

**Housing Finance Agency**

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

Project Title	2014 Agency Priority Ranking	Agency Project Request for State Funds (\$ by Session)				Governor's Recommendations 2014	Governor's Planning Estimate	
		2014	2016	2018	Total		2016	2018
Housing Infrastructure Bonds	1	\$80,000	\$40,000	\$40,000	\$160,000	\$0	\$0	\$0
Public Housing Rehabilitation	2	20,000	10,000	10,000	40,000	0	0	0
<b>Total Project Requests</b>		\$100,000	\$50,000	\$50,000	\$200,000	\$0	\$0	\$0

**Housing Infrastructure Bonds**

**2014 STATE APPROPRIATION REQUEST:** \$80,000,000

**AGENCY PROJECT PRIORITY:** 1 of 2

**Project At A Glance**

\$5.92 million annually for 20 years for the debt service on \$80 million of housing infrastructure bonds issued by Minnesota Housing to:

- ◆ preserve federally subsidized rental housing,
- ◆ acquire and rehabilitate or replace foreclosed properties, and
- ◆ construct, or acquire and rehabilitate permanent supportive housing.

**Project Description**

This request is for a general fund standing appropriation to pay the debt service on housing infrastructure bonds. The debt service needed for \$80 million in housing infrastructure bonds is \$5.92 million per year for 20 years. Housing infrastructure bonds are appropriation bonds issued by Minnesota Housing. The state makes a standing appropriation to pay the debt service for the life of the bonds. The full faith and credit of the state is not behind the bonds. The bonds will be issued to:

- ◆ preserve existing federally subsidized rental housing,
- ◆ stabilize communities impacted by the foreclosure crisis by creating new affordable housing opportunities through rental units and community land trusts, and
- ◆ construct or acquire and rehabilitate permanent supportive housing.
- ◆ This funding will provide an estimated 1,700 new or preserved affordable housing opportunities.

Eligible applicants are experienced and qualified affordable housing developers. Funding will be provided in the form of a 20-year forgivable loan. The housing acquired and rehabilitated or constructed with this funding must remain affordable for a minimum of 20 years. Funding would be made available using a competitive process that considers readiness to proceed among other factors in making selections.

**Impact on Agency Operating Budgets**

Minnesota Housing does not budget operating assistance for specific projects in its requests for state appropriations. The developments acquired and rehabilitated with bond proceeds are expected to meet their operating costs through the income from tenants' rents, or in the case of community land trusts, through income from the land lease.

**Previous Appropriations for this Project**

Appropriations have been made for permanent supportive housing as part of the state's plan to end long-term homelessness as follows:

2005	\$12 million	-	GO bond proceeds
2006	\$19.5 million	-	GO bond proceeds
2008	\$30 million	-	501 (c) (3) bond proceeds, \$2.4 million in annual debt service appropriated

In 2010, the agency was able to issue \$6 million in additional bonds based on the annual \$2.4 million debt service appropriated in 2008 due to lower-than-expected interest rates.

In 2012, the agency awarded \$30 million in housing infrastructure bond proceeds to projects that preserve existing federally subsidized rental housing, create new permanent supportive housing opportunities, and to stabilize communities impacted by the foreclosure crisis. The bond proceeds were committed in 2012 and are being used to construct or preserve nearly 620 units of housing.

**Other Considerations**

Need and Capacity

In Minnesota, 33 percent of households are considered to be cost-burdened, meaning they pay more than 30 percent of their income for housing. According to the most recent Wilder Research Homeless Study, there are 10,214 Minnesotans who are homeless. In applications received for its 2013 consolidated request for proposal, the agency has received two and a half (2.5) times as much in requests for deferred financing as there is funding available and three and a half (3.5) times as many requests for federal low

## Housing Infrastructure Bonds

income housing tax credits as there are tax credits available. Twenty-five percent (25%) of the applications are for supportive housing and just fewer than 25 percent (25%) are for preservation.

Foreclosure Recovery activities

The foreclosure crisis continues to challenge communities and families across Minnesota. Although foreclosure rates have decreased significantly since the height of the crisis, the number of foreclosures in 2012 was still nearly three times the number of annual foreclosures in 2005. Fifty-four (54) zip codes in Minnesota are considered to be “high need” in regard to foreclosure recovery, meaning they have one and a half (1.5) times the number of foreclosures as the rest of the state. Communities are still impacted by the number of homeowners who owe more than their homes are worth and the backlog of “shadow inventory,” or pending supply not yet for sale. Cities report that there is still a need for stabilization activities to help communities with long term recovery from the crisis.

Some of the requested funding would be used by affordable housing developers to acquire and rehabilitate foreclosed properties or to replace housing that is too deteriorated to rehabilitate. These properties will assist in stabilizing communities and create affordable housing opportunities for individuals and families for at least 20 years.

Funding would also be used to place foreclosed, vacant and abandoned homes into community land trusts. Community land trusts are non-profit organizations that acquire and own land for the long-term. The community land trust leases the land to a low- or moderate-income homeowner who purchases the building on the land held in trust.

Supportive Housing Activities

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, including youth, veterans, those experiencing long-term homelessness and for persons with disabilities who desire to live in more integrated settings in the community.

Permanent supportive housing is the cornerstone 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 links to the services necessary to enable tenants to live in the community and lead successful lives.

The Wilder Research 2012 Homeless Study found that there are 10,214 homeless adults, youth and children in Minnesota and that young people under the age of 21 are most likely to be homeless. As of spring 2013, funding has been committed for 4,000 supportive housing opportunities for people who have experienced long-term homelessness. A new State Director to Prevent and End Homelessness has been hired to coordinate efforts among the 11 state agencies that make up the Interagency Council on Homelessness to write a new plan to end homelessness. Supportive housing will continue to be a critical part of the state’s efforts.

In addition to the work of the Interagency Council on Homelessness, the state’s Olmstead Sub-Cabinet, which is made up of representatives from state agencies, has been working on a plan to ensure that Minnesotans with disabilities have the opportunity to live in the community in a more integrated setting by providing more housing choices, including supportive housing.

Preservation Activities

The federal Section 8 program has provided the largest portion of the privately owned, federally assisted rental housing in the state. Thirty-one thousand units (31,000) were financed under this program. Most of the federally assisted Section 8 properties in Minnesota are approaching 30 years old. Many have had insufficient revenues to be adequately maintained. Owners of many of the Section 8 properties have or are close to fulfilling their obligation to operate the properties as affordable housing and may chose to convert the housing to market rate housing. A crucial component of the affordable housing supply in communities across the state is at risk of being lost without funding to preserve this asset.

A temporary opportunity exists to accelerate the rate of preservation activities and preserve these important community assets by attracting additional private equity investment to these projects. By using tax-exempt private activity bonding authority to provide construction financing for these projects, federal tax credits can be obtained to attract private equity investment. Housing Infrastructure Bonds will be used to provide a portion of the permanent financing for these projects because income generated by the projects will likely be insufficient to cover the full cost of rehabilitation. As a

**Housing Infrastructure Bonds**

general rule, every \$1 the state invests generates \$1 of private funding for these projects.

By accelerating preservation activities now, rehabilitation costs can be lower, more jobs are created at a time when the residential construction industry is beginning to recover, and an important component of communities' infrastructure is improved. Interest rates appear to be rising, so it's important to do as much work as possible while they remain relatively low. In addition, for every \$1 in state funding for preservation of federally assisted housing, \$4 in federal funding is secured.

**Green Communities Criteria**

Minnesota Housing has adopted a sustainability policy and implemented the Enterprise Green Communities criteria for all new developments and for substantial rehabilitation projects funded by the agency. The Green Communities criteria will apply to developments that are selected to receive housing infrastructure bond proceeds. The criteria cover a range of items related to energy efficiency and the environment including efficient lighting, use of renewable energy, low-impact development, water-conserving fixtures, and integrative design.

The agency does not directly own any housing or its office space.

**Project Contact Person**

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**Public Housing Rehabilitation****2014 STATE APPROPRIATION REQUEST:** \$20,000,000**AGENCY PROJECT PRIORITY:** 2 of 2**Project At A Glance**

- ◆ \$20 million in GO Bonds for preservation of public housing

**Project Description**

This request is for \$20 million in GO Bonds to preserve existing public housing to keep it decent, safe and sanitary for its low income residents.

Eligible applicants are public housing authorities. The requested funding will provide investments in more energy efficient windows, heating and cooling systems and other conservation items. Priority will be given to projects that address health and safety needs and reduce operating costs by conserving energy. Approximately 3,500 units of housing will be rehabilitated with this funding.

Public housing is housing owned and managed by local public housing authorities and financed by the federal government. More than 21,000 public housing units are owned and operated by 124 public housing authorities throughout 87 Minnesota counties. Public housing serves the lowest income residents in the state. Nearly 75 percent of the residents have income of under \$15,000 per year. Residents pay 30 percent of their income toward rent.

**Impact on Agency Operating Budgets**

None. Public housing authorities are responsible for operating expenses, which are obtained through funding from the U.S. Department of Housing and Urban Development. GO Bond proceeds are used strictly for capital improvements.

**Previous Appropriations for this Project**

In 2012, the agency received \$5.5 million in GO Bond proceeds. The funding has been committed and is being used for the rehabilitation of 950 units of public housing.

In 2009, the agency received \$2 million for public housing. In 2007, the Legislature appropriated \$2.5 million in General Fund appropriations for preservation of public housing.

**Other Considerations****Need**

In April 2013, the Secretary of the U.S. Department of Housing and Urban Development testified before a House committee that there is a \$26 billion total backlog for public housing capital needs in the United States, with \$3 billion needed annually to keep up with the backlog.

In 2012, about fifteen percent (15%) of public housing authorities in Minnesota applied to receive GO Bond proceeds from the state. Applicants requested \$7.96 million in total funding, with total development costs of nearly \$12 million. The agency awarded funding of \$5.5 million for total development costs of \$8,500,000. Of the 14 applicants that received funding in 2012, eight (8) received only partial awards. The state's investment provided 65 percent (65%) of the total development costs for funded applications. The average age of the buildings that received funding is 41 years.

**Energy Efficiency**

Of the projects funded in 2012, 11 include energy efficiency items (a total of 616 units will be impacted by energy efficiency upgrades). More specifically, 4 of the projects involve boiler replacements or upgrades, 4 involve window replacements, and 3 involve updating or replacing light fixtures. In addition, 7 of the projects have water conservation items including 5 projects with water fixture upgrades.

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**Public Housing Rehabilitation**

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