

## Community Development Committee

Meeting date: April 19, 2021

**Subject:** Local Housing Incentives Account (LHIA) Affordable Homeownership Pilot

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

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

**Staff Prepared/Presented:** Ashleigh Johnson, Senior Planner, (651) 602-1106; Tara Beard, Livable Communities Manager, (651) 602-1051

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

### Proposed Action

Information item only.

### Background

The Livable Communities Act (LCA) includes the Local Housing Incentives Account (LHIA), which provides funds to help participating communities achieve their affordable housing goals.

Since the LHIA was first implemented in 1996, it has been pooled with state and other affordable housing funds through an annual consolidated request for proposals (RFP) that is issued by Minnesota Housing. The ability to partner with other, larger funding sources to layer and award different types of funding that have different goals and requirements is a valuable tool; it allows for a streamlined application process and the potential to award the most possible projects. The Council also gains administrative efficiencies by sharing a project solicitation process with another agency.

Minnesota Housing's consolidated RFP accepts applications for both multi-family projects and single-family projects. Generally, single family projects refer to homeownership opportunity, though the units may be townhomes, duplexes, or other moderate density housing. Most multi-family sources of funding in the consolidated RFP only support rental units, and there have been little or no new affordable multi-family homeownership developments in recent years. For the purposes of this discussion, single-family housing and homeownership can be considered interchangeable, as can multi-family and rental housing.

Multi-family and single-family applications are processed simultaneously but separately by Minnesota Housing. Council staff work with the multi-family and single-family teams at Minnesota Housing to determine recommendations for how much of that year's available LHIA funding should go to each housing type. Those recommendations consider the number of applications for each type, the current funding priorities of the Council, and the funding available that year. Generally, there are many more multi-family applications than single-family applications, and multi-family applications total significantly more dollars than single-family applications. Table 1 shows how LHIA awards have been broken down between the two housing types in the past five years.

Table 1. LHIA awards by housing type by year

Year	Single-family Awards	Multi-family Awards	Total LHIA awards
2016	\$800,000	\$1,700,000	\$2,500,000
2017	\$257,500	\$2,142,500	\$2,400,000
2018	\$145,700	\$2,354,300	\$2,500,000
2019	\$465,000	\$2,035,000	\$2,500,000
2020	\$430,000	\$5,070,000	\$5,500,000

### 2020 LCA Evaluation Work

As staff has discussed with the Community Development Committee multiple times, Council staff embarked upon a significant evaluation effort for all programs in 2020. For LHIA, this began with understanding the impact generally of pooling our funds in an external process, and more specifically understanding how that impact differs for multi-family projects and single-family projects.

While there are many efficiencies and benefits to pooling LHIA funding with the Consolidated RFP, one of the challenges that is created is related to the selection process: the LHIA awards are somewhat influenced or limited by the funding priorities of the primary funder, Minnesota Housing. This impact plays out differently in the multi-family process than in the single-family process. Most, if not all, applications for multi-family projects include requests for Minnesota Housing resources that are significantly greater than LHIA resources. These often multi-million dollar requests to Minnesota Housing for funding such as Housing Infrastructure Bonds, or Low Income Housing Tax Credits, are reviewed and awarded to make a project feasible. Council staff primarily select from this whittled-down set of applications to award LHIA funds for projects that have remaining funding gaps. To be clear, the Council’s funding priorities are not necessarily contradictory to Minnesota Housing’s priorities. But LHIA is a program with specific goals and intentions, which cannot always be kept at the forefront when our evaluation is secondary to Minnesota Housing’s evaluation.

This secondary role is evident by reviewing any of our annual Fund Distribution Plans for LCA programs. Where there are pages of scoring criteria with numerical values and multiple categories for all other LCA programs, there are only a handful of bullet items indicating what we prioritize for LHIA funding recommendations. It is worth noting that Minnesota Housing staff have been extremely willing to work with Council staff to maximize our ability to recommend LHIA funds using Council priorities. Minnesota Housing staff have the capacity and expertise to conduct a deeper financial analysis than Council staff can and, as noted earlier, the consolidated process provides some gains in administrative efficiencies. While Minnesota Housing typically makes the first selection, there have been a limited set of cases in which the Council has made multi-family LHIA awards for projects that did not receive the funding requested from Minnesota Housing. Generally, for multi-family projects the net outcome of pooling funds is positive: for applicants, for Minnesota Housing, and for the Council. Single-family projects, however, represent fewer applications with smaller funding requests, and do not always attract enough of the types of projects that the Council has prioritized for funding.

As such, in the 2020 LCA Evaluation, Council staff began to focus more specifically on single-family LHIA projects, especially the geographic scope of past awards, and our ability to apply Council priorities for affordable homeownership to LHIA award selection.

## **Geographic Distribution**

Much of the LCA evaluation work in 2020 focused on how accessible the programs are to all participating communities. Because we award LHIA funds through an external application process, it took a little more effort to understand the program's geographic impact.

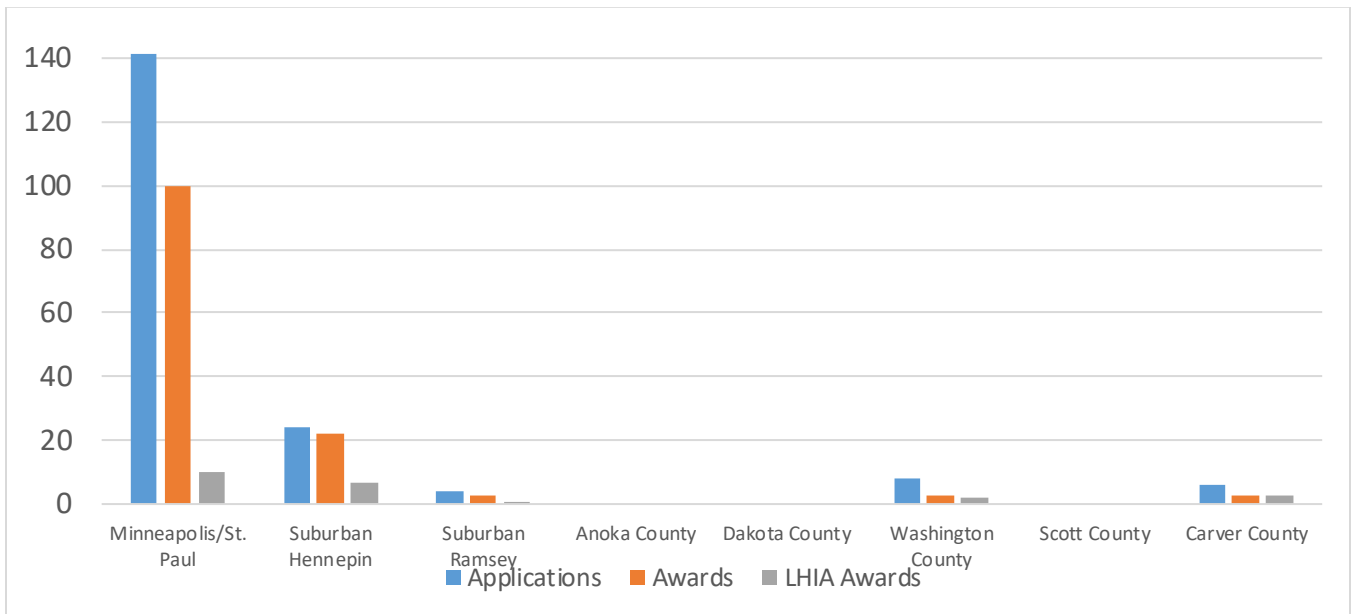
There are a few challenges in determining the geographic distribution of past LHIA awards. First, up to a third of single-family units awarded through the Consolidated RFP in the past year were scattered site projects. These are projects that create or preserve units across multiple cities and even multiple counties, making it harder to associate one application with the geography of one LCA participant. In some cases, the final location of single-family units is not known until well after the funding award.

Another challenge is that determining which Consolidated RFP applications for single-family projects were even eligible for LHIA has been difficult. Whereas developers can apply directly to the Consolidated RFP, LHIA awards can only be awarded to a participating city or development authority. Council staff have had to make that eligibility determination after applications are submitted and while funding recommendations are being considered. LHIA awards also require a local dollar-for-dollar match, as is called for in Minn. Stat. § 473.254, subd. 6. Determining whether a match has been made is another difficult component that Council staff are tasked with after the application is submitted. Because of these factors, understanding where applications eligible for LHIA are coming from is not as simple as looking at all Consolidated RFP applications.

Despite these challenges, there is still valuable information when looking at the data we can collect. The following four figures provide some insight into the reach and impact of LHIA single-family awards. These figures do not include scattered site awards that funded units across multiple counties. While we recognize that the scattered site awards represent a fair number of single-family applications and units, these figures still provide context to help us understand the program's impact.

Figure 1 shows where applications to the single-family Consolidated RFP have come from by County, separating out Minneapolis and St. Paul. It also shows where awards were made, and which of those awards included LHIA funding. While it may not be surprising that the majority of applications and awards are in the central cities or suburban Hennepin County, it is worth noting that those geographies represent only one-third of LCA participating communities between 2016 and 2020.

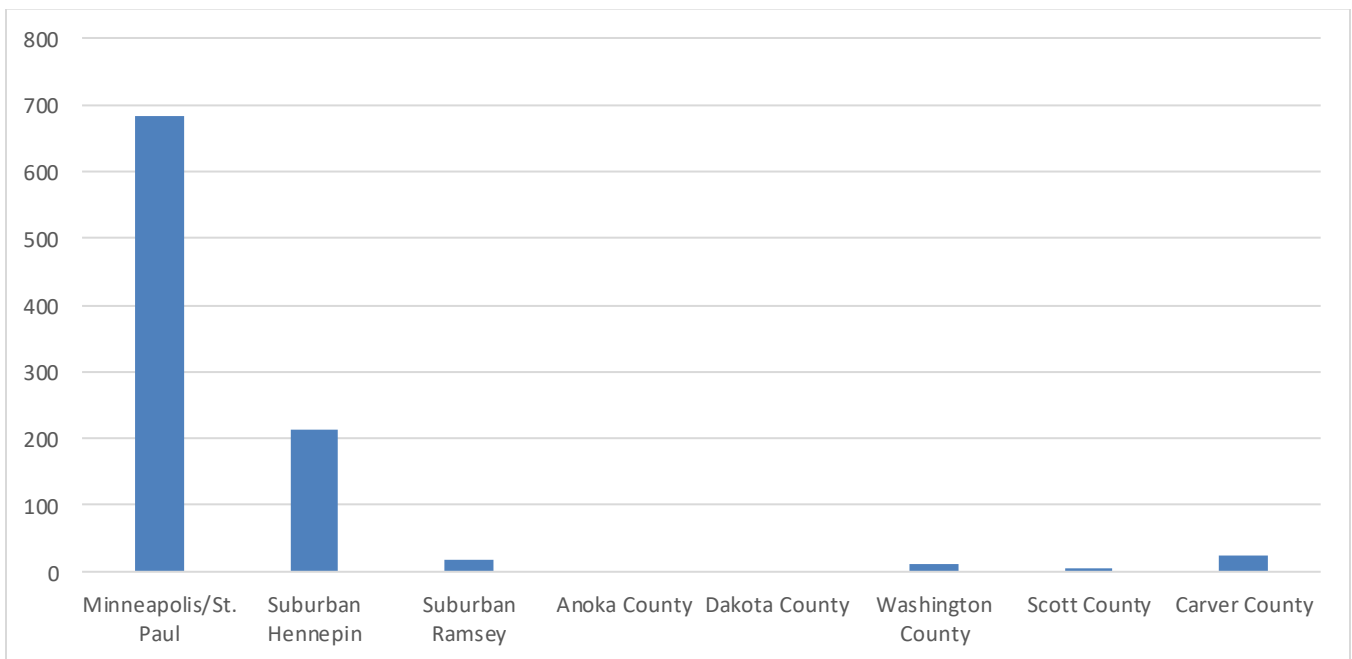
**Figure 1. Location of Consolidated RFP single-family applications and awards, 2016-2020\***



\*Excludes multi-county scattered site applications made 2016-2020

Figure 2 looks at the number of units created via the Consolidated RFP in the past 5 years rather than the number of applications or awards. Again, even without the scattered site units accounted for, clearly the majority of the impact of the program is in the central cities and suburban Hennepin County.

**Figure 2. Location of affordable single-family units created or preserved via the Consolidated RFP, 2016-2020\***

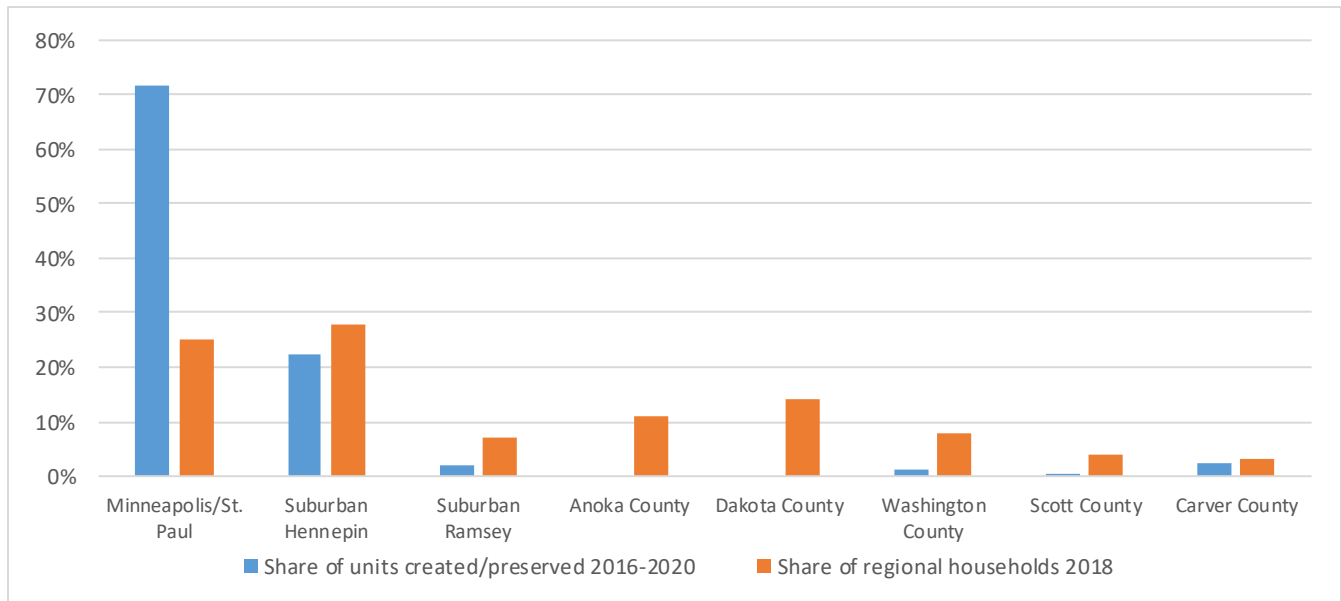


\*Excludes multi-county scattered site units created/preserved 2016-2020

Figure 3 considers the share of units created or preserved via the Consolidated RFP compared to the share of households in each geography. With the exception of Carver County, and acknowledging multi-county scattered site units are not captured here, the share of affordable single-family units created or preserved in the past 5 years through the Consolidated RFP is not commensurate to the share of households in the central cities or counties. It is important to note that the Consolidated RFP is

not the only source of affordable single-family funding, so this figure does not support the conclusion that affordable homeownership opportunities generally are not proportionate to household numbers across the region. We can conclude, however, that the Consolidated RFP resources, including LHIA, are not being distributed commensurate to household shares in these geographies.

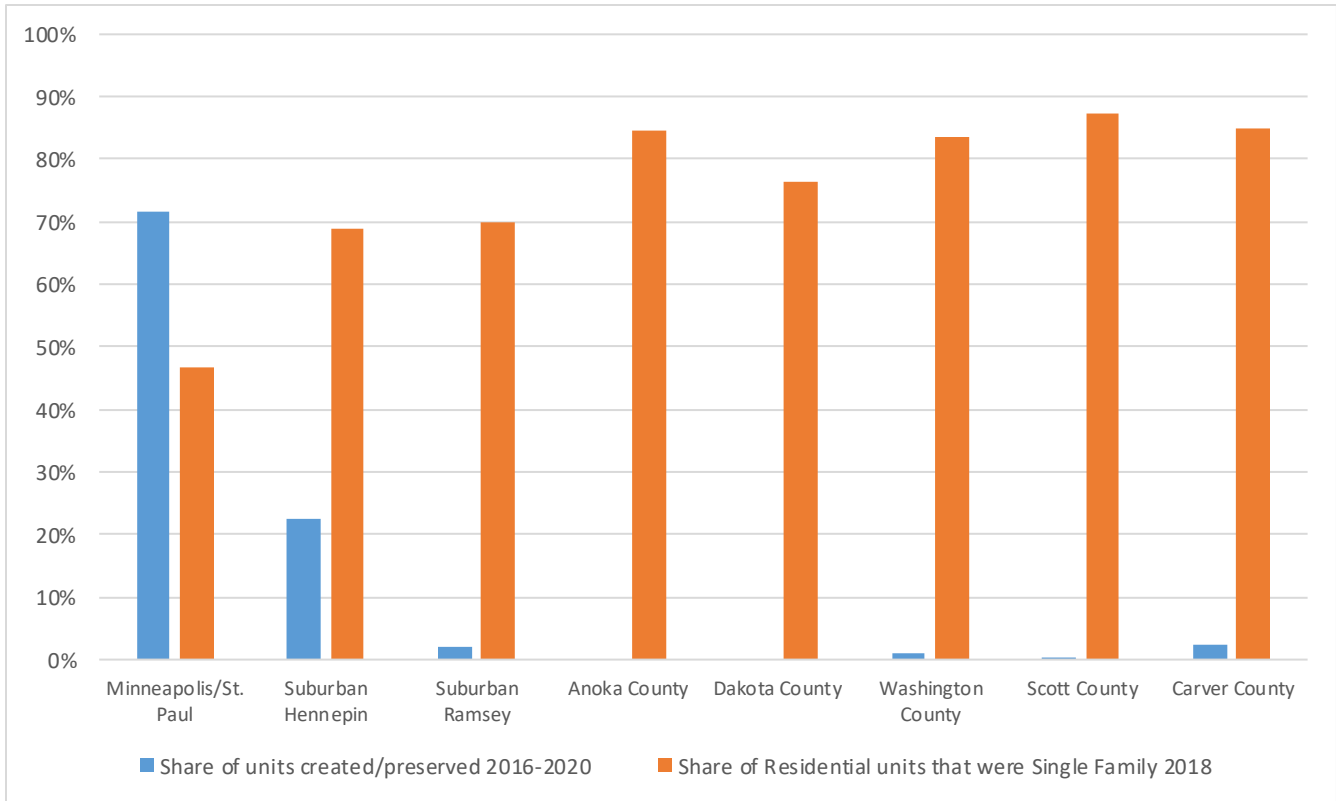
**Figure 3. Share of affordable single-family units created or preserved and share of total households\***



\*Excludes multi-county scattered site units

Figure 4 compares the share of affordable single-family units created or preserved via the Consolidated RFP to the share of housing stock that is single-family. Council housing staff led research and best practices development for [affordable homeownership opportunities across the region](#) in 2018-2019, noting that 96% of all acres of residential land use in the region in 2016 were single-family. While the proportion of all units that are single-family is not as high, averaging 75% regionally in 2018, the takeaway is the same. The LHIA, and to some extent all LCA programs, has the foundational purpose of creating a full range of housing choices across the region. If we are not adequately focusing affordable single-family funding in parts of the region where single-family housing is the dominant residential land use, we are impairing our ability to fulfil that purpose.

**Figure 4. Share of affordable single-family units created or preserved via the Consolidated RFP and share of housing stock that is single-family**



*\*Excludes multi-county scattered site unit share*

In summary, even with some limitations on available data, it is reasonable to conclude that the geographic impact of single-family LHIA awards is not as broad as it could be.

**Affordable homeownership policy work**

Council staff have become much more aware of the unique needs and challenges of affordable homeownership opportunities in the past few years. In 2017, Governor Mark Dayton created a state-wide task force that included scores of experts and advocates to create goals and recommendations for improved housing affordability and stability in the state. One of the six primary goals was to support and strengthen homeownership, noting the large racial disparity in homeownership in the state and the large number of income-ready households of color who want to buy. This goal is not unique to this task force; the Council’s own strategic plan for 2020-2022 includes an objective to “(i)ncrease the rate of homeownership for people of color and indigenous people across the region.”

Affordable homeownership can achieve more than just housing affordability and stability. Minnesota Housing’s own 2017 report cited a Harvard study that found between 1999 and 2009 the wealth of African American households that owned their home saw an annual wealth increase of \$8,474 on average. While the Great Recession and racist predatory lending practices deeply damaged the access to wealth building homeownership can provide, it remains one of the biggest factors in economic mobility. And every low- and moderate-income renter that enters homeownership potentially frees up much needed rental units, many of which are affordable.

As the Council develops a deeper understanding of the importance of homeownership and the tools that can make it happen, Council staff have looked at the role this funding could play in creating more affordable homeownership opportunities in a more focused and strategic way.

### *Exploration of a New Initiative for LHIA*

As staff began to consider ways to increase the geographic diversity of single-family LHIA funding and use our increasing knowledge of affordable homeownership opportunities to be more strategic in our funding decisions, it became evident that many of these ideas would be challenging if not impossible to implement under the Consolidated RFP umbrella.

For this reason and many other observations shared in this report, staff began engaging the broader stakeholder community around the following question:

- *If the Council brought the single-family LHIA program in-house, could we attract and fund affordable homeownership opportunities in more parts of the region, and more directly influence how our awards help decrease racial disparities in homeownership?*

In 2020, staff held a series of focus groups and discussions with a wide variety of stakeholders to explore this question, including:

- LCA participating cities
- Counties and county development authorities
- Affordable homeownership developers
- Community land trusts
- Manufactured housing representatives and cooperative housing funders
- The Council's Housing Work Group
- Metro Cities
- The Council's Land Use Advisory Committee

Key findings from these conversations included:

- The Consolidated RFP application process has improved but is still very challenging to navigate. For smaller projects/ and requests, and smaller cities with less staff, it can be a significant barrier to apply.
- Affordable housing developers have interest and capacity to work in the broader region but may need some help "matchmaking" with interested cities.
- Communities without significant transit options may be especially interested in an affordable homeownership grant outside the Consolidated RFP process.
- The local match requirement is a potential barrier to more LHIA applications in any format.

Based on these discussions, there appears to be genuine interest in developing a pilot for an in-house single family LHIA program to achieve the goals of increased geographic diversity in applications and a deep focus on reducing racial disparities in homeownership. These priorities could be added to existing LHIA evaluation criteria, or a part of newly developed criteria. For reference, 2021 LHIA priorities that apply to single-family/homeownership projects are as follows:

- New affordable housing that furthers the City's ability to meet their share of the region's need for affordable housing, considering what the need is across affordability bands; OR Preserved/rehabilitated affordable housing, prioritizing communities at highest risk of losing Naturally Occurring Affordable Housing (NOAH) and/or communities with higher rates of housing cost burdened households.
- Proposals that serve large families by providing three or more-bedroom units.
- Proposals that provide a housing type not currently available or serve a population not currently served in or near the project area.

Staff also connected with Minnesota Housing staff to share our data and explore the idea of bringing the single-family program in-house. Minnesota Housing staff are open to better aligning our priorities with the Consolidated RFP but were also understanding of our need to examine how well our funding was meeting the purpose of the LHIA. Indeed, the Council has funded many excellent single-family projects through the Consolidated RFP and can continue to consider funding single-family applications while simultaneously piloting an in-house program. Ultimately, Minnesota Housing and its funding sources have federal and state directives that may limit their ability to be finely tuned to the unique needs of local governments in the metro and how they contribute to broader regional outcomes.

Council staff also recognize that if applying to the Consolidated RFP feels too difficult for a significant share of LCA participants, and perhaps the same participants that have limited multi-family opportunities to provide affordable housing, there is little the Council can do to increase where applications are coming from. Indeed, while in 2020 we made more than twice as much LHIA funding available than in the past 24 years, the portion of that funding that was awarded to single-family projects remained in line with previous years. The Council funded every single-family application eligible for LHIA funding in 2020. Unlike multi-family applications, there is a much more limited number of single-family projects to fund. With an in-house program that is less intensive and has more targeted outreach, we may be able to successfully encourage the types of projects, and project locations, that align with Council priorities.

### *Next Steps*

Staff is requesting input and direction from the Community Development Committee (CDC) to design a LHIA affordable homeownership program pilot for 2022. We would return to you 2 to 3 more times this year to report on progress, seek feedback as the pilot is created, and answer questions that arise. If we are successful, we will present the pilot program for approval as a part of the greater fund distribution plan approval process for all LCA programs in early 2022. Some of the many details that need to be considered include:

- Would the pilot be funded with LHIA funds/reserves or should it be funded as a special initiative, at least initially?
- What is a reasonable funding amount to make available the pilot's first year?
- What would the application process look like (cycle timing, evaluation process, scoring criteria)?
- Does staff, including grant administration staff, have the capacity to implement the pilot?
- What is the potential volume of applications that we might receive? And related, how do we reach out and communicate to potential applicants about this potential funding opportunity?
- How will we evaluate the pilot's progress/success?
- How do we make the pilot sustainable if it is successful?
- Who else should we talk to?

### *Specific Feedback Requested*

- Is there general support from CDC to develop the pilot?
- What should the outcomes/goals for the pilot be?
  - Increased geographic breadth of applications/awards?
  - Prioritize projects that decrease racial homeownership disparities?
  - What else?
- What else would you like to know when we return?
- What haven't we considered or thought about?
- Who else should we talk to/partner with?