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City of Duluth Communications Office

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SUBJECT: Mayor Emily Larson proposes creation of Housing Trust Fund

BY: Kate Van Daele, Public Information Officer

Mayor Emily Larson proposes creation of Housing Trust Fund

[Duluth, MN] Today, Mayor Emily Larson proposes implementation of the Mayor's Housing Task Force top recommendation to the City Council, the establishment of a Housing Trust Fund, to demonstrate and bolster the City's ongoing commitment to affordable housing in Duluth. This fund will provide for the creation of dedicated programs to inject funds into new housing development in Duluth, providing Duluth with more local resources that do not rely on other funding to make things happen.

Mayor Larson announced that the City would contribute \$4 million to the Fund. Local Initiatives Support Corporation (LISC) will provide another \$2 million. Mayor Larson intends to seek additional funding through grants and private and public donations in the months and years to come. The creation of the Fund will be presented to City Council in the form of an ordinance at the October 11 Council meeting.

"Affordable housing removes a critical barrier to an equitable and thriving community," Mayor Larson said. "Having a tool like the Housing Trust Fund would help to increase the affordable housing stock in Duluth, invest in neighborhoods with the intent of having affordable housing in every neighborhood, remove blight, and promote density whenever possible. If approved, this could be a helpful asset in filling existing gaps in the housing financing market."

The idea to create a Housing Trust Fund came from a set of recommendations from the Mayor's Housing Task Force. The task force convened in the fall of 2019 in response to a shortage of affordable housing units within the City of Duluth. The group sought achievable, cost-effective ideas that can help make the City more affordable for residents earning \$50,000 or less a year, a figure that represents approximately 50% of Duluth's households.

The ordinance heading to City Council, if approved, would establish the Housing Trust Fund. While the Fund would have a balance of \$6 million to use to achieve its goals, there would be two separate accounts and program implementation. The City would have an account that would include the \$4 million that the City put into the Fund. City staff from the Planning and Development division would administer this portion of the Fund. LISC would administer the second account in the amount of \$2 million.

"We are excited to announce that LISC has committed \$2 million in national loan resources into this collaborative effort with the City," Pam Kramer, Executive Director from LISC said. "This will leverage additional grants and low-cost debt to match the City's investment. With the Council's approval, we will have \$6 million in resources. LISC's goal is to raise an added \$3 million to provide Duluth with over \$9 million in affordable housing financing to preserve existing and create new affordable housing units."

The Fund would include three programs; a Comprehensive Rehab and Conversion Program, an Infill Development Program, and the Flexible Multifamily Fund.

The Comprehensive Rehab & Conversion program aims to provide low or no-interest construction loans for projects needing substantial rehabilitation. The existing limitations of Duluth HRA rehab programs prohibit complete renovation.

Properties in this program would include any single-family or multifamily property up to 20 units and any conversion project that would create up to 20 new housing units. Loans would be for hard construction costs and would be repaid at the time of permanent refinance. The maximum loan amount would be \$1 million.

The Infill Development Program would provide a low or no-interest loan for new single-family, accessory dwelling units and multifamily projects up to six units on infill sites city-wide. The loan could be restricted to Specialized Improvement Areas or other priority areas identified in the Imagine Duluth 2035 Comprehensive Plan. This loan would cover only construction for single or multifamily projects and must be refinanced or paid off within 45 days of issuing the certificate of occupancy. The loan amount would be based on costs provided by a licensed general contractor. The maximum loan for this type of project would be \$500,000 unless the review committee would grant special approval.

In addition to the two programs mentioned above, 25% of the total Housing Trust Fund will be set aside as a Flexible Multifamily Fund for larger, affordable multifamily projects.

Interest rates range between zero and six percent in both programs depending on the type of project and whether it was considered affordable, mixed-income, or market rate. Projects that include affordable units would be eligible for a portion of those loans to be forgiven.

Program and application costs and fees will be determined as the underwriting processes are developed but may include: application fees, applicant title and closing costs, and loan interest, as applicable.

City staff will engage builders and developers to participate in the program and would assist with pre-application screenings. The Duluth Housing & Redevelopment Authority would collect and review applications, underwrite and service all loans, coordinate closings, and produce required reporting.

“The Housing Trust Fund allows developers to be creative and explore new ideas for housing development,” Duluth Housing and Redevelopment Authority Executive Director Jill Keppers said. “The HRA is committed to assisting in the operation and administration of the fund in order to move projects from idea to completion”

Finally, the ordinance would establish a Housing Trust Fund Review Committee to review and approve applications requesting \$500,000 or more from the Fund. The Committee will consist of five members, including one City official, a LISC representative, the Executive Director of the HRA, and two positions appointed by the Mayor of Duluth.

On October 25, the City intends to bring forward two resolutions to City Council. The first would be a memorandum of understanding between the City of Duluth and LISC to accept the \$2 million contribution for the Fund. The second would be a contract with the City and the Duluth HRA to authorize program expenditures. If these resolutions, in addition to the ordinance, are approved, the City anticipates that program implementation will begin in early 2022.

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