

HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

DATE: JULY 13, 2022

REGARDING: RESOLUTION APPROVING KEY TERMS OF THE INSPIRING COMMUNITIES HOMEOWNERSHIP PROGRAM MANUAL AND INSPIRING COMMUNITIES RFP SCORING CRITERIA; RESCINDING RESOLUTION 16-1190; APPROVING AND AUTHORIZING THE HOUSING AND REDEVELOPMENT AUTHORITY TO PARTICIPATE IN THE MINNESOTA HOUSING FINANCE AGENCY COMMUNITY HOMEOWNERSHIP IMPACT FUND AND TO ACCEPT FUNDING AND ESTABLISH A BUDGET OF \$1,067,400 FOR REDEVELOPMENT; APPROVING AND AUTHORIZING AMENDMENT OF THE HOUSING TRUST FUND BUDGET TO INCLUDE AN ADDITIONAL \$2,000,000 FOR THE INSPIRING COMMUNITIES PROGRAM, CITYWIDE

Requested Board Action

Approval of amendments to key terms of the Inspiring Communities Homeownership Program Manual, Inspiring Communities RFP scoring criteria, and approval and authorization to amend the Housing Trust Fund budget to include an additional \$2,000,000 for the HRA Disposition Work Plan and Budget (“DWPB”) Inspiring Communities program.

Background

Staff from the City’s Department of Planning and Economic Development have periodically analyzed all property in the HRA inventory and made informed recommendations regarding retention and disposition of properties. These recommendations are organized and effected under a Disposition Strategy Work Plan and Budget (DWPB). The HRA Board of Commissioners first approved the DWPB on recommendation of staff on July 24, 2013 by Resolution 13-1097, simultaneously creating the Inspiring Communities program as a component of the DWPB to effect redevelopment of certain high-priority HRA properties. The goals of the Inspiring Communities program are to:

- Leverage HRA property to build community wealth.
- Create job opportunities for local residents, including low-income residents, small and emerging businesses, and businesses owned by women and people of color.

- Achieve goals identified in the Housing Chapter of the City of Saint Paul's 2040 Comprehensive Plan.
- Inspire innovative and environmentally sound design and construction.

Staff released the first Inspiring Communities Request for Proposals ("RFP") in October 2013; the second RFP in November 2014; the third RFP in August 2015; the fourth RFP in March 2016; the fifth RFP in November 2016; and the sixth RFP in September 2018.

To date:

- Over 290 properties have been sold or are under development.
- The program has created over 240 affordable homeownership opportunities and over 50 new affordable rental units.
- Nearly two out of every three homeowners and more than three out of every four renters served are people of color.
- Funding has come mostly from state and federal resources.
- By returning vacant, City, and HRA-owned properties to productive use, maintenance costs to the City have been reduced and tax revenues have increased.

Staff intends to release a seventh RFP this summer, making available 12 Inspiring Communities sites for redevelopment of between 13 and 20 housing units overall. A list and map of RFP 7 sites is attached to this Board Report.

The Inspiring Communities RFP process allows us to prioritize HRA owned land for redevelopment, encourages competition and allows strategic use of funding resources that may have deadlines for use. Staff proposes making available approximately \$300,000 of unreserved Housing Trust Fund CLT Pilot funds for Inspiring Communities projects, both to ensure these funds are put to productive use and to encourage deeper, long-term affordability. (Consistent with the HRA Board action authorizing the Housing Trust Fund CLT Pilot, only projects completed by or in partnership with a community land trust and incorporated into the community land trust will be eligible for these CLT Pilot funds.)

In March 2021, staff applied for \$1.4 million from the City’s Capital Improvement Budget (CIB). The City’s adopted 2022 CIB allocates \$300,000 in federal CDBG funds available for Inspiring Communities development subsidies for the 2022 CIB year, and another \$300,000 tentatively available for the 2023 CIB year.

In July 2021, staff applied to the Minnesota Housing Finance Agency’s Community Homeownership Impact Fund (MHFA Impact Fund) and the Metropolitan Council’s Local Housing Incentives Account (LHIA) for subsidies, in the form of state funds, of \$1,816,200 to leverage the HRA’s and City’s Housing Trust Fund and CIB investments in Inspiring Communities projects. The Metropolitan Council declined to fund staff’s LHIA application. MHFA has made \$1,067,400 available from the Impact Fund.

Staff has also been in discussions with the Family Housing Fund regarding their potential financial support of buyers of two-to-four-unit properties.

Estimated sources and uses for the forthcoming Inspiring Communities projects, including RFP and pipeline projects, are shown below.

<u>Uses</u>		<u>Sources</u>	
Homebuyer Assistance	\$ 850,000	2022 CIB	\$ 300,000
Development Subsidy	<u>\$3,222,400</u>	HRA Land Write-down	\$ 405,000
		MHFA Impact Fund	\$1,067,400
		Unreserved CLT Pilot funds	\$ 300,000
		This request (pending)	<u>\$2,000,000</u>
 Total	 \$4,072,400		 \$4,072,400

Staff anticipates that redevelopment of these 12 Inspiring Communities RFP sites and other Inspiring Communities projects in process, and substantial expenditure of funds dedicated to these projects, will be completed by the end of 2024. Following redevelopment of these sites, 49 properties will remain in the Inspiring Communities inventory. Completion of pipeline projects would reduce this number further. (For a broader overview of accomplishments under the Inspiring

Communities program to date and remaining property inventory, refer to the staff report from the June 23, 2021 HRA Board meeting.)

Staff presume in preparing the timeline and figures shown above that none of the RFP 7 projects will be subject to a Project Labor Agreement. (See the “Project Labor Agreement” section of this Board Report.) Projects subject to a Project Labor Agreement will require additional financial resources.

Key Terms of Inspiring Communities Program Manuals; Implementation Timeline

An Inspiring Communities Homeownership Program Manual and an Inspiring Communities Rental Program Manual guide implementation of the Inspiring Communities program. These manuals explain program requirements to developers, standardize processes and foster consistency and transparency.

The HRA Board approved key terms of the Inspiring Communities Homeownership Program Manual and the Inspiring Communities Rental Program Manual on October 9, 2013 and July 13, 2016, by Resolution 13-1592 and Resolution 16-1190.

Housing market conditions, available resources, and the needs of the public have changed significantly over the past eight and a half years. Staff requests approval to replace certain key terms of the Inspiring Communities Homeownership Program Manual and applicable terms of the Inspiring Communities Rental Program Manual established in Resolution 13-1592 and Resolution 16-1190 with the following:

1. **Development Subsidy:** Development Subsidy is one of the two major types of financing offered by the HRA and the City through the Inspiring Communities program. Development Subsidy is those funds awarded by the HRA, the City, or both, to the developer for purposes of covering all or a portion of the gap between a project’s total development costs and the sales price of the property to the end buyer.

Development Subsidy will generally be secured with a note and mortgage at 0% interest. Final disbursement will occur only once all expenditures have been reasonably verified and reconciled.

This key term is a clarification rather than a change and will apply to all current and future projects.

2. **Development Subsidy Limits:** The maximum Development Subsidy per property set forth in any development agreement must not exceed \$200,000 per unit unless the HRA board approves a request from staff to exceed \$200,000 per unit.

As described in the “Future Action” section of this Board Report, action by the HRA Board is required to authorize sale of property and awarding of developer rights. Generally, included in this approval is authorization of a certain amount of Development Subsidy for each property. Projects sometimes encounter unforeseen site conditions or administrative delays that lead to an increased need for Development Subsidy after HRA Board approval, and in these situations, it is sometimes reasonable to authorize additional funding. Staff proposes the following approach to such situations:

Following the HRA Board’s initial approval of the redevelopment of a property, a developer’s request to increase the maximum Development Subsidy may be granted by the Executive Director or the Executive Director’s designee without further specific approval from the HRA Board if:

1. The HRA Board has approved the subsidy request proposed in the Developer’s original proposal; and
2. Any proposed increase to the subsidy request is less than or equal to 20% of the subsidy approved by the HRA Board; and
3. The resulting total amount of Development Subsidy per property is less than or equal to \$200,000 per unit or the HRA Board has previously approved a waiver of the \$200,000-per-unit cap for the same property; and
4. Staff evaluates the proposed increase according to established criteria; and

5. The Executive Director or their designee approves the proposed increase in writing on the recommendation of staff after consideration of established criteria; and

Requests to increase the Development Subsidy by an amount greater than 20% or to a total of more than \$200,000 per unit on a given project require specific approval from the HRA Board.

This key term will apply to all current and future projects. It clarifies the role of the Executive Director and staff in evaluating and approving or denying requests for modest increases in project budgets, while reserving the HRA Board's power to evaluate and approve or reject more substantial increases in project budgets. It replaces the cap adopted by Resolution 13-1592 and modified by Resolution 16-1190. Because Resolution 16-1190 addressed only the subsidy cap, it will be made obsolete. Staff therefore recommends rescission of Resolution 16-1190.

Staff will maintain specific criteria by which it will consider requests to increase the amount of Development Subsidy in a project.

3. **Design Standards:** Design standards have been streamlined, mostly through elimination of criteria duplicating and conflicting with the 2020 Enterprise Green Communities Criteria as modified by Minnesota Housing's Minnesota Overlay and Guide to the 2020 Enterprise Green Communities Criteria ("Green Communities Criteria") which apply to all projects. For example, the Green Communities Criteria and existing design standards both address lead-based paint and radon; rather than prescribe measures that are unclear, redundant or unnecessary in certain situations, the revised design standards simply point to the Green Communities Criteria, which are clearer and more responsive to context in their prescriptions for lead and radon mitigation.

This key term will apply to all projects subject to the revised Inspiring Communities Homeownership Program Manual.

4. **Homebuyer Assistance:** The other major type of financing offered by the HRA and the City through the Inspiring Communities program is Homebuyer Assistance. It is provided

by the HRA, the City, or both, directly to an eligible end buyer, or indirectly to the developer to reduce the sales price to the end buyer, to cover all or a portion of the gap between the end buyer's other sources (commonly, a mortgage loan in first lien position) and the costs to purchase the home.

Homebuyer Assistance will in general be provided in the form of a secured loan. Homebuyer Assistance loans made with local dollars will charge zero interest and be progressively forgiven over the loan term, which can range from five to thirty years depending on the amount of assistance. Homebuyer Assistance loans financed with Minnesota Housing funds will follow Minnesota Housing's requirements.

This key term is a clarification rather than a change and will apply to all current and future projects.

5. **Homebuyer Assistance Limits:** Homebuyers of single-unit properties will be eligible for up to \$40,000 in Homebuyer Assistance, including up to \$15,000 from HRA dollars and up to \$25,000 from Minnesota Housing's Community Homeownership Impact Fund (CHIF) or other matching resources that may become available to the City or HRA.

Homebuyers of multi-unit properties - including, for the purpose of establishing homebuyer assistance limits, single-family homes with accessory dwelling units - will be eligible for up to \$90,000 in Homebuyer Assistance, including up to \$30,000 from HRA dollars and up to \$60,000 from Minnesota Housing's Community Homeownership Impact Fund (CHIF) or other matching resources that may become available to the City or HRA.

This key term will apply to all projects where sale to an end buyer has not yet occurred.

6. **End-buyer Income Limits:** Sales will generally be limited to end buyers with household incomes at or below 80% of the HUD Area Median Income (AMI). (For reference, most sales of homes built under the sixth Inspiring Communities RFP were restricted to buyers with household incomes at or below 120% of AMI.)

This key term will apply to all projects subject to the revised Inspiring Communities Homeownership Program Manual.

Inspiring Communities RFP Scoring Criteria

Developers' proposals are selected through Requests for Proposals (RFP) and according to the Policy and Procedures for Disposition of HRA Owned Real Estate.

Staff evaluates proposals from developers through RFP according to scoring criteria. These criteria fall under three broad categories, listed below in order of greatest weight to least:

- **Equity.** The City of Saint Paul recognizes that a healthy economy is vital to making Saint Paul the most livable city in America. A healthy economy is one where all residents, regardless of race, gender, disability, or socioeconomic background, have an equitable opportunity to win contracts, secure job opportunities, and find affordable housing. Developers' proposals will be measured for their ability to deliver both contracting and workforce equity, and housing equity.
 - **Contracting and Workforce Equity** criteria provide incentives for: new and emerging developers to participate; partnerships with Community Development Financial Institutions; utilization of Section 3 and Central Certification Program (CERT) businesses; and utilization of workers with barriers to equal employment.
 - **Housing Equity** criteria provide incentives for developers to create more deeply affordable housing, affirmatively further fair housing, and harness the impact of recent zoning changes informed by the 1-4 unit housing study to build a greater diversity of housing types, including duplexes and accessory dwelling units (ADU).
- **Level of financial assistance.** Proposals will be considered for cost reasonableness and lower levels of HRA investment will be encouraged.
- **Sustainability and Design** criteria incentivize developers to meet certain objectives of the City of Saint Paul's 2040 Comprehensive Plan pertaining to innovative design and use of building materials.

- **Timeline.** Proposals will be evaluated for feasibility; project completion within one year will be encouraged.

Budget Action

This action requires a budget action establishing a budget for the MHFA Impact Fund grants and amending the Housing Trust Fund budget as detailed in the attached Financial Analysis.

Should the amount of Housing Trust Fund dollars reserved for the DWPB Inspiring Communities program by this Budget Action exceed the amount of those resources needed to complete the projects contemplated in this Board Report, those excess Housing Trust Fund dollars will remain in the DWPB Inspiring Communities program budget until and unless used for expenditures for other Inspiring Communities projects authorized by the HRA Board, including pipeline projects and projects awarded through future RFP.

Future Action

Public hearings before the HRA Board will be required to convey and authorize execution of development agreements for redevelopment of HRA properties. Accordingly, staff will bring specific recommendations to the HRA Board as it considers awards of developer rights and sale of HRA property for new projects.

Expenditure of federal funds for redevelopment may require future City Council budget action.

Financing Structure

Financing Structure is described in the “Key Terms of Inspiring Communities Program Manuals” section of this Board Report.

PED Credit Committee Review

The Credit Committee reviewed the Inspiring Communities Homeownership Program Manual on November 30, 2021. Loans made under the Inspiring Communities program with local funds will be risk-rated forgivable. Homebuyer Assistance loans made with state funds administered by the

HRA under the Minnesota Housing Finance Agency’s Community Homeownership Impact Fund program are not held by the City or HRA and therefore will not be risk-rated.

Compliance

The Inspiring Communities program will comply with all applicable requirements, which may include:

1. City of Saint Paul Affirmative Action Program
2. City of Saint Paul Vendor Outreach Program
3. HUD Section 3
4. Project Labor Agreement
5. City of Saint Paul Vicinity Hiring policy (for NSP projects only)
6. Limited English Proficiency
7. Two Bid Policy
8. City of Saint Paul Sustainable Building Ordinance
9. Saint Paul Sustainability Initiative

Project Labor Agreements

Staff will present a resolution to the Saint Paul City Council on July 20, 2022, by which the Saint Paul City Council may approve non-use of Project Labor Agreements (PLA) for RFP 7 projects and four other Inspiring Communities projects awarded by prior HRA Board action. For the reasons set forth below, staff recommends passage of a resolution authorizing *non-use* of PLA on these projects.

Because costs for even small-scale development projects have increased so rapidly, some one-to-four-unit housing development projects have, and others likely will, surpass the \$250,000 threshold set under Saint Paul City Council File 09-584 for consideration by the City of the use or non-use of PLA.

As required under that policy, staff sent notice in May 2022 to 20 respondents. Staff received one response, from the Saint Paul Building and Construction Trades Council. It states that a Project Labor Agreement is recommended for reasons of “dollar amount, length of project, multi-craft,

safety.” The notice from staff and response from the Saint Paul Building and Construction Trades Council is attached to this Board Report.

While Council File 09-584 sets out important goals such as labor cohesion, provision of fringe benefits and hiring of union workers, the policy was not originally intended to cover small projects such as one-to-four-unit development. This is in part because small, family-owned and non-union organizations are prevalent among residential building contractors. Large, commercial, unionized builders have not typically bid on smaller scale projects such as the construction of single-family homes on small and scattered sites and may not maintain the appropriate licenses and expertise. (The State of Minnesota licenses residential building contractors separately from commercial builders, and one- and two-family dwellings – and most townhomes - are built under the International Residential Code rather than the International Building Code applicable to most multifamily buildings.) Use of PLAs is more likely to delay or prevent projects because of a lack of bidders, discourage participation by many of the small businesses that typically bid on residential projects, discourage and impede emerging developers, create sources of conflict between union and non-union employees on the jobsite, and add significantly to the need for development subsidy funds.

As noted in the Background section of this Board Report, above, over 290 Inspiring Communities projects have been completed to date. None has been subject to a Project Labor Agreement because none has triggered the \$250,000 threshold. The City Council passed the PLA resolution in 2009, during an exceptionally low point for the construction industry in terms of housing starts and employment. If the dollar threshold had kept pace with inflation as measured by the Consumer Price Index, it would now be roughly \$342,000. If it had kept pace with cost inflation in the construction industry (as measured by the construction cost index published by M.A. Mortenson), it would now be over \$410,000.

Staff recognizes there are many sectors in our national and global economy in which collective action by workers and support for that collective action by policymakers is important to improve working conditions and more fairly distribute resources. However, for all of the reasons stated above and while reaffirming its support for living wages, safety on the job site, and the organized labor movement, and while thankful to the Saint Paul Building and Construction Trades Council

for its response and advocacy for its members, staff will recommend that the Council approve the above-described resolution authorizing non-use of Project Labor Agreements.

Green/Sustainable Development

All Inspiring Communities projects will comply with the Design Standards, which in turn satisfy both the Saint Paul Sustainable Building Ordinance and the Sustainability Initiative.

Environmental Impact Disclosure

Environmental Reviews will be completed for projects when required.

Historic Preservation

Projects will comply with all pertinent historic district guidelines and regulations.

Public Purpose/Comprehensive Plan Conformance

As more fully described in the attached Public Purpose Summary, Inspiring Communities projects provide significant public benefits, including increased tax base, provision of opportunities for entrepreneurs and women and minority-owned businesses, and an increase in in-demand, affordable, owner-occupied homes.

Inspiring Communities projects substantially meet each of the seven major goals of the housing chapter of the City's 2040 Comprehensive Plan. Those specific policies of the housing chapter which these projects address to the greatest degree are:

- Policy H-8. Encourage creativity in building design and site layout.
- Policy H-10. Encourage the use of energy efficient mechanical systems and building products in rehabilitation and new construction to decrease building operation costs and impacts on the environment.
- Policy H-13. Encourage the use of long-lasting, high-quality building materials for residential buildings to decrease long-term housing maintenance and energy costs.
- Policy H-22. Consider a City or HRA sponsored down-payment assistance program and support partner organizations' down payment assistance and first time homebuyer mortgage programs to help homebuyers invest in Saint Paul.

- Policy H-24. Encourage homeowner education through continued support of organizations that provide services, such as financial counseling and pre-and post-purchase training, to help potential and new homeowners make well-informed financial and maintenance decisions.
- Policy H-26. Increase awareness around tenant and landlord rights, responsibilities, best practices and resources to increase access to rental units and decrease conflicts that could lead to evictions.
- Policy H-33. Further affordable ownership housing goals in HRA/City-financially-assisted projects by working toward 10 percent of all ownership units being affordable to residents earning 60 percent of AMI and 20 percent of all ownership units being affordable to residents earning 80 percent of AMI.
- Policy H-34. Support the development of new affordable ownership opportunities through the Inspiring Communities program, including selling vacant HRA-owned single-family lots and identifying sites appropriate for new ownership housing.
- Policy H-42. Pursue public and private funding sources, including local sources, for affordable housing preservation and production.
- Policy H-43. Encourage and support state and federal legislation that preserves existing programs and provides new funding, including a dedicated funding source, for affordable ownership and rental housing.
- Policy H-44. Make achieving the Metropolitan Council’s affordable housing goals a top priority both in planning and legislative efforts.
- Policy H-46. Support the development of new housing, [...] to meet market demand for living in walkable, transit-accessible, urban neighborhoods.
- Policy H-47. Encourage high-quality urban design for residential development that is sensitive to context, but also allows for innovation and consideration of market needs.
- Policy H-48. Expand permitted housing types in Urban Neighborhoods ... to include duplexes, triplexes, town homes, small-scale multifamily and accessory dwelling units to allow for neighborhood-scale density increases, broadened housing choices and intergenerational living.
- Policy H-54. Support alternative household types, such as co-housing, intergenerational housing, intentional communities or other shared-living models, that allow residents to “age in community.”

Recommendation:

The Executive Director recommends approval and authorization of the amendments to the key terms of the Inspiring Communities Homeownership Program Manual and timeline for implementation, rescission of Resolution 16-1190, establishment of a budget for the MHFA Impact Fund dollars, and amendment of the Housing Trust Fund budget to include an additional \$2,000,000 for the HRA Disposition Work Plan and Budget Inspiring Communities program.

Sponsored by: Commissioner Tolbert

Staff: Nick Boettcher (651-266-6094)

Attachments:

- **Financial Analysis**
- **2022 RFP (“RFP 7”) Property List and Map**
- **Public Purpose**
- **PLA Notification and Response**