



Economic Development and Housing Challenge Program

Key Facts and Findings:

- The Economic Development and Housing Challenge (EDHC) program has a broad statutory purpose to provide grants or loans to “support economic development and redevelopment activities or job creation or job preservation within a community or region by meeting locally identified housing needs.”
- EDHC must also be used to “address the housing needs of the local workforce.”
- The Minnesota Housing Finance Agency (MHFA) administers the program and has used its statutory authority to broadly interpret some of the EDHC statutes’ key terms.
- EDHC is a flexible program that can be used to award funds to several types of organizations for a variety of activities, including new construction or rehabilitation of existing housing.
- Stakeholders told us that the flexibility of the EDHC program is one of its most positive aspects.
- On average, MHFA made 39 EDHC awards per year, totaling about \$18 million each year from 2013 through 2017.
- MHFA has developed internal procedures that have promoted consistent application review processes, but some aspects of those processes were not entirely transparent.
- The application processes for EDHC funding have been time consuming and complex for some applicants.
- Numerous applicants that responded to our survey described ways in which the application processes were complicated or burdensome.
- At the same time, most survey respondents indicated that MHFA’s guidance during the application process was helpful.
- Based on our review, MHFA has generally followed key legal requirements when awarding EDHC funds, although it has not strictly complied with certain rules.

The Minnesota Housing Finance Agency (MHFA) has generally done a good job administering the Economic Development and Housing Challenge (EDHC) program.

Key Recommendations:

- The Legislature should review the EDHC program statutes to determine whether the program’s broad purpose and flexibility accurately reflect legislative priorities.
- MHFA should increase its efforts to work with stakeholders to streamline its application processes for EDHC funds.
- MHFA should review EDHC rules to determine whether they are clear and contribute to an efficient and effective award process.

MHFA has used the flexibility of the EDHC program to award funds to a wide variety of projects.

Report Summary

According to the Minnesota Housing Finance Agency (MHFA), about 550,000 Minnesota households are “cost burdened,” meaning they pay more than 30 percent of their incomes on rent or house payments. Statutes authorize MHFA to administer programs to address the need for affordable housing in Minnesota, including the Economic Development and Housing Challenge (EDHC) program.¹

The EDHC program is flexible. It provides funding to various types of entities—including cities, tribal housing corporations, nonprofit organizations, and private developers—to develop affordable rental and owner-occupied housing. It can also be used for a wide variety of activities, such as constructing apartment buildings or rehabilitating existing homes.

The EDHC program is largely funded by appropriations from the General Fund. The Legislature appropriated an average of \$10.5 million in base funding to the program each year between fiscal years 2012 and 2019.

There are several differences between rental and owner-occupied EDHC projects and their respective application processes.

Some EDHC requirements differ for rental and owner-occupied housing projects. For example, statutes limit the use of EDHC funds to serve households with up to 80 percent of state or area median income (whichever is higher) for rental housing and 115 percent of state or area median income for owner-occupied housing.²

The projects themselves differ, too. For example, 83 percent of rental projects from 2013 through 2017 involved new construction, while just 31 percent of owner-occupied housing projects did. The

majority of owner-occupied housing projects involved rehabilitation. As another example, all of the EDHC awards that MHFA provided to rental projects from 2013 through 2017 were in the form of deferred loans. On the other hand, only 41 percent of owner-occupied housing projects received loan awards, while 86 percent received grants. (Some projects received both loan and grant awards.)

The application processes for the two types of projects also differ. For example, the rental application process is more competitive than the owner-occupied one. From 2013 through 2017, only 39 percent of rental housing project applications received funding through the consolidated process, while 78 percent of owner-occupied projects received at least partial funding.

The EDHC program is so broad and flexible that we found it difficult to determine that a project did *not* fit within its purpose.

By law, the purpose of the EDHC program is to “support economic development and redevelopment activities or job creation or job preservation within a community or region by meeting locally identified housing needs.” EDHC funds must also be used to “address the housing needs of the local workforce.”³

MHFA has broad authority to interpret the program’s purpose. Statutes do not define key terms such as “locally identified” or “workforce.” In addition, statutes state that the chapter governing MHFA’s activities “shall be liberally construed to effect its purpose” because those activities are “necessary for the welfare of the state of Minnesota and its inhabitants.”⁴

We reviewed the files of projects selected for EDHC funding from 2015 through 2017 and determined they all fit within the

¹ *Minnesota Statutes* 2018, 462A.33.

² *Minnesota Statutes* 2018, 462A.33, subd. 5.

³ *Minnesota Statutes* 2018, 462A.33, subds. 1(a) and 3.

⁴ *Minnesota Statutes* 2018, 462A.24.

program’s statutory purpose.⁵ But, these determinations were not always easy to make. In some cases, MHFA funded projects in which it was unclear whether a housing need was “locally identified,” or in which some of the people housed by the projects were not expected to be employed. However, we ultimately determined that the agency was within its broad statutory authority to fund these projects using EDHC funds.

We recommend the Legislature review the EDHC statutes to determine whether its broad purpose continues to reflect legislative priorities. If the Legislature intended for EDHC funds to be used in a more targeted way, it should amend statutory language to clarify the purpose or define key terms.

Although applicants told us MHFA provided helpful guidance, the application processes were complex and time consuming for some applicants.

MHFA has awarded EDHC funds to rental and owner-occupied housing projects through two well-managed, but complex consolidated application processes.

MHFA has awarded EDHC funds, along with funds from other sources, through two annual consolidated applications—one for rental and one for owner-occupied housing projects. The agency has implemented several quality-control measures in its award processes. For example, the agency has provided annual training to staff that review applications. In addition, staff have used standardized templates to score applications. Based on our review, the agency also generally used key best practices for awarding funds.

At the same time, the application processes are complex; the rental application is especially so. Both applications require applicants to submit a large amount of information, including narratives and financial documents. Applicants for rental housing funds must also submit information about expected income and operating expenses, among other things.

Two separate individuals we interviewed described the rental application process as “arduous.” One applicant told us, “The whole thing was super confusing...the complexity of the process puts barriers up...”

We recommend the agency increase collaboration with stakeholders to streamline the application processes. An MHFA official told us the agency’s complex requirements allow staff to better compare competing projects, thereby increasing fairness and transparency within the application process. Although we applaud the agency’s efforts, they have resulted in significant complexity that may create obstacles for some applicants.

Most applicants we surveyed indicated that MHFA’s guidance on the application processes was helpful, but we identified some aspects of the processes that were not entirely transparent.

We surveyed all organizations that applied for funds through the 2017 consolidated processes.⁶ Most responded that MHFA’s application instructions were clear and that the technical assistance the agency provided during the application process was helpful. More than a dozen survey respondents praised agency staff for the support they provided.

At the same time, we found that the agency has not clearly communicated some aspects of the award processes with applicants. For example, MHFA has scored applications using numerous criteria, but has not provided the final scores to applicants for owner-occupied housing project funding. As another example, MHFA uses a complicated process for choosing rental projects to fund with EDHC dollars. Some applicants told us they did not understand certain aspects of the selection processes.

⁵ We reviewed all 18 rental housing projects and a sample of owner-occupied housing projects (29) selected for EDHC funding in those years.

⁶ We surveyed all 66 organizations that submitted consolidated applications for funding in 2017 and received 52 responses, for a response rate of 79 percent.

MHFA complied with most of the requirements that govern the EDHC program, but did not strictly follow certain rules.

As MHFA streamlines the application processes, it should ensure that application instructions clearly explain how projects are scored and selected for EDHC funding.

Based on our review, MHFA generally followed key legal requirements when awarding EDHC funds.

EDHC awards are subject to numerous legal requirements. For example, the agency must finance “approximately” equal numbers of housing units in the Twin Cities metropolitan area and the non-metropolitan area “to the extent practicable.”⁷ It must also ensure that applicants demonstrate sufficient organizational capacity to complete their proposed projects.

MHFA generally followed these and other key legal requirements we reviewed when selecting both rental and owner-occupied housing projects to receive funding. For example, the agency must give preference to projects that include contributions from nonstate sources. MHFA must also give preference to projects located near jobs, transportation, and services, among several other preferences.⁸ Based on our review of MHFA’s award processes, the agency

considered these preferences as required when evaluating proposals in its 2017 award processes.

However, we also found that MHFA did not strictly follow some rules. For example, rules state that owner-occupied housing projects eligible for EDHC must be able to be completed within 20 months of signing a contract for loan or grant funds.⁹ We found that MHFA extended 70 percent of its contracts for owner-occupied housing funding beyond 20 months for projects selected from 2013 through 2015.

As another example, projects funded with EDHC dollars must have rent or house payments that are “affordable to the local workforce.”¹⁰ Rules define this as no more than “30 percent of the wages being paid in the local area as the wages are described in the application” by the applicant.¹¹ But, MHFA did not require all applicants to submit the specific wage data required by rules in their 2017 applications.

We recommend that MHFA reexamine some of the requirements in its rules to determine whether these rules contribute to an effective, efficient award process.

⁷ *Minnesota Statutes* 2018, 462A.33, subd. 2.

⁸ *Minnesota Statutes* 2018, 462A.33, subds. 1(b) and 3.

⁹ *Minnesota Rules*, 4900.3646, subp. 1D, published electronically June 11, 2008.

¹⁰ *Minnesota Statutes* 2018, 462A.33, subd. 5.

¹¹ *Minnesota Rules*, 4900.3610, subp. 2, published electronically June 11, 2008.

Summary of Agency Response

In a letter dated February 4, 2019, the Minnesota Housing Finance Agency Commissioner Jennifer Ho wrote that she appreciated OLA’s “insights and recommendations to improve the program.” She noted that Minnesota needs more affordable housing and that “demand exceeds funding” for the EDHC program. She also wrote that “housing is critical to economic development,” and that without the EDHC program, certain communities “would have fewer housing opportunities for their workers and residents.” She noted that the flexibility of the program “provides the opportunity to serve various and evolving housing needs in communities across the state.” In addition, she wrote that the agency has increased technical support and guidance for the application process, but agreed that the agency has “more work to do to make the application process less complex.”

The full evaluation report, *Economic Development and Housing Challenge Program*, is available at 651-296-4708 or: www.auditor.leg.state.mn.us/ped/2019/edhcprogram.htm