## AFFORDABLE HOUSING: TOOLS AND FINANCING MECHANISMS

Speakers: Cathy Bennett (ULI MN), Ryan Kelley (Metropolitan Council), Molly Koivumaki (City of Eden Prairie), Nira Ly (Minnesota Housing), Caryn Polito (Minnesota Housing), Kate Speed (Twin Cities LISC), Jamie Thelen (San Companies Inc.)
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9:00 AM – 12:00 PM

**Workshop Summary**: The lack of fiscal resources for development and preservation of affordable housing threatens our regional ability to accommodate existing and future need. As communities embark on their comprehensive plan updates, it is important to be aware of both the potential and the limitations of available housing programs and financial resources.

## QUESTIONS AND ANSWERS:

1. **Given the scarcity and uncertainty around competitive funding sources, how can planners best balance ambitious yet feasible strategies in the housing elements of their comp plans?**

   Look for low hanging fruit that can have a big impact relative to the time and money needed. Housing Advisory Committees, zoning review for exclusionary housing, providing effective referrals, and informal meetings with reputable affordable housing developers are all great ways to address housing needs.

   For the tougher stuff (new construction and preservation), get as clear as you can about your community's priorities and hone in on the specific resources that will get you there. Want to assemble land in an area that is perfect for affordable or mixed-income housing? Work with the Land Bank Twin Cities and inventory your area's publicly owned land. Need more affordable family housing? Look for any TIF pooling opportunities to incentivize that kind of development.

   As the competitive component of funding cycles vary, the ability and willingness to provide local support for affordable and mixed income housing projects is one of the key strategies to include within the housing element of a comprehensive plan. Over time as markets shift, the usefulness of tools and strategies also shift. Identifying what tools and strategies a city would consider—knowing and understanding that not all tools and strategies work in all markets and for all projects—should not be hindered by uncertainty around regional, state and federal funding sources.

2. **Is it possible for affordable housing developers to provide the desirable amenities (pools, theaters, etc.) in affordable rental developments?**

   It is difficult to justify extraordinary amenities (pools/theaters/etc.) with such limited resources for housing. Still most affordable projects to have nice amenities such as fitness center, community room, underground heated parking, outdoor recreation areas, etc.

3. **What do you think is the most underutilized tool for the development of affordable housing?**

   Waiving fees. Most cities are reluctant to do this because fees are supposed to fund certain aspects of operations, but this can be a quick, easy & inexpensive way to fill gaps to fund affordable housing.

   Aside from the usage of tax increment financing (TIF) housing districts, cities should also consider requiring the set aside of pooled TIF to support inclusion of affordable housing. Per Minnesota State Statute, 35% of the pooled TIF increment generated by a redevelopment district can be spent outside the district for rental housing purposes with the limitation to use the pooled increment toward affordable housing projects.

In addition to pooled TIF, cities also should consider a housing and redevelopment authority (HRA) levy to be used for housing purposes. Under Minnesota Statutes 469.033, Subdivision 6, an HRA has the authority to levy a special tax upon all taxable property within the city boundaries specifically to fund the purposes of the housing plan within that city. The maximum HRA levy may not exceed .0185 percent of taxable market value. Port Authorities and Economic Development Authorities are also authorized to collect tax levies.

4. **In the point system and push to reduce costs, do you (Minnesota Housing) consider the importance of long-term asset management and energy efficiency—which are counterforces to building more inexpensively?**

   All projects are required to comply with Minnesota Housing Design Standards and Green Communities. These standards ensure that properties are sustainable. Also, the Agency's cost predictive model not only tells if costs are too high, but also indicates if costs are too low for the proposed development.

5. **We currently use our CDBG allocation for programs like Minnesota Housing's single family programs. What are the pros/cons in continuing to use our own federal resources versus Minnesota Housing resources?**

   It's difficult to state the pros/cons because each community's CDBG program and needs differs. Minnesota Housing staff is happy to sit down and talk with anyone who would like to learn more about Minnesota Housing's single family programs to help them better understand whether our programs are a good fit for their community's needs.

6. **What are the income and rent restrictions for projects funded with the Metropolitan Council's Tax Base Revitalization Program?**

   Affordable housing is not required for TBRA funding. If a project is claiming affordable housing, however, to receive points in the scoring of applications, then it must meet the following requirements for 2017: to be considered affordable housing, the unit must be affordable to households at 80% of AMI or less, and the affordability level must be restricted for a minimum term of 15 years.

7. **Has a county ever gotten Metropolitan Council Livable Communities Demonstration Account (LCDA) funding or other Metropolitan Council funds?**

   Washington County CDA has received a LCDA grant. Hennepin County has received LHIA funding, and Development Authorities (CDA or HRA) in Carver, Dakota, Hennepin and Washington Counties have received Local Housing Initiative Account (LHIA) funds.

8. **How can city staff find out if they have existing project-based Section 8 units with contracts close to expiration?**

   Two good resources for this are HousingLink Streams and the National Preservation Database. You can also contact Metropolitan Council housing staff who can assist with identifying such properties.

9. **For Minnesota Housing's transit criteria, does proximity to planned transit lines count, or only existing transit lines?**

   Some planned transit lines may count, if stops have been established and funding is secured. The Agency's research department evaluates which planned lines are eligible on a case-by-case basis.

Project teams are welcome to contact us in advance of the application deadline to find out if a planned line is eligible.

10. **Could you comment on the use of 501(c)(3) non-profit tax exempt bonds and HRA bonds for housing at the local level, outside of Minnesota Housing project use?**

    501(c)(3) bonds differ from other tax exempt bonds as they do not count against the state's annual volume cap for tax exempt bonding. The bonds must be issued by or on behalf of a state or local government to be considered tax exempt from federal taxation; therefore, it is common for a local government to issue the bonds and then loan them to an eligible 501(c)(3) non-profit developer to pay for eligible project costs. 501(c)(3) bonds also differ from other tax exempt bonds in that they do not count toward the "50% test" for tax credits. Local HRAs can issue taxable, tax exempt (to the degree there is remaining volume cap under the state's annual allocation), general obligation, or 501(c)(3) bonds.

11. **Do projects in Dakota County qualify for any of Minnesota Housing's funding dollars?**

    On the single-family side, Minnesota Housing can fund projects in Dakota County. The project would need to be one of our four eligible activities (i.e., new construction, acq/rehab/resale, affordability gap, and owner-occupied rehab) and would need to target households at or below 115% area median income. Multifamily projects in sub-allocator jurisdictions such as Dakota County apply through the sub-allocator (Dakota CDA) for 9% tax credits. Projects in every city/county are eligible to apply to Minnesota Housing for deferred funds for multifamily projects.

12. **For many planners, getting an idea through the local city council can be challenging. What are a few effective strategies to overcome city council concerns?**

    Get them out to see existing projects; have them contact council members of other cities that have affordable housing & get their feedback on their quality and operations; invite a developer to a work session to talk about the housing.

    Early education is key to help overcome policy leader concerns and dispel myths surrounding affordable and mixed income housing. Arming city council members with sound research and talking points will help them to be more effective and informed leaders in situations where negative reactions arise. Key steps include:

    a. Establish as Vision: A clear statement of the kind of housing the community needs to prosper.
    b. Conduct a Market Assessment: It should include a thoughtful analysis of the kind of housing that will be needed and where different kinds of housing (including density or how many dwelling units per site) should be located.
    c. Outline Clear Policy Objectives: Measurable statements of what the city is hoping to achieve (for example, promote workforce housing, increase the number and types of housing for seniors, etc.).
    d. Be sure to include comprehensive policies to promote diverse housing choices. A housing policy should be about the entire range of housing a community will need to prosper, not just one segment. It should consider the development of energy-efficient housing and housing accessible to current and future transit, for example.

13. **What would you recommend by way of resources for communities interested in exploring and possibly adopting mixed-income or inclusionary housing policies?**

    In 2015 and 2016, the Family Housing Fund and the Urban Land Institute of Minnesota/Regional Council of Mayors partnered to offer the Minneapolis/St. Paul Region (MSP) Mixed Income Housing Feasibility, Education and Action Project. The collaboration developed and highlighted tools and strategies to help municipalities work with private and non-profit developers to create mixed income housing in the seven-county MSP region. It also provided, through the development of an online interactive Mixed Income Housing Feasibility Calculator, new innovative ways to learn, experiment and develop policies to incentivize mixed income housing development. To learn more, visit: http://mncalculator.housingcounts.org/

14. **In your experience, what are the most important two or three things a city can do to help get an affordable project built?**

    Start community engagement on the project (and the need for affordable housing in general) as early as possible. Don't leave the developer to figure out the financing – truly partner with the developer to create competitive funding applications and look for ways the city can contribute – even a small grant or fee deferment can make a difference! Don't wait for a developer to reach out to you. Figure out where you think a great affordable project should happen and reach out to developers!

    Be informed; be flexible; be proactive.

    Aim for projects that are small and realistic. We get folks coming in for technical assistance who want to build, for example, 100+ units of new affordable housing in an area with very little existing rental housing stock. It's more realistic to aim for a 30-unit townhome project to start, and if that is successful, to build upon that success.

    Cities should contribute to the project in any way possible by means of land donation, fee waivers, etc., in addition to capital funds.

    Smaller cities are attracting developers by issuing Request for Proposals (RFPs) to build affordable housing on city-owned land in areas that meet Minnesota Housing's strategic priorities (e.g. access to transit, areas of opportunity, etc.)

## *ACRONYMS USED IN THE WORKSHOP:*

**AMI (Area Median Income):** 100% of the gross median household income for a specific Metropolitan Statistical Area, county or non-metropolitan area as established annually by HUD. The Area Median Income is a critical component of housing-related activity, including eligibility for affordable housing programs.

**CDBG (Community Development Block Grant):** Created under the Housing and Community Development Act of 1974, this HUD program provides grant funds to local and state governments to develop viable urban communities by providing among other things decent housing with a suitable living environment and expanding economic opportunities to assist low- and moderate-income residents.

**HIB (Housing Infrastructure Bond):** A funding source awarded through Minnesota Housing's annual consolidated Request for Proposals. Typically, new HIB is available for legislative appropriation in state bonding years that are even numbered years. HIBs can be issued as any of three bond types: private activity bonds that qualify for 4% housing tax credits, or governmental and 501(c)3 bonds that do not. Loans are made under the Economic Development and Housing Challenge or Housing Trust Fund programs. HIB loans are usually structured as a deferred, 30-year loan.

**HOME (Home Investment Partnerships Program):** This HUD program provides grants to states and localities that communities use, often in partnership with local nonprofit groups, to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership, or to provide direct rental assistance to low-income people.

**LIHTC (Low Income Housing Tax Credit):** Since its creation via the Federal Tax Reform Act of 1986, the Low Income Housing Tax Credit Program (LIHTC) has become the premier financing tool for the development of new affordable housing as well as the acquisition and/or rehabilitation of existing affordable housing. Administered at the federal level by the Internal Revenue Service, the LIHTC program provides tax credits to investors of qualifying projects.

**MHFA (Minnesota Housing Finance Agency, or Minnesota Housing):** Created in 1971, Minnesota Housing issues mortgage revenue bonds to raise capital for first-time homebuyer loans, allocates Low Income Housing Tax Credits, and distributes federal and state funds to support single-family and multifamily affordable housing. For more information on Minnesota Housing, visit www.mnhousing.gov.

**QAP (Qualified Allocation Plan):** Minnesota Housing and the LIHTC sub-allocators must annually prepare a Qualified Allocation Plan to explain how they will distribute their LIHTC allocations. QAPs establish preferences and set-asides within their tax credit competitions to target the credits towards specific places, types of housing, or certain types of residents.

**TIF (Tax Increment Financing):** A financing tool available to local governments for redevelopment and improvement projects. TIF uses the projected increase in property taxes that a redevelopment will generate to finance the costs of the development.

**TOD (Transit Oriented Development):** TOD is walkable, moderate- to high-density development served by frequent transit that can include a mix of housing, retail, and employment choices designed to allow people to live and work with less or no dependence on a personal car.

**SAC/WAC (Sewer Availability Charge & Water Availability Charge):** The Sewer Availability Charge (SAC) is a one-time fee imposed by the Metropolitan Council Environmental Services (MCES) division to local communities for each new connection made to the central sewer system or in response to an increase in capacity demand of the Metropolitan Disposal System. Any of the 106 metro communities subject to SAC may pass the SAC fee along to building or property owners, but remain liable regardless for the payment made to MCES.

**Super RFP:** To streamline the process of securing and deploying funding for affordable housing development, Minnesota Housing coordinates the Consolidated Request for Proposals (Super RFP). The Super RFP allows Minnesota Housing and its funding partners (the Metropolitan Council, Department of Employment and Economic Development, Family Housing Fund, and Greater Minnesota Housing Fund) to use a single funding application and allows developers to apply for multiple funding resources at once. Creative finance packages that best fit each project and the strategic priorities of each funder can be assembled during the project review and selection processes.

Please send additional questions or comments to jonathan.stanley@metc.state.mn.us.