Business Item 2015-144

# Community Development Committee

Meeting date: June 15, 2015

For the Metropolitan Council meeting of July 8, 2015

**Subject:** Adopt update to the Guidelines for Priority Funding for Housing Performance

**District(s), Member(s):** ALL

**Policy/Legal Reference:** Minn. Stat. 473.25

**Staff Prepared/Presented:** Libby Starling, Manager of Regional Policy and Research (651-602-1135) and Jonathan Stanley, Planning Analyst (651-602-1555)

**Division/Department:** Community Development / Regional Planning

## Proposed Action

That the Metropolitan Council adopt the update to the Guidelines for Priority Funding for Housing Performance.

## Background

The *2040 Housing Policy Plan* adopted in December 2014 referred to three unfinished areas of work that would be the subject of an amendment this year—criteria for reviewing the housing elements and housing implementation programs of local comprehensive plans, the precise methodology of the Allocation of Affordable Housing Need used in that review, and details to the update of the Housing Performance Scores.

The Metropolitan Council formally released a draft amendment for public comment on March 15, 2015 and held a public hearing to receive comments on May 4, 2015. The public comment period and the public hearing record remained open through May 15, 2015. During the public comment period, the Council received 33 written submissions including comments from:

- 21 cities, with one comment from a local elected official supplementing a staff comment
- 5 counties and county organizations, representing four of the region's seven counties
- 5 organizations, with one letter on behalf of an additional four organizations
- 1 resident

## Rationale

Based on feedback received through the public comment period, the Guidelines for Priority Funding for Housing Performance—that is, the methodology for calculating Housing Performance Scores—are now in a separate policy document. This approach will allow the Council to be more nimble in proposing future refinements to the new methodology without amending the entire *2040 Housing Policy Plan*.

## Funding

The development and implementation of the Housing Performance Scores have long been a part of the Metropolitan Council Community Development Committee workplan.

## Known Support / Opposition

Not all commenters agree with all elements of the proposed methodology for the Housing Performance Scores, but this language reflects the prevailing sentiments.

# GUIDELINES FOR PRIORITY FUNDING FOR HOUSING PERFORMANCE

***Methodology for the Housing Performance Scores***

METROPOLITAN COUNCIL

July 2015

# The Council's mission is to foster efficient and economic growth for a prosperous metropolitan region

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The Metropolitan Council is the regional planning organization for the seven-county Twin Cities area. The Council operates the regional bus and rail system, collects and treats wastewater, coordinates regional water resources, plans and helps fund regional parks, and administers federal funds that provide housing opportunities for low- and moderate-income individuals and families. The 17-member Council board is appointed by and serves at the pleasure of the governor.

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The *2040 Housing Policy Plan* describes multiple strategies that advance the Metropolitan Council's overarching housing policy priority, which is to ***Create housing options that give people in all life stages and of all economic means viable choices for safe, stable and affordable homes.*** A range of housing options across the region benefits individuals, families, and local governments. Viable housing choices allow households to find housing affordable to them in the communities where they want to live. Like a diversified investment portfolio, a diversity of housing types can increase local government resiliency through changing economic climates.

The Council uses the Housing Performance Scores to give priority in funding to communities that are maintaining or expanding their supply of affordable housing and using fiscal, planning, and regulatory tools to promote affordable and mixed-income housing. The Council uses the Scores in the Livable Communities Demonstration Account and the Tax Base Revitalization Account to reward communities that have a demonstrable commitment to providing affordable housing options. Housing Performance Scores also constituted 7% of the total points available in the 2014 Regional Solicitation for Transportation Funding. Joint applications for discretionary funding are weighted pursuant to the applicable combination of local city or township scores.

At the same time, the Council assists affordable housing development in communities struggling with housing performance. For example, the Council gives preference to communities with lower Housing Performance Scores in funding decisions for the Local Housing Incentives Account, which has funded more than one-third of the affordable units produced through the Livable Communities Act programs.

The following criteria and their relative weight will be used to determine a score of 0 to 100 points, reflecting local effort on housing affordability, including providing housing programs, funding housing development, and creating and preserving housing affordability.

## *Overall Housing Performance Scores Methodology & Structure*

The categories for calculating Housing Performance Scores are:

- New affordable or mixed-income housing completed in the last 10 years;
- Preservation projects completed in the last 10 years and/or Substantial rehabilitation projects completed in the last three years;
- Housing program participation and production, and housing policies and ordinances in place and in use; and
- Characteristics of the existing housing stock.

As outlined in the *2040 Housing Policy Plan*, the Council will review the Housing Performance Scores methodology every two years, beginning in 2016. To recognize the substantial 2015 adjustments to the scoring methodology, the Council is using a "hold harmless" provision for 2015, whereby no locality's score will drop below 80% of its average Housing Performance Score from 2010 to 2014.

The Council assembles data for the Housing Performance Scores from sources including Minnesota Housing and county governments. The Council asks local jurisdictions to provide additional information not available from other sources. Local municipalities can also submit an optional narrative describing tools, activities, services, or other housing efforts that they would like the Council to consider but that are not explicitly identified in these guidelines.

## *Recent New Affordable Housing and Preservation / Substantial Rehabilitation Projects (0-50 points)*

To meet its housing need, the Twin Cities region needs both additional affordable housing as well as the preservation and rehabilitation of existing affordable housing. The need for additional affordable housing is strongest for lower income households who have fewer housing choices than higher income households.

Overall, 50 points are available for new affordable housing and investments in the preservation and substantial rehabilitation of existing affordable or mixed-income housing. The specific split in available points between these two activities depends on a community's Community Designation (learn more about Community Designations in *Thrive MSP 2040*) and forecasted household growth.

| Community Designation / Household Growth Forecast | Maximum Points for New Affordable Housing | Maximum Points for Preservation /Substantial Rehabilitation |
|---|---|---|
| Communities with no Allocation of Affordable Housing Need | 0 | 50 |
| Communities in the Diversified Rural / Rural Residential / Agricultural community designations with an Allocation of Affordable Housing Need greater than 0 | 10 | 40 |
| If households forecast to be added in the decade (2010-2020) are 10% or less of 2010 households | 15 | 35 |
| If households forecast to be added in the decade (2010-2020) are 10-15% of 2010 households | 25 | 25 |
| If households forecast to be added in the decade (2010-2020) are 15-20% of 2010 households | 30 | 20 |
| If households forecast to be added in the decade (2010-2020) are 20% or more of 2010 households | 35 | 15 |

Faster-growing communities have a larger relative share of the possible 50 points attributable to efforts in new affordable housing, while older communities with more aging housing have a greater share of the possible 50 points attributable to efforts in preservation and substantial rehabilitation. A community that exceeds available points in one category but does not reach full points under the other receives one-half of the difference between the points earned under the former category, to be applied to the latter category (subject to the overall 50-point maximum).

| **Sample Scoring** | | Maximum Points | Earned Points | Counted Points | Total |
|---|---|---|---|---|---|
| Community A | New Affordable Housing | 15 | 10 | 10 + ½*(40-35) | 12.5+35 = 47.5 (rounded up to 48) |
| | Preservation and Substantial Rehabilitation | 35 | 40 | 35 | |
| Community B | New Affordable Housing | 25 | 37 | 25 | 50 |
| | Preservation and Substantial Rehabilitation | 25 | 30 | 25 | |

The following points will be awarded based on activities for up to ten projects creating new affordable or mixed-income housing:

| New Affordable and Mixed-Income Housing in last 10 years | | |
|---|---|---|
| N1. | New units affordable to households at or below 30% of Area Median Income (AMI) | 1.5 points per unit |
| N2. | New units affordable to households earning between 31% and 50% of AMI | 0.75 points per unit |
| N3. | New units affordable to households earning between 51% and 80% of AMI | 0.5 points per unit |
| N4. | New owner-occupied units affordable to households between 81% and 115% of AMI | 0.25 points per unit |
| N5. | Each local official control adjusted, waived, or used enabling affordable housing* | 0.15 points each |
| N6. | New mixed-income project (at least 20% but not more than 80% market rate) | 10 points |
| N7. | New units put community on track to meet decade's Livable Communities Act (LCA) goal for new affordable housing (e.g. 40% of goal is met by year 4, or 70% after 7 years) | 10 points |
| N8. | New units in previous year are 10% or more of the decade's negotiated LCA affordable housing goal | 10 points |
| N9. | Direct local financial contribution to affordable or mixed-income development, including the estimated value of local controls waived or adjusted | At least 2% 3 points<br>At least 4% 6 points<br>At least 6% 9 points |
| N10. | Issuance of housing revenue bonds for construction, rehabilitation, or refinancing of affordable or mixed-income development (e.g. tax-exempt bonds to be paired with 4% tax credits or bonds for age- and income-restricted senior developments) | 5 points |

**See Appendix for full list of eligible points-earning local official controls & financial contribution types*

Where applications involving substantial city effort in support of affordable housing are submitted to major funding partners (Minnesota Housing, Metropolitan Council, county governments), but not selected due to factors outside the municipality's control, partial points may be awarded.

The rehabilitation and preservation of existing affordable housing is often the most cost-effective approach to addressing affordable housing challenges. As the region's affordable housing ages, addressing the physical needs of the existing stock becomes critical to avoid unnecessary loss of affordable units. This category is intended to capture larger scale rehabilitation and preservation projects (and that are typically a single project under common ownership, management, and financing). Single-family rehabilitation loan programs, for example—where each household served represents a unique real estate transaction—are covered in Housing Programs and Policies.

The following points will be awarded based on activities involving up to 10 affordable and/or mixed-income projects in the past 10 years for preservation and the past three years for substantial rehabilitation. Under either, affordability of subsidized units must generally be secured for at least 15 years.

Preservation efforts are rehabilitation efforts that substantially improve the physical asset and:

- Prevent the owner from converting the property to market rate or a different use by providing low-cost public financing (and under certain circumstances allowing for equity take-out), and
- Have as a financing condition that the owner consents to continued participation in a federal project-based rental assistance program for the term of the mortgage or applicable instrument.

Note: While substantial rehabilitation may involve coordinated single family (i.e., scattered site development or redevelopment, or as part of a community revitalization plan) or multifamily efforts, preservation activities are exclusive to multifamily properties that have an existing contract for project-based assistance.

For these purposes, the threshold for substantial rehabilitation is defined as:

- The cost of repairs, replacements and improvements are equal to or above an average of $5,000 per dwelling unit (includes improvements to common areas), OR
- Two or more major building components are being substantially repaired or replaced.

| | | |
|---|---|---|
| ***Preservation of State or Federal Project-Based Assistance to rental housing in last 10 years*** | | |
| P1. | Each preserved unit serving a household at or below 30% of AMI | 1 point per unit |
| P2. | Each preserved unit serving a household between 31% and 50% of AMI | 0.5 points per unit |
| P3. | Each preserved unit serving a household between 51% and 80% of AMI | 0.25 points per unit |
| P4. | Each preservation project with at least a 4% local contribution | 5 points |
| P5. | Preservation of state or federal project-based subsidy for at least 15 years | 7.5 points |
| ***Preservation of Manufactured Housing in the last 10 years*** | | |
| P6. | Demonstrated local efforts to preserve a manufactured housing park from threats of conversion and loss of affordable units | 7.5 points |
| ***Substantial Rehabilitation of Affordable Housing in last 3 years*** | | |
| R1. | Each rehabilitated unit serving a household at or below 30% of AMI | 0.5 points per unit |
| R2. | Each rehabilitated unit serving a household between 31% and 50% of AMI | 0.25 points per unit |
| R3. | Each rehabilitated unit serving a household between 51% and 80% of AMI | 0.15 points per unit |
| R4. | Each rehabilitated owner-occupied unit serving household between 81% and 115% | 0.15 points per unit |
| R5. | Each acquisition/rehab/resale of an owner-occupied unit affordable to a household at or below 80% of AMI, or unit rehabilitated and sold under a Community Land Trust | 1 point per unit |
| R6. | Each local official control adjusted, waived, or used to rehabilitate affordable housing | 0.15 points each |
| R7. | Each substantial rehabilitation project with at least a 4% local direct contribution | 5 points |
| R8. | Rehabilitation activity that involves conversion of units from a non-restricted status to a rent and income-restricted status (new income-restricted units may be counted in N1-N3 above) | 5 points |

## *Housing Programs and Policies (0-25 Points)*

This category captures information on housing efforts that may be less direct or less costly than direct support for new development or major rehabilitation projects. Local programs and activities, or participation in other government programs, are important to the degree that the programs are used to benefit low- and moderate-income households.

| **Housing Programs and Policies** | | |
|---|---|---|
| H1. | Each locally funded and administered housing program or service | 2 points each |
| H2. | Each housing program operated by a nonprofit organization receiving a local financial contribution (e.g. single family rehab loan programs, rental assistance programs, housing counseling programs or services, etc.) | |
| H3. | Covering all or a portion of administrative expenses incurred in administering a federal, state, or county housing program (i.e. the difference between costs incurred and administration reimbursement from the federal, state, or county government) | |
| H4. | Local expenditure in the prior year to affordable or life-cycle housing representing at least 85% of the municipality's Affordable and Life-Cycle Housing Opportunities Amount | |
| H5. | Demonstrated efforts to improve/preserve unsubsidized affordable housing (if not claimed under item R8) | 3 points each |
| H6. | Participation (as a lender or administrator) in the Minnesota Housing single family Rehabilitation Loan, Emergency Loan, and/or Community Fix-Up Programs | |
| H7. | Successful/funded application to the Minnesota Housing Single Family Impact Fund for activities other than new construction or rehabilitation | |
| H8. | Households served under city, county, or state housing programs above | 0.15 points each |
| H9. | Adopting or administering a rental licensing program | 4 points |
| H10. | Administering an active code enforcement program (for rental or owner-occupied) | |
| H11. | Adopting or administering an Accessory Dwelling Unit (ADU) ordinance | 8 points |
| H12. | Adopting or administering a mixed-income (inclusionary) housing ordinance | |
| H13. | Adopting and enforcing a local Fair Housing policy | |

Trying to capture all efforts, tools, and activities to promote housing affordability would be not only challenging but also administratively burdensome. To yet recognize local innovations and initiative, the Council offers communities the option to showcase additional efforts that could merit points but are not otherwise captured in these guidelines. When generating the Scores, Council staff evaluate how narratives fit into the overarching point structure and provide additional points at its discretion.

## *Characteristics of the Existing Housing Stock (0-25 Points)*

This category recognizes the important role the existing housing stock plays in providing affordable opportunities and reflects the critical role for communities that are home to housing for special and vulnerable populations. Points for the existing housing category are awarded as follows:

| ***Characteristics and affordability of the existing housing stock*** | |
|---|---|
| C1. Existing housing stock affordable to households earning 30% of AMI or less: | At least 2%: 2 points<br>At least 5%: 6 points<br>At least 8%: 9 points |
| C2. Share of existing housing stock affordable to households earning 50% of AMI or less: | At least 10%: 2 points<br>At least 20%: 6 points<br>At least 30%: 9 points |
| C3. Share of existing housing stock affordable to households earning 80% of AMI or less: | At least 20%: 2 points<br>At least 40%: 6 points<br>At least 60%: 9 points |
| C4. Each facility serving a vulnerable or special population including:<br>• Transitional placement of adult offenders or adjudicated delinquents<br>• Licensed group homes for people with physical disabilities, mental illness, developmental disabilities, or chemical dependency<br>• Shelters for people experiencing homelessness, battered women or those otherwise not able to secure private housing<br>• Transitional housing for people experiencing homelessness<br>• Permanent housing for victims of sex trafficking or domestic abuse<br>• Age- and income-restricted senior housing | 1 point each<br>(maximum: 10 points) |

## *Appendix*

*Recognized local official controls include the following when used for affordable housing:*

- Allowing alternative construction methods or development flexibility
- Development approved at originally proposed development density
- Density bonus or transfer
- Floor Area Ratio (FAR) waiver
- Increased building height flexibility
- Land cleanup or site assembly
- Public land dedication or land cost write-down
- Parking variances
- Private street allowances
- Reduction in lot sizes or widths
- Reduction in street widths or right-of-way
- Setback reductions
- Sewer or water service line size reduction
- Soil correction variance
- Special or conditional use permits
- Tax abatement, reduction, or credit
- Reduction in public improvement and development costs (e.g. curbs, gutters, street lighting) /
- Planned Unit Development (PUD) cluster development
- Local sewer availability charge (SAC) credit or waiver
- Reduced park or impact fees
- On-street parking allowance
- Rezoning to accommodate development

*Recognized fiscal/financial tools include the following when used for affordable housing:*

- Community Development Block Grant or Home Investment Partnerships funding (when funds are received through entitlement or granted or loaned to the local municipality)
- Credit enhancements
- Loan guarantees
- General obligation, tax-exempt, mortgage revenue, private activity, or housing revenue bonds when used to create affordable or mixed-income housing
- Land write-downs, sale, public dedication, or acquisitions
- Livable Communities grants
- Fee waivers or reductions
- Tax abatement (full or partial)
- Tax increment financing (TIF)
- Minnesota Housing Impact Fund grants
- County grants, loans, or bonds when provided to the city
- Estimated value of local official controls adjusted or waived
- Local sewer availability charge (SAC) credit or waiver
- Property tax levy


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