February 27, 2019 Agenda Item 3

REPORT TO THE COMMISSIONERS

FROM: Gregory P. Russ, Executive Director / CEO

SUBJECT: Authorization to Submit Section 18 Disposition Application for MPHA Scattered Sites Properties

<u>Previous Directives</u>: The Board previously approved *Guiding Principles for Redevelopment and Capital Investments at MPHA* on May 24, 2017 that outlined how MPHA will make real estate investment decisions for each property that reflect MPHA's mission statement as well as commitments to no permanent displacement of residents. On May 23, 2018 the Board approved the MPHA Strategic Vision and Capital Plan which outlines the use of Section 18 Disposition of the scattered sites. On September 26, 2018 the Board approved the 2019 Moving to Work Annual Plan that outlined the use of Section 18 Disposition of the scattered sites to preserve the affordable housing units.

<u>Resident Council Review/Recommendation</u>: An update on the Section 18 application was provided to the Resident Advisory Board (RAB) on January 23, 2019 and further reviewed on February 27, 2019.

<u>Budget Impact</u>: None

<u>Affirmative Action Compliance</u>: Not Applicable

RECOMMENDATION: It is recommended that the Board of Commissioners approve the attached Resolution approving the Section 18 Disposition application for the scattered site properties, authorizing the Executive Director/CEO or his designee to execute and submit all required documents necessary for a complete application, including the attached Section 18 Disposition application and addendum and any certifications.

Minneapolis Public Housing Authority owns and operates 736 scattered site housing units in 648 properties. Of the 648 properties, 573 are single family homes, 70 are duplexes, three are fourplexes, one is a five-unit rowhouse, one is a six-unit building and, one property contains eight buildings comprised of three duplexes and two single family homes. The scattered site housing units comprise the majority of MPHA's deeply affordable housing for families in Minneapolis. They offer a unique opportunity for families in public housing to integrate seamlessly into their surrounding neighborhoods, and often serve as a training ground for future homeownership.

Capital Shortfall

In 2014 MPHA worked with The Inspections Group and Ameresco to complete an extrapolated sample physical needs assessment of the scattered site portfolio. The 736 units in the portfolio were sorted into groupings based on similarities including year built, stories, size, and building type. Ten percent of the portfolio was audited to include representative properties from each of the groupings. The capital needs for the audited properties were extrapolated to each property in that grouping based on assumptions related to building systems, materials, construction types, and finishes. The scattered site portfolio has an estimated $28 million in unmet capital needs in 2018. This includes repairs and replacements that have been identified by The Inspections Group and Ameresco for replacement in 2018 or in previous years. Over the next five years there is an additional $16 million in estimated capital needs.

The cost to address both the backlog of capital needs and anticipated future needs is substantially greater than the vastly insufficient Public Housing Capital Fund can cover. Simply addressing the capital needs of our scattered site portfolio would consume 100 percent of MPHA's expected capital fund allocation for the next five years, not leaving any capital funding for the 5,000+ housing units in the 42 high-rise buildings and 184 low-rise units owned and operated by MPHA. Together, these properties have $110 million in unmet capital needs.

Operational Challenges

The 736 units are spread across 58.2 square miles of Minneapolis. The distance needed to travel between units leads to lost employee time. Sixty-five percent of the scattered sites are four or more miles from the property management office as the crow flies. However, the driving distance between the office and many of the scattered sites is over eight miles. The lack of uniformity in the systems across these properties makes them challenging to operate as well. Additionally, each has unique capital needs that differ from property to property, making it costly to reach any economies of scale.

Section 18 Benefits

HUD's Section 18 Disposition process creates an opportunity to preserve and potentially replace deeply affordable scattered site family housing in Minneapolis through increasing the subsidy provided to MPHA, allowing for more reinvestment in the portfolio as well as allowing MPHA to access debt to cover reinvestment in the portfolio.

Currently public housing subsidy comes in the form of operating and capital grants based on funding formulas set by HUD and then modified by annual prorations set by Congress. As a result of the Section 18 disposition process, HUD will enter into a Housing Assistance Payment (HAP) Contract with MPHA for tenant-protection vouchers. The tenant-protection vouchers will then be project-based back into the scattered site units. The tenant-protection vouchers carry a more stable and higher level of subsidy than public housing subsidy. Based on average estimates for properties and 2018 funding levels, MPHA estimates a significant annual increase in subsidy from HUD as a result of this Section 18 application.

The Section 18 Disposition process also replaces the Declaration of Trust (DOT) on a property with a 30-year use restriction agreement that would ensure the property is used for affordable housing for the low-income families MPHA serves. Currently, with a DOT in place, MPHA cannot take out a loan on a property to cover repairs and reinvestment. When the DOT is replaced by the use restriction, MPHA can utilize loans and other tools available to non-profit housing providers to reinvest in their properties.

If the Section 18 Disposition application is approved, the scattered site properties will be transferred to a non-profit that MPHA wholly owns and operates called Community Housing Resources, Inc (CHR). The scattered site properties will be transferred to CHR for $1.00 per property. CHR will contract back to MPHA to operate and maintain the units.

What Section 18 Means for Residents

There will be no displacement of residents as result of the Section 18 Disposition; residents will not have to move. Residents will not lose their housing benefits. Residents' rent calculations will remain at 30% of their adjusted income, same as it is now. Residents will, however, have to sign a new lease after the Section 18 application is approved.

Next Steps

HUD review of the application takes approximately 60 days. MPHA anticipates a decision from HUD in May 2019. If approved by HUD, MPHA anticipates that it will take approximately 180 days for the disposition, subsequent approval of the tenant-protection vouchers, project-based vouchers assigned, and residents to sign new leases. Based on this timeline, these items will likely be completed by November 2019.

This Report was prepared by Brian Schaffer, Assistant Director of Real Estate Development. For further information, please contact Brian at (612) 342-1430 or bschaffer@mplspha.org.

Attachments

1. Inventory Removal Application (HUD Form 52860)
2. Demolition and Disposition Addendum (HUD Form 52860-A)
3. MPHA Board of Commissioners Resolution No. 19-185