

To: **Public Safety Committee**
From: **Ryan Schroeder, City Manager**
Date: **February 4, 2020**

Housing Rehab Programming

BACKGROUND INFORMATION:

At the January 27, 2020 OCWS, Jason Peterson from NeighborWorks presented background on possible expansion of our current housing rehab program. Maggie Dykes, CDA Asst Director of Community and Economic Development attended. She agrees that there is demand for expansion of rehab programming efforts. She mentioned that the Community Development Agency (CDA) could collaborate with West St. Paul on expansion beyond the 80% AMI income restrictions of the Community Development Block Grant (CDBG) funded program if non-CDBG money was made available by the City. She noted that they build in 12% administration for their program and that, currently, they have a \$35,000 project threshold. She noted, further, that the CDA has an obligation to spend down their CDBG program funds to no more than 1.5 times their annual allocation (including reserves) as of May 2 of each year, which means that CDBG projects out of necessity must take priority over any other programming. This could create a significant limitation of collaborating with the CDA. NeighborWorks would not have this same limitation in West St. Paul if funding was entirely non-CDBG.

In building a program, there are a number of policy questions that need to be considered. These follow:

1. Who/What are the program targets?
 - A. Geographically, the City has previously identified that the area north of Butler is that area most likely to benefit from a rehab program. While we could open a program city wide there would be a greater impact to targeting. North of Butler includes property within all three wards.
 - B. Cities within the NeighborWorks portfolio target single and duplex owner occupied properties primarily (up to four unit properties in St. Paul). However, it seems that including non-owner occupied should also be considered.
 - C. It appears that often market value limits on eligible structures exist in rehab programs. Particularly if West St. Paul targets north of Butler it seems placing a structure value limit is not necessary.
 - D. NeighborWorks suggested at the OCWS that perhaps West St. Paul would want to expand housing rehab programming from 80% AMI to 120% AMI. We could also run a second program for households with incomes above 120% AMI. NeighborWorks recommends that the second program have somewhat different rules such as a different interest rate, loan term, Loan to Value ratio and the like. (Note, the reason for the two programs is that NeighborWorks can bring third party funds to the affordable program and we would want them to be able to do so).
 - E. It should be noted that 2020 budgeted funds are unrestricted. When the City certified the DARTS/REE TIF district included was the premise that excess TIF could also be allocated to an affordable housing program. Those funds will have income restrictions and net revenue, beyond annual administrative fee payments will be delayed until the TIF note is repaid (which could be up to 19 years).

2. What are eligible improvements?
 - A. It seems a first goal is to improve the aesthetics of the neighborhood meaning improvements such as siding, windows, driveways, roofing, new garage structures would be eligible.
 - B. System improvements that reduce maintenance, improve efficiencies, or eliminate code deficiencies such as electrical upgrades (service upgrade or replacement of knob and tube wiring), replace deficient water and sewer lines, or new HVAC systems or sustainability improvements such as solar, heat pumps/geo thermal systems would be eligible.
 - C. Some Cities have included interior improvements such as kitchen or bath remodels (Shoreview sees this as an improvement that will attract younger families to the community). NeighborWorks also has a condominium interior program but it seems that might be considered in a future program expansion if funding would be available.

3. What about financing terms?
 - A. Our benefit assessments for street and utility public improvements are at 2 points above our borrowing rate. Today, that would be at 4 - 4.5%.
 - B. Our Inflow & Infiltration (I&I) assessments are stated at 3%; staff has suggested in the past that these lending terms should replicate the rate of street improvements
 - C. The condominium property at April Manor had considered an HIA district with the City but, ultimately, determined not to proceed. Currently, the condominium at 1450 Bidwell is considering the same. We have suggested an assessment under this program would likely be at the same rate in "A" above
 - D. Under the NeighborWorks program, currently, interest rates in Woodbury, North St. Paul and Shoreview is 3% regardless of income. They go to 2.75% for elderly or veterans. In Minneapolis and St. Paul, it's tiered based on income. Generally, 0-50% AMI is 1%, 50-80% AMI is 3% and 80-120% AMI is 5%. Currently, Minnesota Housing's fix up fund is just over 4%. It was above 5% for a long time. Generally, it helps to be below that as that is often the alternative.

Mr. Peterson suggested that 4.25% (2 points above our borrowing rate) could be workable but is close to fixup fund and, therefore, their preference would be for a lower interest rate (3 to 3.5%). Fix up offers less support (i.e., no project/construction management) and the borrower just gets a check but it is a good alternative for folks in this space. NeighborWorks also administers fix up fund loans so, if these are close, they can market for loans and, if West St. Paul funds run out, they can switch people over to fix up, if possible. This would eliminate the peaks and valleys if our program runs short of funding.

4. Payments to the Loan Servicer and other fees?
 - A. The servicer is paid a monthly fee for servicing the loan. CRF charges \$6/loan. Then they charge \$25 when the loan is paid off, and they get any late fees owed by the borrower. This covers everything and West St. Paul would receive a net payment each month. Included would be monthly statements, payment processing, collections, and tax information. Foreclosures would be handled separately. In the past, NeighborWorks has used their own attorney, which has been infrequent. They also use Sunrise Banks to service most of their loans. They charge a percentage of the principal repaid each month. NeighborWorks would help set this up.
 - B. Closing costs are somewhat driven by the interests of West St. Paul. Loans will likely have a recording fee to secure the mortgage – \$46 in Dakota County. The title review is roughly \$75, and a credit report if underwriting requires is roughly \$28. These fees can become an application fee to the borrower or the City can cover these. Additionally, NeighborWorks has proposed a 10% of closed loan fee paid by the City. NeighborWorks could charge an origination fee (\$500 or \$1000), which would reduce the admin fee West St. Paul would pay. This fee could be financed in the loan amount.

5. What are the loan minimums and maximums?
 - A. Closing a \$2,000 loan and a \$20,000 loan is the same work for NeighborWorks, and they can lose money on the smaller loans, which is why the CDA has a \$15,000 loan minimum. While they have done \$5K and \$10K loans, most are in the \$20-\$25K range and a max of \$35K would align with CDA programming. West St. Paul funding would be limited, certainly within the \$50K to \$100K range.

6. What is included in the menu of tasks NeighborWorks takes on for the borrower?
 - A. It depends on how much work West St. Paul would like them to do. In St. Paul, they take care of everything – inspection, scope, bids, etc. They also are paid significantly more for the additional work (it is also CDBG so it has to be done). Generally, in Woodbury, North St. Paul and Shoreview, they do an initial consultation, usually via phone unless they Cities have something beyond that on a case by case. This gives NeighborWorks an idea of the scope of the project and whether it is eligible. If West St. Paul wants, they can complete an inspection and scope of work but usually only if the project is complicated (i.e., if the homeowner needs a roof or a garage, there is not a need for a scope of work). This is generally decided in consultation with NeighborWorks construction manager. They generally encourage folks to get their own bids but can supply contractors if they are interested. They review the bids internally for cost reasonableness to ensure homeowners are not overpaying. They also check the license and insurance of the contractors. Throughout this process, they are also qualifying the homeowners for the loan. Once that is complete, they close the loan and escrow the funds in house (unless West St. Paul would like to cut checks to contractors). Once the loan is closed, the funds are escrowed at NWHP. The contractor then completes the work, provides the lien waivers and NWHP cuts the contractor a check. The borrower would never pay anything out of pocket. Funds are provided directly to the contractor after work has been verified.

FISCAL IMPACT:

		Amount
Fund:		
Department:		
Account:		

STAFF RECOMMENDATION:

Discussion

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