

Task Force on Long-Term Sustainability of Affordable Housing

Housing and Homelessness Prevention Committee - February
25th, 2025



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Minnesota Laws 2024, Chapter 127, Article 15, Section 49

Duties:

To evaluate issues and provide recommendations relating to affordable housing sustainability, including displacement of tenants, preservation of housing previously developed with public financing, and long-term sustainability of new housing developments.

- Assess underlying financial challenges to develop, operate, and preserve safe, affordable, and dignified housing, including:
 - Factors that are leading to increasing operating costs for affordable housing providers, including insurance availability and rates, labor costs, and security costs;
 - Factors that are leading to declining revenues for affordable housing providers, such as loss of rent and vacancy issues; and
 - The potential impact of the loss of housing units under current conditions, including preservation needs of federally rent-assisted properties and tax credit developments with expiring contracts.
- Evaluate current financing and administrative tools to develop, operate, and preserve safe and affordable housing, including:
 - Public and private financing programs, and the availability of funding as it relates to overall needs; and
 - Administrative tools including underwriting standards used by public and private housing funders and investors.

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Duties (continued):

- Evaluate financial or asset management practices of affordable housing providers and support for asset management functions by funder organizations.
- Recommend potential solutions to develop and preserve safe and affordable housing, including:
 - Additional funding for existing programs and administrative tools;
 - Any new financial tools necessary to meet current financial challenges that cannot be met by existing state and local government or private program and administrative tools including new uses, modified implementation, or other improvements to existing programs; and
 - Best practices for changes to financial or asset management practices of affordable housing providers and funders.
- Address other topics as identified by task force members during the course of its work.
- Consult with other organizations that have expertise in affordable rental housing, including entities engaging in additional external stakeholder input from those with lived experience and administrators of emergency assistance, including Minnesota's Tribal nations.

Task Force Membership

- Co-Chairs: **Senator Port and Representative Howard**
- Minnesota Multi-Housing Association designee: **Joseph Abraham**
- Greater Minnesota Housing Fund designee: **Andrea Brennan**
- Commissioner of Commerce designee: **Peter Brickwedde**
- Minnesota Housing Partnership designees: **Nancy Cashman, Scott Cordes, Chris Sherman**
- Insurance Federation of Minnesota designee: **Aaron Cocking**
- Metropolitan Consortium of Community Developers designees: **Kizzy Downie, Jessie Hendel**
- Commissioner of Minnesota Housing designees: **Elizabeth Flannery, Mike Goze, James Lehnhoff**
- Twin Cities United Way designee: **Shannon Smith Jones**
- Family Housing Fund designee: **Ellen Sahli**
- Association of Minnesota Counties designees: **Mary Thompson, Mai Chong Xiong**
- Minnesota Bankers Association designee: **Miranda Walker**

Public Engagement

- Presentation by James Lehnhoff, Assistant Commissioner for the Multifamily Division at Minnesota Housing
- Testimony on housing concerns for Tribal Nations by Corey Strong, Tribal Liaison at Minnesota Housing
- Presentation by Peter Brickwedde, Senior Director of Climate and Insurance Sustainability at the Minnesota Department of Commerce
- Panel discussion with Elizabeth Flannery of Trellis, Chris Sherman of Sherman Associates, and Deidre Schmidt of CommonBond Communities
- Presentation by Ellen Sahli and Andrea Brennan, presidents of the Family Housing Fund and Greater Minnesota Housing Fund
- Written testimony provided by Minnesota Consortium of Community Developers, HOMELine, Housing Justice Center, Minnesota Housing, Twin Cities Housing Alliance, and Association of Minnesota Counties

Key Issue Areas

- Finance, financial policies, and programs
- Administrative policies and programs
- Systems Change
- Insurance

Recommendations – Finance, Financial Policies, and Programs

- The Task Force recommends that the Minnesota legislature partner with Minnesota Housing, non-profit housing leaders, tenant rights organizations, and Minnesota renters to coordinate two evaluations. One to evaluate Permanent Supportive Housing and deeply affordable housing models, and potential flexibility in regulatory requirements of existing affordable housing, further defined in Appendix B of the final report. The other to research options and develop recommended changes to QAP scoring and other recommendations or options to provide increased financial and operational flexibility for housing providers. Chairs of the Senate Housing Committee should appoint an advisory team that includes representatives from the organizations above to conduct the evaluations. These evaluations can occur simultaneously and should be reported back to the Minnesota Legislature by January 1, 2026.
- The Task Force recommends Minnesota Housing and local suballocator jurisdictions to amend current Qualified Allocation Plans (QAPs) for the allocation of Low Income Housing Tax Credits (LIHTCs) by June 1, 2026 to revise selection criteria structure and consider what additional changes are required once evaluations of 100% permanent supportive housing (PSH) and integrated permanent supportive housing (PSH) models are completed.

Recommendations – Finance, Financial Policies, and Programs (continued)

- The Task Force recommends that Minnesota Housing develops a “policy framework” to support the sustainability of regulated affordable housing assets as a strategy distinct from new construction, traditional preservation strategies, and the preservation of naturally occurring affordable housing (NOAH). The framework should define two distinct preservation strategies for the stabilization of regulated affordable housing and the existing strategy of preserving federally-assisted affordable housing. The policy framework shall be delivered to the Minnesota legislature by January 1, 2026.
- The Task Force recommends that Minnesota Housing develops, revives, and/or implements new state strategies, tools, funding resources, and processes to address the stabilization of regulated affordable housing. Local public funders should use local resources, including, but not limited to SAHA and LAHA, to develop and implement similar programs. Programs, tools, and resources must be administered in a way that is responsive to the specific stressors and the marketplace.
- The Task Force recommends that the Minnesota Legislature and local municipalities enact policy changes that make it easier to build and preserve affordable homes, including land use and zoning reforms, process improvements to improve speed of development, and reducing or eliminating barriers such as rent control policies that have been detrimental to the development, sustainability, and preservation of affordable housing. Recommend state and local support for existing and new rent subsidy programs and resources to ensure that low-income Minnesota residents can afford a home.

Recommendations – Finance, Financial Policies, and Programs (continued)

- The Task Force recommends that the Department of Public Safety (DPS) convenes public safety leaders in Minneapolis, St. Paul, Hennepin County, Ramsey County, Metropolitan Transit, select Greater Minnesota city(ies)/county(ies), and individuals with lived experience to develop and implement a demonstration project.
- The Task Force recommends that Minnesota Housing, or a designated entity, tracks Key Performance Indicators related to the health of the affordable housing industry.

Recommendations – Administrative Policies and Programs

- The Task Force recommends that deals are closed faster. Review models and identify opportunities for industry-wide processes, staffing, approval, and funding structures to get projects closed faster. Establish target time goal for closings and report publicly on success of meeting the goal.
- The Task Force recommends that affordable housing projects can include asset management fees in the underwriting costs.
- The Task Force recommends the retooling of underwriting standards to reflect expected future economic conditions and modify underwriting policies to move from 1.0 debt coverage ratio (DCR) in year 15 to a minimum of 1.10 or 1.15. Examine current operating expenses and consider historical operating expenses across the total portfolio of publicly financed projects to set the underwriting policies for new projects, such as vacancy loss and replacement reserves. Recognize and fund the operating deficits that new underwriting policies create. Work across funding partners to create transparency in underwriting standards. Policies need to be dynamic to ensure they account for the current economic environment and need to include a mechanism to “fix” recently/previously underwritten projects where revenue and expenditure assumptions are no longer valid.
- The Task Force recommends reconsidering incentivizing "leverage" of other public resources in the competitive funding of capital housing investments.

Recommendations: Systems Change

- The Task Force recommends adequate government service funding to be paired with capital funding for PSH units to help ensure full funding for services at a level that matches the need of the proposed tenants and aligns with the public priority populations. The following options should be considered:
- The Task Force recommends Minnesota Housing and DHS to partner and align eligibility and documentation requirements for formerly homeless households, and where possible and give clarification on low barrier strategies to meeting eligibility requirements. Additionally, state agencies and compliance organizations will provide training on low-barrier practices to get people housed. State agencies to make self-certification clear as an acceptable practice for formerly homeless people.
- The Task Force recommends granting authority to and strengthening the operating capacity of the Interagency Stabilization Group (ISG) to collaborate among funders to support both preservation and stabilization of affordable properties.
- The Task Force recommends increasing funding for Statewide Affordable Housing Aid to enable counties flexible funding to stabilize affordable housing based on local needs and priorities.
- The Task Force recommends encouraging and/or incentivizing Local Affordable Housing Aid recipients to pool programs to maximize impact on the highest priority needs within the affordable housing system and alleviate fragmentation of resources and multiple funding applications across so many jurisdictions.

Recommendations - Insurance

- The Task Force recommends directing the Department of Commerce and the Minnesota Housing Finance Agency to partner with affordable housing providers and the insurance industry to collect data on the state of the insurance market for affordable housing providers. The agencies should gather information about health of the market, insurance rates, variations of insurance and financial underwriting, and other practices of insurers, and assess unique aspects of the insurance market and practices that impact affordable housing providers and assess responses to this issue in other states and at a national level. The Department of Commerce is directed to compile a report and submit to the House and Senate Housing Finance and Policy Committees and the House and Senate Commerce Committees with learnings and recommendations for potential changes in law or regulatory practices that promote equity, consistency, transparency in the insurance market for affordable housing providers.
- The Task Force recommends directing the Department of Commerce to partner with the Minnesota Housing Finance Agency, affordable housing providers, and the insurance industry to assess the benefits, costs, and feasibility of state-based financial support to mitigate excessive insurance premium increases, as well as to protect affordable housing providers that may be at risk of losing insurance coverage.

Questions?

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