

# Minneapolis Homes: Financing Program Guidelines



## Program Goal

The goal of the Minneapolis Homes: Financing Program is to eliminate racial disparities in homeownership and develop one to 20 units of ownership housing affordable and accessible to low to moderate income households throughout the City of Minneapolis.

## Eligible Applicant

- Applicants must demonstrate a development team that includes a developer or general contractor with experience performing a comparable scale of real estate development within the past two years
- Applicants that intend to owner occupy the developed home may apply as individuals (or cooperative) in partnership with an experienced general contractor and must demonstrate income eligibility at the time of application for financing
- Applicants cannot own vacant and boarded buildings without a restoration agreement, Tier 3 rental properties without a reasonable explanation and management plan for the property's Tier 3 status, or have uncured defaults on a contract with the City of Minneapolis

## Eligible Projects and Properties

Projects of one to 20 units for ownership housing on a parcel or contiguous parcels within the City of Minneapolis. Projects may not involuntarily displace tenants.

- **Vacant Land:** Any land located in the City of Minneapolis is eligible. Projects resulting in any net loss of units from the immediately prior building on a site are not eligible.
- **Vacant structures:** Any unoccupied, non-habitable structure in the City of Minneapolis is eligible.
- **Stabilization:** Purchase with or without rehabilitation of occupied structures is permitted if all occupants qualify as eligible borrowers and the purpose of acquisition is preservation of existing affordable housing.
- **City-owned properties:** Restricted for development through perpetual affordable housing, except in Near North and Camden Communities where recapture or perpetual affordable housing may be eligible.

## Financing Available

Financing can be used for either project gap or affordability gap up to the total development assistance financing. The cap will be posted by the City of Minneapolis for the unit type applied for.

- **Project Gap:** the difference between the total development cost of a project and its fair market value upon completion.
- **Affordability Gap:** the difference between either:
  - Perpetually Affordable Housing (PAH): the fair market value of a financed unit and its affordable sales price
  - Recapture: the fair market value of a financed unit and what a homebuyer can obtain for first mortgage financing
- **Development Assistance:** the combination of project gap and affordability gap provided to a financed unit

Development assistance is provided as a 0% loan secured with a note and mortgage to finance the construction of the financed unit. Upon completion of the financed unit, project gap is forgiven and affordability gap is secured by either enrolling the property in a City-approved PAH program or through a recapture note and mortgage, defined further in the Financed Unit Sales Method.

## Financed Unit Type and Affordable Sales Price

Unit type is the combination of the number of bedrooms in a financed unit and the income tier for the household being served. The program has three income tiers, the applicable tier is selected by applicants at the time of application.

Income tier	Financed Unit Sale Price limit
61% - 80% of AMI	Price affordable to a household at 70% AMI
41-60% of AMI	Price affordable to a household at 50% AMI
40% and below AMI	Price affordable to a household at 30% AMI

Affordable price for each income tier will utilize the following assumptions and be published annually by the City in the 2<sup>nd</sup> quarter of a calendar year:

- Metropolitan Council assumptions to calculate mortgage loan principal and interest payments, insurance, and taxes
- City assumptions for average applicable condominium association fees and perpetual affordable housing administrator fees,
- Department of Housing and Urban Development published Income calculations for Area Median Income, adjusted for household size
- Project specific condominium association fees

The above assumptions will be utilized to calculate an affordable purchase price that does not exceed 29% of household income based on income tier, adjusted by the number of bedrooms in a unit. The program will additionally apply a standard to ensure the buyer's total debt ratio does not exceed 50% of AMI.

## Financed Unit Subsidy Calculation Method

The City will examine average cost to develop a three-bedroom unit of housing and adjust the cost according to the following percentages:

	Studio	1	2	3	4+
% of 3 BR Cost	65%	80%	90%	100%	120%

The affordable sales price for each income tier and unit type will be subtracted from the total development cost of the unit type, to establish a per unit subsidy cap on an annual basis that will be published annually.

## Financed Unit Sales Method

**Recapture:** Sales to homebuyers where direct assistance to a homebuyer as affordability gap is a minimum of 1% of the purchase price or \$1,000, whichever is greater, up to 15% of home value; affordability gap funding is secured with a mortgage and note that is deferred at 0% interest and repaid upon sale. Affordability requirements apply only to the first purchaser of the unit.

**PAH:** Sales to homebuyers where direct assistance to a homebuyer as affordability gap is 20% or more. To ensure a minimum 20% discount is achieved, developers may be required to select a lower income tier for the affordable unit. Affordability gap funding is secured with a declaration of restrictive covenants for 30 years and renewed upon each property sale and affordability requirements apply to the first purchaser and each subsequent purchaser of a financed unit. PAH units utilize an equity sharing formula that ensures home affordability is maintained for a 30 year term, renewed upon each property sale, without the likely need for additional affordability gap subsidy. The City has its own PAH Program that can be used (see attached PAH Program Manual) or the developer can propose or partner with an administrator with an alternative equity sharing formula, subject to City approval.

## Affordability Requirements

City financing is only eligible for the affordable units. Affordable units must be reasonably comparable (features, quality, and size) to a market rate units in the project. Projects must meet the design/unit comparability standards and other requirements of the City of Minneapolis' Unified Housing Policy for City-assisted projects. A minimum of 10% of the units in all projects must be affordable to households at or below 80% AMI.

## Development Requirements

All projects must comply with the Minnesota Overlay for Enterprise Green Communities as posted by Minnesota Housing.

- New Construction: Projects must meet the requirements of visitability design or request a waiver.
- Rehabilitation: Projects must meet Minneapolis Homes Rehabilitation Standards.

## Proposal Requirements

The City will conduct a Notice of Funding Availability (NOFA) process to solicit applications for funding proposals. Proposal requirements will be fully outlined in the release of the NOFA. All proposals must meet the following requirements.

- Be cost reasonable and reflect industry standards for construction cost, market value, and soft costs. Developer fee is limited to 10% of total development cost for projects less than 10 units and 15% for all others.
- Provide a project budget showing sources and uses, including documentation of committed financing. Proposals from owner occupants must demonstrate sufficient financing both for interim (acquisition and construction) and permanent (purchase or conversion upon home completion) financing.

- Provide a conceptual design showing building elevations and a site plan.
- Demonstrate site control of and feasibility of a one or more-unit development on non-City owned property or include an offer to purchase and feasibility of a one or more-unit development on a City-owned property. Stabilization proposals may demonstrate feasible pathway to site control at the time of application for financing; closing will be dependent on demonstration of financing and site control along with other program requirements.

## Criteria for Selection

All proposals that meet eligibility, affordability, and submission requirements stated above will be considered. In reviewing and selecting proposals, the City will consider the extent to which the project demonstrates the following additional criteria:

### **Cost-Effectiveness** (Examples include):

- Development teams with significant experience constructing and managing similar projects to what is proposed for the site
- Proposals that minimize City subsidy request by leveraging other gap financing sources or reducing total development cost
- Proposals that maximize residential density of the project site
- Proposals that will develop current City-owned land or vacant buildings
- Proposals that are easily replicable and will serve as a demonstration for other sites

### **Meets Local Affordable Housing Needs** (Examples include):

- Developers who demonstrate an historic rate of service and/or a robust marketing plan to Black, Indigenous, people of color, immigrant, disabled households
- Projects that will serve households below 60% or below 40% of area median income
- Projects that create a greater proportion of affordable units than program requirements
- Projects that provide larger units of 3+ bedrooms
- Projects created in partnership with community residents as an anti-displacement strategy. NOTE: Demonstration of cooperation with community residents is necessary to receive preference

### **Equitable Wealth-Building Opportunities** (Examples include):

- Projects led by development teams that reflect historically underrepresented and structurally disenfranchised communities of the City of Minneapolis
- Projects led by developers with historic utilization rate of ex-offenders or returning citizens, Section 3, DBE businesses, and workforce utilization to exceed Minneapolis Civil Rights criteria
- Partnership with workforce development organizations. NOTE: A letter of support from the organization must be included to receive preference

### **Incorporates Unique Design Features that achieve City Goals** (Examples include):

- Projects that provide access to households with disabilities
- Projects that seek certification through or incorporate design features from a sustainable building program, such as Leadership in Environment and Energy Design (LEED), Department of Energy Net Zero Energy Ready (DOE Net Zero), Passive House Institute US+ (PHIUS+), Passive House Institute (PHI), or Enterprise Green Communities (EGC)

**The City reserves the right to reject any or all proposals or parts of proposals, and to negotiate modifications of proposals submitted. The City reserves the right to not award funding to projects in which the City deems costs are not reasonable or may award funding conditioned on reducing the development costs.**

## Available Financing Sources

The City of Minneapolis utilizes a variety of financing sources through this program. Sources may have requirements that are more restrictive than program guidelines. When there is a conflict between source requirements and program guidelines, the source requirements will apply and will be reflected in the financing contract.

## Compliance Requirements

- An **Affirmative Action Plan** with current workforce hiring goals for minority and women are required for all projects that receive more than \$100,000 of financing.
- **The CPED Prevailing Wage and Registered Apprenticeship Policies** apply to any project with eight or more units, even if fewer than eight units receive financing.
- **Section 3** requirements apply for any developer that receives more than \$200,000 of federal funds within a year.
- **Small and Underutilized Business Program goals** are required for any project that receives more than \$175,000 of City subsidy.
- **Developers will be required to comply with non-discrimination laws and affirmatively market the availability of units**