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DATE: December 18, 2018

TO: Members of the Housing & Redevelopment Authority

FROM: Janine Atchison, Housing Coordinator

Community Development Block Grant-Fiscal Year 2019 Allocation

SUMMARY AND ACTION REQUESTED:

The Housing & Redevelopment Authority (HRA) to review and determine the 2019 Fiscal Year (FY) application for Community Development Block Grant (CDBG).

BACKGROUND:

Each year the HRA has the opportunity to apply for CDBG funds through the Dakota County Community Development Agency (CDA).

On November 27, 2018, the HRA voted to allocate FY 2019 CDBG Funds to Manufactured Home Rehabilitation (MH Rehab), Manufactured Home Down Payment Assistance (MH DPA) and Manufactured Home Demolition & Clearance (MH-Demo).

In previous years, 1995 - 2009, the HRA has utilized CDBG funds to provide rehabilitation assistance, down payment assistance and acquisition/demolition & clearance for manufactured homes. The manufactured home acquisition, demolition & clearance program ended in 2015. Manufactured home rehabilitation, down payment assistance and demolition are clearly allowable uses of CDBG funds.

ANALYSIS:

In Fiscal Year (FY) 2019, the HRA is eligible to apply to CDA for \$63,352 in CDBG funds.

Manufactured Home Rehabilitation (MH Rehab)

In previous years, the HRA has utilized CDBG funds for MH Rehab. At several points in time, the HRA provided grants of \$4,000 to \$8,000 MH Homeowners for rehabilitation.

Because manufactured housing is not considered to be real property but is rather valued as personal property, the appreciation in value associated with real property does not usually apply to such housing. For this reason, loans made for improvements to manufactured housing are often denied using the test of economic feasibility. However, manufactured housing makes up a large element of low-income housing in the City, and rehabilitation needs in this segment of the housing stock are considerable.

CDBG funds provided by the HRA could be considered a grant or a forgivable loan. If the HRA opts for a forgivable loan, a lien would be placed on the MH title. A lien release would be prepared, after the loan duration is complete and the family is still maintaining the MH as their home. However, it should be noted that a lien placed on the title could prevent the family from obtaining a rehabilitation loan to cover their portion of the rehab costs.

In previous years the HRA had a MH rehab loan program where 25% percent of the loan was forgiven after the first year, 50% was forgiven after the 2nd year and 100% of the loan was forgiven after the 3rd years, as long as the family continued to maintain the MH as their residence.

MH Down Payment Assistance

The HRA's current down payment assistance program does not include manufactured homes and allows families at 80% or less of the AMI to receive up to \$15,000 for down payment and closing costs. The average sale price of a home in Northfield is more than \$250,000. The average costs of a single-wide, 3 bedroom, 2-bath manufacture home is as low as \$75,000.

Previous Northfield manufactured home down payment assistance programs have offered \$5,000 to \$10,000 in the form of a grant or forgivable loan.

Because manufactured housing is considered to be personal property and not subject to the appreciation of value associated with real property, few financial institutions offer loan programs. The financial institutions which do offer MH loans generally charge a higher interest rate, around 9% or more, and the durations of the loans extends to no more than 15 years for a new manufacture home. Loans for used manufactured homes tend to be no longer than 5 years.

MH Demolition & Clearance

The manufactured home demolition and clearance program would be voluntary. The program is designed to purchase and remove substandard manufactured home units from Viking Terrace.

In the program, owners of dilapidated, substandard manufactured homes may apply to the HRA to participate. An inspection would be conducted by a qualified inspector to determine if the home is uninhabitable, dilapidated or otherwise substandard. The HRA would purchase the dilapidated, substandard or uninhabitable home for a flat rate of \$2,000, minus any outstanding property tax or lot rent payments. Upon assuming ownership of the manufactured home, the HRA then conducts the required asbestos inspections and has the home properly demolished, removed and disposed. Manufacture homes, located in Viking Terrace, found to be substandard and in need of substantial repairs beyond the value of the structure and are not fit for human habitation, are eligible for the demolition and clearance.

Staff is seeking input from the HRA regarding the eligibility guidelines to be used for the Manufactured Home Rehabilitation Program and the Manufactured Home Down Payment Assistance Program. Some options have

been provided. Guidelines may need to be adjusted with further input from the

OPTIONS:

Staff is seeking input from the HRA regarding the eligibility guidelines to be used for the Manufactured Home Rehabilitation Program and the Manufactured Home Down Payment Assistance Program at Viking Terrace. Some options have been provided. Guidelines may need to be adjusted for compliance with the CDA and the Department of Housing & Urban Development (HUD) rules and regulations.

Manufactured Home Rehabilitation Program

The HRA to determine:

- CDBG funds utilized for Manufactured home rehabilitation will be in the form of a loan or grant.
 - Loans could be forgivable after 3 years. A lien could be attached to the MH title.
- Maximum amount of CDBG funding to use per project.
- Amount of homeowner contribution for needed rehabilitation.

For Example:

- Homeowners whose income is at or below 60% of area median income (AMI) would contribute 0% of maximum allowed and 100% of costs above maximum allowed.
- Homeowners whose income is between 61% and 80% would contribute 10% of maximum allowed and 100% of costs above maximum allowed.

Options:

- 1) CDBG forgivable loan of up to \$8,000 for eligible participants. Eligible owners whose incomes are at or below 60% of AMI contribute 0% and 100% of costs above maximum. Eligible owners, whose income is between 61 % and 80% AMI, would contribute 10% of costs up to maximum allowed and 100% of costs above maximum. Owners are required to remain in the home for 3 years. After 1st year, 25% of loan forgiven, after 2 years 50% of loan forgiven and after 3 years 100% of loan forgiven.
- 2) CDBG grant of up to \$8,000 for eligible participants. Eligible owners whose incomes are at or below 60% of AMI contribute 0% and 100% of costs above maximum. Eligible owners, whose income is between 61 % and 80% AMI, would contribute 10% of costs up to maximum allowed and 100% of costs above maximum.
- 3) CDBG forgivable loan of up to \$8,000 for eligible owners whose incomes are at or below 80% of AMI. Owner contributes 20% of costs up to maximum and 100% of costs above maximum loan amount. Owners are required to remain in the home for 3 years. After 1st year, 25% of loan forgiven, after 2 years 50% of loan forgiven and after 3 years 100% of loan forgiven.
- 4) CDBG Grant up to \$6,000 for eligible participants. Eligible owners whose income is at or below 80% AMI would contribute 10% of cost up to maximum and 100% of costs above maximum.

Manufacture Home Down Payment Assistance Program

The program would be available at Viking Terrace Manufactured Home Park.

The HRA to determine:

- Will CDBG funds, utilized for manufactured home down payment assistance, be a loan or grant?
- Maximum amount of CDBG funding to use per project.

The average cost of a new, single-wide, manufacture home is between \$75,000 and \$110,000. Used manufactured home costs are significantly less, but are rarely available to purchase.

Options:

- 1) CDBG forgivable loan of up to \$10,000 for a new, or newer manufactured home for down payment assistance and/or closing costs including moving, set up, skirting, etc. costs. A lien is placed against the title. Owners are required to remain in the home for 3 years. After 1st year 25% of loan is forgiven, after

- 2 years 50% of loan is forgiven and after 3 years 100% of loan is forgiven.
- 2) CDBG forgivable loan of up to \$8,000 for a new, or newer manufactured home for down payment assistance and/or closing costs including moving, set up, skirting, etc. costs. A lien is placed against the title. Owners are required to remain in the home for 3 years. After 1st year 25% of loan is forgiven, after 2 years 50% of loan is forgiven and after 3 years 100% of loan is forgiven.
 - 3) CDBG grant of up to \$8,000 for a new, or newer manufactured home for a new, or newer manufactured home for down payment assistance and/or closing costs including moving, set up, skirting, etc. costs.

Manufactured Home Demolition and Site Clearance Program

The program would be available at Viking Terrace Manufactured Home Park.

The HRA to determine:

- Maximum amount of CDBG funding to use per project.
- Commitment from HRA for removal and disposal costs above maximum CDBG allowance.

RECOMMENDATION:

The HRA should be aware that options for each of the proposed program rules are subject to adjustment with input from the CDA and HUD.

Staff recommends the HRA consider allocating 2019 CDBG funds as follows:

- \$23,352 for Manufactured Home Rehab Program at Viking Terrace Manufacture Home Park.
- \$20,000 for Manufactured Home Down Payment Assistance at Viking Terrace Manufactured Home Park, and
- \$20,000 for Manufactured Home Demolition and Site Clearance at Viking Terrace Manufactured Home Park.

Staff recommends the HRA consider adopting the following guidelines for the Manufactured Home Rehabilitation Program for Viking Terrace Manufactured Home Park:

CDBG grant of up to \$8,000 for eligible participants. Eligible owners whose incomes are at or below 60% of AMI contribute 0% and 100% of costs above maximum. Eligible owners, whose income is between 61 % and 80% AMI, would contribute 10% of costs up to maximum allowed and 100% of costs above maximum, subject to adjustments to be compliant with HUD and CDA rules and regulations.

Staff recommends the HRA consider adopting the following guidelines for the Manufactured Home Down Payment Assistance Program at Viking Terrace Manufacture Home Park:

CDBG forgivable loan of up to \$10,000 for a new, or newer manufactured home for down payment assistance and/or closing costs including moving, set up, skirting, etc. costs. A lien is placed against the title. Owners are required to remain in the home for 3 years. After 1st year 25% of loan is forgiven, after 2 years 50% of loan is forgiven and after 3 years 100% of loan is forgiven, subject to adjustments to be compliant with HUD and CDA rules and regulations.

Staff further recommends the HRA consider adoption of the following guidelines for the Manufactured Home Demolition & Site Clearance Program at Viking Terrace Manufactured Home Park:

CDBG grant of up to \$10,000. The HRA would purchase the dilapidated, substandard or uninhabitable home for a flat rate of \$2,000, minus any outstanding property tax or lot rent payments. Upon assuming ownership of the manufactured home, the HRA then conducts the required asbestos inspections and has the home properly demolished, removed and disposed. Manufacture homes, located in Viking Terrace, found to be substandard and in need of substantial repairs beyond the value of the structure and are not fit for human habitation, are eligible for the demolition and clearance.

