

**POLICY 7-I**  
**HOUSING IMPROVEMENT AREA POLICY**

**1. PURPOSE**

1.01 The purpose of this policy is to establish the City’s position as it relates to the use of Housing Improvement Area (HIA) financing for private housing improvements. This policy shall be used as a guide in processing and reviewing applications requesting HIA financing. Requests for the establishment of HIAs shall be reviewed in accordance with state law and this policy.

1.02 The City shall have the option of amending or waiving sections of this policy when determined necessary or appropriate.

**2. AUTHORITY**

2.01 The City of Hopkins has the authority to establish HIAs under Minnesota Statutes, Section 428A.11 to 428.21, as amended. Such authority expires June 30, 2028, unless extended by the legislature.

2.02 Within an HIA, the City has the authority to:

- a) Make housing improvements
- b) Levy fees and assessments, including interest
- c) Issue bonds or use other funds to pay for housing improvements

2.03 The City Council has the authority to review each HIA petition, which includes scope of improvements, association’s finances, long term financial plan, and membership support.

**3. ELIGIBLE USES OF HIA FINANCING**

3.01 As a matter of adopted policy, the City of Hopkins will consider using HIA financing to assist private property association members only when the proposed privately owned housing improvement project will address one or more of the following goals:

- a) To promote neighborhood stabilization and revitalization, removing blight and/or upgrading the existing housing stock in a neighborhood.
- b) To correct housing or building code violations and address health and safety violations as identified by the City Building Official and code enforcement staff.
- c) To maintain or obtain Federal Housing Authority (FHA) mortgage eligibility for a particular condominium or townhome association home within the designated HIA.
- d) To increase or prevent the loss of the tax base of the City to ensure the City has a long-term ability to provide adequate services for its residents.
- e) To preserve or increase valuation and provide for the long-term maintenance of

- the property.
- f) To preserve naturally occurring affordable housing.
  - g) To stabilize or increase the owner-occupancy level within a neighborhood or association.
  - h) To meet other goals of stated public policy, as adopted by the City of Hopkins from time to time, including promotion of quality urban design, quality architectural design, energy conservation, decreasing the capital and operating costs of local government, and other related policy goals.

#### **4. HIA APPROVAL CRITERIA**

- 4.01 In order to be eligible for HIA financing through the City, the association must submit a housing improvement project application along with all required fees as set by the Council and must follow the HIA review process set forth in this Policy. All HIA loans financed through the City of Hopkins must meet the following minimum approval criteria. A proposed housing improvement project that meets these criteria is not automatically approved. Meeting these criteria creates no contractual rights on the part of the City or any association.
- 4.02 The project must be in accordance with the Comprehensive Plan and Zoning Ordinances, or required changes to the Plan and Ordinances must be under active consideration by the City at the time of approval.
- 4.03 The HIA financing shall be provided within applicable state legislative restrictions, debt limit guidelines, and other City financial requirements and policies.
- 4.04 The project must meet one or more of the above adopted HIA Goals of the City of Hopkins as noted in Section 4.
- 4.05 The association shall designate an administrator to be the City's point of contact throughout the process for HIA financing.
- 4.06 The term of the HIA should be the shortest term possible while still making the annual fee affordable to the association members. The term of the bonds or other debt incurred for the HIA should mature in 20 years or less. The City has the sole discretion to determine the source(s) of financing, and sources other than issuing bonds may be used.
- 4.07 Service charges, including, but not limited to, construction/housing improvement project costs, cost of issuance of bonds and other pertinent costs association with the proposed housing improvement project, will be imposed on the association members in the same ratio as common elements or other such uniform method as proposed by the applicant.
- 4.08 The association applying for the HIA must provide adequate financial guarantees

to ensure the repayment of the Housing Improvement Area financing and the performance of the administrative requirements of the development agreement. Financial guarantees may include, but are not limited to, the pledge of the association's assets including reserves, operating funds and/or property.

- 4.09 All taxes, fees, assessments, and charges for shared or common areas must be current.
- 4.10 The proposed housing improvement project, including the use of HIA financing, must be supported, in writing, by at least seventy-five percent (75%) of the association members. The association must include the results of a vote by a minimum of 75% of association members with its HIA application along with the petitions to create the area.
- 4.11 The minimum housing improvement project cost for the issuance of bonds is \$750,000.
- 4.12 The association must have a replacement reserve study (the "Reserve Study") prepared by an independent third party, with designation as a Community Associations Institute (CAI) certified reserve specialist. The Reserve Study must conform to CAI Reserve Study standards and Minnesota Statutes 515B.3-114 through 515B.3-1141. The components of the Reserve Study must include a thirty-year replacement reserve plan (the "Reserve Plan"), and the Reserve Study and Reserve Plan must be submitted with the proposed housing improvement project application and will be reviewed by the City's financial advisor. The association must also have an independent third party prepare a thirty-year reserve plan (the "HIA Reserve Plan") with the components of the proposed project for housing improvements removed from the Reserve Plan. The independent third party must also prepare a thirty-year financial plan (the "Financial Plan") that reflects the annual replacement reserve contributions based on the HIA Reserve Plan. The Financial Plan will provide a plan for the association's operating budget with cost increases over time to finance maintenance and operation of the common elements within the association and a long-range plan to conduct and finance capital improvements therein, that does not rely upon the subsequent use of the HIA tool. The HIA Reserve Plan and the Financial Plan must be submitted with the proposed housing improvement project application and will be reviewed by the City's financial advisor.
- 4.13 HIA financial assistance is last resort financing and will not be provided to proposed housing improvement projects that have the financial stability to proceed without the benefit of HIA financing. Evidence that the association has sought other financing for the project must be provided at the time of application and should include an explanation and verification that an assessment is not feasible, along with rejection letters from at least two private lenders or other evidence indicating a lack of financing options.

- 4.14 The average market value of units in the association should not exceed 80% of the Area Median Income as set by the U.S. Department of Housing and Urban Development.
- 4.15 The association shall obtain temporary construction financing from a private lender, and the City shall provide a take-out commitment to the lender, detailing the terms of payoff of the construction financing. Upon project approval and issuance of a certificate of completion, the City will issue bonds or notes to satisfy the temporary construction loan.
- 4.16 The association must enter into a development agreement, prepared by the City, which may include, but is not limited to, the following terms:
- a) Establishment of a reserve fund
  - b) Staffing requirements
  - c) Annual reporting and financial auditing requirements, including regular updates to the financial plan not less than once every five years
  - d) Conditions of disbursement
  - e) Limitations on prepayment of fees, if any
  - f) Required dues increases
  - g) Notification to all new owners of levied fees, including to individuals that purchase property after the initial project
  - h) Requirement of multiple bids for proposed housing improvement project construction
  - i) Assessments, including interest and City fees
- 4.17 The improvements financed through the HIA should be exterior improvements and, in the case of a homeowner's association, the improvements should be restricted to Limited Common Elements defined within the association's governing documents. The improvements must be of a permanent nature. The association must have a third party conduct a facility needs assessment to determine and prioritize the scope of improvements.
- 4.18 HIA financing should not be provided to projects that are not in the public interest, as determined by the Council, including: poor project quality; projects that do not comply with the Comprehensive Plan, zoning, or redevelopment plans, and City policies; projects that provide no significant improvement to the neighborhood and/or the City; and projects that do not provide a significant increase in the tax base and/or prevent the loss of tax base.
- 4.19 The financial structure of the project must receive a favorable review by the City's Finance Director and Financial Advisor. Legal components will be reviewed by the City's legal counsel. If applicable, the review will include an analysis of performance and level of outstanding debt related to any previously approved HIAs.

- 4.20 If bonds are to be issued, legal components will be reviewed by the City bond counsel.
- 4.21 All rental units within the HIA must be licensed according to City ordinance.
- 4.22 The City will charge an administrative fee of 1% of the total project amount or \$7,500, whichever is greater. The Association is responsible for all City out of pocket expenses, which can be financed with the project costs or paid from the escrow. Any unused portion of the escrow shall be refundable to the Association.
- 4.23 The City reserves the right to deny funding for specific improvements if they are determined to not be in keeping with the intent of the policy.