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Equal Opportunity Housing and Equal Opportunity Employment

April 7, 2017

The Honorable Pat Garofalo, Chair
Job Growth and Energy Affordability Committee
Minnesota Housing of Representatives

The Honorable Tim Mahoney, DFL Lead
Job Growth and Energy Affordability Committee
Minnesota Housing of Representatives

The Honorable Karen Clark, DFL Lead, Housing
Job Growth and Energy Affordability Committee
Minnesota House of Representatives

RE: HF2209/SF1937, Omnibus Job Growth and Energy Affordability Finance & Policy Bill

Dear Legislators,

Yesterday the House passed SF 1937, the Omnibus Job Growth and Energy Affordability Finance & Policy Bill. I want to bring to your attention several items in the bill about which the Minnesota Housing Finance Agency has concerns. We have shared these concerns throughout the committee process.

Challenge Program Funding

This bill completely eliminates funding for the Economic Development and Housing Challenge (Challenge) program in FY2019. The Challenge program finances housing development - both rental and homeownership - across the state. In 2016, nearly 600 units of housing were financed with the Challenge program statewide. In the last two years, nearly 90 percent of Challenge funds for rental were used in Greater Minnesota to address workforce housing needs.

The Challenge program is our most flexible program, designed to meet a wide range of housing needs identified by local communities. It is also our only state appropriated program that can support both the development of housing for single family homeownership and the development of new rental properties. Eliminating the Challenge program for an entire year will significantly reduce the amount of housing development resources available to communities across the state, both in the metro area and in Greater Minnesota, creating a backlog of projects that are ready to go and creating a delay in when housing will become available to the local workforce.

Workforce Housing Grant Program

The bill moves a Workforce Housing Grant Program that is currently administered by the Department of Employment and Economic Development (DEED) to Minnesota Housing. It funds the program for one year at \$4,000,000 and does not fund it in FY2019, further limiting the state's ability to meet local housing development needs in FY 2019.

We understand that communities are seeking a range of workforce housing options. Minnesota Housing and DEED have heard these concerns from communities and have collaborated to meet their needs. Over the past four years, our agencies have financed more than 1,200 units of workforce housing in Greater Minnesota across the state.

We appreciate that the committee amended the language to allow funding to be awarded in the form of either grants or deferred loans. Deferred loans act much like grants in that the money is awarded with no interest and no monthly payments. A deferred loan allows the state to ensure that the project continues to operate for its intended use and that it remains as an asset to the community for years to come.

We also recommend removing the language that prohibits properties funded by this program from using other financial assistance that has requirements for residents to meet income limits. This limitation currently makes it impossible to combine funds from the Workforce Housing grant program with most other housing finance resources. Removing this language would give communities the option, but not the requirement, to create mixed-income properties. In previous years, because of this prohibition, DEED and Minnesota Housing have funded developments right across the street from one another in the same community. We think it makes more sense to allow a community to have the option to develop a project that includes a mix of income-restricted and non-income restricted units.

Governor's Initiatives

In his budget, the Governor included \$10 million over two years for targeted initiatives to address opportunities in homeownership and to provide housing resources to address the issue that more than 9,000 children are identified as homeless or highly mobile across the state. While we appreciate the resources to fund the CLASS Act that are included in this bill, we're concerned that those resources come from other resources for affordable housing development.

Tax-Exempt Bonds Policy Provision

The bill includes policy language that modifies the priorities and process for how the state administers federal tax-exempt bonds for housing. We understand the goal of wanting to create additional rental housing, but this bill proposes to do so without adding new resources. Rather, it eliminates resources for city and county first-time homebuyer programs in favor of rental housing, often with the highest allowable rents for projects in metro communities. We appreciate that access to resources for homebuyer programs is restored after two years, but we are concerned about the reduction in resources for homebuyers.

As this federal resource has recently become scarce, we should look for opportunities to: ensure the resource works in Greater Minnesota; continues to be available for city and county first-time homebuyer programs; and provides rental housing that is affordable for longer periods and serves lower income individuals and families.

We are committed to working on the policy language, but think that process should occur outside of the budget process.

Limits on Operating Budget and FTEs

We are concerned about a provision that caps the number of FTEs and the operating budget for Minnesota Housing at FY2017 levels through FY2021. Minnesota Housing does not use any state appropriations for operating expenses. Agency operations are funded by earnings from our lending and investment activities. General Fund appropriations make up only 7-10 percent (7-10 %) of our overall agency budget. One hundred percent of our state appropriations go into programs. We consistently operate on a lean budget and are very conscience of ensuring that our operating costs are low as a percentage of the overall assistance we provide. In FY2016, our operating expenses were only 2.82 percent (2.82%) of assistance provided. We submit an Operating Cost report to the Legislature each year.

It is important that we have flexibility to respond to market conditions. We want to be sure we are able to respond to challenges and to create more affordable housing opportunities for Minnesotans as market conditions change.

Reporting Requirement

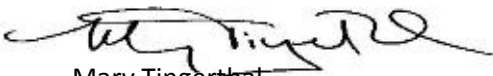
The bill includes a requirement that all agencies under the committee's jurisdiction submit a report that shows the number of employees in each division and a job description for each employee, a detailed list of sources of revenue, how much passes through as grants and the cost of grant programs, a detailed description of costs and statutory authority for all expenditures. Minnesota Housing currently submits several reports to the Legislature each year including:

- an operating cost report that shows the number of FTEs and salaries and other operating costs for the agency, and also shows operating costs as a percentage of housing program dollars used by Minnesotans;
- an annual program assessment that shows the sources of funds for the agency, the amount of funds spent in each program, geographic areas served by programs, and the number of households served; and
- our Affordable Housing Plan, the agency's business plan for the year, which outlines all sources of program funds and planned uses.

We believe the information we currently submit, including information provided in the state's budget system, provides a detailed picture of the agency's activities.

We hope you find this information helpful and we look forward to working with you as the budget process continues. Please do not hesitate to contact me, Ryan Baumtrog (ryan.baumtrog@state.mn.us) or Katie Topinka (katie.topinka@state.mn.us) with any questions.

Sincerely,



Mary Tingert
Commissioner