

## Community Development Committee

Meeting date: December 6, 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. Council staff seeks feedback and direction on draft scoring criteria.

### 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 can be a valuable tool in simplifying the application process and maximizing project selection; however, it also inhibits the ability to tailor funding decisions to most closely meet Council priorities as the various funding sources often have different goals and requirements.

As staff outlined at the [September 20, 2021 Community Development Committee](#), the LHIA affordable homeownership pilot is intended to prioritize affordable homeownership opportunities in communities and populations that are underserved. Specifically, the pilot would address two priorities derived from 2020-2022 strategic plan objectives:

- Racial Equity Priority: create homeownership opportunities for Black, Indigenous, and other ethnic or racial groups that own homes at disproportionately lower rates than white households in the region; and
- Geographic Choice Priority: create affordable homeownership opportunities in parts of the region where it is most challenging to do so.

At the regularly scheduled Community Development Committee meeting on December 6, 2021, Council staff will introduce draft scoring criteria in the body of this report and seek feedback on the following:

- How well the proposed scoring framework captures the intent of the pilot,
- Funding sources and availability for the pilot, and
- Any issues we have not considered.

### Proposed Program Design

Staff have been working on pilot program design for consideration and discussion. Final criteria and program design would be adopted in February 2022 if the committee and Council approve the pilot for 2022 implementation. Program design considerations include eligibility, scoring criteria, and funding availability.

### *Pilot eligibility*

Only LCA participating cities will be able to apply for grants through the pilot, as is the case with all LCA grant programs. Other specific eligibility criteria to be considered for funding includes:

- Have a dollar for dollar local match (this is required by statute)
- Provide an affordable homeownership opportunity for a household earning 80% Area Median Income or less
- Provide a minimum affordability term of 15 years
- Require Home Stretch or similar homeowner education for first-time homebuyers

At the September committee discussion staff shared initial data analysis and proposed a “pre-qualification” process to target cities most likely to achieve pilot priorities. Since then, 2020 census data has become available; significant increases in populations of color show that most, if not all, LCA participating cities could be good candidates for achieving pilot priorities, so staff is no longer recommending the “pre-qualification” stage of the application process.

### *Pilot scoring criteria*

Once applications have been determined to meet eligibility requirements, staff propose a concise set of scoring criteria to determine which proposals would be recommended for funding. The proposed criteria consist of three primary categories:

1. Pilot priorities
2. Equitable access
3. Unique needs and affordability

**Pilot Priorities**

Staff propose the following criteria to evaluate how well proposals support the pilot priorities of racial equity and geographic choice.

Table 1. Proposed scoring criteria for Pilot Priorities

<b>Racial equity</b>		
<b>Criteria</b>		<b>Points</b>
Project is in a city with higher racial disparities in homeownership than the regional average		5
<b>OR</b>	Project is in a census tract with higher racial disparities in homeownership than the regional average	3
Project is in a city with a higher share of Black, Indigenous, and other residents of color than the regional average		3
<b>OR</b>	Project is in a census tract with a higher share of Black, Indigenous, and other residents of color than the regional average	2
<b>Highest possible subtotal for racial equity</b>		<b>8</b>
<b>Geographic choice</b>		
<b>Criteria</b>		<b>Points</b>
Project is in a city with an average home sale price higher than what is affordable to a household earning 80% AMI		5
<b>OR</b>	Project is in a city with an average home sale price higher than what is affordable to a household earning 60% AMI	3
Project is in a city where the share of single-family housing stock is higher than the regional average		2
Project is in a city with an affordable housing need less than 20 OR more than 50% of their need is in the 51-80% affordability level.		2
<b>Highest possible subtotal for geographic choice</b>		<b>9</b>
<b>Highest possible total for Both Pilot Priorities</b>		<b>17</b>
<i>A minimum of 5 points would be required to ensure the project sufficiently addresses one or both pilot priorities</i>		

### **Equitable Access**

Given the racial disparities in homeownership in our region are among the worst in the nation, additional efforts to target Black, Indigenous, and other homebuyers of color is necessary to ensure equitable access to any affordable homeownership opportunities the Council funds. Staff have been developing a list of best practices for serving Black, Indigenous, and households of color who are interested in homeownership. The degree to which proposals utilize those best practices, as well as consideration of additional efforts offered by the applicant, will provide the primary point of comparison for the equitable access category.

**Table 2. Proposed scoring criteria for Equitable Access**

<b>Equitable access</b>	
<b>Criteria</b>	<b>Points</b>
Developer or program partner has a demonstrated record of serving Black, Indigenous, and/or other households of color in homeownership at rates equal to or greater than the city and or region's homeownership rates for those same groups	3
Developer or program partner has current waiting list consisting of Black, Indigenous, or other households of color at levels equal or greater to the regional and/or city population	3
Project team includes a lender, realtor, or other homebuyer-facing team member that is reflective of the Black, Indigenous, or other households of color that have disparate homeownership rates in the region	2
Project will be made available to a first-generation homebuyer	2
Marketing efforts for sale of the project affirmatively further fair housing	1
Other efforts as described by applicant that further equitable access to homeownership	Up to 11
<b>Total for Equitable Access</b>	<b>11</b>

### **Unique Needs and Affordability**

A few additional points of comparison round out the scoring criteria. These points would be related to unique community needs and the depth and term of affordability.

Table 3. Proposed scoring criteria for Unique Needs and Affordability

<b>Unique needs and affordability</b>	
<b>Criteria</b>	<b>Points</b>
Project addresses a need specific to the community in which the project is located, through financing, marketing, design, size or other unique need	3
Project will be affordable to homebuyers earning less than 80% AMI	3
Project will remain affordable upon resale for more than 15 years	3
Project is located in a city with a net fiscal disparity of \$200 or more per household	1
<b>Total for Unique Needs and Affordability</b>	<b>10</b>

### **Pilot Funding Amount**

Staff has looked at typical affordable single-family awards amounts from past LHIA and Consolidated RFP years, gathered developer and funder input, and considered that some awards may need to be higher to accommodate communities where land and home prices are high. Staff is estimating an average award per unit through the pilot of \$150,000, an increase from the \$100,000 amount staff was estimating back in September. Awards could be higher, in consideration of whether or not a project involved new construction or acquisition and rehabilitation. High construction costs and increasing home values also influenced this estimate.

In conversations with many LCA participants, staff is confident that there is sufficient interest in the pilot to fund somewhere between 10 and 25 homes. While it is impossible to know for sure how many applications will be made or for how many homeownership opportunities, we feel that making between \$1M and \$2M available would be a reasonable amount to test the pilot's effectiveness.

### **Pilot Funding Options**

A 2022 pilot could be funded by one of three identified sources.

### **2022 LHIA Base Budget**

The Livable Communities Act allocates \$1.5M annually to the LHIA program. These funds are programmed in the 2022 Preliminary Budget to support all LHIA programs, including multifamily and single-family. The Council could direct a portion of the base budget be allocated to the pilot. The remainder would be used for selections through the Consolidated RFP process.

### **Interest Earnings**

Interest earnings are reviewed for programming annually. The Council could direct these earnings to the pilot. 2021 interest earning totals will be available in early 2022.

The Council has consistently programmed interest earnings to the LHIA program. Over the last ten years, the Council has annually directed about \$2M to \$2.5M in interest earnings to LHIA.

### **Council Special Initiative**

The Council annually directs a modest amount of General-Purposes Levy to special initiatives. This funding has supported LHIA in the past to help reduce racial disparities in housing and to create and preserve affordable housing in the region.

### *Next Steps*

Staff will return in January 2022 to inform the Community Development Committee (CDC) of any changes informed by the December 2021 CDC meeting and provide recommendations on funding availability. The LHIA affordable homeownership pilot will be considered for approval as a part of the comprehensive LCA Funding and Criteria Plan in early 2022.