

# C Community Development Committee

For the Metropolitan Council meeting of May 28, 2008

Item: 2008-128

**ADVISORY INFORMATION****Date Prepared:** May 20, 2008**Subject:** LCDA Affordable Housing Land Acquisition Loan Initiative**Proposed Action:**

That the Metropolitan Council approve the construct for a Land Acquisition for Affordable New Development (LAAND) initiative as described in the attached program concept developed jointly with MN Housing and the Family Housing Fund (FHF) for implementation beginning with the next Metropolitan Housing Implementation Group RFP to give guidance for the use of 2008 Livable Communities Demonstration Account funds and additional monies from MN Housing and the FHF for loans to communities to buy land for future affordable housing development.

**Summary of Committee Discussion / Questions:**

Guy Peterson gave an overview of the proposed loan program, pointing out that the funds would be advertised and awarded through a joint process with Minnesota Housing and the Family Housing Fund, the other funding entities collaborating on this project. Committee members asked questions about whether funds could be used to purchase land for mobile home parks, how the savings on land values would be made available to the developer, how a portion of any land value appreciation would go back into the revolving fund, and how this program might complement the Metro HRA's Family Affordable Housing Program. Mr. Peterson responded that the LCA funds would be available for the same kinds of affordable housing projects currently being funded through the MHIG process, that 10% of any increase in value would come back to the Fund after some of the appreciated value has been allocated to the affordable housing development to reduce the affordability gap of the units, and that the loan program is not compatible with the Council ownership of homes in it's FAHP program.

The motion to approve the proposed action, made by Hilker, second by Pistilli, passed unanimously.

# C Community Development Committee

Meeting date: May 19, 2008, Metropolitan Council May 28, 2008

## ADVISORY INFORMATION

|                                  |  |
|----------------------------------|--|
| <b>Date:</b>                     | May 12, 2008   |
| <b>Subject:</b>                  | LCDA Affordable Housing Land Acquisition Loan Initiative   |
| <b>District(s), Member(s):</b>   | All  |
| <b>Policy/Legal Reference:</b>   | Minnesota Statutes Section 473.25                          |
| <b>Staff Prepared/Presented:</b> | Guy Peterson, Community Development Director, 651-602-1418 |
| <b>Division/Department:</b>      | Community Development/Livable Communities                  |

### Proposed Action

The Metropolitan Council approve the construct for a Land Acquisition for Affordable New Development (LAAND) initiative as described in the attached program concept developed jointly with MN Housing and the Family Housing Fund (FHF) for implementation beginning with the next Metropolitan Housing Implementation Group RFP to give guidance for the use of 2008 Livable Communities Demonstration Account funds and additional monies from MN Housing and the FHF for loans to communities to buy land for future affordable housing development.

### Background

One of the recommendations of the Livable Communities Demonstration Account (LCDA) Work Group, which was subsequently incorporated into the 2008 Livable Communities Fund Distribution Plan, was to use \$4,000,000 of LCDA funds to enable LCA-eligible communities to purchase land to be held for future affordable housing development. The fund was intended to enable applicants to take advantage of current land prices to acquire parcels that will help them meet the affordable housing needs they are being asked to address in their comprehensive plan updates.

Staff has been working with Minnesota Housing, who will also be contributing funding to this initiative, along with possibly the Family Housing Fund, to develop the initiative described in the attached Concept document.

### Rationale

Current housing market and economic circumstances create in an opportunity for communities to purchase land at current prices to hold for future affordable housing development and as a result, reduce the land costs associated with this development in the future. The attached concept document gives an overview of the fundamental guidelines and basic criteria that have been drafted by Minnesota Housing and the Council for implementing the initiative.

### Funding

At this time, the \$4,000,000 in LCDA funding has been identified. Minnesota Housing and the Family Housing Fund have indicated a willingness to also contribute funding to this initiative, but have not confirmed their exact amount of contribution.

### Known Support / Opposition

The Minnesota Housing Agency and the Family Housing Fund are in support of and partnering in this effort. Last fall, staff met separately with the local Urban Land Institute's Regional Council of Mayors and a committee formed by Metro Cities, both of whom expressed support for this initiative. No known opposition exists.

# LAND ACQUISITION FOR AFFORDABLE NEW DEVELOPMENT (LAAND)

## INITIATIVE CONCEPT

### DESCRIPTION

#### *Goals*

The Land Acquisition for Affordable New Development (LAAND) initiative of Minnesota Housing, the Metropolitan Council and the Family Housing Fund provides statewide financing to encourage communities to meet their affordable housing need. Intended to be a flexible source of funding, initially through the consolidated RFP and perhaps eventually on a pipeline basis, to meet communities' affordable housing needs by producing affordable new developments, the LAAND initiative integrates local control with statewide priorities. The funding initiative prioritizes land that is close to job growth areas or significant numbers of lower wage jobs, allows for density that is consistent with achieving affordability, minimizes vehicle miles traveled, and implements Green Communities criteria, Minnesota Overlay or comparable program in the development process.

#### *Eligible Applicants*

Eligible applicants include local units of government, their housing or development agencies and non-profit organizations. Some funding sources have other limitations on eligible recipients.

#### *Affordability Targets*

Projects constructed on land acquired through the loan program shall have a minimum of 20 percent of housing units developed there for affordable units. Units shall be affordable to families earning 60 percent of area median income (AMI) in the Metro area and 80 percent of AMI in Greater Minnesota.

### LAND ACQUISITION AND DEVELOPMENT

Recipients shall use the LAAND funds to acquire sites for affordable housing that are consistent with its future affordable housing needs and the stated strategic growth goals. Land costs in the area of the proposed project must be an impediment to affordable housing development. Development of the land for affordable housing may not commence within one year of execution of the loan agreement, but must commence within 5 years of execution of the loan agreement. If an applicant is awarded funding, it may work with a developer of their choice to develop the site and determine its own structure for the transfer of ownership, if applicable. The applicant shall submit updated plans three years from the date of the funding award that describe the number of units anticipated for the site and verify that all comprehensive plan, zoning, or other regulatory changes have been or will be implemented in preparation for development.

# FUNDING REQUIREMENTS AND PRIORITIES

Location of the land to be acquired must be consistent with the following strategic growth concepts:

- a) the land is within the MUSA line or in the next staging area for MUSA expansion or an area of local wastewater service expansion prior to 2020 as reflected in the community's comprehensive plan,
- b) capital improvements (infrastructure) must be programmed to coincide with the development of the site,
- c) adjacent land must also be planned for development prior to 2020, including land guided for commercial development,
- d) housing developed on the acquired land must meet the density requirements of the Green Communities criteria, Minnesota Overlay, and
- e) affordable housing must facilitate economic integration either within the planned development on the site purchased with the loan or in the broader community.

Priorities:

Development sites meeting one or more of the following priorities will be given greater consideration for funding:

Sites located within one-half mile of a transitway in the 2030 Transitway System – Northstar, Northwest, Cedar Avenue, I-35W, Central, Red Rock, Rush Line, Southwest, I-394, Hiawatha; or within one-half mile of a local bus route; or within one-half mile of a park-and-ride facility on an express commuter bus or express bus route;

Financial or in-kind contributions by local unit of government or employers that improve the affordability of the housing to be developed; or

Sites proximate to, or in areas of expected job growth or with low wage jobs as a greater share of local employment as compared to the regional average in the Metropolitan Area, or the statewide average if outside of the Metropolitan Area.

## FUNDING

Minnesota Housing, the Metropolitan Council, and the Family Housing Fund have collaborated to develop the parameters for funding the land acquisition. Funding beyond the fall 2008 consolidated RFP has not yet been secured. A minimum of \$4 million is available for land acquisition activities in the Metropolitan area through the Livable Communities Act Demonstration Account.

The funder will take a security interest in the land acquired.

## REVOLVING LOAN – REPAYMENTS

At a minimum, the principal loan amount shall be repaid into a revolving fund for additional land acquisition loans.

Repayment of the appraised value of the site is required at the time of sale of the land. The appraisal must be completed prior to construction and take into consideration the value of the land, based on the land being planned and zoned for the contemplated development.

If the value of the land has appreciated since the original purchase with funds, the proceeds from the sale of the land shall be distributed in sequence as follows:

- 1) the principal amount of the loan shall be repaid to the funders,
- 2) a portion of the appreciated value equal to the portion of the total units in the development that are attributable to affordable units shall be retained by the developer,
- 3) if available, ten percent (10%) of the appreciation shall be repaid to the funders for additional land acquisition loans,
- 4) if available, the balance of the appreciation shall be used to:
  - a) provide funds for additional land acquisition loans,
  - b) provide gap financing for the affordable units, if needed, and/or
  - c) help defray site correction costs, if any. The specific uses of the balance of the appreciation in value shall be determined by the parties to the land at the time of the sale of the land. If no agreement is reached, the balance of the appreciation in value shall be repaid to the funders.

If the value of the land at the time of sale has not appreciated, or has depreciated since the loan was issued and the land was acquired, the loan amount or the appraised value at the time of sale, whichever is less must be repaid to the funders. Any deficiency in the loan will be forgiven.

If the land is not developed within the required time frame, or the required number of affordable units are not developed, the recipient of the loan must repay the loan plus all appreciation in value.

## **LONG-TERM AFFORDABILITY**

A seven (7) year minimum period of affordability is required for homeownership units. The affordability term for rental housing projects will be determined by the source of permanent financing for the development. The affordability implementation mechanisms are local choice. Highest priority will be given to applicants who require the longest term of affordability of the units.

## **COSTS RELATED TO ACQUISITION**

Costs of appraisals and environmental assessment of the site can be included in the loan amount. Other costs related to land acquisition or holding, such as taxes, insurance site maintenance, etc. will be the responsibility of the recipient of loan funds. These other holding costs paid by the recipient will be considered local contribution or leverage for purposes of evaluation of the proposal under the Economic Development and Housing Challenge program for the use of those funds. Costs of demolition and removal of existing structures on the site and soil correction are not costs that can be included in the loan amount but they may be addressed in the distribution of appreciated land value at the time of sale and development.

## **EVALUATION**

Following development of the affordable housing component, the funders will evaluate the savings resulting from the earlier acquisition of land for development. This will be compared to the lost opportunity for development of other housing as a result of the use of funding for land acquisition for future development.