

Impact Fund

Minnesota Housing

Homeownership: Encouraging New Production

HFA Staff Contact

josh.nguyen@state.mn.us

OVERVIEW

For more than 40 years, Minnesota Housing has worked to provide access to safe, decent and affordable housing and to build stronger communities across the state. In 2018, Minnesota Housing assisted more than 67,000 households ranging from those ready to buy a home to those on the verge of losing their home to people experiencing homelessness. For the fourth year in a row, the number of Minnesota households who became homeowners increased with the help of the Agency's downpayment assistance and mortgage programs. More than one-third of these households were households of color.

The Community Homeownership Impact Fund (Impact Fund) provides funding to developers and administrators to increase the supply of affordable, owner-occupied, single family housing in communities across Minnesota. The program invests in local communities by increasing affordable housing for homebuyers and creating job opportunities for local developers and contractors.

PROGRAM INNOVATION

The Impact Fund is an innovative program that provides funding for a range of affordable housing activities, including new construction, acquisition, rehabilitation, resale, downpayment assistance, and owner-occupied rehabilitation. While there is a range of activity, this entry focuses on new production. Funding is available throughout the Minnesota Housing in the form of grants, lower-interest construction loans, and deferred loans. The Impact Fund is a flexible program that allows partners to tailor projects to meet the local needs of each community.

The Impact Fund targets both low- and moderate-income households by serving households up to 115 percent area median income (AMI). There is often program gap for moderate-income households. They make too much to qualify for many affordable housing programs and yet they are priced out of the market due to increasing home values. There is a growing need for homes affordable and available to moderate income households. The Impact Fund addresses this need, while at the same time creates affordable housing opportunities for lower-income households.

The Impact Fund is also innovative because it engages with a variety of local partners who deliver the program. This includes nonprofit organizations, for-profit developers, housing and redevelopment authorities (HRA), and local governments such as cities, counties. Commitment from this cross-sector of partners is one of the factors that make the program a success. In 2018, the Agency provided funding to 22 local partners. Of these, 17 were nonprofit organizations, including four community land trusts (CLT), 3 were HRA's and one was a federally recognized Native American tribe.

PROGRAM REPLICABILITY

Other Housing Finance Agencies (HFAs) can replicate the Impact Fund by identifying and supporting the following factors. The key factors are a funding source, partnerships, and income requirements that include moderate-income households. A flexible funding source is important to enable communities to tailor the funds to their local needs. The Agency's primary sources of funding are state appropriated dollars and bond funding. The state legislature and leadership has long supported the program with the current governor recommending a \$10 million increase in funding to the program. The Agency also has its own resources that it commits to the program.

The Agency's strong local partnerships that play such a key role in the success of the program are easily replicable. Most HFA's already have partnerships with a variety of local stakeholders. HFA's can further cultivate these partnerships to encourage participation and investment in a similar program.

Finally, the Agency has a robust Impact Fund Program Procedural manual and training materials to help new partners develop their local programs, and can provide these materials to HFA's interested in developing similar programs. Reviewing these materials can provide HFA's with a strong base upon which to build a similar program.

RESPONSE TO AN IMPORTANT STATE HOUSING NEED

The Impact Fund responds to the shortage of homeownership housing by funding the development of new affordable homes. [The 2018 Minnesota Governor's Task Force on Housing identified the shortage of affordable homes as a key issue that needs to be addressed.](#) The growing demand for homes outpaces the supply of new and currently available homes on the market. This high demand and low supply prices low- and moderate-income households out of the market. This in turn affects employers' ability to retain their workforce and creates instability in local communities. Below are two examples of how the Impact Fund is responding to the shortage of affordable homes.

In 2018, the Agency awarded close to [\\$1.7 million to First Homes Community Land Trust in Rochester, Minnesota](#). With the expansion of the Mayo Clinic, affordable workforce housing in Rochester is needed now more than ever. The Impact Fund dollars will enable First Homes to develop 14 new units, including 12 townhomes. The homes will be permanently affordable because they will be in the CLT.

The Agency also awarded \$740,000 to United Community Action Partnership (UCAP) in Marshall, Minnesota. Manufacturing is the largest industry there but there is a great lack of affordable housing in the area. A high number of workers have to commute to Marshall for their manufacturing jobs. Of those workers, 26 percent commute more than 50 miles to work in Marshall. The Impact Fund dollars will enable UCAP to build six affordable homes in Marshall. [UCAP has already built and sold five homes in 2018 with funding through the Impact Fund.](#) In total, the Impact Fund dollars will create 11 new affordable homes for the workers in Marshall.

Finally, as the price of homes continues to rise, manufactured housing has increasingly been identified as a form of homeownership housing that is affordable to lower income households. There is a need for the production of more manufactured housing but financing for the development and purchase of manufactured homes taxed as personal property can be difficult to secure. The Impact Fund is a flexible source of funding that fills this gap in financing. In 2016, the Agency funded the Minnesota Valley Action Council's (MVAC) pilot program to replace dilapidated manufactured homes in the City of Mankato. The program was so successful, the Agency increased the funding for MVAC's 2016 award. The Agency has continued to support this program and in [2018, awarded another \\$110,000 to MVAC](#) to continue the program.

DEMONSTRATED BENEFITS TO TARGETED CUSTOMERS

In 2018, the Agency invested \$1.8 million for the new construction and sale of 39 affordable homes in Greater Minnesota and the Twin Cities Metropolitan Area by engaging local partners, including two cities and six nonprofits, to develop these homes. Below are two examples of how the Impact Fund has benefited targeted customers and contributed towards closing the homeownership gap between households of color and white households.

[Dayton's Bluff Neighborhood Housing Services built and sold five homes in the City of St. Paul in 2018 with funding through the Impact Fund.](#) Four were sold to moderate-income households and one was sold to a household below 50 percent AMI. All five homebuyers were households of color.

The City of Minneapolis partnered with local developers to build and sell five homes throughout Minneapolis in 2018. Three of the homes were sold to moderate-income households and two were sold to households below 80 percent AMI. Two of the homebuyers were households of color.

PROGRAM SUCCESS IN THE MARKETPLACE

The program has been successful for almost 20 years. The demand is hard for Impact Fund dollars. The funds are awarded to local partners through an annual request for proposals (RFP) process. In 2018, the Agency received close to \$17.8 million in total funding requests to complete 515 units. Due to the availability of funds, the Agency was only able to award \$11.9 million for a total of 372 units. Awardees typically complete all units within 2 years. In essence, over the next two years, the Agency's local partners will complete approximately 372 units. In 2018, we invested \$4.8 million to serve 198 households through the Impact Fund, nearly 60 percent of which were households of color.

PROGRAM BENEFITS THAT OUTWEIGH THE COSTS

The Impact Fund fills a gap where affordable housing developers and local communities may not have the resources to fund affordable new construction development and helps moderate-income households who are ineligible for low-income programs and are priced out of the market.

EFFECTIVE USE OF RESOURCES

To ensure that there is an effective use of resources, Impact Fund dollars are awarded through an annual RFP. Proposed projects are vetted through the RFP process to determine whether they are an effective use of resources. The Agency evaluates projects based on three criteria. First, the Agency considers the extent to which the project meets a local community need. Second, it looks the marketability and cost feasibility of a project and whether the project is ready to begin immediately if awarded. Finally, the Agency evaluates whether the applicant has the capacity to successfully complete the proposed project.

EFFECTIVE EMPLOYMENT OF PARTNERSHIPS

The success of the Impact Fund lies in its partnerships with local communities. The Agency awards and oversees implementation of the program, but its local partners are the ones who carry out the program. The local partners know their communities and are best suited to address their communities' needs. The Agency alone would not be able to complete the number of projects that are achieved today. Its partners make it possible to serve hundreds of household a year and to reach many corners of the state.

ACHIEVEMENT OF STRATEGIC OBJECTIVES

The mission of Minnesota Housing is "Housing is the foundation for success, so we collaborate with individuals, communities and partners to create, preserve and finance affordable housing." The Impact Fund achieves this mission by funding the development of new affordable housing opportunities and literally building the foundation for success. It is through Agency investment in communities and collaboration with local partners that the Impact Fund can be implemented throughout the state. Households are best served when there is commitment from the state and from the local communities within which they reside.

Dayton's Bluff Neighborhood Housing Services – Village on Rivoli Homes (St. Paul, MN)



United Community Action Partnership – Marshall Parkway Homes (Marshall, MN)



First Homes – Villas of Valley Side (Rochester, MN)



Minneapolis Community Planning & Economic Development – Green Homes North (Minneapolis, MN)

BEFORE



AFTER

