Metropolitan Housing Trust Fund Commission Meeting
February 10, 2016
2:00pm – 4:00pm
Peabody Room – 730 2nd Avenue South, Fulton Campus

Present Commissioners—Jemison, Nixon, Sledge, Bodenhamer, Ferrell, Tucker
Staff—Harris, Cole, Havard; Metro Legal—Murray; Consultants—Johnson, Lawrence; MDHA--Harrell

Chair Jemison called the meeting to order.

Old Business:

There was a request from December's study session to work with THF. We are working with Metro Planning on properties and will get list to Commission to discuss process. The list has dwindled due to right of way projects, etc. Planning is evaluating based on land use policy, any types of building issues, requirements for rezoning. Planning is taking a very thorough approach to reviewing the properties.

Staff has worked with Legal on 20 year deed restrictions and properties should go to Metro Council in March.

Commissioner Nixon asked if the commission should make a statement regarding the inclusionary zoning ordinance - should commission make a statement? The Commission should be aware of the incentives being offered as a carrot for affordable housing. To offer setbacks that are different than what is typical for the neighborhood, for affordable housing, is not something we should be doing. Motion to request more info from planning commission on how to make decisions on setbacks on height restriction waivers.

Commission voted all in favor.

Expanded uses
At the last time Commission meeting, Commissioner Ferrell requested THF and staff to review if under a scenario where it had more funding, about possibility for some loans instead of granted and capitalizing on the housing fund.

Also, when discussing expanded uses, the question was raised, should there be an interim round or new round expanded uses? Round 2 should be fully executed before moving forward on round 3. Round 2 should be completed by mid-March.

Question is how does the Commission operate a loan fund and leverage capital?
Currently, what The Housing Fund (THF) as a CDFI does is receive investments from private parties, mostly banks, with about a $20 million loan pool to finance for profit and nonprofit developer loan projects, also down payment assistance for low to moderate income home buyers. These loans are tied to prime 3.5% interest rate for nonprofits, 5.5% for for profits. Typically this is for construction. Funds are typically paying 2-3% to investment, so small margin. Maximum loan amount at 80% or 90% of total development cost, including cost of land.

Example 1: Typical grant approach

Barnes Fund grants money to THF. THF would start financing funds to reach a bigger development market.

Example 2: Creative Financing approach

THF would receive grant and match it, doubling investment. THF could write down interest rates by 3% to .5% for nonprofits and 2.5% for for-profits and provide a loan loss reserve averaging 3%. This would incentivize private developers with 2.5% interest rate. For just a little bit of money, THF can access a lot of capital. By providing a loan loss reserve, THF can be a little more flexible in evaluation of project proposals, which may not be a cookie cutter deal.

This example increases THF ability to raise additional loan capital.

Taking this further with Surplus Properties in this scenario:

Metro donates lots to THF for financed projects by private developers. THF sells lots at loan closing for 100% Metro appraised value, taking a 6% fee. Sales proceeds go to THF loan pool for future Barnes financed projects. Benefits include returning properties to tax rolls and providing community benefit; further incentivizing private developers; helps developer meet the equity requirement for THF financing; lot sale proceeds subsidize THF operations.

<u>Commissioners discussion following presentation:</u>

Ferrell: This would put more money to work than direct grants, builds capacity in non-profits, as a city we can get more capacity.

THF: To the extent that these could go for homebuyer projects, you will revolve money with loan program.We could work with a number of nonprofits on this. What are the drawbacks of doing this vs. direct grants? Does this limit types of projects we can do?

THF: Other than the money going somewhere directly to developer, there may not be many drawbacks. Surplus presentation is for for-profits, but could be same for non-profits. There aren't really any downsides to this. If you have a partner with whom you are comfortable. Providing granting money to lend and finance, we need to trust. Downside is if we get someone who is not and we have problems by how money is managed.

Jemison: still need to build capacity with nonprofits.

THF: For smaller nonprofits, having low cost debt financing would be a benefit. These are relatively big numbers for the Barnes fund, but this is under the assumption that we would have that increased funding. Downside on checking credit – by relying on CDFI who is experienced, this process will be clean and knowledgeable about feasibility.

Nixon: We have been targeting really low income residents. Does this 30-80% remain feasible for this process, or do they just need grants?

THF: Most very low income below 30% AMI will need grant. What this does is gets us closer. If we can provide an interest rate that is low, we can make a project cash flow that services a lower income population than a project servicing a higher income population. We can move down income stream with interest rate because cost is less for developer. If this is made available for homebuyer projects, may be able to push down to 60% AMI and make it work with lower cost financing.

Nixon: IF we don't use this mechanism, we have to create mechanism of our own?

THF: Yes. This is why it makes sense for us.
Staff: Additionally, we don't have legal capacity to do loans. And this could all still occur aside grants.

Nixon: Especially for very low income. So this model will assist with 30-80% population. Could use surplus property as well?
THF: Property can also serve as equity. We could consider land as equity. If that value is 20% development cost, they can borrow 100% for building cost.

Sledge: For for-profit, looking at incentives and subsidies that make up the gap for for-profit development, would we pair lower interest rate and eligibility for $20,000 per unit?
THF: Not sure yet. It could, if we had a subsidy, wouldn't prevent access to this.

Sledge: Numbers from planning show that projects won't make good financial sense for the developer, but if we are able to combine incentive plus lower financing, it could make that more feasible.
THF: THF would have to tear into performance and measuring profit and debt coverage ratio.

Sledge: Is this going to be of interest to for profit developers?
THF: Yes – right now, THF is doing a lot of business with for profit developers, and that's at 5.5%. If THF offers 2.5% as an interest rate, we could reach developers that we aren't reaching right now.

Ferrell: How many CDFIs are there?
THF: Four/five. THF is the only one that does housing. For economic development and small business, it is Pathways, Affordable Housing Resources, Citizens Bank, US Community Credit Union.

Ferrell: We might have multiple options for managing programs. We would have a revolving loan pool. What happens if prime rate goes up?
THF: Would lean toward this – if combining THF capital with Barnes, more and more are tied to prime.

Staff: Other uses could also be included with next round including rehab and home repair.
Commission: Could this model be used for rehabbing?
THF: yes.
Commission: INHP – CDFI in Indianapolis does rehab currently. Will send around to THF and staff.

Proposed Applications
THF discussed proposed applications for next round. The ultimate question is, will the Commission put a round out in the spring or wait until fall with a potentially larger pool? This determines which application to put out.

Additionally, removing federal requirements from Barnes Fund will speed up the process by not requiring environmental review or other federal requirements.

The existing applications are two separate ones – one homebuyer, one rental, and adjusted scoring to address questions.

Overview:
Homebuyer application: narrative to discuss project and amenities or features; clients served; plans for financing. One concern was overfinancing or burdening homebuyer that may not reflect loan. Rental questions were taken out. Highlighting if buildings were built before 1978, but do not have to include that. Are units visitable? This means that first floor someone could roll in and roll out. To do this, sometimes increases costs.

Sledge: Request to keep lead testing in;
Nixon: An applicant should get credit for this, but not required.
THF: points for having an audit and an audit with no findings. Concern from reviewewrs that agencies have no audit, need the third set of eyes for fiancials. Also get points for universal design principles, or if someone were in a wheelchair or have mobility issues, needs are met.
We have an option to give points for an audit. Where review committee has struggled is organizations with good financials and some with bad financials. If they don't have a good finance manager, it's a nice check that they have an independent audit.
Nixon: Reasonable to say that the more skin in the game, the more points you get?
Melinda: yes.
Ferrell: This is the same application on surplus lots?
THF: This is assuming lots were paired with funding. Rank lot list for desirability.
You can decide if you want lots available on website, allow lots to be applied for, or it can be attached to application round OR financing mechanism with THF.
Ferrell: Would you prefer to move them out quicker?
Staff: There is certainly a demand for them.
THF: But we still have to review feasibility.
Staff: way we have done it with attached, assists process than if they were done stand alone, but there's a tradeoff if it is standalone.
Ferrell: But why hold up process if they just want lots?
Nixon: Specification plans compatible with design – should this be a point or a requirement?
THF: One thing you will notice is tall and skinny's rather than reflecting existing architecture. Do we require our nonprofits to do something our for-profits don't have to do? Nonprofit would only get to do one unit, have different requirements. This is reason for putting it under points. Steps the Commission away from being the design police. People have different interpretations of what fits in and what doesn't fit with design. We have found that they will go for extra points to make it compatible, and we could always increase points to make it even meatier.

The rental application is mostly the same, but removed redundancies in asking for financial information. This is just overall less work. Scoring with questions, cash flow questions, points to serve special populations, but scaled back with points. Did leave visitable in multifamily units, and universal design.
Nixon: relative to the population that needs housing, is visitability a big need? It's just the general population, but crucial for aging in place. Often difficult to make those changes, whereas if you are a homebuyer, an agency can make that happen.
THF: Not sure if percentage of population – what that is. We can find out.
Sledge: What would be considered special populations?
THF: Large families, elderly, veterans, more difficult to house, spatial, homeless, etc.

Things to take action on:

- Determining if we are putting this out this spring for nonprofits.;
  Jemison: concerned we haven't completed previous. Hasn't been presented to council, do we muddy waters if starting process before?
  THF: There are other organizations who didn't receive funding. Also, important to consider that there were other reasons for long delay… two review committees, issue with MDHA, still going to have to go through council, but wouldn't take as long. The Commission did not determine standalone application. Has not been a formal vote on this. That may make determination on when RFP can go out.

  ACTION: Sledge moved to separate funding from federal funding sources such as HOME Investment Partnership, Nixon seconded. Commission passed unanimously.

  Commission discussion after vote:
  This vote eliminates confusion going foward.
  This is the first time Metro has done deed restrictions, and that has made process take longer as well. We're close now to having proper deed restrictions and developer agreement.
  Jemison: Needs to be ironed out before we go forward with next round.
  Staff: This is also a new council that has to go through a new analysis process. This will go to council by filing deadline as a resolution on March 1.

New Business:

- Commission next meeting is March 24. We could delay one meeting and know outcome of council resolution.
- Jemsion: We have had two rounds with back and froths and hiccups, so may be best to have process down.
- Total amount available is $1.2 million, sale of convention center pending at $5 million in July.
- Sledge: on old convention center sale – each time they get an extension, 250,000. The fund has already received 250,000. Staff will find out the next time that would happen again.
- Ferrell: do we want to have a third application for loan fund? That will be a request for qualification for proposal. With just 1.25, we don't have enough. But given timeline for 2016, we could look at that in the next fiscal year.
- Nixon: if we get more money, and if we go out in the spring with the 1.25, and then we get a lot of money, could we go out again in the fall?
- Staff: If there was a larger amount, you would want to have a diversified set of activities.
- Tabling the RFP timeline until after the current recommendations are approved by the council. We are hoping we can take that up at our next meeting.
- Jemison: We have approved standalone application, we do need to approve new applications that have been developed by Housing Fund. Motion to approve new apps, commission voted to approve new apps.

Sledge: Ad hoc committee discussing CM Mendes document on what types of affordability we are trying to address/ Mendes has developed a grid on percentages of AMI served. Sledge is trying to find agencies to address each box of grid. Colby asked for if there are agencies you know that fit this, let Colby know so he can report back to the committee. Commission staff has all of this.
THF: If there has been one standard breaking point for what is or isn't affordable, its 80%. You could end up with someone who is only serving a portion – 60 to 80, not 60 to 100.
Latrisha: It's important to note the 80% and below. Community Reinvestment Act.

Staff: The 60% AMI baseline is referring to state definitions.

Staff:

- Evansville, Indiana interested in coming to next meeting. Thinking of creating a new HTF and interested in seeing projects and meeting. If commission is okay with that, can confirm with them. Confirmed
- Last study session there were presentations from THF, THDA, etc… Emily Thaden mentioned she could be available. Should commission have a housing advisory council made up of policy folks? Should we have a tight knit council that assists the Barnes Fund? Something to consider as the Commission moves forward.

Next meeting is March 24th at 2pm at Lindsley Hall.

Meeting adjourned.