



# Local and Statewide Affordable Housing Aid Frequently Asked Questions

June 14, 2024

In 2023, the Minnesota Legislature authorized aid payments to counties, cities and Tribal Nations and in 2024 the legislature adopted changes to the aid programs. The goal is to fund affordable housing projects and help organizations provide affordable and supportive housing.

Local Affordable Housing Aid (LAHA) is aid to metropolitan local governments of seven counties and 63 cities. LAHA is funded through a new dedicated sales tax in the seven-county metropolitan area. As sales taxes will vary, the amount of LAHA distributed will also vary.

Statewide Affordable Housing Aid (SAHA) is funded by state funds appropriated to the Department of Revenue. All Minnesota counties, Tribal Nations and 37 cities will be eligible to receive this aid.

Aid payments are made directly to local governments. In the metro, aid is funded by the sales tax for housing. Statewide, aid is funded by state appropriations.

Throughout the document, “housing aid” is used when the response applies to both LAHA and SAHA.

The information provided in this document does not constitute legal advice and is subject to change. If there are questions regarding how program requirements or criteria apply in specific circumstances, please consult with your own legal counsel.

## Overview and Requirements

### Why is there a difference between SAHA and LAHA?

The primary differences between LAHA and SAHA are the way they are funded, when funding will be disbursed and to whom.

Both aid projects have the same eligible uses and requirements except for market rate housing. This is only available in certain non-metropolitan areas using SAHA.

### What are the eligible uses of housing aid programs?

Qualifying projects for aids payable in 2023 are:

- Emergency rental assistance for households earning less than 80% of area median income (AMI) as determined by the U.S. Department of Housing and Urban Development (HUD)
- Financial support to nonprofit affordable housing providers in their mission to provide safe, dignified, affordable and supportive housing
- Development of market rate residential rental properties outside of the metro area if certain conditions are met
- Projects designed for the purpose of construction, acquisition, rehabilitation, demolition or removal of existing structures, construction financing, permanent financing, interest rate reduction, refinancing and gap financing of affordable housing

For aids payable in 2024, qualifying projects are those listed above plus:

- Financing the operations and management of financially distressed residential properties
- Funding of supportive services including staffing for supportive housing, which includes financial support to nonprofit services providers and capitalized reserves
- Costs of operating emergency shelter facilities, including services

For more information, read the complete list of [LAHA qualifying projects](#) and [SAHA qualifying projects](#).

### **What is gap financing?**

Gap financing is the difference between the property costs (including acquisition, demolition, rehabilitation and construction) and

- The market value of the property upon sale

OR

- The amount the target household can afford for housing (based on industry standards and practices)

### **What are the affordability requirements of LAHA and SAHA?**

Specific income requirements are provided for:

- Emergency Rental Assistance
  - Less than 80% of AMI
- Homeownership
  - At or below 115% of the greater of state or area median income
  - Priority for those at or below 80%
- Rental Housing
  - At or below 80% of the greater of state or area median income

- Priority for those at or below 50%

State and area median incomes are determined by HUD.

While there are no income requirements or income qualification for projects supporting nonprofits, organizations should be providing affordable or supportive housing.

Some non-metropolitan communities may be eligible to spend aid on market rate developments. There are no income requirements for market rate housing under this category.

### **Are there other requirements if using these funds?**

Yes. If LAHA or SAHA is used for new construction of a building with more than four units, the building must be constructed, converted or otherwise adapted to include accessibility features, such as sensory-accessible ([see subd. 4](#)). Documentation will be required for reporting and compliance.

## **State Agency Roles and Reporting Requirements**

### **What roles do the Department of Revenue and Minnesota Housing play in distributing and tracking local housing aid?**

The Department of Revenue calculates and distributes the amount of aid available to each government. Revenue also accepts applications from eligible Tribal Nations.

Minnesota Housing's statutory role relates to reporting and compliance. First reports are due by December 1, 2025. While not required by the legislation, Minnesota Housing is hiring staff to support housing aid programs with technical assistance and coordination.

### **Does a city, county or Tribe need to apply to receive the funds?**

For cities and counties there is no application process. Revenue will distribute aid according to statutory requirements.

Tribal Nations must apply to receive funds annually. Tribes should work with Revenue to meet this annual requirement.

### **Does a city, county or Tribe need to seek preapproval before spending the funds?**

No. Approval is not needed before spending funds. However, funds must be used on qualifying projects and expenditures should be documented to avoid repayment or recapture.

### **Will Minnesota Housing be developing a program guide for housing aid?**

No. Housing aid is not a grant or loan program and is not subject to a program guide.

Minnesota Housing will support housing aid programs through guidance and staff support.

### **What are the reporting requirements for the funds?**

Beginning in 2025, housing aid recipients must submit a report to Minnesota Housing every year by December 1.

The report must include documentation of:

- Certification that the aid recipient will use the aid funds to supplement and not supplant its existing locally-funded housing expenditures
- Qualifying projects completed or planned with the funds
- Location of unspent funds
- Inability to spend on a qualifying project prior to the deadline (if funds deposited into a local housing trust fund)
- Accessibility requirements (for project of four or more units)
- Relevant resolution and certifications for market rate developments in non-metropolitan communities
- Relevant documentation of locally-funded housing expenditures in prior years, including public notice requirements

Additional guidance on the report's format will be provided in the future.

### **Do metropolitan counties need to submit a report for LAHA and one for SAHA?**

Minnesota Housing is determining if the reports must remain separate. However, if they do, the report format will be the same or substantially similar for LAHA and SAHA.

### **What happens if a city, county or Tribal Nation does not submit a report or does not spend the funds?**

Reports are due by December 1 every year. The first report is due on December 1, 2025.

If the aid recipient fails to submit a report, does not spend funds during the required timeframe, or spends funds on an ineligible project, they must repay the funds. Revenue may also suspend payments to these entities.

Detailed information can be found in [477A.35, Subd 6](#) and [477A.36, Subd. 6](#).

### **What happens to the aid funds if they are returned or recaptured?**

If returned, aid funds would be deposited with one or more of Minnesota Housing's programs. This includes Family Homeless Prevention and Assistance Program (FHPAP), the Economic Development

and Housing Challenge Program (Challenge), and the Workforce and Affordable Homeownership Development Program as specified in law.

### **Will Minnesota Housing be monitoring the use of housing aid prior to the reporting deadline for cities and counties?**

Minnesota Housing will not require reporting prior to December 1, 2025, when the first report is due from cities and counties.

However, Minnesota Housing will be checking in with local governments to offer support and track spending progress.

## **Definitions and Clarifications**

### **What is a Tier I and a Tier II city?**

The terms Tier I and Tier II are used to determine cities that will receive aid.

A Tier I city is a statutory or home rule charter city that is a city of the first, second or third class. For LAHA, it must be in a metropolitan county. For SAHA, it must not be in a metropolitan county. [Read the full definition of cities and classes.](#)

A Tier II city is a statutory or home rule charter city that is a city of the fourth class and [not located in a metropolitan county \(see subd. 4\).](#)

### **The bill requires aid be spent on a qualified project. What is the definition of spent? If a project is started but not completed, are the funds considered to be spent?**

The definition of spent was clarified in 2024 session law. Funds must be committed to a qualifying project by December 31 in the third year following the year the aid was received (for aid received in 2024, this would be December 31, 2027) and expended by December 31 the fourth year after the aid was received.

### **Is SAHA funding from appropriations ongoing?**

The following table reflects amounts appropriated to SAHA through the fiscal year ending in 2027. The appropriations are set at a base level with one-time increases in the first two years.

<b>SAHA Appropriations</b>	<b>Fiscal Year Ending 6/30/24</b>	<b>FYE 6/30/2025</b>	<b>FYE 6/30/2026</b>	<b>FYE 2027 and each year after</b>
To the 87 counties in Minnesota	\$ 13,050,000	\$ 13,050,000	\$ 5,550,000	\$ 5,550,000

<b>SAHA Appropriations</b>	<b>Fiscal Year Ending 6/30/24</b>	<b>FYE 6/30/2025</b>	<b>FYE 6/30/2026</b>	<b>FYE 2027 and each year after</b>
To the 37 cities in Greater Minnesota	\$ 4,500,000	\$ 4,500,000	\$ 2,000,000	\$ 2,000,000
To the 7 eligible Tribal Nations	\$ 2,700,000	\$ 2,700,000	\$ 1,200,000	\$ 1,200,000
To Minnesota Housing for the Tier II Cities Grants program	\$ 2,250,000	\$ 2,250,000	\$ 1,250,000	\$ 1,250,000
<b>TOTAL</b>	<b>\$ 22,500,000</b>	<b>\$ 22,500,000</b>	<b>\$ 10,000,000</b>	<b>\$ 10,000,000</b>

### **How were the funding allocations determined?**

Revenue determined allocations based on distribution formulas.

For counties and cities, these formulas consider cost-burdened households and total population. For Tribal Nations, funds are distributed to Tribes that apply by the deadline.

### **Will Tier II cities receive a disbursement of SAHA?**

Tier II cities will not receive a direct disbursement of SAHA.

However, the Legislature appropriated \$4.5 million for Tier II cities. Funds will be available as grants in the competitive process for a range of rental, homeownership and housing stability activities with a minimum award size of \$25,000.

Minnesota Housing will be preparing a program guide, a list of eligible Tier II cities and a request for proposals (RFP) in 2024.

## **Qualifying Projects and Expenses**

### **What portion of the housing aid funds can be used for staffing costs and administrative costs?**

Administrative costs and staffing costs are not listed as an eligible project. Therefore, the funds are not able to be used for these costs.

### **If funds are used for Emergency Rental Assistance (ERA), what portion can be used for navigation, services and administration related to ERA provision and programs?**

Navigation and services related to providing ERA are eligible aid expenses. However, there is no allowance for administrative costs using housing aids. .

**If aid funds are used for demolition or removal of existing structures, does affordable housing need to be constructed on the site?**

Yes. The expense must be tied to affordable housing for eligible households. Demolition or clearing of land alone, including for speculative or future development of eligible housing, is not an eligible project.

**Can funds be used for planning activities (soft costs) for new construction and preservation affordable housing projects?**

Soft costs are only eligible as part of a qualifying project. General or speculative planning activities unrelated to a qualifying project are not an allowed use of funds.

**Can funds be used for downpayment assistance for homebuyers?**

Qualifying projects include homeownership projects for income-eligible households.

Downpayment assistance may be provided as permanent financing or gap financing, depending on program requirements established by the aid recipient.

**Can the housing aid funds immediately be deposited into a Local Housing Trust Fund?**

Funds can be held in a local housing trust fund while recipients determine if a project qualifies.

Funds must be spent on a qualifying project by the deadline in statute. Funds remaining in a local housing trust fund past the deadline will only be considered “spent” on a qualifying project if the aid recipient demonstrates that it could not spend funds by the deadline due to factors outside their control.

**Can funds be transferred to a county or regional Housing and Redevelopment Authority (HRA) if they are spent on qualifying projects?**

Yes. Funds can be transferred to a county or regional HRA if they are spent on qualifying projects.

The original aid recipient is still responsible for all requirements related to the funds, including reporting.

**Can funds be used for developing new infrastructure, such as utilities and roads, or upgrading existing infrastructure if the infrastructure serves affordable housing?**

Potentially. The infrastructure would need to be part of a qualifying project. All requirements related to project type, income affordability and other accessible requirements would also need to be met. Speculative site and infrastructure development would not be eligible.

Infrastructure development or improvement for sites that include development uses not allowed under this aid program would not be eligible.

### **What are some examples of expenditures ineligible for housing aid?**

Housing aid should be used for projects that create and preserve affordable housing or stabilize the housing of low-income people. This does not include:

- Conducting a housing or zoning study
- Costs to create a [Housing Improvement Area](#)
- Staff and services related to general housing quality and licensure, such as code enforcement
- Staff and administrative costs for operation of an HRA or county or city housing department
- Commercial, industrial or public space development projects
- Projects located outside of Minnesota

Housing aid received by Greater Minnesota counties, cities and Tribes in 2023 cannot be used for emergency shelter. However, for aid received in 2024 and after, shelter is an eligible project type.

### **If funds are used to support a nonprofit organization, do they need to be tracked to qualifying projects?**

Housing aid can be used to provide financial support to a nonprofit affordable housing provider in their mission to provide safe, dignified, affordable and supportive housing.

If aid is used in this manner, providing support to the eligible nonprofit is the qualifying project. The aid recipient should document that the funds were used to support the organization's mission.

### **Can a county or city use other state or federal funding as part of a development financing package that includes housing aid funds?**

Yes. State and federal funding can be used as a part of the project's development financing package.

### **If the funds are held in a Local Housing Trust Fund, can they be used as a match in Minnesota Housing's Local Housing Trust Funds Matching Grants program?**

No. Housing aid cannot be used as matching funds in the [Local Housing Trust Fund Grants program](#). Only new public revenue, defined as local income committed to the Local Housing Trust Fund on or after June 29, 2021, can be used as matching funds.

### **Can a county use its funds within cities that have also received housing aid?**

Yes. Counties can spend the funds on qualifying projects anywhere in the county, including cities that directly receive aid. Regional collaboration is encouraged to maximize the aid's impact.

A county receiving aid should consult with the cities where projects are planned ([see subd. 7](#)).

**Can aid funds be used to reimburse prior expenditures on eligible projects?**

No. An aid recipient may not use aid money to reimburse itself for prior expenditures.

**Will the aid funds trigger other state funding requirements, such as prevailing wage?**

For questions on labor and wage requirements, [contact the Department of Labor and Industry](#).

For questions on the use of sales tax proceeds, [contact the Department of Revenue](#).