The Minnesota Challenge (MN Challenge) to Lower the Cost of Affordable Housing was a two-phased idea competition to award up to $100,000 for the development and implementation of ideas to lower the cost of financing, developing, and/or preserving affordable multifamily housing in Minnesota. The MN Challenge sought to accomplish this by supporting creative ideas developed by interdisciplinary teams of housing professionals. Reducing both hard and soft costs will give the state and local communities additional options for providing a full range of housing choices for its low and moderate income residents. The MN Challenge was co-sponsored by Minnesota Housing, the McKnight Foundation, Urban Land Institute of Minnesota/Regional Council of Mayors, and Enterprise Community Partners, Inc. (Enterprise). The MN Challenge built upon the concepts presented in the Enterprise-ULI Terwilliger Center for Housing research on *Bending the Cost Curve: Solutions to Expand the Supply of Affordable Rentals*. 
The following sections will detail the lessons learned through the MN Challenge, including insights on the development context and cost-related issues in Minnesota, as well as lessons from using the challenge/competition model to spur innovative thinking.

MN CHALLENGE: DETAILS AND PROCESS

The MN Challenge started in January 2014 with a kick-off event that engaged professionals from across the affordable housing delivery system in a conversation on development costs. This event also introduced the MN Challenge’s process for soliciting innovative and actionable ideas for improving the cost-effectiveness of the development and preservation process. This event was coordinated with the rollout of a public engagement media campaign centered on the MN Challenge website, which provided resources, reports and online discussion.

The MN Challenge adopted a two-phase model for soliciting ideas, in which teams of housing professionals submitted brief concept papers illustrating one or more potential cost saving ideas. A selection panel made up of members from the sponsoring organizations and an inter-disciplinary team of stakeholders involved in the affordable housing industry was tasked with assessing these proposals and selecting three finalists. Selection criteria included:

- The amount of projected savings across the development/preservation spectrum;
- The ability of the proposal to avoid adverse consequences to resident opportunity and the development’s long-term physical/financial viability; and
- The likelihood that the concept could be successfully implemented.

Each finalist received up to $10,000 to further research their proposal and develop an implementation plan. Using similar criteria, the selection panel then selected the winning proposal, whose authors received up to $70,000 to implement the proposal.

In February 2014, twelve teams submitted short concept papers outlining their cost reduction ideas. From this group, the following proposals advanced to the second phase:

- Right-Sizing Reserves – Project for Pride and Living
- Addressing the State and Local Regulatory Cost Drivers – University of Minnesota Center for Urban and Regional Affairs
- Creating Building Archetypes - MSR Architects, Watson Forsberg, and Project for Pride and Living

In June 2014, the University of Minnesota’s Center for Urban and Regional Affairs (CURA) was named the winner of the competition at ULI Minnesota’s 6th Annual Housing Summit. CURA will work to address the costs of state and local regulation by identifying barriers to cost-effectiveness in the regulatory framework, identifying best practices and tailoring recommendations to specific communities, and providing technical assistance to a select group of communities. This work is particularly timely given the build-out of the Twin Cities rail transit network and an increased focus in competitive federal transportation funding programs on the preservation and creation of affordable housing near transit. (More information on leveraging the new transit policy guidance to create inclusive communities of opportunity can be found at http://bit.ly/leveragingtransitpolicy)
MOVING FORWARD: OTHER PROMISING INITIATIVES FROM THE MN CHALLENGE

In addition to implementing the CURA proposal, the co-sponsors of the MN Challenge intended for this initiative to spark an ongoing conversation. They are currently exploring the possibility of implementing other proposed cost-reducing concepts discussed during the MN Challenge:

- **CONSIDERATION FOR THE MN HOUSING ROAD MAP PROJECT**
  All proposals submitted as part of the MN Challenge were included in the early phases of Minnesota Housing’s Road Map project. The Roadmap Project is a three-year project focused on streamlining business processes, reducing production costs and leveraging technology to increase the production of affordable housing and enhance the experience of customers and partners.

- **RIGHT-SIZED RESERVES**
  A finalist of the MN Challenge proposed to create a financial instrument (such as a line-of-credit or insurance product) which would allow high-capacity developers to lower the amount of required upfront capitalized reserves. This concept is being pursued by the MN Challenge and partners.

- **SECTION 8 COORDINATED LISTING**
  HousingLink submitted a proposal to create a coordinated waiting list for affordable housing developments with Section 8 Project-Based contracts in the Twin Cities region. There is strong interest in this unique, collaborative approach in increasing organizational efficiency, decreasing the time needed to fill a unit, and greatly improving the experience of low-income renters in accessing Project-Based Section 8 Waiting Lists. Although the proposal was not one of the three finalist selected for the MN Challenge, the Minnesota Department of Human Services has provided resources to fully develop the concept by December 31, 2014. At that point HousingLink will seek funds for developing the new technology and launching the program in Minnesota.

- **MINNESOTA ADAPTATION OF THE “MASSDOCS” DOCUMENTATION REDUCTION PROGRAM (MINNDOCS)**
  The McKnight Foundation and Minnesota Housing are looking to bring the MassDocs concept that is used in Massachusetts to Minnesota. MassDocs consolidates the legal documents for all the subordinate debt into one set of documents, which reduces the legal costs of developments.

- **UNSUBSIDIZED AFFORDABLE HOUSING**
  Recognizing the difficulty in obtaining funding for public investment in permanent affordable housing, The McKnight Foundation is leading an effort to identify and preserve affordability in the private rental market. Based on findings in local initiatives such as Minnesota Preservation Plus and The Space Between: Realities and Opportunities in Preserving Unsubsidized Affordable Rental Housing, the Foundation is bringing a number of resources to bear on this critical venture, including assistance from grantees, research partners and expert consultants.

- **MN CHALLENGE IMPLEMENTATION LESSONS**
  To help other affordable housing professionals hold similar open source idea generation around these ideas, the MN Challenge team prepared a series of lessons learned and resources. (page 7-9)
MN CHALLENGE: SHARED THEMES

While proposals to the MN Challenge were wide ranging in content, several common themes emerged that provide insights into the state of Minnesota’s regulatory and financial framework for producing affordable housing. Addressing these considerations and others will be part of the next stage of improving affordable housing efforts in Minnesota.

1. FOCUS ON COST EFFECTIVENESS:

The focus of the MN Challenge was per-unit cost reduction, but that did not limit participants from contributing many ideas that focused on expanding resources for affordable housing. Developing ideas to create new resources could be its own productive idea challenge. However, the MN Challenge’s focus on cost reduction was purposeful in asking the field to find ways to use existing resources as efficiently and effectively as possible.

The focus on cost reduction is critical to the field. Funding levels for federal programs have stagnated or declined over recent years, and there is a clear possibility that this trajectory could continue. While the expanded use of state and local resources - such as the Affordable Housing Infrastructure Bonds in Minnesota - can help bridge this gap, they do not address methods for improving the efficiency of the system. Efficiency is imperative in the face of the increasing gap between number of households in need and the available supply of affordable housing. The field should remain committed to addressing the long-term challenge of improving cost-effectiveness.

2. ENCOURAGING INNOVATION IN A COMPLEX SYSTEM:

The MN Challenge participants provided many ideas for lowering costs that they did not have the capacity to unilaterally implement. Implementation of these concepts would require the coordination of the multiple public and private sector participants in the affordable housing finance and delivery system. Such coordination requires greater cross-system flexibility and cooperation aimed at achieving the shared goal of improved cost effectiveness. Building tools and processes for coordination into the system would improve the timeliness and depth of innovation in the affordable housing sector.

The MN Challenge coincided with The Roadmap Project, an initiative by Minnesota Housing to re-design its multifamily financing processes. A primary goal of the Roadmap Project is to reduce the complexity, uncertainty, and time-delays associated with the agency’s processes, each of which can increase the cost of affordable housing. All of the cost reduction ideas from the MN Challenge were provided to Roadmap project team for consideration in the process redesign. However, Minnesota Housing’s processes are only part of this system. We need broader efforts to refine the overall system. To start addressing this, the MN Challenge co-sponsors are pursuing follow-up work on two cost-reduction ideas - consolidated legal documents and right-sizing reserves. Implementing these ideas will require funders, syndicators, developers, and others to come together to support these innovations.

3. CAN THE RISK OF INNOVATION BE SHARED?

In general, the affordable housing delivery system rewards standardization, partly in reaction to the complexity of the system. This makes innovative practices more difficult, as developers not only bear the risk inherent in new innovations, but must also navigate financial and regulatory barriers.

This dynamic was present in the MN Challenge, despite the prospect of additional implementation resources if the proposal was selected. Two such ideas were the use of modular apartment construction techniques and reducing the square footage of apartments. Both could reduce costs, but would have a higher likelihood of implementation with broader agreement and system support. Innovative practices could be encouraged through risk sharing agreements or targeted pilot programs with both public and private sector participation.
4. IMPROVE KNOWLEDGE SHARING:

Many developers presented cost saving tactics that have become incorporated into their own practices through experience over time. However, most of these ideas have not been brought to scale throughout the industry. With developers only undertaking a small number of deals at a time, the trial and evaluation necessary for game changing innovations happens very slowly, if at all. Improved knowledge sharing and aggregating the combined experiences of multiple stakeholders could improve efficiency and lead to at-scale innovation throughout the system. The field should work to enable developers to share these learnings on design, materials, management, finance, and other factors on a regular basis, creating quicker feedback loops and faster adaptation of cost reduction efforts.

5. REVISIT EXISTING IDEAS THROUGH NEW PLATFORMS:

Many of the ideas submitted to the MN Challenge have been identified before and have not been implemented due to a lack of political will, focus, or regulatory barriers. The proposal that won the MN Challenge (Addressing State and Local Regulatory Cost-Drivers) explores many existing ideas that local units of government have been unwilling to pursue. Sometimes building a new platform to re-introduce ideas can make a difference, especially if the restated concepts add value to the previously stated ideas. The MN Challenge’s winning idea will not only identify regulatory cost drivers, it will also identify best practices for implementing those ideas and provide technical assistance to support implementation.

6. MORE THAN JUST RENT-RESTRICTED HOUSING:

The majority of ideas submitted to the MN Challenge focused on improvements within the existing system that produces affordable housing through funding sources that require affordable rents. Only a few touched on the broader housing market, leveraging other resources, or addressing market-rate housing that is naturally affordable without rent restrictions. Traditionally, housing units have been classified as affordable or market rate. Going forward, there should be more discussion and innovation related to creating mixed-income housing and preserving the stock of naturally affordable housing that already exists. Developments with rent-restricted units are only part of the solution for meeting affordable housing needs.
MN CHALLENGE: IMPLEMENTATION LESSONS

The following points are based on reflections on the strengths and weakness of the MN Challenge process. They are intended to help those interested in conducting their own idea challenge in their market.

1. Timing is critical. Be sure that you are not asking for participation or creating deadlines during the busiest times for developers and other affordable housing professionals (such as near deadlines for funding applications).

2. Support the growth of a local conversation. You have to balance a desire to have a national perspective with the importance of recognizing existing local leadership on the issue. Creating local ownership of the challenge to lower the cost of affordable housing enhances the long-term success of your idea challenge and future projects.
   a. A website is critical for blending local and national conversations. Start the online conversation as soon as you kick off your efforts.
   b. Additionally, be careful to ensure that the review/selection panel is sized appropriately, since drawing too many people for this purpose could limit the pool of potential competition applicants.

3. It is critical that the team administering the competition include the organizations with jurisdiction over proposal implementation. For example, a competition that addresses cost savings for Low-Income Housing Tax Credit developments should include the housing finance agency. Other potential stakeholders for this role include state and local funders and regulators. While the participation of these organizations is crucial to ensure that there is the authority to implement changes, they can also serve as resources for teams researching the potential implementation of a cost-saving idea.

4. Those with ownership of the event need to be willing to be self-reflective and make changes in their processes and thinking.

5. Developing an implementation plan seems to be a roadblock for many people. An idea competition should include a process for encouraging and capturing ideas from professionals that want to share concepts, but do not have the capacity to implement them. It may be appropriate to have separate processes for idea generation and implementation.

6. To facilitate greater levels of participation, consider integrating cost containment into existing funding and tax credit structures and procedures, rather than having a separate idea competition. State housing finance agencies could create a selection preference or a sub-allocation of Low Income Housing Tax Credits to support proposals containing innovative, replicable cost saving designs or other techniques. For example, they could award selection points to the projects with the lowest costs or that use an innovative cost reduction technique. Alternatively, they could offer regulatory waivers (for example, to unit size requirements) for innovative proposals that fall outside existing standards. However, working within existing structures may not be as appropriate if the goal of the initiative is to facilitate systems-wide changes, in which case a separate incentive would likely be more effective.
7. Focusing on upfront development costs can limit the range of concepts received. Competitions that include cost savings throughout a building’s life-cycle can be promising as well.

8. Allow flexibility with funding. Relying on existing organizations that regularly administer grants to handle funds from the competition may limit participation and collaboration with some housing professionals, including less established innovators. Innovative ideas may come from people outside established organizations, or outside of their typical roles or teams. Competition sponsors should also maintain funding flexibility by offering awards “up to” certain amounts to allow for appropriate funding levels.

9. We found that having our finalist present at a public forum while they were finalizing their proposals generated quality feedback from peers that improved the final proposals.

10. The most visited section of our website was consistently the resource page, which cataloged research and reports that addressed strategies to lower the cost of affordable housing.

11. A competition format may not be optimal for every scenario. If a sponsor has a preferred programmatic intervention, other solicitation formats, such as requests for proposals or requests for qualifications, may be more useful.

12. Be opportunistic by being prepared to support an idea outside of the competition if it makes sense to do so.

13. Be comfortable with using broad eligibility standards for proposals during the first phase to allow for creative thinking.

14. We felt reserving our rights to use and share ideas from the competition was a critical part of making systematic changes. Some participants may be unwilling to participate if it means giving up their intellectual property rights, but we found most of these cost saving concepts were actually products currently being sold in the market.

15. Many markets have tight-knit affordable housing industries. Therefore, it is important to establish clear protocols for addressing conflicts of interest between competition organizers and participants.
APPENDIX A RESOURCES

Bending the Cost Curve on Affordable Rentals: Understanding the Drivers of Cost
Bending the Cost Curve: Solutions to Expand the Supply of Affordable Rentals
Development Cost Trends in Multifamily Housing
ULI Terwilliger Center Research
ULI-MN Report Reinvesting in the Region: (Re)Development-Ready Guide (June 2013)
The Tension in Affordable Housing: Are Current “Best Practices” Enough?

APPENDIX B: MN CHALLENGE FINALISTS

SELECTED WINNER

UNIVERSITY OF MINNESOTA CENTER FOR URBAN REGIONAL AFFAIRS AND PARTNERS will pursue a strategy of “Addressing the State and Local Regulatory Cost Drivers.”

“We propose a three-stage program for addressing the state and local regulatory cost driver. First, we will identify and summarize best practices at the state and local levels for reducing regulatory and permitting barriers to affordable housing. There is a significant national database of initiatives that can provide examples for possible implementation here, as well as the Affordable Housing Toolkit established by ULI Minnesota. Second, we will conduct an analysis of where a more complete adoption of best practices is likely to have the largest effect on the production of affordable housing, particularly those suburban cities with the largest future affordable housing goals. Finally, we will take advantage of the fact that the Metropolitan Council of the Twin Cities is currently drafting a Regional Housing Policy plan, which is a vehicle that could implement regulatory reforms and create incentives.”

PROJECT FOR PRIDE AND LIVING AND PARTNERS will pursue a strategy of “Right-Sizing Reserves”.

“In lieu of large project reserves, provide the Limited Partner with a guarantee for some portion of the reserve amount. The guarantee could be provided by Minnesota Housing, an insurance company, a foundation, or an investor. The guarantee would likely need to be a cash equivalent in order to be acceptable to the Limited Partner, so the risk would need to be borne by the guarantor. The guarantor could use a portion of the cost savings to collateralize the guarantee across the entire portfolio. Ideally, anything left over could be taken as a cost savings to the project. Alternatively, the remainder could be invested to yield a more robust return than the basic bank rate with some portion of that increased yield returning to the project.”

MSR ARCHITECTS, WATSON FORSBERG, AND PROJECT FOR PRIDE AND LIVING will partner to pursue a strategy to “Create Building Archetypes.”

“We are proposing the creation of an affordable multi-family platform which would in essence “pre-design” about 75% or 80% of the building. Unit layouts would be standardized as would wall and floor sections. Mechanical, electrical, low voltage, and plumbing systems and layouts would be known in advance. Cabinets, appliances, and fixtures could also be standardized. At a minimum, their locations could be fixed. The colors, styles, and models could and probably would vary as manufacturers frequently change their products. Off-the-shelf, pre-engineered systems, such as elevators and trash chutes, and standard colors would also be encouraged.”
FIRST ROUND PROPOSALS TO THE MN CHALLENGE

VENTURE PHILANTHROPY
A proposal to share depreciation tax benefits with investors to encourage venture philanthropy, by Shoreview and partners. Shoreview proposes fully developing a venture philanthropy model that allows investors to capture the depreciation of single-family homes purchased through the program and rented at a rate which is designed to cover the mortgage and fit within a client’s budget.

FUNDING PROCESS
A proposal to change the funding process at Minnesota Housing to allow for more timely responses in competitive markets for the development of smaller multifamily units, by Urban Homworks and partners.

MODULAR CONSTRUCTION
A proposal to employ more frequent use of modular construction methods, by Model Cities and partners. The team proposed producing a demonstration project that uses modular construction as a strategy to help reduce the cost of developing affordable housing in Minnesota.

CENTRALIZED WAITING LISTS
A proposal to centralize section 8 waiting lists across developments and municipalities within the Twin Cities region, by HousingLink and partners.

COMMUNITY BENEFIT
A proposal highlighting the community benefit of affordable housing, by LHB and partners. The proposal sought to better position affordable housing development to more fully reflect its nature as a beneficial community asset that is implemented through a proactive and forward thinking approach.

CONCEPTS FROM AEON AND PARTNERS
A list of concepts was submitted including: solely focusing on preservation, real estate tax elimination, unit size reduction, and consolidation of funding, by AEON partners.

CONCEPTS FROM THE METROPOLITAN CONSORTIUM OF COMMUNITY DEVELOPERS
The Metropolitan Consortium of Community Developers submitted a list of suggestions and concerns in several areas including; hard costs, soft costs, design, scale, pacing, fees, regulation, communication and efficiency. Example suggestions included: Identifying and pursuing financial resources beyond the limited local funding pools, and addressing stringent municipal design and parking requirements.

VERTICAL INTEGRATION OF REQUIREMENTS
A proposal to vertically integrate design requirements, project scale, and marketing research requirements, by Access Information Systems, Inc. (AIS) and partners. A suite of streamlined Title, Field, and Contract services could lower the cost of housing. Specific controls on the front side of the application process to vet a project/customer would reduce the amount of expenditures. Additional ongoing support could assist multi-unit structures better measure return on investment on new practices.

PROCESS AND REQUIREMENTS
A proposal to evaluate the process and requirements during early design and application phases to identify a host of minor barriers, by Cermak Rhoades and partners. The team proposed purposeful observation during a new construction development as a basis for discovery. This could lead to identification and removal of barriers and requirements that add time and expense to soft costs without significantly affecting quality and outcome.