

Community Development Committee

Meeting date: September 20, 2021

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

District(s), Member(s): All

Policy/Legal Reference: Minn. Stat. § 473.25

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Division/Department: Community Development / Regional Planning

Proposed Action

Information item only. Council staff seek feedback and direction on the initial program design.

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 [April 19, 2021 Community Development Committee](#), directly soliciting and awarding a portion of LHIA funding for affordable homeownership funding would allow the Council to target two aspects of a key Council objective from the 2020-2022 strategic plan more explicitly: “(i)ncreas[ing] the rate of homeownership for people of color and indigenous people across the region.” Staff have evaluated affordable homeownership funding data awarded through the Consolidated RFP and engaged LCA participants, affordable homeownership developers, Metro Cities, and the Council’s Housing Work Group and Community Development Committee over the last 18 months and determined there is sufficient support for a Council-led subset of the LHIA program to focus on that objective. Since the April conversation with the Community Development Committee, staff have begun designing such a program to pilot as a part of the 2022 Livable Communities Act suite of grant programs.

At the regularly scheduled Community Development Committee meeting on September 20, 2021, Council staff will introduce the preliminary program design described in the body of this report and seek feedback on the following:

- Are the threshold criteria that determine which cities are “pre-qualified” on target?
- Does the proposed scoring framework accurately capture the intent of the pilot?
- Is there feedback or direction with respect to the pilot funding options?
- What haven’t we considered?

Pilot priorities

The pilot would address two priorities derived from the 2020-2022 strategic plan objective noted above:

- 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.

Racial Equity Priority

Staff used the following two criteria to identify communities where the pilot would focus on creating homeownership opportunities for Black, Indigenous, and other households of color:

1. Cities near or above the regional share of Black and Indigenous residents and residents of color; and
2. Cities with higher homeownership disparities across race than the regional average.

These criteria identify cities in the region where despite significant shares of residents of color choosing to live there, homeownership disparities are even worse than the regional average, which is one of the worst in the nation. This reveals an opportunity to create more homeowners of color where they are already choosing to live. Using these criteria, and only considering cities that are either currently LCA participants or are expected to be so by 2022, 16 cities would be eligible under this priority. Most are Urban or Suburban community designations; the remainder are Urban Center (3) or Rural Center (1).

Geographic Choice Priority

Staff used the following two criteria, to identify communities where the pilot would focus on creating affordable homeownership opportunities in parts of the region where it is most challenging to do so:

1. Cities with a higher share of single-family homes than the regional average; and
2. Cities with a median sale price more than \$25,000 above the regional average.

These criteria identify cities in the region with fewer multi-family rental opportunities (which represent the vast majority of affordable housing options) and even higher average home prices than a typical city in the region. This shows where geographic choice for affordable homeownership is most limited. Using these criteria, staff identified 21 cities that are either currently LCA participants or are expected to be so by 2022. Most are Emerging Suburban Edge communities; the remainder are Suburban Edge (2), Suburban (5), or Rural Centers (2).

It should be noted that between the two priorities used to pre-qualify cities, only one city overlaps. The priorities would identify 37 total cities pre-qualified to apply in the program. After eligibility for *either* priority - and other eligibility criteria mentioned later - has been met, then proposals could move on to be evaluated through specific scoring criteria.

Pilot Eligibility

Cities that are not identified by the data as priority cities are still eligible to apply to the pilot, as long as they are LCA participating communities. But cities identified by the above discussed criteria would be pre-determined to be eligible to apply to the pilot, whereas other cities would need to show how their proposal addresses pilot priorities in a way that aligns with the way “pre-qualified” cities were determined.

For example, a city with a lower share of communities of color than the regional average and homeownership disparities that are similar to the region’s, could apply if they could demonstrate that the location of their proposal was located in a census tract of that city with the greatest share of people

of color and where the homeownership rates of people of color are worse than the regional average. The intent is to require cities that aren't pre-qualified to identify how they are addressing the priorities of the pilot in a local context, rather than a regional one.

With respect to geographic choice, it is clear that a proposal can achieve the pilot priority of creating an affordable homeownership opportunity if it is in a pre-qualified city. The racial equity priority, however, is not so simply achieved. In addition to where the affordable home for sale is located, to whom it is made available is equally important.

Therefore, for cities to pre-qualify for the pilot under the racial equity priority, staff is proposing that in addition to the data-driven criteria defined above, proposals would also have to achieve a minimum score for efforts to target potential homeowners of color – especially potential homeowners that are renting in the community and/or represent a specific race or ethnicity that is particularly underrepresented as homeowners in that community. This would also apply to cities that are not pre-qualified for the racial equity priority but have demonstrated a local impact that aligns with it.

Finally, to be eligible to apply to the pilot, additional criteria, whether from LHIA statutory language or Council housing policy, would need to be met:

- Have a dollar for dollar local match
- Provide an affordable homeownership opportunity for a household earning 80% Area Median Income or less
- Provide a minimum affordability term of 15 years
- Must require Home Stretch or similar homeowner education for first-time homebuyers

Pilot Evaluation Framework

Once a baseline of eligibility is determined, staff proposes a concise set of evaluation criteria to determine which proposals to recommend funding. For consistency and clarity, staff is proposing that the same measure of efforts to target homeowners of color, which must meet a minimum score for cities to be eligible under the racial equity priority, is also used in scoring for all proposals under either priority. Staff has 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 a primary point of comparison for all applications.

A few important, specific points of comparison would serve as a secondary evaluation. These points could include:

- Unique local needs (immigrant households, religious financing tools, etc., supported with Council data)
- Depth of affordability (proposals affordable at less than 80% AMI)
- Length of affordability (proposals affordable for more than 15 years)

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

Unrestricted LCA reserves, or interest earnings, are reviewed for programming annually. The Council could direct these reserves to the pilot. Unrestricted reserve amounts will be available later this fall.

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

Council Special Initiative

The Council annually directs a modest amount of General-Purpose 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.

Pilot Funding Amount

Staff has spent a lot of time looking at typical affordable single-family awards amounts from past LHIA and Consolidated RFP years, listened to 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 \$100,000. Awards could be higher, in consideration of whether or not a project involved new construction or acquisition and rehab. Typical awards per unit in the past, however, have been less than \$100,000 per unit, so it's an approximate average of what a pilot award might be.

In conversations with many local participants, including the cities that would be pre-qualified using the criteria discussed in this report, staff is confident that there is sufficient interest in the pilot of somewhere between 10 and 30 units. While it is impossible to know for sure how many applications will be made or for how many homeownership opportunities, we feel that funding approximately 20 homes is neither overly ambitious nor too conservative.

Funding for 20 homes at approximately \$100,000 per unit would result in a need for \$2M to make available for the pilot. While this represents staff's best estimate of both cost and demand, a lesser (or greater) funding amount would also allow us to administer the pilot. Staff will return to the Community Development Committee (CDC) later this year to discuss additional details of the pilot and we will revisit funding expectations and considerations at that time.