

Request for City Council Committee Action from the Department of Community Planning and Economic Development - CPED

Date: October 14, 2008
To: Lisa Goodman, Community Development Committee Chair

Subject: Change in program guidelines to the Affordable Ownership Housing Program (AOHP) and revision to the City of Minneapolis Unified Housing Policy.

Recommendation: It is recommended that the Minneapolis City Council approves the revisions to the AOHP as outlined in this report and as a result, the complementary changes to the City of Minneapolis Unified Housing Policy for all projects related to the AOHP.

Previous Directives: During the 2004 budget process, the City Council approved \$1,000,000 for the Workforce Ownership Housing Development Program. On January 20, 2004, the Community Development Committee reviewed the Housing Policy Agenda and directed staff to prepare guidelines and criteria for the Workforce Ownership Housing Development Program.

On September 14, 2004, the Community Development Committee approved the guidelines for and implementation of the Workforce Ownership Housing Development Program.

On April 15, 2005, the City Council approved Workforce Ownership Housing Development Program funding commitments of \$1,130,000 to five development projects. The committee also approved combining the Workforce Housing, Perpetual Affordability and Limited Equity Cooperative Funding programs creating one consolidated program, the Affordable Ownership Housing Development Program.

On December 23, 2005, the City Council approved Workforce Ownership Housing Development Program funding commitments of \$1,990,000 to nine development projects.

On April 28, 2006, the City Council approved technical revisions to the Affordable Ownership Housing Development Program Guidelines.

On August 18, 2006, the City Council approved up to \$500,000 of Residential Finance Mortgage program income to the Affordable Ownership Housing Development Program and amended the 2006 General Appropriation Resolution by increasing the Community Planning & Economic Development Agency Fund SRF0-Residential Finance Mortgage Fund (SRF0-890-8952) by \$500,000.

On October 20, 2006, the City Council approved the Affordable Ownership Housing Development Program funding commitments of \$1,301,250 to five development projects.

On October 5, 2007, the City Council approved the Affordable Ownership Housing Development Program funding commitments of \$1,690,000 to five development projects.

On July 11, 2008, the City Council approved the Affordable Ownership Housing Development Program funding commitments of \$93,885 to three development projects, modified the current sales requirements, and waived the City of Minneapolis Unified Housing Policy for the Cedar 28 and 3310 Nicollet Projects.

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Approved by: Charles T. Lutz, Deputy CPED Director _____
Thomas Streitz, Director, Housing Policy & Development _____

Presenters in Committee: William Koncak, Senior Project Coordinator

Financial Impact

- No financial impact – action is consistent with existing program funding requirements.
 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
 Action is within the Business Plan
 Action requires a change to the Business Plan
 Other financial impact
 Request provided to the Finance Department when provided to the Committee Coordinator

Community Impact

Neighborhood Notification: On June 6, 2008, CPED sent a 45-day notice to all of the neighborhood groups and interested parties requesting comments on changes to the Affordable Ownership Housing Program and the Unified Housing Policy with comments due back on July 23, 2008. Due to staff changes related to the management of the program, the review period was extended to September 30, 2008.

City Goals: In five years, all Minneapolis residents will have a better quality of life and access to housing and services; residents will live in a healthy environment and benefit from healthy lifestyles; the city's infrastructure will be well-maintained and people will feel safe in the city.

Sustainability Targets: Affordable Housing Units: new/positive conversion and rehabilitation.

Comprehensive Plan: Section 4.9: Minneapolis will grow by increasing its supply of housing. Section 4.10: Minneapolis will increase its housing that is affordable to low and moderate income households. Section 4.11: Minneapolis will improve the availability of housing options for its residents. Section 4.15: Minneapolis will carefully identify project sites where housing redevelopment or housing revitalization is the appropriate responses to neighborhood conditions and market demand.

Zoning Code: Projects comply.

Living Wage/Business Subsidy Agreement Not applicable

Supporting Information

The Affordable Ownership Housing Development Program (AOHP) was designed to assist for-profit and non-profit developers with rehabilitation and construction of new affordable single-family, duplex or multi-unit housing for owner-occupancy, including limited equity cooperatives. AOHP provides up to half of the total project gap funding. Program funds are used to assist housing developments with long-term or perpetual affordability mechanisms and may be used for both development cost gap and/or buyer affordability gap. Developers are required to provide documentation that the project will remain affordable at the same income level for approximately 30 years. In 2004, 2005 and 2006, CPED issued Request for Proposals (RFP) accepting developer applications for the program.

Currently, the maximum CPED assistance for units sold to owner-occupied households whose total income is at or below 50% of metropolitan median income is \$45,000 per unit with a maximum of \$30,000 per unit for properties sold to purchasers whose income is at or below 60% of metropolitan median income. To accomplish the long-term affordability criterion, many of the developers receiving AOHP funding entered into partnership agreements with Twin Cities

Habitat for Humanity or the City of Lakes Community Land Trust (CLCLT) to market and finance its AOHP-funded units.

The market demand for condominiums and townhomes have diminished as the number of units on the market has exceeded the number of buyers seeking to purchase these units. Additionally, foreclosures caused by “exotic” mortgage lending products have undermined the for-sale housing market in many Minneapolis neighborhoods and across the nation. In August 2007, Minnesota’s Anti-Predatory Lending Legislation went into effect eliminating numerous creative and unusual mortgage lending practices and products that were previously available to lower-income households. With even tighter mortgage lending requirements for purchasers and an increasing inventory of foreclosures, low-income buyers who were previously pre-approved for mortgage loans began experiencing difficulty obtaining a mortgage approval for half the original amount. In late 2007 through 2008, the real estate market plummeted. It is envisioned that this trend will continue into 2009. These national and local events—foreclosures and tighter underwriting—have negatively affected numerous newly constructed for-sale developments.

In January, 2008, after two years of marketing, the CLCLT requested a waiver for one AOHP-funded unit at the Cedar 28 development. CLCLT staff indicated they were experiencing difficulty identifying buyers, earning less than 50% of median income who could qualify for a mortgage loan to purchase a land trust condominium unit. After additional review, staff discovered three substantially completed AOHP-funded projects struggling to identify mortgage-qualified buyers in accordance with the AOHP income restrictions.

To remain competitive in the existing real estate market, developers have reduced the sale prices of the AOHP-assisted units. Unfortunately, they are still experiencing difficulty identifying mortgage-qualified buyers. On June 24, 2008, based on staff’s recommendation the Community Development Committee approved the provision of additional funding to support seven units in three projects—Cedar 28, 3310 Nicollet Condominiums and Project for Pride in Living 1901-15 North 4th Avenue Project. Additionally, staff informed the committee of the intent to make changes to the current AOHP guidelines, which also necessitated a complementary change to the City of Minneapolis Unified Housing Policy. To effectuate the change, a public notice was necessary and was tendered by staff with a deadline of September 30, 2008.

Staff received two responses to the request for public comment. The first was from Metropolitan Consortium of Community Developers (MMCD) that supports the changes, but states, “While we are supportive of the proposed changes, especially given the current challenging housing market, we encourage the City to continue to target households with lower incomes (less than 50% MMI).” The second responder was Midtown Phillips who stated that the change is of little help to the existing residents of Midtown Phillips...” They added, “The households it will benefit most are those moving into Midtown Phillips because of the lower total house purchase and rehab costs.” Though there is value in the argument, staff believes that the proposed program changes are not less favorable to the Midtown residents than the original guidelines as the current residents are still eligible to utilize the program.

Based on the responses and staff’s evaluation, staff recommends the City Council authorizes the initiation of retroactive revisions to the AOHP guidelines and the complementary changes to the City of Minneapolis’ Unified Housing Policy as follow:

Proposed Revision to the AOHP Guidelines

The maximum CPED assistance for units sold to households earning at or below 60% (formerly 50%) MMI is \$45,000 per unit and a maximum of \$30,000 per unit for properties sold to households earning at or below 80% (formerly 60%) MMI. There is no proposed change in the amount of subsidy that goes into each project. The percentage of projects supported by income

limits will also remain unchanged—approximately half of the CPED funds will assist units at or below 60% MMI and approximately half will assist units at or below 80% MMI.

Proposed Revision to the City of Minneapolis Unified Housing Policy

The proposed revision to the AOHP guidelines necessitates a complementary change to the City of Minneapolis Unified Housing Policy. Currently the City of Minneapolis Unified Housing Policy reads—Twenty percent (20%) of the units of each City assisted housing project of ten or more units will be affordable to households earning 50% or less of the MMI. It is proposed that it be revised to include the bolded phrase as follow—Twenty percent (20%) of the units of each City assisted housing project of ten or more units will be affordable to households earning 50% or less of the MMI **for rental projects and affordable to households earning 60% or less of the MMI for homeownership projects.**

Attachments: 1) Public Review & Comment Request and Extension Notice
2) Community Comments