

**Housing Finance Agency**

**Projects Summary**  
(\$ in Thousands)

Project Title	2010 Agency Priority Ranking	Agency Project Request for State Funds (\$ by Session)				Governor's Recommendations 2010	Governor's Planning Estimate	
		2010	2012	2014	Total		2012	2014
Foreclosed rental property acquisition/ rehabilitation by non-profits & supportive	1	\$27,500	\$25,000	\$20,000	\$72,500	\$0	\$0	\$0
Community Land Trust in foreclosure impacted areas along transit corridors	2	2,500	2,500	0	5,000	0	0	0
Public Housing Rehabilitation	3	10,000	0	0	10,000	0	0	0
<b>Total Project Requests</b>		\$40,000	\$27,500	\$20,000	\$87,500	\$0	\$0	\$0

## Foreclosed rental property acquisition/ rehabilitation by non-profits &amp; supportive

**2010 STATE APPROPRIATION REQUEST:** \$27,500,000

**AGENCY PROJECT PRIORITY:** 1 of 3

**PROJECT LOCATION:** Areas most impacted by the foreclosure crisis, Statewide

#### Project At A Glance

\$2,200,000 annually for 20 years for the debt service on \$27.5 million of non-profit housing bonds issued by Minnesota Housing to 1) acquire and rehabilitate foreclosed properties and 2) construct or acquire and rehabilitate permanent supportive housing.

#### Project Description

This request is for debt service on \$27.5 million in non-profit housing bonds issued by Minnesota Housing to: 1) acquire and rehabilitate foreclosed properties into approximately 100 units of rental housing located in areas that have been hardest hit by the foreclosure crisis and 2) to construct or acquire and rehabilitate an estimated 200 units of permanent supportive housing, particularly for persons experiencing or at risk of experiencing long-term homelessness. Funds would be made available statewide for rental housing developments that are owned by experienced and qualified non-profit organizations. The non-profit organization must have as part of its mission the provision of affordable housing to qualify for an award of non-profit housing bond proceeds. The rental housing acquired, rehabilitated or constructed with this funding must remain affordable for a minimum of 20 years.

The foreclosure crisis isn't over. Mortgage delinquencies continue to increase. The number of sheriff sales in Minnesota due to mortgage foreclosure increased by 278% between 2005 and 2008. Three significant factors contribute to the expectations that foreclosures will continue at high levels over the next 2-3 years: 1) the high level of unemployment, 2) Alt-A loans are a growing problem, and 3) adjustable rate mortgage (ARM) resets.

In Hennepin County 10% of the foreclosures are on multi-unit residential properties. Anecdotal evidence from shelters indicates an increase in families evicted from foreclosed rental properties. This proposal will help put foreclosed rental housing back in service, managed by responsible owners and operated as affordable housing for the long term.

In some counties, sheriff sales are concentrated in a few neighborhoods within a community or in a few communities within a county. The concentration of foreclosures has a devastating impact on the community or neighborhood. Vacant and abandoned properties become commonplace, property values decline and crime increases, all of which lead to a further disinvestment in the community or neighborhood. Property values reflect the impact of a concentration of foreclosures in an area. Property values in North Minneapolis, for example, have declined by 50.6% between 2002 and 2008.

The decline in property values presents an opportunity to secure affordable housing at a reasonable price. Even at lower prices, assistance is needed to maintain the rental housing as affordable housing. Experienced rental property managers know that the management of scattered site rental housing is more expensive than managing a similar number of units on one site. In areas impacted by foreclosure, the rents that can be commanded are not sufficient to properly maintain the housing and cover management cost. Many of the foreclosed properties were not well maintained before they were sold and/or their condition deteriorated after abandonment. Rehabilitation of the units will be necessary in many cases. An estimated 100 units in properties acquired and rehabilitated with the bond proceeds will be able to maintain affordability for low- and moderate- income rental households for at least 20 years.

A portion of the bond proceeds would be used to construct or acquire and rehabilitate properties for use as permanent supportive housing for households who are experiencing homelessness, particularly those experiencing long-term homelessness.

Permanent supportive housing is the keystone in efforts to reform the way that various systems address the challenges 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

**Foreclosed rental property acquisition/ rehabilitation by non-profits & supportive**

links to the services necessary to enable tenants to live in the community and lead successful lives.

Supportive housing in Minnesota is demonstrating its cost effectiveness. A rigorous evaluation of the Managed Care and Supportive Housing pilot program found that as a result of the pilot, participants maintained housing stability, there was a 36% reduction in the number of days people used illegal drugs or alcohol to intoxication and costs shifted from prison, inpatient hospital care and detox to doctors, psychiatrist and prescription medicines.

The funding could help fill the gap on approximately 150 units of permanent supportive housing that is only partially funded or for which the committed funding sources are no longer viable. An additional 50 units of permanent supportive housing, towards the goal of creating 4,000 housing opportunities, would be assisted.

**Impact on Agency Operating Budget**

The foreclosed rental properties acquired and rehabilitated with bond proceeds are expected to meet their operating costs through the income from tenants' rents. The permanent supportive housing properties are expected to cover operating costs through a combination of tenant contribution toward rents, rental assistance, group residential housing assistance and operating subsidies from the Housing Trust Fund. Minnesota Housing does not include operating assistance for specific projects in its state appropriations requests. Award of funding for permanent supportive housing will be dependent on the availability of funding for needed supportive services.

**Previous Appropriations**

Permanent supportive housing consistent with a plan to end-long-term homelessness has received the following appropriations:

2005	\$12 million	-	GO bond proceeds
2006	\$19.5 million	-	GO bond proceeds
2008	\$30 million	-	501 (c) (3) bond proceeds

**Other Considerations**

The Minnesota Foreclosure Partners Council was convened in 2007 to facilitate a rapid, coordinated response to the mortgage foreclosure crisis. The Partners Council is a coalition of the public and private sector. In its March 2009 report, "The Coordinated Plan to Address Foreclosure in Minnesota," the Partners Council identifies the need for funds to acquire and rehabilitate properties and incentives for and coordination of the rehabilitation and redevelopment efforts of the private market.

The 2003 Minnesota Legislature directed the commissioners of the Housing Finance Agency, Human Services, Correction, 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. (Law of Minnesota 2003, chapter 128, Article 15, section 9). The Working Group submitted its plan to the legislature in Minnesota 2004. It recommended the development of 4,000 permanent supportive housing opportunities for persons and households experiencing long-term homelessness. The Housing Finance Agency is more than halfway to this goal.

**Governor's Recommendations (To be completed by MMB at a later date)**

## Community Land Trust in foreclosure impacted areas along transit corridors

**2010 STATE APPROPRIATION REQUEST:** \$2,500,000

**AGENCY PROJECT PRIORITY:** 2 of 3

**PROJECT LOCATION:** Statewide

**Project At A Glance**

\$200,000 annually for 20 years of debt service on \$2.5 million of non-profit housing bonds issued by Minnesota Housing for community land trusts to assist in remediating communities or neighborhoods impacted by concentrations of foreclosures and to preserve affordable housing along mass transit corridors.

**Project Description**

Funding would be provided for community land trusts to acquire foreclosed, vacant and abandoned homes and permanently own the land. Funding will also be used to acquire homes along major transit corridors to preserve affordability.

Community land trusts are non-profit organizations that acquire and own land for the long term. The building is sold to a low- or moderate-income homebuyer and the community land trust leases the land to the homeowner. Typically, the community land trust restricts the resale price of the house and restricts eligible new homebuyers to low- and moderate- income households.

The costs of homeownership would be reduced by approximately 25% because the land costs are excluded from the purchase price. The community land trust model will assist lower income households in the community become homeowners and will ensure the long-term affordability of the home. The resale price is set according to a formula that provides the homeowner with some share of the equity in the home, but it retains affordability of the home for new low- and moderate-income homebuyers. Land costs range from \$12,000 per home in parts of Northern Minnesota to \$70,000 in some Twin Cities suburban areas. At an average cost of \$50,000 per home, \$2.5 million will bring 50 homes into community land trusts.

The concentration of foreclosures has a devastating impact on the community or neighborhood. Vacant and abandoned properties become commonplace, property values decline and crime increases. Community land trusts can help reverse this trend of disinvestment by bringing new homeowners to the area.

One of the common consequences of the development of new transit corridors is an increase in the cost of land along the corridor. Commercial redevelopment occurs along the transit corridors and the demand for housing within walking distance of the transit stops increases, pushing prices up. The community land trust model can help ensure that at least some of the housing along transit corridors remains affordable to low- and moderate-income households.

**Impact of Operating Budget**

None

**Previous Appropriations**

No funding has been provided for community land trusts as part of capital investment legislation; however, the Minnesota Housing Finance Agency has funded community land trusts since at least 2001. Between 2002-2007, \$8.5 million has been committed to community land trusts.

**Governor's Recommendations (To be completed by MMB at a later date)**

## Public Housing Rehabilitation

**2010 STATE APPROPRIATION REQUEST:** \$10,000,000

**AGENCY PROJECT PRIORITY:** 3 of 3

**PROJECT LOCATION:** Statewide

**Project At A Glance**

\$10 million in G.O. Bond proceeds for Public Housing rehabilitation. Approximately 3,000 units of public housing will be rehabilitated with this funding.

**Project Description**

Public housing is housing owned and managed by local public housing authorities but is financed by the federal government. More than 21,000 public housing units are owned and operated by 124 public housing authorities throughout Minnesota. The public housing authorities' operations range in size from 12 units of the Cass Lake Housing and Redevelopment Authority to 5,700 units of the Minneapolis Public Housing Authority and 4,300 units of the St. Paul Public Housing Authority. Nearly 75% of the residents of public housing have annual incomes of under \$15,000. Over 35% of the residents are seniors. Residents of public housing generally pay 30% of their income for rent.

Between 2002 and 2009 the federal government's commitment to support public housing diminished as appropriations for operations and maintenance of the housing stock were reduced to inadequate levels. As a consequence, some public housing authorities have been forced to sell some of their units to reduce operating costs and generate enough revenue to properly maintain the remaining inventory. Others have delayed needed maintenance and repairs, putting units at risk of becoming inhabitable.

The 2007 Minnesota Legislature recognized the importance of preserving affordable public housing and appropriated \$2.5 millions for that purpose. Funds were awarded to public housing authorities to help address their

capital needs. As part of the 2009 economic stimulus legislation, Minnesota public housing authorities received a total of \$47 million. As welcome as that funding is, it falls short of the amount needed to address all of the identified capital needs.

Public housing authorities are seeking ways to lower their operating costs. Investments in more energy efficient windows, heating and cooling systems and in renewable energy sources will help them achieve lower operating costs. The requested funding will prioritize projects that address health and safety needs and reduce operating costs by conserving energy.

**Impact on Operating Budget**

None

**Previous Appropriation**

\$2 million in G.O. Bond proceeds was appropriated in 2009. (Law of Minnesota 2009, Chapter 93, section A.) An RFP for this funding will be released in August.

**Other Considerations**

None

**Governor's Recommendations (To be completed by MMB at a later date)**