

Project Title	2008 Agency Priority Ranking	Agency Project Request for State Funds (\$ by Session)				Governor's Recommendations 2008	Governor's Planning Estimate	
		2008	2010	2012	Total		2010	2012
Permanent Supportive Housing Loans (debt service on non-profit 501(c)(3) bonds)	1	\$30,000	\$0	\$0	\$30,000	\$0	\$0	\$0
Total Project Requests		\$30,000	\$0	\$0	\$30,000	\$0	\$0	\$0

Agency Profile At A Glance

Two-Year State Budget:

- ◆ \$1.14 billion all funds
- ◆ 4 Sources:
 - ⇒ 46 percent bond sales
 - ⇒ 28 percent federal funds
 - ⇒ 18 percent agency resources
 - ⇒ 8 percent state appropriations

Annual Business Processes:

- ◆ Provided \$534 million in housing assistance in FFY 2004.
- ◆ Served 55,600 households.
- ◆ 72 percent of all households served had annual incomes under \$20,000; 45 percent of the households served did not receive section 8 assistance and had incomes below \$20,000.

Agency Purpose

The Minnesota Housing Finance Agency (MHFA) is committed to meeting Minnesotans' needs for decent, safe, affordable housing, and stronger communities.

The agency's strategic plan sets forth the following policy objectives:

- ◆ End long-term homelessness
- ◆ Increase homeownership for underserved populations
- ◆ Preserve existing affordable housing
- ◆ Increase housing choice for low and moderate income workers to support economic vitality
- ◆ The MHFA should be viewed as a housing resource of choice

Core Functions

MHFA funds housing activity in five broad areas:

- ◆ **Development and Redevelopment Programs.** These programs fund the new construction and rehabilitation of rental housing, and homes for ownership for families with a range of incomes.
- ◆ **Homeownership Loan Programs.** These programs fund home purchase and home improvement loans for families and individuals with a range of incomes not served by the private sector alone.
- ◆ **Supportive Housing Programs.** These programs fund housing development, rental assistance, and homeless prevention activities for very low-income families and individuals who often face other barriers to stability, economic self-sufficiency, and independent living.
- ◆ **Preservation of Federally Assisted Housing Programs.** These programs seek to preserve the stock of federally assisted rental housing that is in danger of being lost due to opt-outs for market reasons, physical deterioration, or both.
- ◆ **Resident and Organization Support.** These programs provide operating funds for organizations that develop affordable housing, offer homebuyer training, education, and foreclosure prevention assistance, or coordinate regional planning efforts.

Operations

Management and control of the agency is vested in the board of directors. The board is comprised of six citizen members appointed by the governor and one ex-officio member: the state auditor. The board directs the policies of the agency and adopts an affordable housing plan, approves funding decisions, adopts finance policies, and selects the finance team.

The agency staff includes 190 full-time equivalent employees in three major divisions: housing finance and operations; housing programs; housing policy. Over half of all the employees are professional level employees.

- ◆ The housing finance and operations staff are responsible for the management of the assets and liabilities of the agency which includes a portfolio of housing related loans and other investments totaling \$2.8 billion, \$1.8 billion of which are financed by mortgage revenue bonds. The staff manages the process of raising capital through periodic debt

issuances. The staff in this division also prepares financial forecasts, budgets, and fiscal year-end audited financial reports for all funds and accounts. Staff is responsible for the accurate and timely reporting of all accounting and financial information necessary to comply with disclosure requirements and board policies. This division also includes the staff managing the agency's information systems and human resources staff.

- ◆ The staff of the multifamily portion of the housing programs division manages the process of assisting in the financing of new construction, rehabilitation, and preservation of rental housing. This staff oversees the provision of tenant support services, rental assistance, and homeless prevention activities. The staff is also responsible for the oversight of the management of the agency's portfolio of rental housing, monitoring compliance with state and federal requirements, and administering the Section 8 contracts of 32,000 units of rental housing that include the contracts on 18,000 units previously administered by Housing and Urban Development (HUD).
- ◆ The homeownership portion of the housing programs division staff manages programs to assist with the financing of home purchases and home improvements. It also manages the process of assisting in the financing of new home construction for ownership and neighborhood revitalization. The staff oversees the provision of homeownership education services. The staff also administers programs that provide post-purchase support and foreclosure prevention for homeowners.
- ◆ The housing policy division includes governmental affairs, research, and policy.

The agency's assistance is delivered through local lenders, community action programs, local housing and redevelopment authorities, and for-profit and nonprofit developers. MHFA joins with other public and private funders to make available development and redevelopment funds in a comprehensive, single application, one-stop selection process.

Budget

MHFA's largest source of financing is the sale of tax-exempt and taxable bonds that totals approximately 46 percent of the agency's budget. Proceeds from the sale of these bonds provide mortgage loans to first-time homebuyers and rental housing developments. Repayments made to

programs funded by mortgage revenue bonds are made available for the same activities.

Agency resources constitute 18 percent of the agency's budget. Agency resources are earnings over the years in excess of funds needed to cover loan loss and self-insurance. Agency resources are used for a variety of housing activities including entry cost assistance, activities related to the initiative to end long-term homelessness, first mortgage financing of rental properties, and preservation of MHFA financed rental properties.

Federal funds constitute 28 percent of MHFA funds. In FY 2008-09 biennium, the two largest programs receiving federally appropriated funds were the Section 8 Housing Assistance payments program and the Home Investment Partnership Program (HOME). In the past, the agency has received federal funding for a number of smaller programs as well.

State appropriations constitute eight percent of the total program funds expected to be distributed in FY 2008-09. State appropriations for the FY 2008-09 biennium total \$133 million from the general fund, including \$18 million for flood relief in southeastern Minnesota.

Contact

Tonja M. Orr, Assistant Commissioner
Phone: (651) 296-9820

The MHFA web site at www.mhfa.state.mn.us provides information about agency programs, application forms and procedures, and other useful information for persons seeking assistance with the financing of affordable housing.

At A Glance: Agency Long-Range Strategic Goals

- ◆ End long-term homelessness
- ◆ Increase emerging market homeownership
- ◆ Preserve existing affordable housing
- ◆ Finance new affordable housing opportunities

Trends, Policies and Other Issues Affecting the Demand for Services, Facilities, or Capital Programs

Minnesota Housing Finance Agency's (MHFA) capital bonding request for permanent supportive housing is a major component of the agency's plan to achieve its goal of ending long-term homelessness.

Fifty-four percent of the adults identified in the 2006 Wilder Research Center's Statewide Survey on Homelessness have been homeless for more than 12 months, or at least four times in the last year. Thirty-one percent of the long-term homeless persons were living in greater Minnesota at the time of the survey. It is estimated that about 4,406 persons experience long-term homelessness in Minnesota in a year. The report on the 2006 Wilder Survey is at <http://www.wilder.org/research>.

Based on the 2006 Wilder Survey, conservative estimates are that 57 percent of the adults identified as long-term homeless and unaccompanied juveniles suffer from a serious or persistent mental illness and 34 percent report a chemical dependency problem. Twenty-five percent of the long-term homeless adults and unaccompanied juveniles report a dual diagnosis of both mental illness and chemical dependency. Research has found that those persons who experience long-term homelessness and who suffer from a mental illness or substance abuse consume a disproportionate share of the funds and services for homeless persons.

Supportive housing has the potential to reduce costs to health care, mental health, chemical health, corrections, law enforcement, education, housing and child welfare systems, and usage of crisis services and out-of-home placement for children.

St. Stephen's and Simpson Housing in Minneapolis use state funded rental assistance to assist single adults who have experienced long-term homelessness. Nineteen residents reported in 2007 that their use of detox facilities declined from 99 visits before entering the supportive housing program to just two visits since entering the program. Similarly, emergency room admissions declined from 34 to 10, and the number of jail stays and tickets declined from 59 to one.

A single-site family supportive housing development in St. Paul, Jackson Street Village, reports a decrease in the number of emergency room visits and no admissions to detox facilities among the residents. Fewer children were reported to have learning or school problems or difficulties. There was an increase in the number of children with Individual Education Plans. The Jackson Street Village report is at <http://www.wilder.org/research>.

Hearth Connection managed the Supportive Housing and Managed Care Pilot established by the Minnesota Legislature and since 2006 has managed the Supportive Services Fund for a three-county consortia. After 18 months in the program, participants experienced an average drop of 20 percent in the number of mental health symptoms, participants' median total income increased and participants reported an improvement in their overall quality of life.

Provide a Self-Assessment of the Condition, Suitability, and Functionality of Present Facilities, Capital Projects, or Assets

Funds for supportive housing have been included in the last seven major capital bonding bills. Demand for funding for permanent supportive housing is strong. Pending applications for supportive housing financed with Government Obligation (GO) bond proceeds exceed the amount currently uncommitted from the 2006 appropriations. At least four other supportive housing projects are preparing to apply for GO bond proceeds.

Agency Process Used to Arrive at These Capital Requests

At the administration's request, the 2003 Minnesota Legislature directed the MHFA and the departments of Human Services and Corrections to convene a working group on supportive housing for persons experiencing long-term homelessness. The working group developed a "business plan" that included

capital and operating cost estimates to achieve the goal of ending long-term homelessness by 2010. In mid-2007, the Business Plan was updated to reflect experience to date in the implementation. The Business Plan estimates a need for 4,000 new housing opportunities to serve households experiencing long-term homelessness. The total estimated costs through 2010 for the housing and services are \$483 million. The 2007 recalibration of the Business Plan for Ending Long-Term Homelessness is at http://www.mhfa.state.mn.us/multifamily/LTH_Recalibration.pdf. The 2007 recalibrated Business Plan estimates a need for bond proceeds of \$77 million to help to meet the goal of 4,000 new housing opportunities. Of that amount, \$46.5 million has been appropriated (including \$15 million, rounded from \$16.2 million for homeless veterans' projects in 2002) to date. The current request is expected to be the final bonding request in connection with the plan to end long-term homelessness.

The U.S. Department of Housing and Urban Development requires the state to engage in a continuum of care planning process as part of the funding process for federal homeless programs. Development of continuum of care plans involves the participation of various interest groups and individuals in the community or region. The Interagency Task Force on Homelessness supports the regional continuum of care planning in greater Minnesota by assigning members of the task force to work with the continuum of care planning communities in each region. Members of the task force also provide resources to pay staff in regions to complete the continuum of care plans and sponsor training sessions to provide technical assistance for regional staff.

The continuum of care plan assigns relative priority to the different components of the continuum. Permanent supportive housing consistently ranks as a high priority.

Major Capital Projects Authorized in 2006 and 2007

The 2006 Minnesota Legislature appropriated \$17.5 million for permanent supportive housing for persons experiencing long-term homelessness. As of 9-1-2007, nearly \$3 million has been committed to three projects; two in Detroit Lakes and one in Minneapolis, for a total of 67 housing units, of which 26 units are for long-term homeless. Applications are pending for the remainder of the 2006 appropriation, which is expected to produce nearly 100 additional supportive housing units for households experiencing long-

term homelessness. Commitments are expected to be made on the remaining funds by the end of October, 2007.

Permanent Supportive Housing Loans (debt service on non-profit 501(c)(3) bonds)

2008 STATE APPROPRIATION REQUEST: \$30,000,000

AGENCY PROJECT PRIORITY: 1 of 1

PROJECT LOCATION: Statewide

Project At A Glance

Loans to construct or acquire and/or rehabilitate permanent supportive housing for families with children and individuals who experience long-term homelessness.

Project Description

This request is to support \$30 million in bond funding to construct, acquire, and rehabilitate at least 250 units of permanent supportive housing for families with children and individuals who experience long-term homelessness or are at risk of becoming long-term homeless. The appropriation will be primarily for the debt service on \$30 million of nonprofit 501(c)(3) bonds issued by Minnesota Housing Finance Agency (MHFA) for permanent supportive housing.

Funds would be made available to developments throughout the state on a competitive basis. This request conforms to the State's Business Plan to End Long-Term Homelessness developed by a working group established by the legislature in 2003. The business plan anticipated appropriations of \$30 million in bond proceeds in 2008. The 2008-2009 goal of the Business Plan is to create 1,600 new housing opportunities; of those 800 units will require capital funding.

Permanent supportive housing is the keystone of efforts to reform the way that various systems address problems of homelessness by moving from a band-aid approach to more cost-effective prevention and long-term solutions. Permanent supportive housing is affordable rental housing with links to the services necessary to enable tenants to live in the community and lead successful lives. Most of the persons experiencing homelessness have

physical or mental health issues that need to be addressed in order for them to be successful tenants.

- ◆ Fifty-seven percent of the adults identified as long-term homeless reported suffering from a serious or persistent mental illness.
- ◆ Another 24 percent reported a dual diagnosis of both mental illness and chemical dependency.
- ◆ Forty-eight percent of the adults identified as long-term homeless reported a chronic health condition.
- ◆ Fourteen percent of the adults identified as long-term homeless are military veterans.

Permanent supportive housing has demonstrated its cost effectiveness. Evaluations of permanent supportive housing programs across the country and in Minnesota have found that it can be provided without adding to the long-term costs currently incurred for this population by reducing the use of hospitals, jails, treatment centers, emergency rooms, shelters, and crisis services. Permanent supportive housing has the potential to improve the outcomes for homeless households, including increased employment and improved school attendance and educational achievement for the children.

On any given night in 2006, between 9,200-9,300 Minnesotans were estimated to be homeless or living in temporary housing programs according to the Wilder Research Center, based on its October 2006 statewide survey of homelessness in Minnesota. Fifty-four percent of those persons have been homeless for more than one year or at least four times in the last three years.

The 2006 survey revealed a few new issues:

- ◆ The portion of homeless persons with disabilities continue to increase.
- ◆ Homeless Iraq and Afghanistan veterans, while small in number, are twice as likely to report suffering from post-traumatic stress disorder (PTSD).
- ◆ Transitional housing use has declined.
- ◆ Older adults (55-years old and older) have increased in each of the last three studies as a portion of the overall homeless population.
- ◆ More youth are homeless and not staying in shelters.

MHFA is seeking legislation to establish a process whereby nonprofit 501(c)(3) bonds may be issued in lieu of Government Obligation (GO) bonds for the capital costs of supportive housing. General funds that otherwise

Permanent Supportive Housing Loans (debt service on non-profit 501(c)(3) bonds)

would have been used to pay debt service on GO bonds will be appropriated for the debt service on the nonprofit 501(c)(3) bonds issued by MHFA for housing. This proposal would not increase the amount of general funds that would be spent on debt service to finance supportive housing over the amount spent for GO bonds that might otherwise be authorized.

Funding of housing through nonprofit 501(c)(3) bonds is expected to be much more efficient than the use of GO bond proceeds. Experience has shown that the requirements attached to GO bonds proceeds further complicate already complicated financing. Additional legal expenses are incurred. Many communities have limited experience with ownership of a residential project so they frequently contract with nonprofits to manage the property. A number of nonprofits, on the other hand, have considerable experience owning and operating supportive housing; management and monitoring of the housing is simplified with nonprofit ownership as compared to ownership by a local unit of government.

Projects that are owned by nonprofit organizations have been more likely to obtain a larger portion of total funding from non-state resources and from a greater variety of sources compared to projects owned by local units of government. Federal Low Income Housing Tax Credits are the largest sources of equity for affordable housing. Combining tax credits and GO bonds proceeds into one housing development has proven to be a formidable task.

A portion of the \$30 million may be requested for GO bond proceeds; that portion will be determined as we gather more information about proposed projects and possible public owners. If the nonprofit bond alternative is not adopted, the requested funding would be appropriated to the Local Government Assisted Housing Account Program (M.S. 462A.202, Section 3a).

This request is made in conjunction with the efforts of the Energy and Environment Interagency Group. The supportive housing developed with funding under this proposal will be energy efficient and respectful of the environment. MHFA has adopted a sustainable, healthy housing policy that encourages optimizing the use of cost-effective, durable building materials and systems, and minimizing the consumption of natural resources during construction/rehabilitation and long-term maintenance and operation.

Mandatory design standards have been developed to implement this policy for rental housing projects.

Impact on Agency Operating Budgets (Facilities Notes)

Funding this program will have no impact on the agency's operating budget. The ongoing operating costs or supportive services will be provided from other sources, including resident contributions, and federal, state, and local government funds.

Previous Appropriations for this Project

Since 1990, the legislature has appropriated funds each biennium for supportive housing developments as part of capital bonding legislation. In the last two bonding cycles, the legislature has appropriated GO bond proceeds totaling \$29.5 million in the support of the Business Plan to End Long-Term Homelessness. In addition, in 2002, \$16.2 million in GO bonds proceeds were appropriated for two projects targeting homeless veterans.

Other Considerations

The 2003 Minnesota Legislature directed the commissioners of the Housing Finance Agency, and the departments of Human Services, Corrections, and Employment and Economic Development, to convene a Work Group on Supportive Housing for Persons Experiencing Long-Term Homelessness. This group's mission was to develop and implement strategies to make the various systems more cost effective and to increase the employability and self-sufficiency of families with children and individuals who experience long-term homelessness. (Laws of Minnesota 2003, Chapter 128, article 15, section 9.) The Working Group submitted a report and business plan to the legislature in March 2004. In 2007, the Business Plan was recalibrated to reflect the three years of experience in implementing the Business Plan. The 2007 Recalibration of the Business Plan for Ending Long-Term Homelessness in Minnesota can be found at: http://www.mhfa.state.mn.us/multifamily/LTH_Recalibration.pdf.

The state's commitment to the success of this Business Plan is demonstrated by the fact that implementation of the Business Plan is ahead of schedule. The cumulative goal for the end of 2006 was to finance 1,000

Permanent Supportive Housing Loans (debt service on non-profit 501(c)(3) bonds)

additional housing opportunities for households experiencing long-term homelessness. By that date, funding for 1,091 housing opportunities had been committed and funding amounts are at plan levels.

The state's leadership on the issue of long-term homelessness has garnered both financial and policy support from outside state government. The private sector has contributed to individual housing projects as well as to a "Partners Fund" for needed social and health services. Many regions of the state have completed plans that align with the State's Business Plan, including 20 counties in Southeast Minnesota, Duluth/St. Louis County, St. Paul/Ramsey County and Minneapolis/Hennepin County.

Project Contact Person

Tonja M. Orr
Assistant Commissioner
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
Saint Paul, Minnesota 55101-1998
Phone: (651) 296-9820
Email: tonja.orr@state.mn.us

Governor's Recommendations

The governor supports this project, but will include a recommendation in his supplemental budget request.

Housing Finance Agency

Project Detail

Permanent Supportive Housing Loans (debt service on non-profit 501(c)(3) bonds)

(\$ in Thousands)

TOTAL PROJECT COSTS All Years and Funding Sources	Prior Years	FY 2008-09	FY 2010-11	FY 2012-13	TOTAL
1. Property Acquisition	0	0	0	0	0
2. Predesign Fees	0	0	0	0	0
3. Design Fees	0	0	0	0	0
4. Project Management	0	0	0	0	0
5. Construction Costs	0	0	0	0	0
6. One Percent for Art	0	0	0	0	0
7. Relocation Expenses	0	0	0	0	0
8. Occupancy	0	0	0	0	0
9. Inflation	0	0	0	0	0
TOTAL	0	0	0	0	0

CAPITAL FUNDING SOURCES	Prior Years	FY 2008-09	FY 2010-11	FY 2012-13	TOTAL
State Funds :					
G.O Bonds/State Bldgs	0	30,000	0	0	30,000
State Funds Subtotal	0	30,000	0	0	30,000
Agency Operating Budget Funds	0	0	0	0	0
Federal Funds	3,267	0	0	0	3,267
Local Government Funds	4,211	0	0	0	4,211
Private Funds	6,772	0	0	0	6,772
Other	0	0	0	0	0
TOTAL	14,250	30,000	0	0	44,250

CHANGES IN STATE OPERATING COSTS	Changes in State Operating Costs (Without Inflation)			
	FY 2008-09	FY 2010-11	FY 2012-13	TOTAL
Compensation -- Program and Building Operation	0	0	0	0
Other Program Related Expenses	0	0	0	0
Building Operating Expenses	0	0	0	0
Building Repair and Replacement Expenses	0	0	0	0
State-Owned Lease Expenses	0	0	0	0
Nonstate-Owned Lease Expenses	0	0	0	0
Expenditure Subtotal	0	0	0	0
Revenue Offsets	0	0	0	0
TOTAL	0	0	0	0
Change in F.T.E. Personnel	0.0	0.0	0.0	0.0

SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS (for bond-financed projects)	Amount	Percent of Total
General Fund	30,000	100.0%
User Financing	0	0.0%

STATUTORY AND OTHER REQUIREMENTS	
Project applicants should be aware that the following requirements will apply to their projects after adoption of the bonding bill.	
No	MS 16B.335 (1a): Construction/Major Remodeling Review (by Legislature)
No	MS 16B.335 (3): Predesign Review Required (by Administration Dept)
Yes	MS 16B.335 and MS 16B.325 (4): Energy Conservation Requirements
No	MS 16B.335 (5): Information Technology Review (by Office of Technology)
No	MS 16A.695: Public Ownership Required
No	MS 16A.695 (2): Use Agreement Required
No	MS 16A.695 (4): Program Funding Review Required (by granting agency)
Yes	Matching Funds Required (as per agency request)
No	MS 16A.642: Project Cancellation in 2013