



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

Date: August 23, 2011

To: Council Member Lisa Goodman, Chair, Community Development Committee

Referral to: Council Member Betsy Hodges, Chair, Ways and Means Committee

Subject: Appropriation of NSP 3 Funds and approval of interim construction financing loans to Neighborhood Stabilization Program (NSP) developers for NSP projects

Recommendation:

1) Amend the 2011 General Appropriation Resolution by increasing the Community Planning and Economic Development agency Fund 01300 Grants – Federal (01300-8900230) appropriation by \$765,804 and fund 01400 Grants – CDBG and UDAG Funds (01400-8900230) appropriation by \$2,671,275.

2) Increase the 2011 Revenue Budget for the Community Planning and Economic Development agency Fund 01300 - Grants – Federal (01300-8900900-321008) by \$765,804 and fund 01400 – CDBG and UDAG Funds (01400-8900900-321008) by \$2,671,275.

3) Approve using \$750,000 from the Affordable Ownership Housing Program (AOHP) for use as a revolving loan fund for construction financing at 0% interest with a 2% origination fee for Neighborhood Stabilization Program (NSP) rehabilitation and redevelopment projects and authorize the execution of loan and related agreements for this purpose.

4) Authorize the Finance Office to appropriate all loan repayments to the revolving loan fund for the provision of additional construction loans to support NSP-eligible projects.

Previous Directives:

April 29, 2011 - Approved all NSP1 and NSP2 developers as eligible to participate in NSP3; authorized the appropriate City officials to enter into related agreements with the approved NSP3 developers; and authorized the CPED Director to make changes to the awards and funding, if necessitated by refinements made to NSP3 to meet HUD, MHFA or programmatic requirements.

February 25, 2011 – Received and filed public comments from the February 15, 2011 public hearing, for the City of Minneapolis' 2010 Consolidated Plan Amendment #1 – Neighborhood Stabilization Program 3 Action Plan application. The City Council directed staff to include a summary of the public comments received during the public comment period into the 2010 Consolidated Plan Amendment #1 – Neighborhood Stabilization Program 3 submitted to the U.S. Department of Housing and Urban Development (HUD) as required.

February 1, 2011 – Set the NSP3 public hearing for February 15, 2011 and the NSP3 public comment period for February 1 -15, 2011; approved and authorized staff to submit 2010 Consolidated Plan Amendment #1 - Neighborhood Stabilization Program 3 Abbreviated Action Plan to the HUD for \$2,671,275 in NSP3 funds, submit an application to Minnesota Housing Finance Agency for \$600,000 in NSP3 funds, and develop and execute related funding agreements; and authorized CPED Director to make changes to the proposed NSP3 activities, if necessitated by refinements made to NSP3 to meet HUD, MHFA or programmatic requirements.

June 16, 2009 - The City Council approved using \$1.5 million from the Affordable Ownership Housing Program (AOHP) as a revolving loan fund for construction financing at 0% interest for the Neighborhood Stabilization Program's Foreclosure Recovery and Rehabilitation Program and authorized the execution of loan and related agreements for this purpose.

Department Information

Prepared by: Edie Oliveto-Oates, Senior Project Coordinator, 612-673-5229
Approved by: Thomas Streitz, Director, Housing & Policy Development _____ Charles T. Lutz, Deputy CPED Director _____
Presenters in Committee: Edie Oliveto-Oates, Senior Project Coordinator
Funding Source and Appropriation:
Language Reviewed by Development Finance: _____

Financial Impact

- Action requires an appropriation increase to the Capital Budget or Operating Budget
Dept Name: Community Planning and Economic Development
Fund Name: 01400 – CDBG & UDAG Funds and 01300 – Grants - Federal
Amount: \$765,804 in fund 01300 and \$2,671,275 in fund 01400
- Action provides increased revenue for appropriation increase
Dept Name: Community Planning and Economic Development
Fund Name: 01400 – CDBG & UDAG Funds and 01300 – Grants - Federal
Amount: \$765,804 in fund 01300 and \$2,671,275 in fund 01400

Community Impact

- Neighborhood Notification: Each neighborhood was notified of the NPS3 application and provided an opportunity to participate in the community review process.
- City Goals: Livable Communities, Healthy Lives
 - Our built and natural environment adds character to our city, enhances our health and enriches our lives.
 - High-quality, affordable housing for all ages and stages in every neighborhood.
 - Sustainability: Green standards will be employed in construction and rehabilitation of affordable housing units developed under this program.
- Comprehensive Plan: Not Applicable
- Zoning Code: Not Applicable

Supporting Information

Background. Minneapolis applied for and was awarded NSP3 funds in the amount of \$765,804 from Minnesota Housing Finance Agency (MHFA) and \$2,671,275 from the Department of Housing and Urban Development (HUD). Minneapolis has executed grant agreements with both MHFA and HUD.

The Minneapolis NSP3 Action Plan is posted on the City of Minneapolis' NSP website: <http://www.ci.minneapolis.mn.us/foreclosure/nsp.asp>. The NSP3 funding is a key

component of the Minneapolis Foreclosure Recovery Plan based on strategic and timely government intervention for reinvesting and repositioning the market place to the extent necessary to “tip” the market toward restoring a healthy housing market.

Using the HUD NSP3 funding, the City anticipates the rehabilitation and redevelopment of approximately 12 units of single family housing for ownership and approximately 12 multifamily units for rental. In addition, approximately 10 units (combination of single family housing for ownership and multi-unit properties for rental) will be developed using MHFA funding. The amount of funds and number of units dedicated to each activity may change based on input from our development partners and other stakeholders once the feasibility of meeting the housing unit goals in the target areas is determined.

Construction Financing. Our development partners have indicated that available construction financing from traditional lending sources carries an interest rate ranging from 5-7%, which is a major impediment. In 2009, staff identified \$1.5 million from uncommitted AOHP funding to provide interim construction financing to the non-profit developers receiving NSP 1 funds. With the receipt of NSP 2 and NSP 3 funding, staff recognized that there was a need for additional interim construction financing for these projects.

To address the issue of securing additional construction financing, staff recommends that the City Council approve the use of \$750,000 (\$500,000 in 2010 Development Account funds and \$250,000 in 2011 Local Contribution funds) from the AOHP program to capitalize the original revolving loan fund for construction financing for Neighborhood Stabilization Program projects and authorize the execution of loan documents and related agreements as described below:

- **Terms:** 0% Interest and 2% Origination Fee
- **Eligible Borrowers:** The Council-approved NSP developers for construction financing to support any NSP development under Activity B—Purchase/Rehab or Activity E—Redevelopment on a first come, first served basis.
- **Maximum Loan:** The higher of 30% of the total development cost and \$40,000.
- **Loan Period:** Due at project completion for rental properties and sale to owner-occupants for ownership projects.
- **Collateral:** First mortgage on the subject project.

Loan repayments will be revolved to originate additional NSP project loans. It is anticipated that the loan fund will operate through 2014.