>425</b>	<b>\$ 1,500,000</b>	<b>\$ 34,775,000</b>	

**Senior Housing Initiative – Goal 2:** Set aside 30% of the annual Affordable Housing Trust Fund budget for senior rental housing financing.

**Status:** **Achieved – All senior housing applications received through the AHTF Program RFP have been funded to date.**

**Senior Housing Initiative – Goal 3:** Set aside 25% of the annual Housing Revenue Bond allocation for senior rental housing financing.

**Status:** **Achieved – All senior housing applications received through the HRB program have been funded to date.**

**Senior Housing Initiative – Goal 4:** City Council will make it a goal to budget \$1.5 million annually for an owner occupied rehab program of which \$1.0 million will be set aside for senior households.

**Status:** **The City Council approved \$1.15 million for the 2014 budget, \$810,000 of which was for seniors and the remaining \$305,000 for non-senior homeowners. No funds were budgeted for 2015. The program did not begin until 2015 because of contractual problems which have been resolved, but funds have been committed quickly once the program was underway. Of the funds that were budgeted, a little over \$18,000 remains available to seniors with 12 loans closed and 18 currently in process. Approximately \$20,000 remains for other owner-occupied rehab with 8 closed and 1 in loan process.**

**A waiting list exists for both funding sources and funds are expected to be fully committed by the end of the year.**

**Senior Housing Initiative – Goal 5:** CPED will report the number of senior housing units created or enhanced as part of the annual Affordable Housing Initiative report.

**Status:** **Achieved (see above table)**

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### **Debt Modification**

After affordable housing units are completed, City staff monitor City investments and work to preserve the affordability and sustainability of City-assisted affordable housing. From 2012-2014, Staff negotiated and implemented debt modification efforts cumulatively benefitting 2,145 existing rental units affordable at or below 60% AMI. In addition, the City received loan repayments totaling \$5.8 million, and collected \$98,500 in loan administration fees to offset staff costs associated with debt modification efforts. City loan repayments are returned to the applicable City fund and can be used to support other affordability housing activities or other city purposes, depending on the source of funds.

Beginning in 2010, City Council requested CPED include a summary of debt modification efforts on behalf of existing affordable housing City debt. Debt modification may involve subordination, maturity date extension, and other loan term changes that affect interest rate, accrued interest and/or principal balance amounts in accommodation of a first mortgage refinance being undertaken to reduce debt service costs on a project. Debt modification may also involve forgiveness of interest and/or principal amounts in support of acquisition and rehabilitation to accommodate new capital investment in existing affordable housing projects.

In 2012 – 2014, CPED participated in debt modification efforts on 28 existing affordable housing projects impacting \$37 million in existing City loans. Numerous affordable housing developers partnered with the City as a subordinate lender to refinance existing 1<sup>st</sup> mortgages and take advantage of low interest rates. The City's accommodation of these 1<sup>st</sup> mortgage refinances is anticipated to reduce debt service costs cumulatively on these projects by \$1.4 million annually.

In 2012 – 2014, the City forgave \$6.9 million in accrued interest and \$1.1 million loan principal in support of the acquisition and rehabilitation of three significant existing affordable housing projects: Aeon Refinance – MP3, PPL DECC Recapitalization, and Seward Towers East and West.

### **Financial Review:**

**No additional appropriation required, amount included in current budget.**

- Future budget impact anticipated.**
- Approved by the Permanent Review Committee.**
- Meets Small and Underutilized Business Program goals.**

### **Attachments:**

Exhibit A: Listing of properties demolished by City/CPED action

Exhibit B: Reports on 2012 - 2014 Production by Project and Program - Multifamily Rental: New (B-1) and Rehab (B-2), Multifamily Ownership (B-3), and Single Family Ownership (B-4)