

Housing Finance

Projects Summary

(\$ in thousands)

Project Title	Priority Ranking	Funding Source	Project Requests for State Funds		
			2016	2018	2020
Housing Infrastructure Bonds	1	AP	\$ 70,000	\$ 40,000	\$ 40,000
Public Housing Rehabilitation	2	GO	\$ 20,000	\$ 10,000	\$ 10,000
Total Project Requests			\$ 90,000	\$ 50,000	\$ 50,000
Appropriation Bonds (AP) Total			\$ 70,000	\$ 40,000	\$ 40,000
General Obligation Bonds (GO) Total			\$ 20,000	\$ 10,000	\$ 10,000

(\$ in thousands)

Housing Infrastructure Bonds

AT A GLANCE**2016 Request Amount:** \$70,000**Priority Ranking:** 1

Project Summary: Minnesota Housing requests \$5.6 million annually for 20 years for debt service on \$70 million in Housing Infrastructure Bonds. Housing Infrastructure Bond proceeds can be used for the acquisition and rehabilitation or new construction of permanent supportive housing, for the preservation of existing federally-assisted housing, or for the cost of the acquisition of land that will be held by community land trusts for single family homeownership. We will award funds on a competitive basis to projects located throughout the state.

Project Description

The request is for a general fund appropriation to pay the debt service on \$70 million in Housing Infrastructure Bond proceeds. Housing Infrastructure Bond proceeds will be awarded through a competitive Request for Proposal (RFP) process to private for profit and non-profit developers.

Supportive Housing

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. This sub-population of those experiencing homelessness saw a 27 percent increase in 2015 compared to 2014.

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.

Supportive housing stabilizes housing for the poorest households and households with special needs so they can successfully address barriers to employment, complete school or training and achieve independent living.

Preservation

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. The privately owned Section 8 portfolio was developed primarily from the 1960s to the 1980s. As these properties age, or as the subsidy contracts and regulatory agreements expire, there is risk that these units may be lost due to physical deterioration or diminished capacity of the ownership entity. Significant injections of capital are needed to make physical improvements so that properties can remain intact and affordable for decades into the future.

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.

Homeownership Activities

Housing Infrastructure Bond proceeds can be used by community land trusts for the cost of the acquisition of the land that will be held by the land trusts for single family homes for homeownership. Community land trusts, which are located throughout the state, provide an opportunity for low- to moderate- income households to become homeowners. The community land trust holds the land and the homeowner receives a mortgage only for the cost of the home, lowering the cost for the homeowner. The community land trust must own the land for the term of the bonds. This ensures that the state's investment in affordable housing is preserved for the life of the bonds.

Project Rationale

There continues to be significant affordable housing needs throughout the state. Thirty percent (30%) of households are considered to be cost-burdened, meaning they pay more than 30 percent of their income for housing. There are nearly 600,000 households that cost-burdened. Additionally, too many Minnesotans are homeless on a given night. According to the most recent U.S. Department of Housing and Urban Development (HUD) point in time count (2015), there are 7,509 people who are homeless in Minnesota. Overall, this was a 10 percent decline from 2014; however, the count identified an increase of 27 percent for people experiencing chronic homelessness. Finally, the state's Section 8 portfolio is aging and in need of capital for rehabilitation to preserve the affordability of properties.

We received three times as much in requests for deferred financing as there was funding available in our 2014 consolidated Request for Proposal, which is the process through which we award most of our competitive development resources. There were 26 applications for \$117 million in requests that remained unfunded for the \$80 million we had available in Housing Infrastructure Bond proceeds in 2014.

Housing Infrastructure Bonds are a critical financing tool because of the fact that most of the housing in the state is privately owned and general obligation bonds are limited to funding projects under public ownership. Additionally, the rents of low to moderate-income tenants limit the ability of these housing projects to attract private financing. Housing Infrastructure Bond proceeds provide the needed gap financing.

Other Considerations

Statewide Plan to Prevent and End Homelessness

In 2013, the Minnesota Interagency Council on Homelessness released a Statewide Plan to Prevent and End Homelessness. The plan outlines 12 specific strategies that state agencies will undertake in an effort to prevent and end homelessness across the state. The two primary goals of the plan are to prevent and end homelessness for children and families by 2020 and to finish the job of ending homelessness for veterans and people who are chronically homeless by 2015. Increasing investments in affordable housing and creating new supportive housing opportunities for the most vulnerable families experiencing homelessness are critical pieces of meeting the goals outlined in the plan.

Leverage

For every \$1 in state funding for preservation of federally assisted housing, \$4 in future federal funding is secured. In our 2014 RFP, every \$1 in state funding for gap financing for preservation leveraged approximately \$3 in private capital funding.

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.

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.

Description of Previous Appropriations

Minnesota Housing received past appropriations for the construction of permanent supportive housing 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, we 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 were used to construct or preserve nearly 620 units of housing.

In 2014, we awarded \$80 million in Housing Infrastructure Bond proceeds to projects for the same purposes. The bond proceeds were committed in 2014 and will be used to construct or preserve more than 1,200 units of housing.

In 2015, the Legislature authorized an additional \$10 million in Housing Infrastructure Bond proceeds. These proceeds will be used to construct or preserve an estimated 150–200 units of affordable housing.

Project Contact Person

Ryan Baumtrog

Assistant Commissioner for Policy and Community Development

651-296-9820

ryan.baumtrog@state.mn.us

Public Housing Rehabilitation

AT A GLANCE

2016 Request Amount:	\$20,000
Priority Ranking:	2
Project Summary:	\$20 million in GO Bonds to preserve existing public housing to keep it decent, safe and healthy for its low income residents. Approximately 2,500 units of housing will be rehabilitated with this funding.

Project Description

The requested funding will provide investments in more energy efficient windows, heating and cooling systems and other conservation items in public housing across the state. Priority will be given to projects that address health and safety needs and reduce operating costs by conserving energy.

Funding will be awarded through a competitive request for proposal process. Eligible applicants are public housing authorities. Priority will be given to projects that include funding from other sources.

Project Rationale

Public housing is existing affordable housing that serves some of the lowest income residents of the state, including many seniors and families with children. 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. Nearly 75 percent of the residents have income of under \$15,000 per year. Residents pay 30 percent of their income toward rent. More than 90 percent of public housing units in the state are greater than 20 years old.

In January 2015 we awarded \$20 million in GO Bond proceeds for the rehabilitation of public housing. However, we had \$31 million in additional requests that went unfunded.

Other Considerations

Impact on Agency Operating Budgets

None for Minnesota Housing. Public housing authorities are responsible for operating expenses, which are obtained through funding from the U.S. Department of Housing and Urban Development. Investments in energy efficient windows, heating and cooling systems and other conservation items may reduce energy bills over the long-term.

Description of Previous Appropriations

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.

In 2012, the agency received \$5.5 million in GO Bond proceeds. The funding was used for the rehabilitation of 950 units of public housing.

In 2014, the agency received \$20 million in GO Bond proceeds. The funding has been committed and is being used for the rehabilitation of 2,500 units of public housing. Seventy-five percent (75%) of the units are located in Greater Minnesota.

Project Contact Person

Ryan Baumtrog

Assistant Commissioner for Policy and Community Development

651-296-9820

ryan.baumtrog@state.mn.us