

Proposed: 6/21/22

ORDINANCE NO. 96-2022 (PD), *Second Reading*

By Mayor Seren

An Ordinance creating an Appraisal Gap Program; and declaring the necessity that this legislation become immediately effective as an emergency measure.

WHEREAS, the foreclosure crisis of 2008, which was caused in large part by predatory lending and complex financial engineering, had a negative impact on the value of residential properties in the City, particularly those located in Qualified Census Tracts (“QCT’s) as defined by the Department of Housing and Urban Development, and resulted in many abandoned homes which were required to be demolished; and

WHEREAS, since 2008 the City has striven to develop and strengthen programs to aid in the recovery of the local housing market, including, but not limited to the City’s HOME-funded Down Payment Assistance Program; and

WHEREAS, the pandemic commencing March, 2020 interrupted the continued recovery of the housing market, particularly in QCT’s, and caused serious financial hardship to many residents, negatively impacting their ability to obtain safe, affordable housing; and

WHEREAS, the American Rescue Plan Act (“ARPA”), signed into law on March 11, 2021, established the Coronavirus State and Local Fiscal Recovery Fund (“SLFRF”), which authorized substantial funding to states and eligible units of local government to support their recovery from the COVID-19 health emergency in many areas including neighborhood development and the provision of affordable housing; and

WHEREAS, the construction of new homes on vacant lots and attracting new residents is integral to the continued economic health and vitality of the City of Cleveland Heights, Ohio, and its citizens; and

WHEREAS, the use of governmental resources for the promotion of economic development in the community is in the public interest and is a proper exercise of municipal powers as per Article VIII, Section 16 of the Ohio Constitution; and

WHEREAS, the City has both publicly- and privately-owned residential lots throughout the City that are suitable for new home construction; and

WHEREAS, the City desires to promote new housing construction in both QCT’s and other areas of the City; and

WHEREAS, the cost of constructing new homes on vacant lots in certain parts of the City creates an “appraisal gap” where mortgage lenders are unwilling to provide financing sufficient to purchase said homes; and

WHEREAS, Council desires to establish an Appraisal Gap Program (the “Program”) to fill this “appraisal gap” to facilitate the construction and sale of new homes on vacant lots to owner-occupants; and

WHEREAS, it is the City’s desire to use a portion of ARPA funds to provide initial funding for the Appraisal Gap Program for the construction of new single-family, owner-occupied homes in QCT’s, with the possibility of future expansion of the Program into other City neighborhoods with alternate sources of funding.

BE IT ORDAINED by the Council of the City of Cleveland Heights, Ohio, that:

SECTION 1. This Council hereby creates an Appraisal Gap Program (the “Program”) as set forth and described in Exhibit A, attached hereto and made a part hereof.

SECTION 2. Council hereby authorizes Planning and Development Department staff to develop Guidelines and Rules for the Program subject to the approval of the Mayor and the Director of Law. The Program shall be initially limited to homes constructed in Qualified Census Tracts and funded by ARPA funds. The Program Guidelines and Rules may be amended as necessary from time to time by the same process, subject to funding from this Council.

SECTION 3. Council hereby authorizes the Mayor to enter into any contracts deemed necessary to implement and manage the Program upon forms approved by the Director of Law

SECTION 4. Notice of the passage of this Ordinance shall be given by publishing the title and abstract of contents, prepared by the Director of Law, once in one newspaper of general circulation in the City of Cleveland Heights.

SECTION 5. It is necessary that this Ordinance become immediately effective as an emergency measure necessary for the preservation of the public peace, health and safety of the inhabitants of the City of Cleveland Heights, such emergency being the need to promote economic recovery, provide affordable housing, and support housing options in the City. Wherefore, provided it receives the affirmative vote of five or more of the members elected or appointed to this Council, this Resolution shall take effect and be in force immediately upon its passage; otherwise, it shall take effect and be in force from and after the earliest time allowed by law.

MELODY JOY HART
President of Council

CRAIG COBB
Clerk of Council, *Pro tem*

ORDINANCE NO. 96-2022 (PD), *Second Reading*

PASSED:

Presented to Mayor: _____ Approved: _____

KAHLIL SEREN, Mayor

Exhibit A

Appraisal Gap Program

Program Overview

The Appraisal Gap Program (the “Program”) is intended to accomplish a variety of goals related to housing investment and home ownership. Overall housing demand locally, regionally, and nationally has grown significantly in recent years, with demand exceeding the available inventory on the market. However, the cost of new construction in certain submarkets often exceeds what lenders are willing to finance for homebuyers based on comparable transactions (or the lack of comparable transactions). This issue is expected to be further compounded due to the increases in construction costs in recent years in terms of both construction materials and labor. As such, the City desires to and realizes the need to establish a program to address this issue and facilitate the construction and sale of new infill housing.

Goals of the Program:

- Support the construction of infill housing in the eligible areas
- Support homeownership in the eligible areas
- Support new and continued investment in the eligible areas
- Stabilize and grow the housing market in the eligible areas
- Create comparable property transactions to support future additional investment/construction that does not require subsidies
- Reduce the number of vacant/underutilized lots in the eligible areas
- Generate new tax revenue

Program Guidelines

- The Program will make appraisal gap payments in a maximum amount to be designated by the Mayor in the Guidelines and Rules, which shall not in any event exceed \$40,000.00, for home purchases that meet the following criteria:
 - A “subject to” or “as completed” appraisal is conducted by a third-party that demonstrates a gap of more than \$5,000 between the appraised value of the property and the sale amount for the property (as demonstrated by a purchase agreement).
 - The funds fill the gap between what the home appraises for (less the purchaser’s equity) and the purchase agreement price of the property.
 - The funds are used towards the purchase of a single-family home on a previously vacant lot in the eligible areas.
 - The purchaser will be the owner-occupant of the property, using it as their primary residence.
- Before approval of the Program payment, the City, or its designee, shall meet with the purchasers to review the requirements of the Program.
- Before approval of the Program payment, the City, or its designee, shall review the finances of the purchasers and the first-position mortgage to confirm the ability of the purchasers to afford the payments on and upkeep of the home.
- Additional Program guidelines, rules and eligibility standards shall be developed by the Planning and Development Department and approved by the Mayor and Director of Law.
- The City may enter into an agreement with a third party to administer the Program for the City with the Mayor authorized to enter into any agreements necessary.