

# HENNEPIN COUNTY

## HOUSING AND REDEVELOPMENT AUTHORITY

**DATE:** October 11, 2023

**TO:** Hennepin County Board of Commissioners

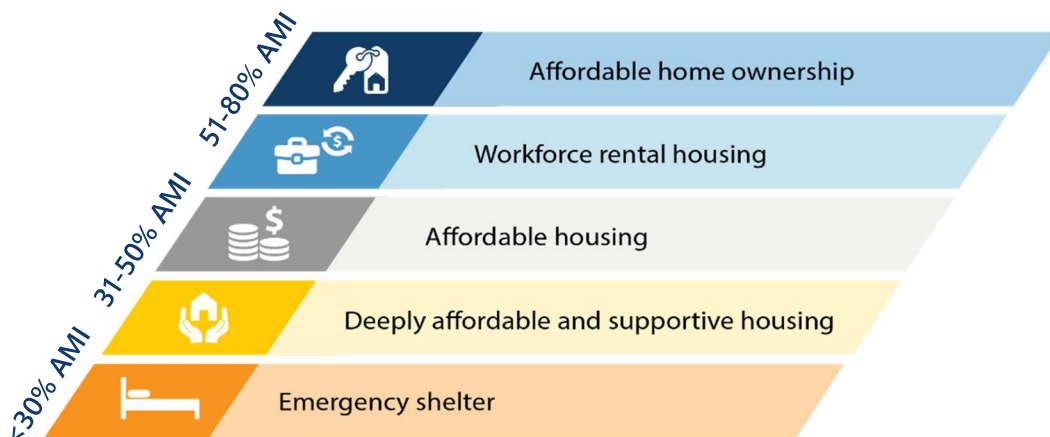
**FROM:** Kevin Dockry, Chief Housing and Economic Development Officer *KDD*  
David Hewitt, Housing Stability Director **DH**  
Julia Welle Ayres, Housing Development and Finance Director **JWA**

**SUBJECT:** Implementation plans for Metro Area Sales and Use Tax for Housing proceeds

This year, the 93<sup>rd</sup> Minnesota Legislature approved historic levels of new state funding for housing, including a first-ever tax dedicated to affordable housing. The new 0.25% Metro Area Sales and Use Tax for Housing, established with support from leadership from Hennepin County and other local jurisdictions, will raise an estimated \$29 million per year for Hennepin County. While state agencies continue to develop required guidelines/regulations for the use of sales tax proceeds, we understand that Commissioners may also be receiving outside inquiries. This point-in-time memo outlines staff's best understanding of eligible uses for the sales tax proceeds, as well as an implementation plan tailored to leverage Hennepin County's unique strengths and strategies to address our deepest racial disparities in housing.

### Background

Hennepin County administers over \$146 million annually to address the full spectrum of housing needs.



In 2020, the county pushed harder on some of these tactics most needed for emergency response: vastly increased emergency rental assistance, property acquisition for emergency and long-term use, and shelter system improvements.

In March 2021, staff presented the key tactics and results of this housing strategy. First, to grow our impact on housing disparities, we must minimize the number of people entering homelessness, and maximize the number of people exiting homelessness, always in partnership with people with lived experience of homelessness. We minimize entries through emergency rental assistance, homeless diversion, and navigation

and legal support for renters. We maximize exits by lowering barriers and improving services in emergency shelters, providing housing-focused case management, expanding project-based subsidies, implementing the supportive housing strategy, and re-introducing single room occupancy (SRO) housing to the market.

In 2022, with the appropriation of State and Local Fiscal Recovery Funds from the American Rescue Plan Act, the county was able to allocate \$91.35M to housing and homelessness. Once again, these funds were programmed into our existing strategy for greatest impact, namely: homeless case management and employment services, additional shelter improvements, continued operations of low barrier and 24/7 shelters, eviction prevention, SRO conversion, and financing the pandemic-related increases to create affordable housing, preservation of naturally occurring affordable housing, accelerating the production of high-priority affordable housing, and new homeownership opportunities.

Hennepin County’s housing strategy focuses on households with the lowest incomes to reduce racial disparities in homelessness and housing cost burden, and to increase access to greater economic opportunities. This includes targeting funding to most affordable housing units, as well as creating new financial and development models to fill gaps in the housing continuum. This nationally recognized strategy has worked for Hennepin County’s residents, and we continually seek opportunities to sustain and grow it.

**Metro Area Sales and Use Tax for Housing**

The Metro Area Sales and Use Tax for Housing will be distributed within three pools:

- 25% to the new state rent assistance program
- 25% to the metropolitan city portion of the new Local Affordable Housing Aid program (distributed by share of cost-burdened households to cities with populations over 10,000)
- 50% to the metropolitan county portion of the new Local Affordable Housing program (distributed by 3% to each of the seven counties, plus as a share of cost-burdened households)

The 93<sup>rd</sup> Legislature also approved a Statewide Local Housing Aid program funding through appropriations. Both programs have the same criteria for metro-area jurisdictions, and so are treated as a single program for this memo.

*Funding anticipated 2023-2026*

Source	2023	2024	2025	2026
Statewide Local Housing Aid	\$1,721,944 <sup>1</sup>	\$3,913,509 <sup>2</sup>	\$3,913,509	\$1,721,944
Local Affordable Housing Aid		\$22 million <sup>3</sup>	\$29 million	\$29 million

<sup>1</sup> Amount to be disbursed December 26, 2023

<sup>2</sup> Amount yet to be confirmed; half disbursed July 20, 2024, half December 26, 2024

<sup>3</sup> Amount to be announced by August 1, 2024, based on revenues collected through June 1, 2024, and disbursed December 26, 2024

*Qualifying projects*

Statute outlined three categories of eligible projects:

- Emergency rental assistance <80% AMI
- Financial support to nonprofit affordable housing providers in their mission to provide safe, dignified, affordable and supportive housing
- Construction, acquisition, rehabilitation, demolition or removal of existing structures, construction financing, permanent financing, interest rate reduction, refinancing, and gap financing of affordable housing (homeownership projects <115% AMI; rental < 80% AMI)

In addition, statute defined how funds should be prioritized:

- affordability (homeownership <80% AMI, rental < 50% AMI);
- reduce disparities in homeownership;
- reduce housing cost burden, housing instability, or homelessness;
- improve the habitability of homes;
- create accessible housing; or
- create more energy- or water-efficient homes.

#### *Eligibility for our proven strategies*

Several of Hennepin County's proven strategies (highlighted in the Background section above) meet qualifying project definitions under Local Affordable Housing Aid.

Hennepin County's proven strategies	Local Affordable Housing Aid
<i>Shelter diversion</i>	
<i>Financial empowerment</i>	
<i>24/7 shelter</i>	
<i>Case management</i>	
<i>Employment services</i>	
<i>Low barrier shelters</i>	
<i>Project based operating assistance</i>	
<i>Emergency renter assistance</i>	✓
<i>Supportive housing capital</i>	✓
<i>Supportive housing operating</i>	✓
<i>Single room occupancy</i>	✓
<i>NOAH Preservation</i>	✓
<i>Affordable housing accelerator</i>	✓
<i>Homeownership assistance</i>	✓

#### **Implementation plan**

The primary intent of this new funding source is to increase production of affordable housing in the metropolitan area. To do so, staff propose applying new Local Affordable Housing Aid funds to the proven strategies eligible under the statute. This strategy implements our disparities reduction framework and goals, and uses the program infrastructure already tested through the pandemic.

Since this is a new permanent source, staff recommend a multiphase approach to both meet immediate needs, and to pave the way for long-term impact.

**First, the initial funds to arrive in late 2023 will launch a new permanent eviction prevention fund.** This will continue the successes of the COVID-era eviction prevention, providing assistance at Housing Court where it is needed most.

**Second, funding will repair and build the capacity of affordable housing developers.** We will need a healthy ecosystem of developers and owners to truly expand affordable housing production, but our partners are still

struggling to keep existing projects open. Over the pandemic and recession, projects experienced tenants unable to pay rents on top of the increase in operating costs due to inflation and workforce issues. From 2024-2026, new funding will go to shore-up our developers and owners who have shown a long-term commitment to creating and maintaining affordable housing in Hennepin County, but who are at significant financial risk due to the pandemic.

**Third, funding will support and augment the Human Services budget to ensure continuity of high-impact programs.** Specifically, sales tax funds will support our community partners to deliver the wrap-around services that residents need to be successful in the projects receiving HRA’s Supportive Housing capital funds. Staff estimate that half of the 1,000 supportive housing units we finance from 2020-2030 will require a 15-year service or operating subsidy to cover unique operating and service gaps. Starting in 2025, new funding will be provided as up-front capitalized reserves to replace existing property tax commitments. Going forward, future commitments will not require ongoing annual property tax funding for these wrap-around services.

**Fourth, once developer capacity is restored, we will work toward production (and not stop).** Our pandemic recovery funding outcomes demonstrated that we make the biggest impact when developing a healthy pipeline of housing projects, while also providing strategic investments to finish high priority projects quickly. To that end, a portion of funds will expand the HRA’s Affordable Housing Incentive Fund, and a portion will resume the pandemic era “Affordable Housing Accelerator” fund that provided higher funding amounts to projects meeting key county priorities.

**And finally, modest appropriations starting in 2026 will advance disparity reduction and climate impacts in homeownership creation and preservation.**

Implementation phases	New permanent eviction prevention funding				
	Build developer capacity Support / augment HHS budget		Expand production		
Implementation years	2024	2025	2026	2027	2028
Emergency rental assistance	\$\$	\$\$	\$\$	\$\$	\$\$
Affordable rental housing: repair + grow capacity	\$\$\$	\$\$\$	\$\$\$		
Supportive housing operating		\$\$\$\$	\$\$\$	\$\$	\$\$
Affordable rental housing: increase and accelerate production			\$\$\$	\$\$\$\$\$	\$\$\$\$\$
Homeownership opportunities			\$	\$	\$
Homeownership preservation			\$	\$	\$

Once normalized, staff projects the following impacts:

*Projected resident impacts by 2026*

Program	Implementation	Annual funding	Annual impact
Emergency rental assistance	\$6000/household; 100% <30% AMI; \$500K admin	\$5,000,000 (operating)	750 households

<b>Affordable rental housing pipeline</b>	Gap deferred financing for capital costs of creating/ preserving long-term affordable units; <b>25% &lt; 30% AMI</b> ; \$200K admin	\$5,000,000	270 units
<b>Affordable rental housing accelerator</b>	Deferred financing for capital costs of creating/ preserving high-impact long-term affordable units; <b>50% units &lt; 30% AMI</b> ; \$200K admin	\$11,250,000	90 units
<b>Supportive housing operating</b>	Capitalized reserves for unique services and operating costs for supportive housing projects; <b>100% &lt; 30% AMI</b> ; \$200K admin	\$3,750,000	50 units
<b>Homeownership opportunities</b>	Deferred financing for capital costs of building long-term affordable homes; <b>100% &lt; 80% AMI</b> ; \$200K admin	\$2,000,000	60 units
<b>Homeownership preservation</b>	Leverage other funding sources for low-barrier climate resiliency and home health and safety improvements; <b>100% &lt; 60% AMI</b> ; \$40K admin	\$500,000	24 units
<b>Total</b>		<b>\$32,000,000</b>	<b>1,244 households/units</b>

This implementation plan will be advanced for Board affirmation at an upcoming meeting. Please do not hesitate to contact David, Julia, or Kevin with any questions.

Thank you.

Cc: David Hough, County Administrator  
Dave Lawless, Chief Financial Officer  
Kareem Murphy, Intergovernmental Relations Director