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State of Minnesota

HOUSE OF REPRESENTATIVES

NINETY-THIRD SESSION

H. F. No. 1419

02/08/2023 Authored by Howard, Gomez, Lislegard, Norris, Olson, L., and others
The bill was read for the first time and referred to the Committee on Housing Finance and Policy
03/06/2023 Adoption of Report: Re-referred to the Committee on Taxes

1.1 A bill for an act
1.2 relating to taxation; local government aid; establishing the local affordable housing
1.3 aid program; appropriating money; proposing coding for new law in Minnesota
1.4 Statutes, chapter 477A.

1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. 477A.35 LOCAL AFFORDABLE HOUSING AID.

1.7 Subdivision 1. Purpose. The purpose of this section is to help local governments to
1.8 develop and preserve affordable housing within their jurisdictions in order to keep families
1.9 from losing housing and to help those experiencing homelessness find housing.

1.10 Subd. 2. Definitions. For the purposes of this section, the following terms have the
1.11 meanings given:

1.12 (1) "city" means a statutory or home rule charter city with a population of at least 10,000;

1.13 (2) "city distribution factor" means the number of households in a city that are
1.14 cost-burdened divided by the total number of households that are cost-burdened in Minnesota
1.15 cities. The number of cost-burdened households shall be determined using the most recent
1.16 estimates or experimental estimates provided by the American Community Survey of the
1.17 United States Census Bureau as of May 1 of the aid calculation year;

1.18 (3) "cost-burdened household" means a household in which gross rent is 30 percent or
1.19 more of household income or in which homeownership costs are 30 percent or more of
1.20 household income;

1.21 (4) "county distribution factor" means the number of households in a county that are
1.22 cost-burdened divided by the total number of households in Minnesota that are cost-burdened.

2.1 The number of cost-burdened households shall be determined using the most recent estimates
2.2 or experimental estimates provided by the American Community Survey of the United
2.3 States Census Bureau as of May 1 of the aid calculation year; and

2.4 (5) "population" has the meaning given in section 477A.011, subdivision 3.

2.5 Subd. 3. **Distribution.** (a) Each county shall receive the sum of:

2.6 (1) \$6,000; plus

2.7 (2) the product of:

2.8 (i) the county distribution factor; multiplied by

2.9 (ii) the total amount available to counties under this section minus the product of clause

2.10 (1) multiplied by the number of Minnesota counties.

2.11 (b) The commissioner of revenue shall determine the amount of funding available to a
2.12 city under this section by multiplying the city's city distribution factor and the amount of
2.13 funding available to cities under this section.

2.14 Subd. 4. **Grants to nonqualifying local governments.** (a) The commissioner of the
2.15 Minnesota Housing Finance Agency shall establish a program to award grants of at least
2.16 \$25,000 to local governments that do not qualify for a distribution of aid under subdivision
2.17 3. The agency shall develop program guidelines and criteria in consultation with the League
2.18 of Minnesota Cities.

2.19 (b) The agency shall attempt to award grants in approximately equal amounts to local
2.20 governments outside and within the metropolitan area. Among comparable proposals, the
2.21 agency shall prioritize grants to local governments that have a higher proportion of
2.22 cost-burdened households.

2.23 (c) A grantee must use its grant on a qualifying project.

2.24 (d) In making grants, the agency shall determine the circumstances, terms, and conditions
2.25 under which all or any portion thereof will be repaid and shall determine the appropriate
2.26 security should repayment be required. Any repaid funds shall be returned to the account
2.27 or accounts established pursuant to paragraph (e).

2.28 (e) The agency shall establish a bookkeeping account or accounts in the housing
2.29 development fund for money distributed to the agency for grants under this subdivision. By
2.30 May 1 of each year, the Minnesota Housing Finance Agency shall report to the Department
2.31 of Revenue on the amount in the account or accounts.

3.1 Subd. 5. **Qualifying projects.** (a) Qualifying projects shall include projects designed
3.2 for the purpose of construction, acquisition, rehabilitation, demolition or removal of existing
3.3 structures, construction financing, permanent financing, interest rate reduction, refinancing,
3.4 and gap financing of housing to provide affordable housing to households that have incomes
3.5 which do not exceed, for homeownership projects, 115 percent of the greater of state or
3.6 area median income as determined by the United States Department of Housing and Urban
3.7 Development, and for rental housing projects, 80 percent of the greater of state or area
3.8 median income as determined by the United States Department of Housing and Urban
3.9 Development, except that the housing developed or rehabilitated with funds under this
3.10 section must be affordable to the local work force.

3.11 (b) Gap financing is either:

3.12 (1) the difference between the costs of the property, including acquisition, demolition,
3.13 rehabilitation, and construction, and the market value of the property upon sale; or

3.14 (2) the difference between the cost of the property and the amount the targeted household
3.15 can afford for housing, based on industry standards and practices.

3.16 (c) If a grant under this section is used for demolition or removal of existing structures,
3.17 the cleared land must be used for the construction of housing to be owned or rented by
3.18 persons who meet the income limits of paragraph (a).

3.19 Subd. 6. **Use of proceeds.** (a) Any funds distributed under this section must be spent on
3.20 a qualifying project. If a city or county demonstrates to the Minnesota Housing Finance
3.21 Agency that the city or county cannot expend funds on a qualifying project by the deadline
3.22 imposed by paragraph (b) due to factors outside the control of the city or county, funds shall
3.23 be considered spent on a qualifying project if the funds are transferred to a local housing
3.24 trust fund. Funds transferred to a local housing trust fund must be spent on a project or
3.25 household that meets the affordability requirements of subdivision 5, paragraph (a).

3.26 (b) Any unspent funds must be returned to the commissioner of revenue by December
3.27 31 in the third year following the year after the aid was received.

3.28 Subd. 7. **Administration.** (a) The commissioner of revenue must compute the amount
3.29 of aid payable to each city and county under this section. Before computing the amount of
3.30 aid for counties and after receiving the report required by subdivision 4, paragraph (e), the
3.31 commissioner shall transfer from the funds available to counties to the Minnesota Housing
3.32 Finance Agency a sum sufficient to increase the amount in the account or accounts established
3.33 under that paragraph to \$30,000,000. By August 1 of each year, the commissioner must

4.1 certify the amount to be paid to each county and city in the following year. The commissioner
4.2 must pay local affordable housing aid annually at the times provided in section 477A.015.

4.3 (b) Beginning in 2025, cities and counties shall submit a report annually, no later than
4.4 December 1 of each year, to the Minnesota Housing Finance Agency. The report shall
4.5 include documentation of the location of any unspent funds distributed under this section
4.6 and of qualifying projects completed or planned with funds under this section. If a city or
4.7 county fails to submit a report, if a city or county failed to spend funds within the timeline
4.8 imposed under subdivision 6, paragraph (b), or if a city or county uses funds for a project
4.9 that does not qualify under this section, the Minnesota Housing Finance Agency shall notify
4.10 the Department of Revenue and the cities and counties that must repay funds under paragraph
4.11 (c) by February 15 of the following year.

4.12 (c) By May 15, after receiving notice from the Minnesota Housing Finance Agency, a
4.13 city or county must repay to the commissioner of revenue funds the city or county received
4.14 under this section if the city or county:

4.15 (1) fails to spend the funds within the time allowed under subdivision 6, paragraph (b);

4.16 (2) spends the funds on anything other than a qualifying project; or

4.17 (3) fails to submit a report documenting use of the funds.

4.18 (d) The commissioner of revenue must stop distributing funds to a city or county that
4.19 the Minnesota Housing Finance Agency reports to have, in three consecutive years, failed
4.20 to use funds, misused funds, or failed to report on its use of funds.

4.21 (e) The commissioner may resume distributing funds to a city or county to which the
4.22 commissioner has stopped payments once the Minnesota Housing Finance Agency certifies
4.23 that the city or county has submitted documentation of plans for a qualifying project.

4.24 (f) By May 1, any funds repaid to the commissioner of revenue by cities under paragraph
4.25 (c) must be added to the overall distribution of aids certified under this section for cities in
4.26 the following year. By May 1, any funds repaid to the commissioner of revenue by counties
4.27 under paragraph (c) must be added to the overall distribution of aids certified under this
4.28 section for counties in the following year.

4.29 Subd. 8. **County consultation with local governments.** A county that receives funding
4.30 under this section shall regularly consult with the local governments in the jurisdictions of
4.31 which its qualifying projects are planned or located.

5.1 Subd. 9. Appropriations. (a) \$210,000,000 is annually appropriated from the general
5.2 fund to the commissioner of revenue to make payments to counties as required under this
5.3 section.

5.4 (b) \$60,000,000 is annually appropriated from the general fund to the commissioner of
5.5 revenue to make payments to cities as required under this section.

5.6 (c) \$..... is annually appropriated from the general fund to the commissioner of revenue
5.7 to implement this section.

5.8 (d) \$..... is annually appropriated from the general fund to the commissioner of the
5.9 Minnesota Housing Finance Agency to implement this section.

5.10 **EFFECTIVE DATE.** This section is effective beginning with aids payable in calendar
5.11 year 2024.