

C Community Development Committee

Item: 2012-335

Meeting Date: November 5, 2012

For the Council Meeting of November 14, 2012

ADVISORY INFORMATION

Date Prepared: November 6, 2012

Subject: LCA Land Acquisition for Affordable New Development Loans, Conversion to Forgivable Loans

Proposed Action:

Authorize Council staff to develop award-specific criteria for conversion of outstanding Land Acquisition for Affordable New Development (LAAND) loans to be made forgivable and to offer each borrower of those loans the ability to convert them to forgivable loans, subject to the Council's requirements and the pledged share of affordable housing to be built on each site.

Summary of Committee Discussion / Questions:

Committee Member Wulff asked for clarification of the difference between a forgivable loan and a grant. Staff responded that the primary difference is in the administration and process to complete the conversion. Converting the original loan to forgivable, administratively, is more efficient. Forgivable loans act very much like grants.

Committee Member Wulff also raised a concern about converting loans to forgivable loans without requiring applicants to compete again for funding. Staff responded that the criteria used to evaluate and score the original LAAND loans would have been much the same if the funding had been offered as forgivable loans or grants. Therefore, although with the proposed action the end funding mechanism will change, the expected outcomes will remain the same. The forgivable loans will only be forgivable provided affordable housing is developed.

The Committee unanimously voted to approve the Proposed Action.

C Community Development Committee
Meeting date: November 5, 2012
For the Council Meeting of November 14, 2012

ADVISORY INFORMATION	
Date:	October 31, 2012
Subject:	LCA Land Acquisition for Affordable New Development Loans, Conversion to Forgivable Loans
District(s), Member(s):	All
Policy/Legal Reference:	MN Statutes §473.253
Staff Prepared/Presented:	Paul Burns, Manager, Livable Communities (651) 602-1106
Division/Department:	Community Development/Livable Communities

Proposed Action

Authorize Council staff to develop award-specific criteria for conversion of outstanding Land Acquisition for Affordable New Development (LAAND) loans to be made forgivable and to offer each borrower of those loans the ability to convert them to forgivable loans, subject to the Council's requirements and the pledged share of affordable housing to be built on each site.

Background

The Metropolitan Council initiated the LAAND loan program, at the direction of then Chair Peter Bell, and in partnership with Minnesota Housing and the Family Housing Fund, in 2008. The program provided zero interest loan financing to help Livable Communities Act (LCA) participating communities acquire land for future housing projects to address their affordable housing needs. The Council initially made \$4 million available for the initiative from the Livable Communities Demonstration Account (LCDA) on a one-time basis. Four loan allocations were awarded in 2008, leaving \$440,000 which was awarded to another applicant in 2009. No applications were received in 2010. One of the 2008 awards and the 2009 award did not move forward. One loan award was made in 2011 for \$1,000,000. Council staff have recently been informed that the 2011 award will not move forward. Loans were closed on three properties in Minneapolis, St. Paul and Forest Lake. A project on the site in Minneapolis is close to starting and repayment of that loan is expected soon, leaving two loans that could be converted to forgivable loans. A summary of loan awards and relinquishments is attached.

Two primary issues complicated or limited Livable Communities Act participating communities from taking advantage of this program. Communities are reluctant to borrow for land development in this economic climate. The Council's requirement to be first priority lien holder was a challenge when the Council's loan was not the largest funding source for the acquisition. In addition, holding costs were an issue until the Council made some modifications to the loan agreement in the funding made available in 2011. As a result of these issues, the Council did not offer LAAND loans in 2012.

Rationale

The response to the program from participating communities has been limited. In four rounds of availability, only seven loan awards have been made and only three of those resulted in loans closed on properties acquired. The program has also taken a significant amount of staff time and legal support resources, yielding few successful efforts and mixed results.

Funding

The original funding was from the LCDA. The remaining funds would be available for inclusion in the next annual Livable Communities Fund Distribution Plan.

Known Support / Opposition

The individual community borrowers have all indicated their receptivity to the proposed change.

Metropolitan Council Livable Communities Act
 Land Acquisition for Affordable New Development (LAAND)
 Award and Loan Closings Summary

- In 2008, the Council initially made \$4 million available for the initiative from the Livable Communities Demonstration Account (LCDA) on a one-time basis.
- Four loans were awarded in 2008:

○ Minneapolis Franklin Station/Bystrom Bros. Redevelopment Land Acquisition II	\$500,000
○ Saint Paul Central Corridor LAAND Program	\$1,000,000
○ Dakota County CDA Lakeville Cedar Transit	\$1,000,000
○ Washington County HRA/Washington Co. Strategic Land Acquisition Project (2 sites)	<u>\$1,060,000</u>
<i>2008 Total</i>	<u>\$3,560,000</u>
- One loan was awarded in 2009:

○ Hopkins	<u>\$440,000</u>
<i>2009 Total</i>	<u>\$440,000</u>
<i>Total</i>	<u>\$4,000,000</u>
- Two of the 2008 awards, the Dakota County proposal (\$1,000,000), one of the two Washington County sites (\$516,500), and the 2009 award to Hopkins (\$440,000) did not move forward, leaving \$1,956,500 available for new loans.
- In 2010, \$1,956,500 was made available. No applications for the funds were received.
- In 2011, again the funds were made available. One request was received and awarded to the City of Minnetonka (\$1,000,000), however the project did not move forward, and the City choose not to pursue the loan.

Remaining Unencumbered Funds **\$1,956,500**

- Executed Loans, with acquired sites, to be considered for Conversion to forgivable loans:

○ Minneapolis Franklin Station/Bystrom Bros. Redevelopment Land Acquisition II	\$500,000
○ Saint Paul Central Corridor LAAND Program	\$1,000,000
○ Washington County HRA/Washington Co. Strategic Land Acquisition Project (1 site)	<u>\$543,500</u>
<i>Total</i>	<u>\$2,043,500</u>