

PATHWAYS TO REMOVING OBSTACLES TO HOUSING
FY 2024 Draft Application to U.S. Department of Housing and Urban Development
City of Duluth, MN

The U.S. Department of Housing and Urban Development Pathways to Removing Obstacles to Housing (PRO Housing) program empowers communities that are actively taking steps to remove barriers to affordable housing and seeking to increase housing production and lower housing costs over the long term.

This application draft is available for public comment for 15 days from September 30, 2024 – October 14, 2024

How to comment

Submit written comments:

Subject line or header should reference the PRO Housing grant

Email: duluthcommdev@duluthmn.gov

Mail: Planning & Economic Development Department
411 W 1st St
City Hall, Room 160
Duluth, MN 55802

Attend the Public Hearing:

When: Wednesday October 9, 2024 at 5:30pm
Where: 411 W 1st St
City Hall, Parks Conference Room (ground floor)
Duluth, MN 55802

If you have needs, such as an interpreter, please contact the Planning and Development Division at 218-730-5580 or duluthcommdev@duluthmn.gov so that your needs can be accommodated. For hearing impaired persons please call the City's TTY/Information Assistance at 730-5000 or the Minnesota Relay Service at 1-800-627-3529.

Comments must be received by 4:30 p.m. on Monday, October 14, 2024.

Table of Contents

Exhibit A Executive Summary	3
Exhibit B Threshold Requirements and Other Submission Requirements	4
Exhibit C Need	5
Exhibit D Soundness of Approach	11
Exhibit E Capacity	18
Exhibit F Leverage	18
Exhibit G Long-term Effect	19
Requirements for Pass-through Entities	19

Exhibit A Executive Summary

City of Duluth Commitment to Preserve and Develop Affordable Housing

Over the last decade, the City of Duluth has implemented several policy updates, initiatives, and committed staff capacity and funding towards increasing the development and preservation of affordable housing. Published in 2018, Duluth's comprehensive plan, Imagine Duluth 2035, includes many affordable housing goals, policies, and strategies. In 2019, the City significantly expanded staff capacity to address local housing issues by adding several new full-time, dedicated positions to address these issues. Over the past several years a number of updates have been approved by the Planning Commission and City Council to amend the Unified Development Code to increase housing density and affordable housing development. In 2022, the City along with community partners created the Duluth Housing Trust Fund to meet gaps in traditional financing in order to increase the amount of affordable housing preservation and production citywide. The City has several longstanding non-profit partners leveraging CDBG entitlement funds for affordable housing preservation programs. Tax Increment Financing (TIF) is a substantial contributor to the City's housing supply requiring market-rate housing developments to include affordable units for households at or below 80% AMI for up to a 25-year term. In the past two years, the City has leveraged American Rescue Plan aid, unprecedented funding from MN Housing, and HOME American Rescue Plan Funds to support its vision of affordable housing at all income levels.

Identified Affordable Housing Needs

Housing at all income levels is missing from the Duluth market, and the greatest remaining barrier to developing and preserving affordable housing is gaps in financing. The lack of funding for area housing developments is further exemplified by our area non-profit agencies competing annually for CDBG and HOME funds to leverage for other public grants. Each applicant cites an urgent and increasing need for affordable housing, transitional housing, emergency shelter space, and domestic violence-survivor housing. The City of Duluth Administration has voiced strong support for the development of housing for all income levels. With this, it will become even more important to mitigate the effects of gentrification. Community input and statistics regarding Section 8/Housing Choice Voucher utilization rates have consistently indicated widespread Section 8 discrimination

The City plans to spend \$5 million in PRO Housing funds by 2030 for the following purposes:

- 1) Development Activities:** expand the existing Housing Trust Fund to increase the preservation and production of affordable housing units (80%)
- 2) Policy & Planning:** hire consultants to implement fair housing strategies by producing an anti-displacement framework and identifying strategies to reduce Section 8/Housing Choice Voucher discrimination (6%)
- 3) Policy & Planning:** fund City staff capacity to manage and administer the PRO Housing grant funds (14%)

Exhibit B Threshold Requirements and Other Submission Requirements

The City of Duluth meets Threshold Requirements and is therefore eligible to apply for a PRO Housing federal grant. We attest that:

1. There are no outstanding charges from HUD concerning a systemic violation of the Fair Housing Act or receipt of a cause determination from a substantially equivalent state or local fair housing agency concerning a systemic violation of a substantially equivalent state or local fair housing law proscribing discrimination because of race, color, religion, sex (including sexual orientation and gender identity), national origin, disability or familial status.
2. We are not defendants in a Fair Housing Act lawsuit filed by the United States alleging a pattern or practice of discrimination or denial of rights to a group of persons raising an issue of general public importance.
3. We are not a defendant in any other lawsuit filed or joined by the Department of Justice, or in which the Department of Justice has intervened, or filed an amicus brief of statement of interest, alleging a pattern or practice or system violation of Title VI of the Civil Rights Act of 1964, Section 504 of the Rehabilitation Act of 1973, Section 109 of the Housing and Community Development Act of 1974, the Americans with Disabilities Act, Violence Against Women Act, or a claim under the False Claims Act related to fair housing, non-discrimination, or civil rights generally including an alleged failure to affirmatively further fair housing.
4. We are not in receipt of a letter of findings identifying systemic non-compliance with Title VI of the Civil Rights Act of 1964, Section 504 of the Section 504 of the Rehabilitation Act of 1973, Section 109 of the Housing and Community Development Act of 1974, Violence Against Women Act, or the Americans with Disabilities Act.
5. We are not in receipt of a cause determination from a substantially equivalent state or local fair housing agency concerning a systemic violation of provisions of a state or local law prohibiting discrimination in housing based on sexual orientation, gender identity, or lawful source of income.

Exhibit C Need

- i. Demonstrate your progress and commitment to overcoming local barriers to facilitate the increase of affordable housing production and preservation, primarily by having enacted improved laws and regulations. (15 points)*
- a. Improved laws, regulations, or land use local policies (10 points)*

Municipal Efforts to Date

Including affordable housing goals and polices in the City's comprehensive plan:

The City of Duluth's Housing goals are to increase density in and around the designated Core Investment Areas, provide affordable, attainable housing opportunities, prioritize inclusive housing policies to reflect the City's social, cultural, economic, and historic diversity and development patterns, improve the quality of the City's housing stock and neighborhoods, and expand the cohesiveness of "One Duluth" by expanding a variety of housing opportunities throughout the City while maintaining unique community characteristics within distinct individual neighborhoods. The City's current 20-year comprehensive plan, Imagine Duluth 2035, includes a housing mission, stating that housing in Duluth will promote the essential character of its neighborhoods while providing desired, safe, clean, and equitable living space for all members of the community. Imagine Duluth 2035 identifies that there is still a need to create additional affordable units. The plan's vision for housing is that future residential development needs to be more intense, with more units per acre. Meeting the City's housing goals, primarily affordable housing, means providing units in a fashion that is cost-effective and utilizes existing infrastructure. To meet the community's needs, new developments should increase access to recreational opportunities and connect people with efficient transit and bike options. They should build a sense of place that connects people with desired services and cultural opportunities. Increasingly, residents look for housing options within walkable distances from locally owned retail and service-oriented businesses. Existing housing stock will need reinvestment to preserve neighborhoods and maintain quality housing. The community will need to embrace new housing models to welcome the concept of housing choice for all people in every neighborhood.

Adding City staff capacity to address local housing issues: In 2019, new staff positions were created within the Planning & Economic Development Department to increase staff capacity around housing and economic development. The Department created a Housing team and an Economic Development team, hiring a Senior Housing Planner, Housing Planners, and several Economic Developers. The Senior Housing Planner works closely with the Duluth Housing and Redevelopment Authority (HRA) and, along with the Economic Developers, works with housing developers to create public-private partnerships.

Zoning and Land Use Policies: The City of Duluth operates under a Unified Development Code (UDC). All new housing developments must fit under this zoning code or apply for and receive an applicable exemption, such as a variance or special use permit. Tighter restrictions on land use and density often lead to higher land prices,

constrained housing supply, and higher housing costs. Since 2015 several changes and updates have been made to the UDC to address this, include adding flexibility to parking regulations, increasing building typology options for developers in form districts, and allowing for greater density in Mixed Use (MU) districts. Lot sizes in Duluth's most dense neighborhoods present some challenges for infill development as most lots are only 25 feet wide. In December 2019 the city's Planning Commission and City Council approved an ordinance allowing for smaller residential lot sizes and the potential to build tiny homes. The City of Duluth has already allowed accessory dwelling units in its development code but this ordinance was a shift towards even greater flexibility.

Creation of the Duluth Housing Trust Fund: After years of careful planning, including the formation of a City Housing Task Force, Duluth's Housing Trust Fund was launched in February 2022. The City of Duluth, Housing and Redevelopment Authority of Duluth, Minnesota (HRA), and Local Initiatives Support Corporation (LISC) work closely to provide loan and incentive programs for homeowners, rental property owners, and developers. The funds are designated to fill existing gaps in the housing financing market and to achieve the following goals: 1) Increase housing stock in Duluth, particularly affordable units, 2) Invest in Duluth neighborhoods, making affordable units available citywide, 3) Remove blight, improve safety and encourage pride in our neighborhoods., 4) Leverage existing municipal infrastructure, and 5) Promote density wherever possible.

During its first two years of operation the program received 56 pre-applications, fourteen of which have been approved for loans totaling \$4,614,228. The approved projects will add 119 units to the City's housing supply, 92 of which will be affordable to families earning 80% of Area Median Income (AMI) or less. In addition to the fourteen approved loans, City staff and the HRA are currently processing applications for three additional loans. These requests range from \$600,000 to \$1,000,000 and total \$2,300,000. If approved these loans would support 110 rental housing units, including 28 units affordable for households earning less than 60% of AMI.

The three programs of the Housing Trust Fund are 1) Comprehensive rehab & conversion of existing buildings to assist LMI homeowners and to create/increase residential units, 2) Infill development for new single-family, accessory dwelling unit (ADU), and multifamily projects with up to ten units, and 3) managed by LISC, the flexible multifamily fund which assists larger, more deeply affordable (at least 20% of the units are affordable to households at or below 60% AMI). These programs incentivize affordable housing for households at or below 80% AMI by offering forgivable loans to affordable housing development projects and LMI homeowners, lower interest rates for projects with more affordable units and projects that are built in and serve Qualified Census Tracts where 51% or more of the population is considered LMI, and some loan products have requirements, rather than just incentives, for a certain percentage of affordable units.

Leveraging CDBG entitlement funds for affordable housing preservation: The City of Duluth grants CDBG entitlement funds to the Healthy Homes Homeowner Rehab Program and the Rental Rehab Loan Program, both of which are operated by the Duluth

HRA. The homeowner program provides zero interest deferred loans of up to \$30,000 to qualified LMI homeowners for single-family home repair projects. The rental program provides zero interest loans of up to \$15,000 per rental unit (\$10,000 per studio/efficiency unit) to property owners who have and agree to keep 51% or more of the units in each building affordable to LMI households. The rental rehab program mainly assists landlords who accept Section 8/Housing Choice Vouchers in order to ensure healthy, quality housing for some of Duluth's lowest income renter households. The City grants CDBG entitlement funds to One Roof Community Housing's homeowner rehab program and Eco3's energy efficiency homeowner rehab program, both of which assist homeowners at or below 80% AMI to afford needed rehab projects on their homes and lead to cost-saving on utility bills through energy efficiency updates. The City also grants CDBG funds to One Roof's Community Land Trust acquisition rehab program. One Roof purchases foreclosed single-family homes, rehabs them, and then sells them to households at or below 80% AMI. In 2023 CDBG funds resulted in 95 units of affordable rental rehab and 45 units of LMI homeowner rehab.

TIF districts: A current tool used by the city to incentivize housing development is Tax Increment Financing (TIF). This tool is a substantial contributor to the city's housing supply requiring market-rate housing developments to include affordable units for households at or below 80% AMI for up to a 25-year term.

b. Other recent actions taken to overcome barriers to facilitate the increase of affordable housing production and preservation (5 points)

Most Recent Municipal Efforts

Zoning and Land Use Policies: In 2024 a UDC ordinance was passed to promote infill development and allow for more density and flexibility for small multi-unit housing types. The ordinance allows duplexes on lots that have the same lot size and lot frontage as single-family homes. It also allows townhomes and twin homes to have shared walls on the lot line, reduces setbacks to allow property owners more flexibility when adding garages and home additions, and increases height by 5' in the R-2 and MU-N zone districts to allow for modern building code requirements.

Leveraging American Rescue Plan aid to support affordable housing: In 2024 Duluth City Council approved a resolution that will send \$14.5 million of the remaining ARPA funds to the Duluth Economic Development Authority (DEDA), where they will be used to provide support for initiatives like blight reduction, various forms of new housing, new child care facilities, and economic development opportunities. The resolution requires that DEDA execute contracts with three developers, dedicating the vast majority of the remaining federal funds to complete housing projects including: \$2.75 million for Wadena West, a 60-unit affordable supportive housing project for chronically homeless adults with incomes between 30% - 60% of AMI; \$4 million for The Residence, an 80-unit apartment building that will include 32 units priced to be affordable to households at or below 60% AMI, and 48 units priced to be affordable to households at or below 80% AMI; and \$3.8 million for Brae View, a 72-unit affordable senior housing development.

Leveraging HOME American Rescue Plan: The City of Duluth was awarded \$1.9 million HOME ARP funds and has set a target that 50% of those dollars will go to the development of affordable rental housing and 35% to go towards the community's homelessness triage response, mainly non-congregate shelters.

Leveraging MN Housing Funds: One-time state dollars approved by the 2023 legislature are being leveraged by local programs that the City funds with CDBG and HOME dollars, such as One Roof's CLT program and affordable rental housing developments by Center City Housing and One Roof that include HRA project-based vouchers. In addition to providing HUD entitlement funds to these projects, the City provides staff time for administrative support to ensure compliance with federal funding requirements, such as conducting environmental reviews, Davis-Bacon and Section 103 compliance.

- ii. Do you have acute demand for affordable housing? What are your remaining affordable housing needs and how do you know? (10 points)*
- a. You will be awarded eight (8) points if your application primarily serves a priority geography that has an affordable housing need greater than a threshold calculation for one of three measures: 1) Affordable housing not keeping pace, 2) Insufficient affordable housing 3) Widespread housing cost burden or substandard housing.*
 - b. You may also be awarded up to two (2) additional points for providing compelling information about your affordable housing needs.*

Demand for Affordable Housing

Despite maintaining a relatively steady population of about 87,000 residents over the past three decades, Duluth has experienced an increasing need for suitable housing over the past ten years, specifically affordable units. This challenge mirrors a nationwide trend, where cities face a shortage of housing across all income levels amidst escalating development costs. The lingering impacts of the COVID-19 pandemic continue to create financial instability and uncertainty within the housing sector, exacerbated by a tight labor market, elevated interest rates, and high construction material costs.

In 2006 the housing market for residential development was robust with over 4,000 resales annually. Like the rest of the country, however, Duluth experienced the recession of 2008 and the burst of the housing bubble. Since the recession, a number of factors have tightened the residential market. Due to restrictions in funding and reduction of construction demand, contractors and skilled labor left the Duluth market. The lack of supply reduced competition and, among other factors such as poor soil condition, led to construction costs increasing; these costs have continued to increase, reducing the ability to replace housing units affordably. Finally, the cost of extending infrastructure has often proven prohibitive for residential developments at the current residential densities. At a 2014 Duluth Housing Summit, a Maxfield Research study noted that the city needed an additional 4,400 units by 2020 to meet employment and economic development demands. Only about 1,200 new market rate housing units had been built by the end of 2018.

According to a 2019 study by Maxfield Research and Associates, Duluth requires approximately 3,600 affordable housing units by 2024 to meet its residents' needs, however the City has only seen a net gain of 1,006 units total, including market-rate

units, since 2020. According to a 2023 Zimmerman/Volk Associates study, Duluth's downtown could support between 1,840 and 2,405 new housing units over the next five years, including 865-1,135 units affordable to households below 80% AMI, and 660-885 units affordable households below 60% AMI. Since 2019 only 300 units of housing affordable to households at or below 80% AMI have been added to the Duluth market.

In 2023, 395 new housing units were created in Duluth, while 34 condemned and blighted units were demolished, for a net gain of 361 units. Since 2020, 1,116 housing units have been created, while 110 condemned and blighted units were demolished, for a net gain of 1,006 units. Duluth has some of the oldest housing stock in the state of Minnesota. In Duluth 44% of housing units were built before 1940, and 70% were built before 1970. Substandard, unhealthy housing due to aging housing stock and deferred maintenance is an increasingly urgent issue in Duluth. Blight from fire damage and deferred maintenance results in a significant number of housing units that are condemned for human habitation every year. Once condemned, repairable buildings have a very short window for work to be done, since going through one winter without utilities turned on in Northern Minnesota typically results in the units being too expensive to repair and needing to be demolished.

Since 2020 the median single-family home sale price has increased 34% from \$205,000 to \$275,000. According to Duluth's 2023 Housing Indicator Report, with a 20% downpayment and a 30-year fixed loan, the estimated yearly household income to afford a home at this price is \$71,920. However, it is increasingly uncommon for households to be able to afford a full 20% downpayment. Many households below 100% AMI rely on additional loans to cover downpayment and closing costs, enabling them to purchase a home, but with a higher monthly housing payment. American Community Survey (ACS) data from 2022 shows that 58% of households have an annual income of less than \$75,000. Based on these numbers, less than half of Duluth households are able to afford an average market-rate single-family home. ACS data from 2022 shows that 32% of all households in Duluth are cost-burdened, meaning they spend more than 30% of their household income on housing costs.

About 37% of households in Duluth rent their home, and 55% of renter households are cost-burdened. This is an increase from 2020 when ACS data showed that 51% of renter households were cost-burdened. Since 2020, the average market-rate rent has increased 17% from \$1,125 to \$1,311. ACS data from 2022 shows that half of all workers in Duluth earn less than \$40,000 a year, with 21% earning less than \$15,000 a year. About 28% of households in Duluth have an annual income of less than \$35,000, and 40% of households have an annual income of less than \$50,000. Based on these numbers, more than 40% of Duluth households are unable to afford an average market-rate rental unit. According to the ACS household income data and average rents from the City's 2023 Housing Indicator Report, approximately 20% of households would be cost-burdened renting an average-priced studio apartment in Duluth and 28% would be cost-burdened renting an average-priced 1-bedroom apartment. A minimum wage worker in 2023 must work 54 hours a week to afford an average-priced studio apartment in Duluth and work 63 hours a week to afford an average-priced 1-bedroom apartment. The City's annual

Housing Indicator Reports have consistently show rental vacancy rates below 5% over the last several years. This indicates a tight rental market limiting choice and decreasing landlord need to keep units affordable.

The waitlist for subsidized public housing units has nearly doubled from 1,087 households in 2020 to 2,003 households in 2023. The housing choice voucher (HCV) waitlist has increased from 2,792 households in 2020 to 3,363 households in 2023. The lowest income households in Duluth are spending years on waiting lists to access housing that is affordable. According to the City's 2020 Analysis of Impediments to Fair Housing Choice (AI), the wait time for HCVs was 24 months. The voucher utilization rate in 2018 was approximately 54%. This figure is low due to the short utilization window and tight rental housing market however, it indicates that there can be significant difficulty in securing housing even after exiting the waitlist and receiving a Section 8 HCV. Out of all of the Section 8 HCVs, nearly 75% of users who are able to find housing find it in the 55805, 55806, and the 55807 zip codes. All of these neighborhoods are located adjacent to downtown Duluth or on the west side of the city. They are some of the lowest income neighborhoods in Duluth, with most of these zip codes encompassing Qualified Census Tracts. HCVs are meant to be used almost anywhere but include federally moderated rent caps that limit where a voucher holder is able to find attainably priced housing. It is common in Duluth to find ads in the private rental housing market exclusively stating that the property owner is not accepting Section 8. There are a variety of reasons a landlord or property owner can use to explain why they do not want to rent to an HCV holder. Some reasons include additional perceived risk or work involved in complying with Section 8 housing standards. Regardless of reason, up front denial of Section 8 voucher holders disproportionately impacts a number of federally protected classes, as a greater share of voucher holders are Black, Indigenous, female, and/or have a disability compared to the entire population of Duluth.

iii. What key barriers still exist and need to be addressed to produce and preserve more affordable housing? (10 points)

Remaining Barriers

Housing of all income levels are missing from the Duluth market, which demonstrates that the greatest remaining barrier to developing and preserving affordable housing is gaps in financing. The Housing Trust Fund was introduced through a partnership with the Duluth HRA and LISC to provide revolving loans for gap financing to qualifying developers with incentives to include a percentage of affordable units as part of the development. However, these funds are not enough to meet the affordable housing demand in Duluth. The lack of funding for area housing developments is further exemplified by our area agencies competing annually for CDBG and HOME funds to leverage for other public grants. Each applicant cites an urgent and increasing need for affordable housing, transitional housing, emergency shelter space, and domestic violence-survivor housing.

The City of Duluth Administration has voiced strong support for the development of housing for all income levels. With this, it will become even more important to mitigate

the effects of gentrification. The key difference between neighborhood revitalization and gentrification is that the latter causes involuntary displacement of residents and community-serving small businesses. Investments in neighborhoods that improve communities are a good thing, but these investments should be paired with anti-displacement strategies to ensure that everyone in the community benefits from revitalization. Research regarding involuntary displacement shows that certain demographic characteristics, such as being a renter rather than a homeowner or having a lower income make it more difficult for individuals to resist displacement. In Duluth, vulnerability to displacement disproportionately affects protected classes including BIPOC and people with disabilities. In Duluth 40% of all households rent, but BIPOC households are disproportionately renters (71%) rather than owners (29%). A key component of the work to develop more housing will be to develop an Anti-Displacement Framework, which will require the aid of a hired consultant.

Exhibit D Soundness of Approach.

i. What is your vision? (15 points)

Our Vision

Expansion of the Housing Trust Fund

Increase funding to the Housing Trust Fund to promote development and preservation of affordable housing through a Revolving Loan Fund. These funds will be contracted to housing developers (under stipulations explained in detail in the “pass-through entity section of this application) to finance the construction or rehabilitation of affordable housing and to assist with acquisition or disposition of land or real property for the development of affordable housing. A PRO Housing Grant to the Housing Trust Fund would double its capacity to support the development and preservation of affordable housing units, resulting in 92 affordable units per year preserved or developed.

Fund Consultants

Contracted staff capacity to conduct studies and develop frameworks to implement strategies to reduce impediments to fair housing choice, including an anti-displacement framework. The purpose of the hired consultant will be to create an anti-displacement plan, to provide homeowners with incomes below the area median with options and public policy to support the stability of their housing. By keeping current affordable housing stock, the city will aid in the maintenance of long-standing communities of low- or moderate-income households, thereby stabilizing livelihoods and ensuring the ability to create generational wealth, and access to quality, affordable housing. The Fair housing Assessment of 2020 also identified an issue with stigmatizing Section 8 voucher holders. It is common in Duluth to find ads in the private rental housing market exclusively stating that the property owner is not accepting Section 8. There are a variety of reasons a landlord or property owner can use to explain why they do not want to rent to a HCV holder. Some reasons include additional perceived risk or work involved in complying with Section 8 housing standards. Regardless of reason, up front denial of Section 8 voucher holders disproportionately impacts a number of protected classes in the City of Duluth according to HRA data cited previously. A greater share of voucher holders are Black, Indigenous, female, and with a disability compared to the entire population of Duluth and the utilization rate of vouchers issued in 2018 was 54% indicating a significant difficulty in finding an apartment after receiving a voucher. In Duluth, to make housing more accessible we will hire consultants to

conduct a feasibility study for legislative options or programs such as Section 8 anti-discrimination ordinances or landlord incentive programs to encourage the leasing of Section 8 voucher holders.

Fund Staff Capacity

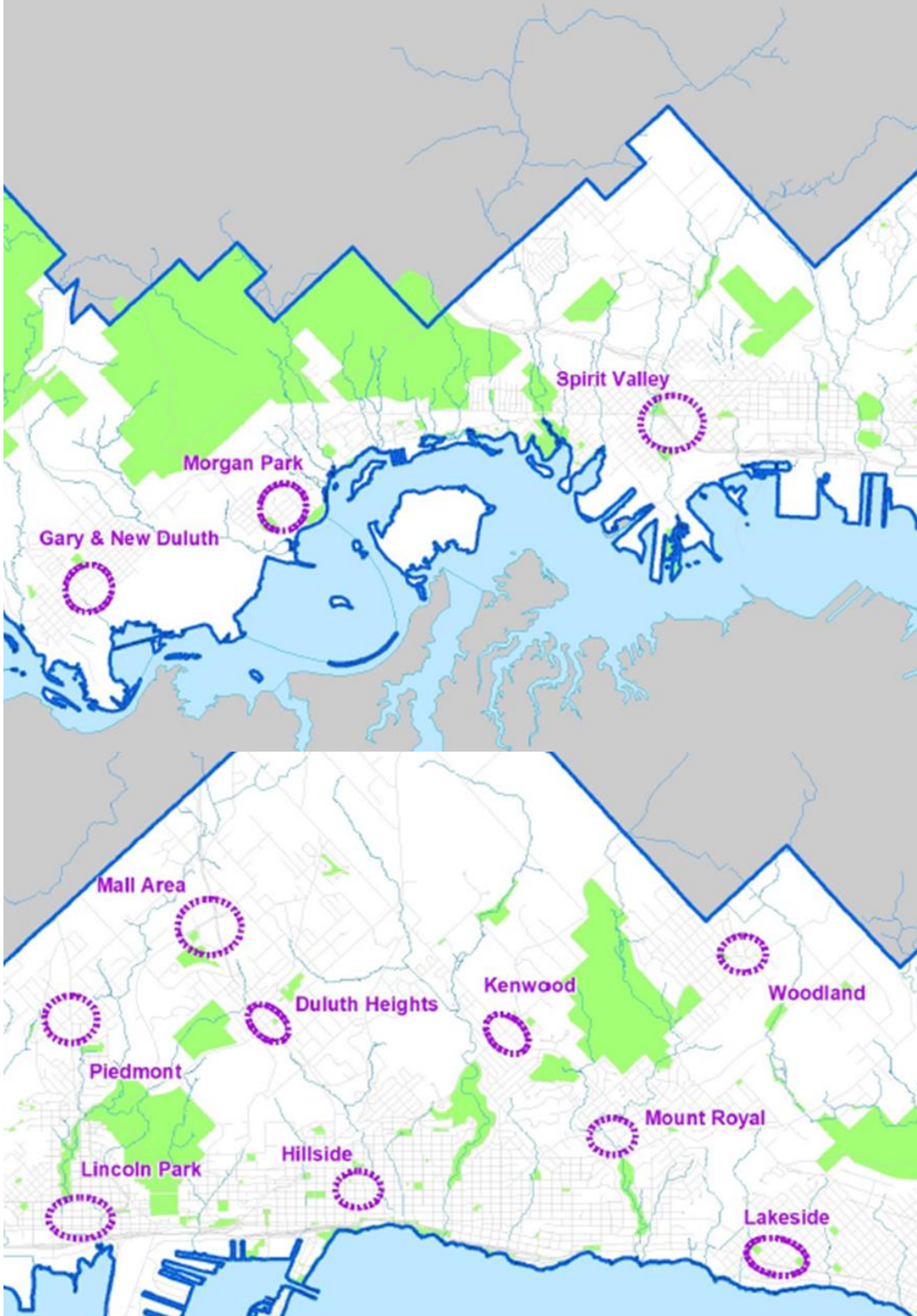
Fund staff capacity to ensure compliance with federal regulations and implement policy and planning activities. The Housing Trust Fund is already in operation and has the capacity to review and approve more projects if PRO Housing funds are granted to the City of Duluth. The City of Duluth Planning & Economic Development Department's Housing team currently consists of two full-time staff who work closely with non-profit and private sector housing developers and assist with administering the Housing Trust Fund. The City of Duluth Planning & Economic Development Department also houses a Community Development team of four full-time staff dedicated to managing and administering federal grants. In order to administer and ensure federal compliance for additional funds to the Housing Trust Fund and to hire and manage consultants, funds from the PRO Housing grant will need to fund City staff time.

ii. What is your geographic scope? (5)

Geographic Scope

The PRO Housing grant funds will increase the production and preservation of affordable housing throughout the City of Duluth. While some types of Housing Trust Fund loans incentivize affordable housing production that serves LMI residents in Qualified Census Tracts, the majority of the programs and loan products offer the flexibility to create affordable housing anywhere in the City. The Imagine Duluth 2035 comprehensive plan identifies Core Investment Areas (CIAs). CIAs are neighborhood centers located across Duluth. Imagine Duluth 2035 calls for prioritizing redevelopment efforts in the CIAs, and encouraging collaboration between existing businesses in individual CIAs to support increased business activity overall and to improve their aesthetic and social environments. PRO Housing funds will prioritize supporting development and preservation of affordable housing in and around CIAs.

CORE INVESTMENT AREAS



Core Investment Area Name	Approximate Location (streets / avenues)
Gary New Duluth	Commonwealth & Gary
Morgan Park	88 th & Edward
Spirit Valley	Central & Grand
Piedmont	Morris Thomas & Chambersburg
Lincoln Park	Superior St. – 22 nd to 17 th Ave. W.
Mall Area	Matterhorn / Decker
Duluth Heights	Central Entrance & Arlington
Hillside	4 th St. – Lake to 6 th Ave. E.
Kenwood	Kenwood & Arrowhead
Mount Royal	St. Marie & Woodland
Woodland	Calvary & Woodland
Lakeside	Superior St. – 43 rd to 46 th Ave. E.

Currently some of the CIAs are located in Qualified Census Tracts including Morgan Park, Lincoln Park, and Hillside. By prioritizing CIAs for affordable housing development and preservation, the City will both expand affordable opportunities in these underserved communities and create affordable housing opportunities in more affluent neighborhoods. Per the priorities in Imagine Duluth 2035, the City is actively working to create an environment in each Core Investment Area which will enable it to achieve the following:

- Upgraded or functional utility infrastructure adequate for redevelopment;
- Modern street networks, serving all users, walkable for nearby residents;
- Well evaluated and designed street and parcel layouts, suitable for modern development;
- Opportunities for gathering spaces, such as:
 - Coffee shops
 - Hardware stores
 - Small restaurants or taverns
 - Post office or shipping/receiving company
 - Churches or schools
 - Community clubs
- Access to healthy food (grocery store / bodega);
- Daycare centers;
- Shared parking possibilities, where appropriate;
- Medical facilities / clinic.

Imagine Duluth 2035 includes several policies and strategies aimed at strengthening CIAs, including: increasing housing density in and around CIAs through infill development, prioritizing implementation of the ADA Transition Plan in CIAs, updating development policies to ensure

new development includes appropriate supporting infrastructure including the full suite of multi-modal transportation options in CIAs, ensuring high-speed broadband availability citywide to foster growth of existing and new employers, with initial priority in CIAs, promoting neighborhood attractiveness through permanent and temporary artistic endeavors in CIAs.

iii. Who are your key stakeholders? How are you engaging them? (5)

Key Stakeholders

Key stakeholders in the preservation and development of affordable housing in Duluth include the Duluth Housing and Redevelopment Authority (HRA), the Local Initiative Support Corporation (LISC), the Duluth Economic Development Authority (DEDA), One Roof Community Housing, Divine Konnections, Inc. (DKI) as well as many other non-profit housing developers and service providers, and community members, particularly low- to moderate-income community members.

The City has worked/works closely with LISC and the HRA to develop and operate the Housing Trust Fund. DEDA is an entity of the City and has worked closely to leverage ARPA funds for affordable housing production. The City works closely with, and funds, several of One Roof's programs including the Tenant Landlord Connection and the Community Land Trust program. The City has worked closely with DKI and supported their affordable housing development initiatives through HUD funding. The City is currently considering applications for HUD funding and the Housing Trust Fund for an innovative project from DKI that would help BIPOC LMI homebuyers access affordable duplex homes to live in and increase their incomes while providing additional rental affordable housing by renting out the other unit to LMI renters.

In 2024, the City conducted a survey regarding the most pressing community needs. More than half (53%) of respondents lived in Qualified Census Tracts. The key findings were: 1) A competitive housing market, including a limited availability of affordable housing units, is pushing people with moderate and lower incomes into lower-quality housing and riskier home purchases. Many renters and potential homebuyers feel they are forced to choose unhealthy and unsafe housing because they can't find affordable alternatives. Potential homebuyers reported having to offer over asking prices and sometimes waive inspections in order to make competitive bids, 2) A lack of affordable childcare options, including outside typical business hours of 8am-4pm, is preventing community members from getting and maintaining employment, reducing their ability to afford housing, and 3) There are not enough landlords who accept Section 8 housing vouchers, resulting in very limited housing choices for renters with low incomes. Some survey respondents reported that once they mentioned their housing voucher, they had difficulty finding property managers who would even talk to them about rental units. The City also consulted directly with community partners, mostly non-profit organizations involved in affordable housing development and the provision of public services and shelter services. Community partners identified the top three existing needs as follows: 1) Affordable housing 2) Childcare 3) Rehabilitation and repairs to existing housing stock. The City held a Community Needs Public Hearing in June 2024. In small groups, attendees participated in a funding activity in which they decided how to allocate that funding among about 30 different eligible funding activities. The highest funded

programs by all the groups combined were 1) affordable multi-family new construction, 2) affordable single-family new construction, and tied for 3) affordable multi-family rehab and childcare.

HUD entitlement funds are limited and not capable of addressing the depth of all these needs. The PRO Housing grant will support a more robust response to these needs. The City will continue to conduct annual outreach regarding the most pressing community needs throughout the PRO Housing grant timeline.

iv. How does your proposal align with requirements to affirmatively further fair housing? (5)

Affirmatively Furthering Fair Housing

Continuing the work to remove barriers impeding the development of affordable housing – includes increasing density, multi-family housing, a diversity of housing options.

Since the most recent fair housing plan of 2020, the City of Duluth has sought to be more intentional in creating inclusive housing options by researching alternative zoning strategies such as inclusionary zoning ordinance or housing overlay zones. This work, however, is incredibly time-intensive and overwhelmingly outpaces the City's current staff capacity. While it is infeasible to hire more planning and housing staff, it is feasible, with additional funding, to hire consultants for the study and development of ordinance amendments and proposals that target affordable housing development barriers.

Core Investment Areas, or CIAs, were identified throughout the city as currently operating neighborhood hubs with active commercial and service centers. These areas of opportunity are currently resourced but the city has determined the need for further investment to encourage growth and diversity of development and housing in tandem, creating uniquely attractive neighborhoods for all income levels.

The issue of desegregation was

Consultant work – draft ordinance amendments to improve the diversity of housing options in every Duluth neighborhood and Core Investment Area.

The purpose of the hired consultant will be to create an anti-displacement plan, to provide homeowners with incomes below the area median with options and public policy to support the stability of their housing. By keeping current affordable housing stock, the city will aid in the maintenance of long-standing communities of low- or moderate-income households, thereby stabilizing livelihoods and ensuring the ability to create generational wealth, and access to quality, affordable housing. The Fair housing Assessment of 2020 also identified an issue with stigmatizing Section 8 voucher holders. It is common in Duluth to find ads in the private rental housing market exclusively stating that the property owner is not accepting Section 8. There are a variety of reasons a landlord or property owner can use to explain why they do not want to rent to a HCV holder. Some reasons include additional perceived risk or work involved in complying with Section 8 housing standards. Regardless of reason, up front denial of Section 8 voucher holders disproportionately impacts a number of protected classes in the City of Duluth according to HRA data cited previously. A greater share of voucher holders are Black, Indigenous, female, and with a disability compared to the entire population of Duluth and the utilization rate of vouchers issued in 2018 was 54% indicating a significant difficulty in finding an apartment after receiving a voucher. In Duluth, to make housing more accessible we will hire consultants to conduct a feasibility study for legislative options or programs such as Section 8 anti-

discrimination ordinances or landlord incentive programs to encourage the leasing of Section 8 voucher holders.

The key difference between neighborhood revitalization and gentrification is that gentrification causes involuntary displacement of residents and community-serving small businesses. Investments in neighborhoods that improve communities are a good thing, but these investments should be paired with anti-displacement strategies to ensure that everyone in the community benefits from revitalization. Research regarding involuntary displacement shows that certain demographic characteristics, such as being a renter rather than a homeowner or having a lower income make it more difficult for individuals to resist displacement. In Duluth, vulnerability to displacement disproportionately affects protected classes including BIPOC and people with disabilities. The development of anti-displacement plans directly benefits protected classes in our city.

i. *What are your budget and timeline proposals? (5)*

Budget

Activity Category	Activity	Budget
Preservation & Development	Housing Trust Fund - HTF to promote development and preservation of affordable housing through a Revolving Loan Fund A. Financing the construction or rehabilitation of affordable housing B. Acquisition or disposition of land or real property for the development of affordable housing C. Demolition of blighted properties in Qualified Census Tracts to make room for new housing development	\$4,000,000 (80%)
Planning & Policy Activities	Consultants – Contracted staff capacity to conduct studies and develop frameworks to implement strategies to reduce impediments to fair housing choice, including an anti-displacement framework.	\$300,000 (6%)
Planning & Policy Activities	Staff capacity – To fund staff capacity to ensure compliance with federal regulations and implement policy and planning activities	\$700,000 (14%)
TOTAL REQUEST		\$5.0 million

Consultant work will be completed by 2026. Housing Trust fund activities are ongoing on a rolling basis.

If awarded less than \$5 million dollars, the City would scale back initiatives proportionately. For consultant work the City would prioritize an anti-displacement study. As much of the grant as possible, after considering administrative expenses, would be allocated to the Housing Trust fund for development and preservation activities.

Exhibit E Capacity.

i. What capacity do you and your Partner(s) have? What is your staffing plan? (10)

Existing Capacity to Manage Federal Funds and Housing Trust Fund

The Housing Trust Fund is already in operation and has the capacity to review and approve more projects if PRO Housing funds are granted to the City of Duluth. The City of Duluth Planning & Economic Development Department's Housing team currently consists of two full-time staff who work closely with non-profit and private sector housing developers and assist with administering the Housing Trust Fund. The City of Duluth Planning & Economic Development Department also houses a Community Development team of four full-time staff dedicated to managing and administering federal grants. In addition to successfully administering approximately \$3 million a year received in CDBG, HOME, and ESG entitlement funds, the Community Development team has administered \$3.9 million in CARES Act CDBG-CV and ESG-CV funds, and is currently administering \$1.9 million in HOME ARP funds. During the COVID-19 pandemic, the Community Development team has proven to be capable of administering close to \$7 million in federal HUD funds concurrently (annual entitlement of \$3 million plus \$3.9 million CV funds). Within the next year, staff time dedicated to HOME ARP administration will gradually reduce as the funds are spent, enabling the Community Development team more capacity to take on administration of an additional \$5 million in PRO Housing funds along with support from the Housing staff working on the Housing Trust Fund.

Consultant Work

The PRO Housing fund budget proposal includes funds allocated to hire consultants to conduct studies and develop frameworks that will assist the City in administering the PRO Housing funds in ways that will affirmatively further fair housing choice. Consultants will be hired to assist with an anti-displacement framework and ways to reduce Section 8/Housing Choice Voucher discrimination. These items are budgeted because City staff will not have the capacity or expertise to conduct such studies.

Exhibit F Leverage.

i. Are you leveraging other funding or non-financial contributions? (10)

Leverage

Total leveraged funding committed to affordable housing preservation and development by the City of Duluth: \$15,713,397.

\$2,900,000 - Housing Trust Fund:

- \$600,000+ balance
- \$2,300,000 in pending applications

\$10,607,143 ARPA commitment to affordable housing:

- \$2,750,000 for Wadena West, a 60-unit affordable supportive housing project for chronically homeless adults with incomes between 30% - 60% of AMI
- \$4,000,000 for The Residence, an 80-unit apartment building that will include 32 units priced to be affordable to households at or below 60% AMI, and 48 units priced to be affordable to households at or below 80% AMI;
- \$3,857,143 for Brae View, a 72-unit affordable senior housing development.

\$1,206,254 - 2024 CDBG/HOME budget for affordable housing:

- CDBG affordable housing preservation (rehab) programs: \$826,496
- HOME affordable housing development (construction) and CHDO affordable housing preservation (rehab): \$379,758

\$1,000,000 HOME ARP commitment to develop affordable rental housing:

- \$1,000,000 committed to funding the development of affordable rental housing

Exhibit G Long-term Effect.

- *What permanent, long-term effects will your proposal have? What outcomes do you expect (10)*

Long-term Effect

By the end of the grant period, we will have achieved:

- Housing Trust Fund:
 - In its first two years, the HTF had financed the creation of 119 units to the City's housing supply, 92 of which are affordable to families earning 80% AMI. With \$4 million in PRO Housing funds to support this program, the City could double the capacity of the HTF to support the development and preservation of affordable housing units. This would result in an additional 46 units of affordable housing developed or preserved per year of the PRO Housing grant, for a total of 92 affordable units per year.
- Consultant Deliverables:
 - Citywide anti-displacement framework
 - Strategies, including the potential development of a City ordinance, to reduce Section 8/Housing Choice Voucher discrimination

Requirements for Pass-through Entities

The Housing Trust Fund Program was created through the cooperative efforts of the City of Duluth and the Local Initiative Support Corporation (LISC). The Program shall have the goals and objectives as set forth below and shall have a shared application process. Within the Program, there shall be a "City Program" and a "LISC Program", each with distinct funding accounts and varying criteria, terms and rates. The City Program shall be funded pursuant to Section 20-32.1 of the City Code. LISC shall be responsible for

developing the criteria, terms and rates applicable to the LISC Program and its funding.

I. The Program

The Program will be implemented through three distinct Sub-programs. The Subprograms are designed to fill existing gaps in the housing financing market and to achieve the following goals:

- Increase housing stock in Duluth, particularly affordable* units.
- Invest in Duluth neighborhoods, making affordable units available citywide.
- Remove blight, improve safety and encourage pride in our neighborhoods.
- Leverage existing municipal infrastructure.
- Promote density wherever possible.

Program and application costs and fees will include:

- Application fees (if applicable)
- Applicant title fees and closing and recording costs
- Loan interest, as applicable

Program funds will be committed to each project only when it has received final loan approval from the Housing and Redevelopment Authority of Duluth (HRA) in the case of the City Program, or from LISC in the case of the LISC Program. Projects will be funded in the order they receive final approval from the appropriate entity. Projects must commence within nine (9) months of final approval or application is terminated and applicants must reapply.

II. Program Process

A pre-application for Program assistance shall be submitted to the City for review of program eligibility. If deemed eligible, application shall be referred for further processing under the City Program or the LISC Program. The HTF Review Committee (the “Committee”), created pursuant to Section 2-171 of the City Code, will provide review and recommendation of applications in the following cases:

- Requests that do not clearly fall under either the City Program or the LISC Program
- Requests of \$500,000 or more
- Requests that present extraordinary circumstances not addressed in the Program guidelines but are recommended by staff
- Requests for funding under the Flexible Multifamily Fund Sub-program

The City and HRA reserve the right to prioritize funding based on affordability benefits for eligible projects that have not yet received final loan approval.

III. Ineligible Costs

The following are uses that are not eligible for payment of HTF funds:

- Expenses for pre-development activities, studies, promotions, evaluations;
- General operating costs of projects such as salaries, benefits, supplies, utilities, insurance;

- Administrative or other overhead costs of projects;
- Furnishings, fixtures, and equipment and non-architectural decorations;
- Soft costs related to or incidental to projects, including legal, architectural, engineering, market assessment, appraisal or other services;
- Public infrastructure costs such as streets, sidewalks, lights, sewers, utilities that do not directly serve the project property;
- Property acquisition costs

IV. Comprehensive Rehab & Conversion Sub-Program (CRCP)

The purpose of this sub-program is to provide low or no-interest construction loan for projects needing substantial rehabilitation for which the existing limitations of HRA rehab programs prohibited complete renovation. Affordable projects will be eligible for loan forgiveness as set forth below.

- Rehab projects would include any single family or multifamily property up to 20 units
- Conversion projects would include change of use projects that would create up to 20 new units of residential housing
- Maximum loan amount = \$100,000/unit (\$150,000/unit if property has been condemned for habitation or demolition) \$1,000,000** = Maximum total loan amount.
- Loan will be for hard construction costs and repaid at time of permanent refinance.

The loan refinance (takeout financing) must be pre-approved by a lender or other credible funding source prior to CRCP loan closing and must occur within three months of issuance of the certificate of occupancy.

- Loan Terms:
 - Interest rates (see ***** for rate breakdown):
 - Market rate project: 5% or current local private financing rate
 - Mixed income project: 2-5%
 - Completely Affordable project: 0-3%
- Interest only payments until closing.
- Maximum term is 18 months.
- Term may be extended with Committee recommendation.
- Forgivable component***
 - Projects that include affordable units are eligible to have a portion of their loan proceeds forgiven at final closing. The amount of loan forgiveness is limited to:
 - Maximum of \$50,000 per project for rental units
 - Flat rate of \$10,000 for for-sale units
 - Forgiveness is determined at the time of full application to the HRA by the following factors:
 - Number of affordable units
 - Level of affordability
 - Any forgiveness requires a recorded Agreement, and mortgage between

- the Applicant and the City or LISC.
- Annual reporting evidencing affordable unit rents to income qualified tenants will be required; income of qualified buyers must be verified before closing.
- Loans requiring a variance will not be considered.

V. Infill Development Sub-Program

The purpose of this program is to provide low or no-interest loan for new single family, accessory dwelling unit (ADU) and multifamily projects up to 10 units on infill sites citywide. Affordable projects may be eligible for loan forgiveness.

- For single or multifamily projects:
 - The loan will cover construction only and must be refinanced or paid off within 45 days of the certificate of occupancy is issued.
 - The loan is based on costs provided by a licensed general contractor.
 - Applicant must show proof of permanent financing prior to closing.
 - Maximum loan amount is \$300,000/unit up to \$700,000 unless special approval is granted by the Committee.
- Loan Terms:
 - Interest rates (see ***** for rate breakdown):
 - Market rate project: 5% or current local private financing rate
 - Mixed income project: 2-5%
 - Completely Affordable project: 0-3%
- Interest only payments until closing.
- Maximum term is 18 months.
- Term may be extended with Committee recommendation.
- Forgivable component***
 - Projects that include affordable units are eligible to have a portion of their loan proceeds forgiven at final closing. The amount of loan forgiveness is limited to:
 - Maximum of \$50,000 per project for rental units
 - Flat rate of \$10,000 for for-sale units
 - Forgiveness is determined at the time of full application to the HRA by the following factors:
 - Number of affordable units
 - Level of affordability
 - Any forgiveness requires a recorded Agreement, and mortgage between the Applicant and the City or LISC.
 - Annual reporting evidencing affordable unit rents to income qualified tenants will be required; income of qualified buyers must be verified before closing.
 - Loans requiring a variance will not be considered.
- For ADU projects:
 - Program funds can be used to provide low-interest loan to purchase and install State approved, modular homes that comply with City of Duluth zoning and building codes.
 - The loan amount is based on costs provided by a builder and licensed

contractor and must include installation of the unit.

- Maximum loan amount is \$150,000

- Loan Terms:
 - Interest rates (see **** for rate breakdown):
 - Market rate project: 5% or current local private financing rate
 - Mixed income project: 2-5%
 - Completely Affordable project: 0-3%
- A lien will be placed against the modular unit, which can be detached and removed from foundation in event of loan default.
- Applicant must have lender approval to refinance loan once unit receives certificate of occupancy.
- There is no loan forgiveness for loans for ADU's.

VI. Flexible Multifamily Fund Sub-Program

The purpose of this sub-Program is to assist larger, more deeply affordable (at least 20% of the units 60% AMI) multifamily projects with 10+units with final financing gaps. Eligible uses of the Flexible Multifamily Fund include no-interest construction financing, utility infrastructure costs, and blight removal and may include partial loan forgiveness if deemed appropriate by the Committee. Additionally, LISC may offer other loan products or programs in connection with the LISC Program. Projects must request at least \$250,000 to be considered for this fund. The maximum request is \$1,000,000**.

VII. General HTF Program Notes

*For the purposes of all sub-programs other than the Flexible Multifamily Fund, “affordable” means units that are rented to those earning 80% or less of the area median income and homes sold to those earning 100% or less of the area median income (AMI), as published annually by Minnesota Housing Finance Agency. All affordable rental projects must agree to minimum of 15 years of affordability.

**A single entity/builder may not be in receipt of more than \$1,000,000 of HTF funds at any given time, regardless of the number of applications submitted, unless otherwise recommended by the Committee.

***The availability of a loan forgiveness for a project is subject to the HTF fund balances and ability of the HTF to provide grants. Both loans and grants will be available on a first-come, first-serve basis. Contact the HRA for specific forgiveness options.

****Market rate projects funded by the City must be in low to moderate income (LMI) neighborhoods, as established by the Department of Housing and Urban Development, to receive 5% interest. Market rate projects in non-LMI neighborhoods will receive rates commensurate with local private lender financing rates.

Mixed/Affordable rental income tiers:

- Average rent < 100% AMI = 4%
- Average rent = 80% AMI = 3.5%
- Average rent = 70-80% AMI = 3%

- Average rent = 70% AMI = 2.5%
- Average rent = 60-70% AMI = 2%
- Average rent = 60% AMI = 1%
- Average rent < 60% AMI = 0%

For sale properties sold to buyers earning 100% of the AMI or less will receive a rate of 2%.

*****Loan recipients who earn a rebate through their participation in one of Minnesota Power's Energy Efficiency Programs will be eligible for a reduced interest rate retroactively applied to their loan at the time of repayment. Applicants must consult with Minnesota Power to be eligible for a 0% interest rate,