



## Request for Action

**TO:** Faribault Housing and Redevelopment Authority  
**FROM:** Kim Clausen, Community Development Coordinator  
**MEETING DATE:** March 8, 2021  
**SUBJECT:** Downtown Rehab

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**PURPOSE:** Chairperson Brown requested the HRA have a discussion about a downtown rehab program. Several years ago the HRA had a downtown rehab program that resulted in the creation of 9 new downtown apartment units. In 2019, based on a specific request, the HRA provided funds for an additional 8 units.

Guidelines for the previous program are attached for reference.

### **REQUESTED ACTION:**

Discussion only.



## **HRA DOWNTOWN HOUSING IMPROVEMENT PROGRAM**

The HRA Downtown Housing Improvement Program (HIP) is a local incentive program designed to encourage the development of high-quality, market-rate residential units in the historic downtown.

Downtown Faribault has a wide variety of housing types and is home to many different demographics. Based on a detailed downtown housing study and inventory conducted in 2010, there are 282 rental units in 68 buildings in the downtown area. This does not include Heritage Bluffs, Trails Edge or any units south of Division Street. Of these, 18 units are “subsidized”, 176 are “affordable” and 88 are “market-rate”. In addition, 100 of the units are considered to be in good condition, 73 units require “minor rehab” and 109 require “major rehab”.

Significant investment has been made in downtown over the last few years, both by the public and private sectors. New utilities, streets, sidewalks and lighting have been installed. Numerous storefronts have been renovated and several exciting new businesses have opened. There is a desire to continue to capitalize on this energy and revitalization by improving and upgrading the residential options downtown. One of the recommendations of the downtown housing study was to develop quality market-rate units in upper floors of downtown buildings, including renovating substandard housing on upper floors into high-quality market-rate housing.

### **FARIBAULT HOUSING AND REDEVELOPMENT AUTHORITY**

The Faribault Housing and Redevelopment Authority (HRA) was established in 1970 pursuant to Faribault City Council Resolution No. A 3242. The HRA’s power are established in Minnesota Statutes, Chapter 469. The purpose of the HRA is to:

- Provide a sufficient supply of adequate, safe and sanitary dwellings in order to protect the health, safety, morals and welfare of the city;
- Clear and redevelop blighted areas;
- Remedy the shortage of housing for low and moderate income residents;
- Redevelop blighted areas in situations in which private enterprise would not act without government participation or subsidies.

## FARIBAULT COMMUNITY VISION

SMALL TOWN PRIDE, BIG CITY  
OPPORTUNITY.

Faribault is one of America’s best small communities. A place where all people find opportunities to succeed, grow, and prosper. We celebrate our unique strengths in education, business, industry, medical, nature, recreation, leisure, and the arts – and we are proud of our historic downtown and iconic institutions.

As a community we embrace the future and plan for positive change through our commitment to innovation and excellence, making Faribault an outstanding place to live, work, grow, invest, and visit.

## VISION STATEMENT

The vision of the HRA is that people of all socio-economic classes in the community have access to affordable, attractive and quality housing.

## MISSION STATEMENT

The mission of the HRA is to provide a vehicle to eliminate blight and fulfill the housing needs of the Faribault community.

Community Vision 2040

In 2015, after extensive data analysis, numerous public input sessions and community meetings, the Faribault City Council approved the Community Vision 2040. This Community Vision identifies six priority areas with specific goals and initiatives aimed at improving the quality of life for residents, businesses and visitors. These six priorities include:

- Thriving economic development
- Excellent schools and high quality education
- Pride in our community
- Public safety
- A vibrant downtown
- Access to nature, leisure and the arts

While housing affects all of these priorities, the HRA has chosen to focus new housing programs on the downtown, which includes the following goals and policy initiatives:

**A VIBRANT DOWNTOWN**

*An active downtown provides a sense of place for community residents and is vital for sustained economic activity. We are committed to actively managing our downtown to balance the preservation and transformational requirements to remaining vibrant in the 21<sup>st</sup> century.*



**Goal 3: Establish market rate and high-end residential in the downtown.**

Initiative	Ongoing	Short Term	Medium Term	Long Term
A. Identify potential properties where market rate and high-end residential would be appropriate.		✓		
B. Work with the HRA and City Council to develop and implement a plan to establish an appropriate mix of high-end housing in the downtown.		✓		
C. Identify and actively pursue partnerships and development opportunities to establish market rate and high-end housing in the downtown.			✓	

## ELIGIBILITY:

This Program is intended to encourage the development and redevelopment of high-quality market-rate housing. The following minimum requirements and standards are established to ensure the objectives of the program are met and to discourage “flipping”. Projects for the Program must meet the following minimum requirements:

- Units must be located within the local downtown historic district (see attached map)
- Applicant must be current on property taxes for all real property owned by them or their business
- Applicant must be current on all other existing loans and mortgages
- Units can be owner occupied or rental units
- For rental units, applicants must comply with the requirements of the Crime-Free Multi Housing Program and have completed the required landlord training within two years of the project completion date
- All exterior changes to the building must be reviewed and approved by the Heritage Preservation Commission
- For rental units, property owner cannot accept Housing Choice Vouchers for the assisted units for a minimum of ten years
- For rental units less than 1,000 square feet, rents must meet a minimum rate of \$1.06 per square foot
- For rental units 1,000 square feet or more, rents must meet a minimum rate of \$.80 per square foot
- Applicant must submit a parking plan explaining how they plan to address minimum parking requirements for the units
- If an assisted building has units that are currently participating in the Rental Registration Program, the applicant must either maintain the same number of rental units or decrease the number of rental units. If a space planned for improvements has never participated in the Rental Registration Program or is not currently participating in the Rental Registration Program, the space may be developed into new residential rental units provided all requirements of the Uniform Development Ordinance and Building Codes are met.
- The applicant must own the building for 10 years or assistance repayment provisions will apply
- For rental units, applicants must develop and submit a Property Management Plan. The Property Management Plan will include the policies that will be used to guide the operations and management of the rental units. Suggested topics include minimum screening criteria (criminal background check, rental history, credit check, etc. and basis for admission or denial), approach to property management, inspection schedules, marketing and advertising strategy, eviction policies, etc.
- All applicants must develop and submit a Property Maintenance Plan. Suggested topics include routine/preventive maintenance tasks, schedule for completion of routine/preventive maintenance items, process for addressing tenant maintenance requests, how major capital expenses are budgeted for, schedule for capital maintenance repairs/replacements, systems inspection schedules, etc.

## **PROGRAM TERMS:**

The HIP assistance may include a combination of deferred loan and installment loan assistance or it may include only the deferred loan assistance. The program provides up to \$20,000 in assistance per residential unit, up to a maximum of \$200,000 per building. HIP assistance shall not make up more than 75% of the total project costs.

**Combination of Installment Loan and Deferred Loan:** Up to 75% (56.25% of total project costs) of the assistance will be provided in the form of a deferred 0% loan. The remaining 25% (18.25% of total project costs) of assistance will be in the form of an installment loan amortized over 5 years at 3% interest. The entire installment loan must be paid in full by the end of the 5-year loan term.

**Deferred Loan Only:** If the applicant chooses not to obtain an installment loan through the HRA, assistance provided will be up to 56.25% of the total project cost. If the applicant owns the property for a minimum of ten years following the execution of the loan documents, the entire amount of the deferred loan will be forgiven. If any of the following events occur, the full amount of the deferred loan will become immediately due and payable:

- Participant sells the property at any time before completion of the 10 year minimum holding period
- Minimum rental rates are not met
- Units don't meet minimum requirements of the Rental Registration or Crime Free Multi Housing Programs
- Property owner accepts rental subsidies for the unit(s)
- Changes are made to the building exterior and the HPC has not issued a Certificate of Appropriateness for the changes
- Failure to comply with submitted maintenance and property management plans

No upfront assistance will be provided. Assistance will be distributed on a reimbursement basis to the applicant after the following requirements have been met and/or submitted:

- Inspection of the covered improvements by Community and Economic Development Department staff
- Copies of invoices with enough detail to clearly itemize the improvements covered
- Copies of lien waivers confirming that contractors have been paid

The following minimum amenities must be provided in the assisted rental units:

- Clothes washer and dryer hookups in each individual unit
- Central air conditioning system provided for each individual unit
- No window air conditioning units shall be used anywhere in the building

## ELIGIBLE IMPROVEMENTS:

The program is intended to enhance and improve the quality, functionality and aesthetics of downtown residential units. Eligible improvements include:

- Window repair/replacement
- HVAC improvements
- Electrical (including fixtures)
- Plumbing (including fixtures)
- Fire suppression systems
- Elevators
- Accessibility improvements
- Carpentry/millwork (including cabinets, molding and countertops)
- Floor coverings
- Common area spaces or amenities that add exceptional value such as, but not limited to:
  - Secure indoor bicycle storage
  - Enclosed private parking
  - Fitness rooms
  - Lounges
  - Pet spas
  - Indoor/outdoor recreation areas

## PROCEDURAL GUIDELINES FOR APPLICATIONS AND LOAN APPROVALS:

The HRA accepts loan applications on a year-round basis (pending loan fund availability). The HRA also recognizes that these projects can be complex – ***and therefore requires that all interested applicants meet with City Staff to discuss the proposed project and financing need prior to submitting an application for financing.*** Staff will coordinate with partner organizations and lending institutions when reviewing and processing applications.

## APPLICATION FEES

- A completed application form, together with an **application fee of \$100** must be submitted to the Community & Economic Development Department prior to the review of the loan materials. The applicant/participant will also be required to pay all recording fees associated with this Program.

## AFTER A PROJECT IS DETERMINED TO BE ELIGIBLE

A submitted application will be reviewed by Staff to determine completeness and financial feasibility – including whether or not the project is in conformance with local policies and ordinance (building codes, zoning and land use), is consistent with and/or furthers the community vision, and is a financially viable request.

Program funds will be awarded after a thorough analysis of submitted application materials. The evaluation will be based on need, eligible expenditures, collateral, the net benefits for the community, risk vs. reward, overall credit analysis – and consistency with the City’s goals and vision.

- Staff will review each application in terms of how the proposed project meets the goals of the city and furthers the City of Faribault’s Community Vision 2040.
- Staff will forward the application and supporting materials to a pre-selected loan review advisory committee (comprised of members with specific expertise in underwriting, lending and finance) to conduct a financial analysis and credit review of the proposed request. The loan review committee’s comments regarding the financial feasibility and credit analysis (risk rating) will be considered and included as part of the recommendation to the HRA for final approval/denial of the loan request.

The loan review committee will conduct a credit analysis and evaluate the following financial ratios pertaining to availability of funds, private involvement, financial packaging, and cost effectiveness:

1. Liquidity (Current Assets / Current Liability)
2. Leverage (Debt to Equity)
3. Collateral
4. Debt Service
5. Credit score
6. Expense to Income Ratio
7. Rental Income Statement and Cash Flow Projections

## **LOAN ORIGINATION:**

The loan closing will be handled by Staff and/or the City Attorney. At the closing the following documents will be executed:

- Promissory Note
- Loan Security Agreement
- First or Second Mortgage on property and/or other means deemed necessary
- A document authorizing automatic debit of borrower's accounts to pay loan obligations
- Developers Agreement – outlining performance requirements and reporting expectations

## **LOAN MONITORING AND SERVICING:**

The HRA has monitoring and servicing guidelines that clearly identify the obligations of the entity providing and the entity receiving the revolving loan funds. These allow the HRA to track compliance, performance, and outcomes associated with the incentive program.

**LOAN SERVICING** refers to the financial and contractual side of the loans. Once the loan closes it moves to servicing. To properly service the HRA loans:

- Staff will set up the loan in the loan servicing software system with all terms, specific requirements, and repayment dates.
  - Repayment requirements will be included with the loan closing documents – indicating when payments are due and where payments are to be sent.
  - Applicants will receive a 0.5% discount on interest rates if they agree to ACH (automatic) payments.
- The software will track compliance with repayment terms and alert Staff when payments have not been made.
- Late Fees/Insufficient Funds Fees
  - All loans will be given a 15 calendar day grace period
  - A flat fee will be charged for late payments/insufficient funds based on the following scale:
    - Loans <\$10,000 = \$25 per every 30 days
    - Loans \$10,000-\$50,000 = \$50 per every 30 days
    - Loans >\$50,000 = \$100 per every 30 days

**LOAN MONITORING** focuses on the business, working to facilitate timely repayments and the protection of collateral. Monitoring tracks the progress towards meeting budget goals, helps identify potential problems, and provides guidance to help overcome problems associated with loan repayment. The goal is to eliminate loan defaults, and encourage participant success.



- **ON AN ANNUAL BASIS** – the loan recipient will be required to submit an Income Statement and Rent Roll, including the unit rental rates. In addition, inspections will be conducted on all assisted units to ensure the building, fixtures and equipment are being properly maintained.

**RELEASE:**

Upon full and final payment of the Promissory Note, Staff will prepare, have executed, and have delivered all necessary documents to satisfy the Promissory Note, Loan Security Agreement, Mortgage, and/or other securities. The HRA will record the release documents and bill the participant for the applicable recording costs.