RECOMMENDATIONS OF THE GOVERNOR'S COMMISSION ON AFFORDABLE HOUSING FOR THE 1990'S

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THE GOVERNOR'S COMMISSION ON AFFORDABLE HOUSING FOR THE 1990'S

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A SUMMARY OF THE COMMISSION'S FINAL FUNDING RECOMMENDATIONS*

RENTAL HOUSING	
RENTAL HOUSING FOR LOW INCOME FAMILIES	$16,000,000
RENTAL HOUSING FOR LOW INCOME INDIVIDUALS	$4,000,000
RENTAL HOUSING FOR THE CHRONICALLY MENTALLY ILL	$2,000,000
DEBT CAPITAL SUBSIDIES	$1,000,000
RENTAL SUBSIDY LINKED TO THE PATHS PROGRAM	$9,000,000
CAPACITY BUILDING FOR NONPROFIT ORGANIZATIONS AND LOCAL GOVERNMENTS	$250,000
REVOLVING LOAN FUND FOR CAPACITY BUILDING	$750,000
SUBTOTAL RENTAL HOUSING	**$33,000,000**
HOMELESSNESS PREVENTION	
TRANSITIONAL AND PERMANENT HOUSING	$1,000,000
MIGRANT LABOR HOUSING DEMONSTRATION PROGRAM	$200,000
MORTGAGE/RENTAL ASSISTANCE DEMONSTRATION PROGRAM	$800,000
SUBTOTAL HOMELESSNESS PREVENTION	**$2,000,000**
PRESERVATION OF EXISTING SUBSIDIZED HOUSING	
PRESERVATION OF EXISTING SUBSIDIZED HOUSING	$15,000,000
SUBTOTAL PRESERVATION OF EXISTING SUBSIDIZED HOUSING	**$15,000,000**
SINGLE FAMILY HOME FINANCING	
CAPITAL AVAILABILITY FOR LOWER PRICED HOMES	$1,000,000
PRIVATE MORTGAGE COINSURANCE PROGRAM	$500,000
EXISTING HOME PURCHASE/REHABILITATION PROGRAM	$1,500,000
SUBTOTAL SINGLE FAMILY HOME FINANCING	**$3,000,000**
HOME IMPROVEMENT FINANCING	
LOW INTEREST REHABILITATION LOAN PROGRAM	$2,000,000
NEIGHBORHOOD PRESERVATION LOANPROGRAM	$2,000,000
SUBTOTAL HOME IMPROVEMENT FINANCING	**$4,000,000**
ABANDONED HOUSING	
RECEIVERSHIP REVOLVING LOAN FUND	$250,000
SUBTOTAL ABANDONED HOUSING	**$250,000**
ACCESSIBLE HOUSING	
SINGLE FAMILY HOME ACCESSIBILITY MODIFICATION PROGRAM	$250,000
CLEARINGHOUSE AND NEEDS ASSESSMENT FOR ACCESSIBLE UNITS.	$150,000
NEWLY CONSTRUCTED THREE-BEDROOM ACCESSIBLE UNITS	$150,000
SUBTOTAL ACCESSIBLE HOUSING	**$550,000**
TOTAL FUNDED BY AGENCY RESOURCES	**$9,000,000**
TOTAL LEGISLATIVE APPROPRIATION REQUEST	**$48,800,000**
GRAND TOTAL	**$57,800,000**

* THE GREY SHADING ( ) INDICATES PROGRAM TO BE FUNDED BY AGENCY RESOURCES

INTRODUCTION

Most Minnesotans have a decent, affordable place to live.

Many do not.

This number is growing.

To respond to the growing problem of affordable, decent housing, Governor Rudy Perpich appointed a Commission on Affordable Housing for the 1990's, and asked the commission to develop an agenda for the 1989 session of the Minnesota Legislature.

This report is that agenda.

The most important message of the commission is the need for state action because of the seriousness of the housing problems facing Minnesota. The commission hopes that its sense of urgency is effectively communicated in the magnitude and scope of its recommendations.

The need for state action has never been greater.

Federal support for affordable housing has decreased by 80 percent in the last eight years.

The cost of owning and renting housing has increased at a rate greater than that of increases in incomes for families and individuals with low incomes.

Homelessness has increased, especially among families with children.

The rate of homeownership for young families has decreased for the first time since the end of World War II.

Changes in the population of Minnesota, with the aging of the baby boom generation and the smaller size of the next generation, will dramatically affect the market for housing in the decade of the 1990's.

Increasing problems of maintaining the condition and quality of existing housing and, therefore, of maintaining the quality of neighborhoods and communities in all parts of the state will be one of the major housing issues of the 1990's.

Families and individuals with special housing needs have a difficult time finding affordable housing and the necessary social services to meet their special needs.

The commission, with the help of a number of technical working groups, looked at the issues of affordable housing facing Minnesota and prepared the recommendations which follow.

In developing this agenda, the commission recognized a number of important principles to guide state action on affordable housing for the future. These principles are included in the next section of the report.

The role of the federal government in providing affordable housing is changing. The next generation of federal housing programs will require a more direct financial role for state and local governments. State government must be prepared to respond to this new role with programs that effectively use federal resources to meet Minnesota's housing needs.

Programs recommended in this report provide an opportunity for Minnesota to build capacity to use federal resources in combination with efforts by state and local governments and private and non-profit housing providers in Minnesota.

Much of this agenda involves capacity building to respond to the need for affordable housing in all parts of the state. An important part of this capacity building is adding to the programs which already exist in state government and strengthening the commitment to building new partnerships for providing affordable housing in Minnesota.

Building new partnerships to respond to the housing issues of the 1990's is a challenge for all participants in the programs of this agenda.

This agenda requires the Minnesota Housing Finance Agency to go beyond its present role as primarily a finance agency and assume more responsibilities for technical assistance, advocacy, and capacity building with local governments, nonprofit and for-profit developers, and lenders. The Minnesota Housing Finance Agency in cooperation with the governor and the legislature is prepared to meet this challenge and actively work with all participants in all parts of the state to implement this agenda.

Implementation of this agenda will require the active cooperation of many state agencies, local governments, for-profit and nonprofit housing developers, community and neighborhood organizations, and lenders. The governor and the legislature should make certain that the requirements and the resources for cooperation and partnership building remain as an important part of the final product, a completed legislative program.

Each of the sections of the report briefly describes actions the commission recommends to improve existing programs, create new capacity for public and private providers, and change existing laws and regulations that affect the condition and quality of housing.

Each section is the result of suggestions made by technical working groups and members of the commission. The final set of recommendations is the result of extensive commission deliberation and debate.

Legislation will be prepared to implement the programs and changes in laws and regulations recommended by the governor to the legislature.

The commission recognizes that in recommending this agenda, it is making a first step in the continuing process of reviewing and responding to the housing needs of Minnesota in the decade of the 1990's. The process must continue with a regular review of Minnesota's need for affordable housing. The process must continue with a creative and energetic effort to use all resources available, public and private, to meet the needs for affordable housing in all parts of the state.

This agenda recognizes that there are families and individuals in Minnesota that need help with affordable housing.

This agenda recognizes that there are communities and neighborhoods that need help in maintaining the quality and condition of their housing, and thus the quality of their communities.

This agenda recognizes that it is as important to prevent problems as it is to solve them after they exist, and therefore makes a number of recommendations to prevent problems as well as to create solutions for those that exist.

This agenda is ambitious. It is necessary. It is the beginning that must be made if Minnesota is to respond to the needs for affordable, decent housing in the decade of the 1990's.

RESOURCES

Several national studies and a variety of background material on each of the recommended programs were used by the commission in its deliberations. This material will be assembled in summary form for use during the legislative session. Copies will be available from the research division of the Minnesota Housing Finance Agency.

The national reports are:

A Decent Place to Live: The Report of the National Housing Task Force, March 1988.

The State of the Nation's Housing, Joint Center for Housing Studies, Harvard University, 1988.

MIT Housing Policy Project Papers, MIT Center for Real Estate Development, March 1988.

In addition, the Metropolitan Council's recent report, *Looking Ahead at Housing: The Effect of Changing Demographics on the Twin Cities,* is an important resource document for thinking about the housing market in the Twin Cities metropolitan area.

STATEMENT OF COMMISSION PRINCIPLES

INTRODUCTION

The objective of the commission was to develop a legislative agenda for affordable housing for the 1989 legislative session. The commission's recommendations were developed in the context of the demographic changes that will take place in Minnesota in the 1990's and the need for affordable housing by households with special problems and lower incomes.

The commission adopted these principles as a guide to the development of specific programs. They state what must be done, and how it should be done, to assure the availability of affordable housing in Minnesota.

BASIC PRINCIPLES

All Minnesotans have a right to decent, affordable housing.

All Minnesotans must have equal access to housing, regardless of race, creed, color, religious belief, disability, family type, or status with regard to public assistance.

The state should first assist those who most need help and who are most at risk of suffering from a lack of decent and affordable housing.

The state must recognize the needs of both renters and homeowners.

State government must take a more active role in providing decent and affordable housing in cooperation with local governments, for-profit and nonprofit developers, and the entire housing production and finance system in Minnesota.

Minnesota must plan to fit its new programs with the new federal housing efforts now being developed in the Congress.

Communities in all parts of Minnesota must be helped with new programs. Needs differ by area, and local communities can best determine their specific needs.

Long-term affordability should be an objective of all activity.

Minnesota should establish basic housing goals and objectives and review them on a regular basis to ensure that limited resources are being directed to those households that most need help.

SPECIFIC PROGRAM PRINCIPLES

Each program should have an affordability objective. As an ideal goal, no more than 30 percent of household income should be spent on housing expenses. However, since some households are paying well over 50 percent of their income for housing, the intermediate goal is that no household should spend more than 50 percent of its income on housing.

Homeownership and the maintenance of the existing stock of owner-occupied homes are important objectives; opportunities for both need to be provided in all parts of Minnesota.

Homeownership and single family rehabilitation program objectives should be established using appropriate underwriting criteria and affordability objectives.

Homeownership programs should recognize the special problems of underwriting and insuring loans in inner-city neighborhoods and rural areas.

As a condition of their participation in housing programs, local governments should be expected to review and change codes and ordinances that add unnecessary costs to housing.

State government must make certain that the tools, powers, and resources provided to local governments enable a quick response to the problems caused by increased numbers of abandoned properties.

All housing programs should be compatible with the goals of community and neighborhood preservation and revitalization.

The impact of changing markets and changing demand for housing caused by the demographic changes of the 1990's must be a basic consideration in every activity in the new state effort. Adaptation, re-use, preservation, maintenance, and rehabilitation of existing housing should be a major program objective.

Housing programs for households with special needs and problems must be developed in cooperation with the social services necessary to meet the needs of these households.

In addition to ensuring the adequacy of both short-term and permanent housing for homeless individuals and families, public, private, and nonprofit activity should concentrate on preventing homelessness.

All programs should use incentives to obtain participation and cooperation between governments and housing providers. Increased regulation should be used only where incentives do not work.

The opportunity to combine state, local, private, nonprofit, and foundation resources must be fully developed in every program or activity recommended to the legislature.

Nonprofits should be supported where they can provide long-term affordability.

The inequities in the property tax and income tax systems between renters and homeowners at both the state and federal level must be reduced as a key element in increased affordability for renters and rental property.

The Minnesota Housing Finance Agency should become, at the appropriate time, the Minnesota Housing Agency. The agency should be charged with the broad mission of meeting the state's housing needs, particularly those of low income persons and families. The agency should continue to operate loan programs, but its banking functions, with adequate appropriated funds, should be subordinate to the larger vision of what needs to be accomplished.

RENTAL HOUSING

The rental housing programs recommended by the commission represent an integrated approach to the challenge of providing affordable rental housing in Minnesota. Programs for new construction, the rehabilitation of existing units, direct rental assistance, and funds for technical assistance to development entities are proposed.

Building new, or rehabilitating existing rental units for affordable housing is an extremely expensive proposition. In order to make rental housing affordable for low income households, large initial grants or deferred loans are required to write down development costs. To assist very low income households, monthly rental subsidies are required in addition to writing down development costs. Efforts will be made to combine state funds with federal, local, and foundation resources in order to assist as many households as possible with the state funds that are made available. For all of the rental housing programs, priority will be given to those projects that serve persons with the lowest incomes.

In developing the rental housing programs, the needs of different types of households must be considered in relation to the existing stock of rental housing in the state and the projected shifts in demand for housing due to demographic changes in the 1990's. Families with children need larger rental units. Because there is a shortage of three-bedroom rental units in the state, a new construction program is recommended to meet this need. For individuals and smaller households, affordable efficiency, one- and two-bedroom units are needed. An acquisition and moderate rehabilitation approach to meeting this need is used in the proposed programs, because of the availability of these types of existing units.

Ensuring the long-term affordability of housing is an important objective of the rental housing programs. The commitment of a developer/sponsor to long-term affordability will be an important consideration when selecting program participants. In addition, the commission recognizes the commitment nonprofit developers and local government agencies have to the long-term affordability of housing and their willingness to take on difficult challenges in cities and in rural communities.

The recommended rental financing programs are as follows:

- Housing For Low Income Families: Large units (two bedrooms and three or more bedrooms) for families with children.
- Housing For Low Income Individuals: Efficiency and one-bedroom units, including units designated for the mentally ill. This program will be a source of permanent housing for homeless individuals.
- Debt Capital Subsidies: Funds needed in order to raise the capital required for the two programs listed above.
- Nonprofit and Local Government Capacity Building: A revolving loan fund for nonprofit organizations and local government agencies to provide seed money for housing projects and funds for staff training and technical assistance.

Rental Housing for Low Income Families

RECOMMENDATION: State appropriations of $16 million to provide write-down funds and direct rental subsidies for housing for low income families. The proposed program would provide approximately 500 units, all of which must be at least two-bedroom units and at least 80 percent of which must be three or more bedroom units. Some matching funds may be required from local government. The program would assist families with incomes up to 60 percent of area median income. Priority would be given to those projects that serve families with the lowest incomes. Local government, for-profit , and nonprofit owner/sponsors would be eligible to participate in the program. A goal of the program would be to allocate funds to those developments that would remain affordable for 30 years. The rehabilitated two-bedroom apartment units would be affordable to households with very low incomes with the use of a direct rental subsidy. A funding allocation plan would be developed to ensure that funds are distributed statewide. Within the metropolitan area, funds would be allocated to ensure that areas outside of Minneapolis and St. Paul receive a fair distribution of the metro area allocation. (Note: The commission also recommends that the state appropriate an additional $150,000 for the cost of making 20 of these newly constructed three-bedroom units accessible. This recommendation is found in the Accessible Housing section.)

BACKGROUND: Families with children need large housing units. The program would provide large (predominantly three-bedroom units) to families with incomes up to 60 percent of area median income. Efforts would be made to combine state funds with federal, local, and foundation dollars in order to assist as many families as possible with the state resources that are made available. The program's cost and volume were calculated assuming that the rehabilitated two-bedroom units would rent for an average of $160 through the use of the direct rental subsidy, which is affordable to an AFDC family with two children. Cost and volume calculations for the new construction three-bedroom units assumed that the units would rent for an average of $500, which is affordable to a family with an income equal to 50 percent of the area median.

IMPLEMENTATION: Financing provided by MHFA or private lenders. The direct rental subsidy would be administered by MHFA for eligible families.

COMMISSION'S FUNDING RECOMMENDATION: $16 million

Rental Housing for Low Income Individuals and the Chronically Mentally Ill

RECOMMENDATION: State appropriations of $6 million to provide write-down funds and direct rental subsidies for housing for low income individuals. A total of approximately 300 units, both efficiency and one-bedroom units, would be provided by the program. Two million dollars of the appropriations (approximately 100 units) would be set aside for housing for the mentally ill. Housing for the mentally ill would be coordinated with the provision of social services to tenants. Housing opportunities for this population should take full advantage of all housing types, including facilities which provide for independent living and those which have supervised living arrangements. The target population for this program is households with incomes at or below 25 percent of area median income. Special consideration would be given to those projects that serve the lowest income individuals. Local government, for-profit and nonprofit owner/sponsors would be eligible for the program. A goal of the program would be to allocate funds to those developments that would remain affordable for 30 years. A funding allocation plan would be developed to ensure that funds are distributed statewide. Within the metropolitan area, funds would be allocated to ensure that areas outside of Minneapolis and St. Paul receive a fair distribution of the metro area allocation.

BACKGROUND: This program would provide permanent housing to individuals who might otherwise find themselves in transitional housing or in a homeless situation. Program costs and volume were calculated assuming an average rent of $140/month. This is equal to 30% of the income of an individual on social security.

IMPLEMENTATION: Financing provided by MHFA or private lenders.

COMMISSION'S FUNDING RECOMMENDATION: $6 million, with $2 million of the $6 million targeted for housing for mentally ill persons.

Debt Capital Subsidies

RECOMMENDATION: State appropriation of $1 million dollars for debt capital subsidies needed in order to raise the capital necessary to operate the rental financing programs described on the previous two pages. MHFA would provide debt capital funds only if long-term mortgage loans are not available from private lenders with equivalent terms.

BACKGROUND: The rental financing programs provide subsidies to make rental units affordable through the use of deferred loans, grants, and direct rental subsidies. Debt capital subsidies are needed in order to raise the long-term capital for the loan portions of the financing. Debt capital subsidies would be used to provide security for the sale of bonds and to provide the lowest possible long-term interest rate to program participants.

IMPLEMENTATION: MHFA to administer in conjunction with the other rental financing programs.

COMMISSION'S FUNDING RECOMMENDATION: $1 million

Rental Subsidy Linked to the PATHS Program

RECOMMENDATION: State appropriation of $9 million dollars for the initial start-up (first two years) of a rental subsidy program tied to the Priority Access to Human Services (PATHS) program. It is estimated that the total cost of the program over six years will be $22.7 million.

BACKGROUND: PATHS is a state initiative to encourage AFDC recipients to obtain education and training in order to avoid long-term dependence on public assistance. The program would provide a monthly rental subsidy to eligible recipients. If fully funded the program would subsidize rents for 2,600 participants over a six-year period.

IMPLEMENTATION: The PATHS housing subsidy would be overseen by MHFA and other appropriate state agencies, which could contract with local PHAs or HRAs to administer the subsidies.

COMMISSION'S FUNDING RECOMMENDATION: $9 million

Capacity Building for Nonprofit Organizations and Local Governments

RECOMMENDATION: The State of Minnesota should establish a program that provides funds for staff support, training, and pre-development costs for nonprofit and local government development entities. A statewide revolving loan fund (modeled after a similar loan fund administered by the Greater Minneapolis Metropolitan Housing Corporation (GMMHC)) should be established to provide nonprofit organizations and local government agencies with no-interest bearing loans for housing projects. The MHFA, at its discretion, may use existing nonprofit entities to operate a revolving loan fund in designated areas of the state. To be eligible to operate an area-wide loan fund, the nonprofit organization must have sufficient professional housing development expertise to determine the economic feasibility of an applicant's proposed project. The loan would be used to pay for project pre-development costs and would be repaid at the time the nonprofit organization or the local government secured the project's financing package. In addition, funds should be appropriated that assist nonprofit organizations in building capacity to effectively manage the housing development process. These funds would be earmarked for the Minnesota Department of Trade and Economic Development to be used to expand the Community Development Corporation (CDC) Program to include housing related programs.

BACKGROUND: Although nonprofit organizations and local governments play a vital role in providing affordable housing and take on some of the most difficult challenges in inner-city neighborhoods and rural communities, they operate with limited staff and limited financial capacity. Programs that enable nonprofit organizations to expand their capacity to provide housing and housing related services are necessary if nonprofits' contributions to affordable housing are to continue growing.

IMPLEMENTATION: MHFA is to administer the revolving loan fund. The Minnesota Department of Trade and Economic Development is to administer the expansion of the CDC Program.

COMMISSION'S FUNDING RECOMMENDATION: $1 million: $750,000 for the revolving loan fund, and $250,000 to Trade and Economic Development for the expansion of the CDC Program.

HOMELESSNESS PREVENTION

In recent years, the number of individuals utilizing shelters for homeless people has increased dramatically. An especially disturbing trend is the growing number of families with children seeking accommodation in Minnesota's shelter system. Although the reasons for homelessness cannot be generalized, the problem homeless people face is the same: they have no permanent place to live.

The commission recommends three policy responses. First, an adequate supply of affordable permanent housing must be available to low income persons. Second, programs and policies must be designed to help households while they are still in their homes, rather than after they have lost their housing. Third, for those persons who find themselves in a homeless situation, programs must be available that enable the transition back into permanent housing. The rental housing programs described in an earlier section address the need for permanent housing available to low income households. The recommendations which follow address the second and third policy responses through statutory changes, direct financial assistance programs, and the expansion of current programs.

•People frequently become homeless because they become delinquent on their rent or mortgage payments and are, as a consequence, evicted from their homes. Once evicted, it is extremely difficult to find housing that is affordable and many people become homeless. New Jersey has established a successful program for assisting households at risk of losing their housing through direct rent or mortgage payments. The proposed Mortgage and Rental Assistance Demonstration Program is modeled after the New Jersey Program and would be established in designated areas of the state.

•Transitional housing provides a stable but temporary housing option for those without permanent housing. Transitional housing is linked with other human services including job placement, education, and child care. It represents a necessary step toward permanent housing for many homeless individuals and families. The commission recommends that current MHFA transitional housing programs be combined and expanded.

•The supply of decent, affordable housing for migrant workers in Minnesota is inadequate. Migrant workers are often forced to get hotel vouchers under the General Assistance or Emergency Assistance programs. Vouchering people into hotels is an expensive and inadequate response to the needs of migrant workers. The proposed Migrant Labor Housing Demonstration Program would provide permanent housing in areas where migrant workers are employed.

•State and locally funded development activity sometimes results in the loss of low income housing and the displacement of tenants. In many cases, relocation benefits are provided to those persons that lose their homes but these benefits do not assist those displaced tenants or homeowners who cannot find units to rent or purchase at similar costs. Once torn down, already scarce low income housing is lost from the housing inventory. The commission recommends that a housing impact statement be required before state or local government provides funds for a project that will destroy five or more low income housing units in one area. The purpose of this new legislation is to compel public officials to explicitly consider the effect of a project on the stock of affordable housing before the project is undertaken.

•Ensuring that housing is kept in a safe and habitable condition is an important element in the prevention of homelessness. Housing that is allowed to deteriorate to the point where it is uninhabitable results in the displacement of tenants, many of whom end up in a homeless situation. The enforcement of local housing codes is the one tool local governments have to ensure that housing is adequately maintained. However, because of the fragmented nature of the current court system in relation to housing cases, long delays in the resolution of cases, and a fine structure that has little deterrent effect, this tool is not as effective as it could be. The commission recommends the appointment of court referees to hear housing disputes coupled with the establishment of a rent escrow system and stricter penalties for noncompliance with housing inspection and court orders. The commission proposes that these changes be implemented as a pilot project, with a three-year sunset provision, in St. Louis, Hennepin, and Ramsey Counties.

•Unlawful termination of utilities, evictions, and lockouts frequently result in homelessness as low income tenants are forced out of their homes and onto the street. In addition, for families with limited incomes, application fees and tenant screening fees make it nearly impossible to find a place to live. The following recommendations strengthen existing statutes to discourage illegal activities from happening. They allow for more stringent penalties and clarify the language of existing statutes:

- •Statutory damages for unlawful utility termination and exclusion from the property.
- •Emergency remedies for unlawful eviction, constructive eviction, and utilities termination.
- •Regulation of tenant screening/reference companies.

Transitional and Permanent Housing

RECOMMENDATION: (1) The State of Minnesota should appropriate funds to MHFA for the creation of additional transitional and other low income housing units. The money would be used either to purchase and rehabilitate existing public and/or private properties or to build new units. The proposed program would work in conjunction with three existing MHFA transitional and low income housing programs: the Homeless Demonstration Program, the Temporary Housing Program, and the Low Income Persons Living Alone Program. The state should combine the three programs into a newly consolidated program that has the flexibility to better use the housing stock of a given area of the state.

(2) In conjunction with providing funds for the purchase, rehabilitation, and new construction of transitional housing units, the state should increase the level of funding for the Department of Jobs and Training's (DJT) Temporary Housing Demonstration Project. The DJT program currently works in conjunction with the MHFA program by providing funds for the programing component of transitional housing. The commission endorses DJT's appropriation request for the Temporary Housing Demonstration Project. The increase in the DJT's funds would assure adequate social services are provided in the new transitional housing units.

BACKGROUND: Transitional housing provides a stable but temporary housing option for those without permanent housing. Recognizing that those without homes often have needs that extend beyond housing, transitional housing provides residents with additional services such as job placement, education or job training assistance, and child care. There are currently 31 transitional housing projects operating in Minnesota.

IMPLEMENTATION: MHFA would administer the purchase, rehabilitation, and new construction component of the program. DJT would administer the programing component of the program.

COMMISSION'S FUNDING RECOMMENDATION: $1 million (in addition to the MHFA appropriation request) for the transitional housing programs administered by MHFA.

Migrant Labor Housing Demonstration Program

RECOMMENDATION: The State of Minnesota should set aside funds for a migrant housing demonstration project which would purchase and rehabilitate existing public and private properties or build new housing units in areas where migrant workers are employed. The demonstration program would target those areas where large numbers of migrant workers receive hotel vouchers under the Emergency General Assistance (EGA) or Emergency Assistance (EA) programs. In addition, the housing could serve as transitional housing during periods of the year when migrant workers are not using the units.

BACKGROUND: The housing problems of the migrant labor population warrant special attention. One of the primary obstacles to decent and affordable housing for migrant laborers is that farmers are not required to provide housing for the migrant workers they employ. In order to avoid the cost of housing their employees, some farmers insist that migrant workers apply for EGA or EA benefits and secure housing before they are hired. Vouchering people into hotels is extremely expensive and passes the cost of farm labor on to the entire community.

IMPLEMENTATION: MHFA would administer the program.

COMMISSION'S FUNDING RECOMMENDATION: $200,000

Mortgage and Rental Assistance Demonstration Program

RECOMMENDATION: In an effort to prevent individuals and families from becoming homeless, the State of Minnesota should create, as a demonstration program, a separate rental and mortgage assistance program for those individuals ineligible for Emergency Assistance or General Assistance. Individuals who have lost their housing or are in danger of losing their housing as a result of a short-term disruption or decrease in their income, and whose income did not exceed 80 percent of the area median income during the previous two years, would be eligible for the program. For eligible applicants without homes, the program would assist with payment for the security deposit, monthly rent, or both. For eligible applicants at risk of losing their housing, the program would assist with past-due and/or future monthly rent or mortgage payments. The amount of assistance received by any individual or family would be determined on a case-by-case basis; however, no individual or family would receive more than six months of rental/mortgage assistance. Moreover, any individual receiving assistance under the program would be expected to partially or fully reimburse the state for assistance provided. No individual or family would be required to repay the portion of monthly rental assistance that exceeded 50 percent of monthly income, and all individuals and families receiving mortgage assistance would be required to repay the entire amount of assistance. At the recommended level of funding, the demonstration program would not operate statewide. Rather, a limited number of areas of the state would be selected for the program.

BACKGROUND: In recent years the number of individuals utilizing shelters for homeless people has increased dramatically in Minnesota. If this trend is to be reversed, policies that address the root causes of homelessness must be implemented. Policies are necessary which emphasize prevention of homelessness by helping people to stay in their homes.

IMPLEMENTATION: The Department of Jobs and Training will provide funds to local agencies. Local agencies which already distribute Emergency Assistance will distribute these funds to eligible program participants.

COMMISSION'S FUNDING RECOMMENDATION: $800,000

Housing Impact Statement

RECOMMENDATION: In order to prevent additional losses of low income housing, the state should require a housing impact statement to document the loss of low income housing as a result of a state/local government-funded activity. New state legislation would require that a housing impact statement be filed before the state or local government provides funds for projects which remove five or more units of low income housing in one location. Properties that had been vacant two or more years would be exempt from the five-unit threshold. The housing impact statement would document any adverse impact on low income housing as a result of a project's activity, determine whether or not the community has enough affordable housing to accommodate low income displaced persons, establish the amount and type of housing (if any) that needs to be replaced, and estimate the replacement cost of those units.

BACKGROUND: Currently many development activities provide relocation benefits to individuals who lose their housing as a result of a publicly-funded activity; however, these benefits do not assist displaced tenants or homeowners who cannot find units to rent or purchase at similar costs. The proposed housing impact requirement would ensure that the state or local governments do not intentionally or unintentionally diminish the stock of affordable housing.

IMPLEMENTATION: Local governments will review their housing impact statements. State governments will review their housing impact statements.

PRESERVING ACCESS TO EXISTING RENTAL HOUSING

Appointment of Referees to Hear Housing Cases

RECOMMENDATION: As part of a pilot project for Hennepin, Ramsey, and St. Louis Counties, legislation should be enacted to authorize the appointment of special referees. The referees would be empowered to adjudicate all cases related to residential housing including code violations, unlawful detainers, landlord/tenant damage actions, and evictions. The pilot project would have a three-year sunset provision.

BACKGROUND: The current legal mechanisms for resolving landlord and tenant disputes is inadequate. Judges are rotated in and out of housing-related court calendars, resulting in little consistency of decisions. The current system is fragmented. Code violations are heard on one calendar, unlawful detainers on another, and landlord/tenant damage actions on another. The appointment of referees, who would be expert in housing law, would have the effect of coordinating the adjudication of all housing related cases in one court.

IMPLEMENTATION: Enabling legislation.

Establishment of a Rent Escrow System

RECOMMENDATION: As part of a pilot project in Hennepin, Ramsey, and St. Louis Counties, legislation should be passed enabling tenants to deposit rents with the clerk of the district court when tenants obtain verification from local housing code officials that their dwelling is in violation of local codes. The pilot project would have a three-year sunset provision.

BACKGROUND: Under the Tenant Remedies Act, a tenant may withhold rent and try to resolve the dispute in eviction court. Rent escrowing would put both the tenant and the landlord in a more secure position than is possible under the present system. With rent escrowing, the rent is deposited with the clerk of the court upon verification of a code violation. The escrow deposit triggers a hearing with a referee who would hear the evidence and could issue repair orders or dismiss the case. The rent would remain in escrow pending the repairs; however, the referees could order disbursements from the escrow deposits to cover the costs of the needed repairs.

IMPLEMENTATION: Enabling legislation.

Stricter Penalties for Noncompliance With Court Orders

RECOMMENDATION: As part of the pilot project for Hennepin, Ramsey, and St. Louis Counties, legislation should be passed to authorize the referee, with affirmation of the district court judge, to order civil fines for failure to comply with orders for repairs issued by a housing inspector or a referee. The fine for the first failure to comply shall be $250; $500 for the second, and $750 for the third and subsequent violations. Fines shall only be imposed if the court determines that there has been willful disregard of a court order or an inspection order. Fines shall be used to support the pilot project. The pilot project would have a three-year sunset provision. Legislation should also be enacted authorizing that landlords or owners be charged with a gross misdemeanor if such a person has been fined on two previous occasions in a three-year period for any property he or she may own.

BACKGROUND: At present, fines for noncompliance are set too low. It frequently makes economic sense for an owner to pay the fine rather than make the required repairs. By setting the fines higher and by initiating a criminal proceeding after two instances of noncompliance, this legislation will serve to compel owners to make the repairs necessary to keep their properties in a safe and habitable condition.

IMPLEMENTATION: Enabling legislation.

Statutory Damages and Attorney's Fees for Unlawful or Intentional Utility Termination

RECOMMENDATION: Minnesota Statutes Sec. 504.26 be amended to provide that the tenant shall recover from the landlord the greater of treble damages or $500, and reasonable attorney's fees.

BACKGROUND: The unlawful termination of utilities often leads to low income tenants being forced into a homeless situation. Minnesota Statutes Sec. 504.26 provides that a tenant can seek treble damages (triple actual expenses incurred) against a landlord who unlawfully or intentionally terminates the tenant's utilities. The treble damage penalty, however, does not deter some landlords from terminating the utilities at a property where there are low income tenants. Since low income persons have very little money to cover their expenses, they will stay with family or friends or in a shelter rather than in a hotel. Because the tenant does not incur expenses, there are no damages to treble and the current statute has little deterrent effect.

IMPLEMENTATION: Change in existing state statute.

Statutory Damages and Attorney's Fees for Wrongful Eviction and Unlawful Exclusion

RECOMMENDATION: Minnesota Statutes Sections 577.08, 557.09, and 504.255 be consolidated and incorporated into an amended Sec. 504.255 which would provide that the tenant shall recover from the landlord the greater of treble damages or $500 and reasonable attorney's fees for wrongful eviction or unlawful exclusion.

BACKGROUND: Three statutes provide for treble damages where the tenant is removed from the property or kept out of the property without lawful authority (Minnesota Statutes Sections 577.08, 557.09, and 504.255). Since low income tenants have very little money damages following an unlawful eviction or unlawful exclusion, there will be little or no damages to treble. The current statute, therefore, fails to deter landlords from undertaking these activities. In addition, the existence of three unlawful eviction damages statutes in two different chapters is unnecessarily confusing.

IMPLEMENTATION: Change in existing state statutes.

Emergency Remedies for Unlawful Eviction, Constructive Eviction and Utilities Termination

RECOMMENDATION: Minnesota Statutes Section 566.175 be amended to define "unlawfully removed or excluded from lands or tenements" to include overt or affirmative acts that may have the effect of forcing eviction. Such actions would include, but not be limited to, the termination of utilities, and the removal of doors, windows, or locks.

BACKGROUND: Minnesota Statutes Section 566.175 clearly applies to the landlord who forcibly removes the tenant from the premises or who locks the doors so that the tenant cannot gain entry into the property. It is unclear whether the existing statute applies to cases where a door, window, or lock is removed, thereby excluding the tenant from the property. The recommended change would clarify the language of the existing statute to include these types of activities.

IMPLEMENTATION: Change in existing state statute.

Regulation of Tenant Screening Companies

RECOMMENDATION: Enact legislation which would expressly regulate any company or individual that regularly engages in whole or in part in the practice of assembling, maintaining, or evaluating information about tenants for the purpose of furnishing reports on tenants to third persons. The legislation shall include the following: (1) Require that these companies disclose the existence of reports, upon request, and permit tenants to correct or otherwise explain any item in the report. It should further require that the company provide the correction or explanation to any third party requesting the report. (2) If the company obtains information from court files, the company must be required to accurately reflect the outcome of the court proceeding. (3) It is frequently difficult for tenant screening companies to get accurate information from the courts on a timely basis. Legislation should be enacted to require that the courts make information available on the outcome of all housing-related proceedings, including unlawful detainers. (4) If the landlord requires the tenant to pay a fee to cover the cost of a tenant screening report, the landlord shall be limited to charging only the amount of the actual cost of the report. (5) The landlord shall supply the tenant with a copy of the report upon request since the tenant has paid for the report. (6) The landlord shall be restricted in the number of credit reporting fees he or she can collect from prospective tenants to a number reasonable in relation to the number of vacant units available at that time.

BACKGROUND: Because Minnesota law does not expressly regulate tenant screening companies, many tenants in Minnesota have considerable difficulty renting housing because of inaccurate or incomplete reports. Reports are often incomplete, and as a result, landlords cannot make an informed decision about a tenant's record. For example, tenant screening companies may simply report that an unlawful detainer action was filed against a tenant without reporting the outcome of the action. In addition, some landlords collect fees from many different tenants despite having only one or two vacancies. Application fees of this type make it difficult for low income tenants to find affordable housing.

IMPLEMENTATION: State legislation.

THE PRESERVATION OF EXISTING SUBSIDIZED HOUSING

Minnesota's publicly subsidized affordable housing stock is at risk. During the 1990's, Minnesota will face the potential loss of a substantial portion of its approximately 70,000 units of privately and publicly owned subsidized rental units for low and moderate income families. Because the problems that threaten to decrease this stock vary from project to project, programs designed to address these problems must be flexible in their implementation.

Federal low income housing programs that work through the private sector provide private developments with mortgage financing assistance, rental subsidy assistance, or both. In exchange for this assistance, owners sign contracts agreeing to abide by affordability restrictions and use controls. These contractual agreements last between five and 40 years. When the contracts expire, use controls and affordability restrictions are terminated, and owners are free to convert the units to market rate apartments.

Approximately 49,000 units of rental housing in Minnesota receive some type of mortgage or rental assistance. During the next five years, the Section 8 rental assistance contracts on approximately 3,180 of these units are due to expire. If the federal government allows these contracts to expire and the state and local governments take no action, these units will be lost from the affordable housing stock. Moreover, additional units are at risk if owners choose to opt out of Section 8 contracts or prepay assisted mortgages, something their contracts legally entitle them to do. Unlike the units at risk due to Section 8 contract expirations, it is difficult to determine how many of these additional units are actually vulnerable to conversion to market rate housing through opt-outs and prepayments. Vulnerability to conversion is a function of such factors as the project's ownership structure, the location of and market for the project, the physical and financial condition of the property, the ability to attract maximum market rate rents, and the effects of the federal Tax Reform Act of 1986 on the incentive to own low income housing.

Publicly owned housing is also at risk of being lost from the affordable housing stock due to the lack of funding at the federal level for capital repairs and operating costs. During the last seven years, federal funds for modernization and maintenance of public housing have been cut, and consequently many necessary repairs have been left unattended. If these repairs continue to be postponed, some units may not be suitable for occupancy and will be lost from the stock of affordable housing.

Preserving privately and publicly owned subsidized housing is a national problem that requires a new federal commitment to the continued subsidization and support of low income housing. The State of Minnesota should urge the federal government to renew its commitment to the provision of subsidized low income housing by providing the necessary subsidies, incentives, and funds.

Although the state is limited in what it can do to preserve federally subsidized rental housing, it should actively pursue the options that are available to it at the state level in order to ensure that tenants are not displaced from affordable housing. The commission recommends that the State of Minnesota take the following actions:

•Create a pool of funds to preserve and maintain the existing stock of privately and publicly owned subsidized housing. The use of funds would vary depending on the type of subsidized housing at risk and the nature of the problem threatening the housing project or unit. Legitimate uses of the funds would include secondary mortgage financing, low interest loans for acquisition of properties, targeted property tax relief, equity loans, and public housing modernization.

•Prepare to enact state legislation that would replace current federal legislation if and when it does expire, requiring owners of subsidized housing to give tenants a one-year notice if the project will no longer be operated as affordable housing.

•Enable the state, counties, and local municipalities or agencies to negotiate the purchase of privately owned subsidized housing in order to preserve that housing as affordable. These entities would then provide other qualified persons and entities, who agreed to keep the housing affordable, the first option to purchase the development .

•Authorize public housing authorities, with the approval of city council, to levy up to one mill for public housing improvement, operating costs, and/or housing development.

Funds for the Preservation of Existing Subsidized Housing

RECOMMENDATION: The State of Minnesota should provide a pool of funds to preserve and maintain the stock of existing privately owned and publicly owned subsidized housing. State funds would be used only when it had been demonstrated that an attempt had been made to obtain the necessary funds from the federal government and when the affordability or livability of the unit would be lost without state assistance. In addition, state funds would be used to leverage funds from other sources including local governments and private foundations. Because the specific use of state funds would vary depending on the housing development, the funds could be used for multiple purposes including:

1) Secondary Mortgage Financing: To allow private owners of subsidized housing to take some of the appreciated equity out of the project if the owners agreed to maintain the federal subsidies for the remainder of the contract.

2) Low Interest Loans for Acquisition of Properties: To provide low interest loans to public agencies, nonprofit and for-profit developers for the acquisition of developments that are being threatened by Section 8 contract expirations or opt-outs or by mortgage prepayments. These loans would only be available to a developer who agreed to maintain the acquired development as affordable housing in the long term. The terms of the agreement would be enforced through a regulatory agreement.

3) Property Tax Relief: To provide targeted property tax relief to developments when there is an agreement by the owner to maintain the long-term affordability of the units and when there has been a determination by MHFA that other available incentives or mechanisms are not adequate to preserve long-term affordability.

4) Public Housing Modernization: To provide funds for modernizing and saving public housing units that would otherwise be lost from the affordable housing stock without the assistance of state funds.

5) Equity Loans: To provide secondary financing to a nonprofit or for-profit entity based on the appreciated value of the property and its ability to amortize the second loan. The terms of the agreement would maintain the federal subsidy for the remainder of the contract.

BACKGROUND: Minnesota's federally subsidized affordable housing stock is at risk. During the 1990's, Minnesota will face the potential loss of a substantial portion of its existing inventory of privately owned, assisted rental housing for low and moderate income families due to possible mortgage prepayments and Section 8 contract expirations and renewal opt-outs. Because of recent revisions of the federal tax code, many private owners of this subsidized housing may no longer find it economically or financially feasible to continue operating their property as affordable housing. Unless incentives are provided to replace the ones lost under the Tax Reform Act of 1986, some private owners may exercise their right to opt out of Section 8 contracts and prepay mortgages where market conditions are appropriate. Even with incentives, some owners of subsidized housing may wish to opt out of their Section 8 contracts or prepay their mortgages in order to convert their developments to market rate units. When such a situation occurs the state should be prepared to help nonprofit and for-profit developers purchase such properties as long as these developers agree to keep the housing affordable in perpetuity. In addition to the risk of losing privately owned subsidized housing, publicly owned housing is also threatened due to a lack of funding at the federal level. The amount of funding currently received for comprehensive modernization is not sufficient and needs to be supplemented by state and local funds.

The program recommended by the commission would provide MHFA with the flexibility to respond to the variety of problems Minnesota may face during the next two years with regard to existing subsidized housing. Some of the methods presented in this recommendation have been successfully employed in the past. For example, the MHFA employed the equity loan option to provide secondary financing on a 90-unit subsidized family development. This action ensured that the 90 units will continue to remain subsidized for the remaining 30 years of the development's contract life.

IMPLEMENTATION: Funds are to be distributed and monitored by MHFA.

COMMISSION'S FUNDING RECOMMENDATION: $15 million

Local Support of Existing Publicly Owned Housing and the Creation of a Local Housing Development Fund

RECOMMENDATION: Authorize public housing authorities, with the approval of the city council, to levy up to one mill for housing development, improvement costs, or operating costs. This mill is to be outside of the mill levy limit.

BACKGROUND: Mill levies are an important source of local funds for publicly owned housing improvements. This recommendation increases the amount that can be levied by the public housing authority and makes it clear that the levy is outside of the city's levy limits.

IMPLEMENTATION: Enabling legislation.

Notice Requirement

RECOMMENDATION: The State of Minnesota should review the federal notice requirement on Section 8 contracts and be prepared, if and when the federal provision expires, to enact legislation that would require owners of federally subsidized housing developments to give tenants a one-year notice that a Section 8 contract will expire, that an owner will opt out of a Section 8 contract and mortgage, that an owner will prepay a mortgage if the prepayment would result in the termination of any use restrictions which apply to the development, or that the owner will terminate another subsidy program.

BACKGROUND: Section 262 of the Housing and Community Development Act of 1987 currently requires owners of Section 8 contracts to give HUD and tenants a one-year notice that a Section 8 contract will expire or that an owner will opt out of a Section 8 contract at the end of its renewable term. This provision is due to expire in 1990.

IMPLEMENTATION: State legislation to be prepared after further review and analysis of the options for implementing state law.

Option to Purchase Privately Owned Subsidized Housing

RECOMMENDATION: The State of Minnesota should expand Chapter 462A to empower any state, county, or local municipality or agency, including but not limited to MHFA, PHAs, and HRAs, to negotiate the purchase of privately owned subsidized housing in order to preserve the subsidized housing. These entities would then have the authority to transfer ownership of the project to an owner that would guarantee the long-term affordability of the housing involved.

BACKGROUND: As a result of expiring Section 8 contracts, possible mortgage prepayments, and renewal opt-outs, Minnesota will face the potential loss of a substantial portion of its existing affordable housing stock during the next decade. One possible option for preserving the existing stock of affordable housing is to provide state, county and local governments with the authority to negotiate the purchase of privately owned subsidized housing.

Giving MHFA a first option to purchase such developments would allow MHFA to purchase and own, on an interim basis, developments which it has not financed. MHFA would not purchase these developments with the intention of being a long-term owner, but only to preserve the units as affordable housing in the short term while purchasing and financing arrangements were being worked out with a long-term owner.

IMPLEMENTATION: Statutory change to allow MHFA to purchase and own property it has not financed, and statutory change to expand Chapter 462 authority.

SINGLE FAMILY HOME FINANCING

Homeownership is a goal for many Minnesotans. However, due to certain mortgage lending practices and mortgage insurance practices, some Minnesotans are not able to realize this goal. Because the fees mortgage lenders receive are based on a set percentage of the mortgage and because the cost of servicing the loan does not vary greatly with the amount of the mortgage, many lenders are unwilling to provide services for which they will not be adequately compensated. Furthermore, mortgage insurance companies are often reluctant to invest in geographic areas where they determine the prospects for resale to be poor in the event of foreclosure. Consequently, a lack of access to capital and the unavailability of mortgage insurance are two obstacles to homeownership faced by many low and moderate income families attempting to purchase lower priced homes.

Increasing the opportunity for homeownership benefits the communities and neighborhoods in which the homes are located, as well as the families who purchase these homes. Because of changing demographic trends, the pressure to maintain existing housing will increase during the next decade. The goals of increasing opportunities for homeownership for low and moderate income families and preserving existing housing can both be achieved through programs that enable low and moderate income families to purchase and rehabilitate existing housing.

Finally, the commission also recognizes that elderly homeowners are often faced with unique financial and homeownership problems. Although many elderly homeowners have substantial equity built up in their homes, they are cash poor, and many will sell their homes to increase their cash reserves even though they still prefer and are physically able to stay in their own homes.

The commission developed the single family home financing recommendations to address the issues described above. The recommendations are as follows:

•Capital Availability for Lower Priced Homes: Make capital available to families purchasing lower priced houses by authorizing the development of a correspondent network that would specialize in the purchasing and packaging of mortgage loans in amounts below $40,000.

•Coinsurance: Develop a statewide coinsurance program that will provide private mortgage insurance on certain conventional mortgage loans in areas where such insurance is currently unavailable.

•Purchase/Rehabilitation: Implement a purchase/rehab program that enables qualified borrowers to simultaneously purchase and rehabilitate an existing house through the execution of a single mortgage.

•Home Equity Conversion: Encourage MHFA to pursue a home equity conversion program that enables elderly homeowners of modest income to convert the equity which is tied up in their homes to spendable cash while remaining in and retaining title to their homes.

Capital Availability for Lower Priced Homes

RECOMMENDATION: The State of Minnesota should authorize the development of a correspondent network specializing in the purchasing and packaging of mortgage loans in an amount below $40,000. Under the program, MHFA could either purchase market rate FHA/VA and conventional loans for lower priced homes that had been processed by a local mortgage lender, or completely process mortgage loans on behalf of a local mortgage lender.

The program would target low and moderate income households whose income does not exceed 110 percent of area median income. Furthermore, the program would provide additional assistance through MHFA's Homeownership Assistance Fund to first-time homebuyers whose income did not exceed 80 percent of area median income.

BACKGROUND: Both the single family and financial technical groups reporting to the Governor's Commission on Affordable Housing have noted that there is considerable difficulty acquiring capital for FHA/VA and conventional mortgage loans in amounts lower than $40,000. This problem is particularly serious in rural areas and communities in Minnesota with a population of under 20,000, where a substantial portion of the housing is priced under $40,000. Investors are reluctant to purchase mortgage loans secured by homes located in areas that are perceived as economically depressed and where home prices are considered to be "too low", with little resale potential in the event of mortgage foreclosure. Furthermore, many lenders that would purchase such loans consider the mortgages to be too small and too costly to process, unless substantially higher fees are charged. If higher fees are charged, the loans become more costly for the borrower. Ironically, with emphasis on creating and retaining affordable housing, many home sales are more difficult because home prices are too low.

IMPLEMENTATION: MHFA-administered program in cooperation with lenders in all parts of the state.

COMMISSION'S FUNDING RECOMMENDATION: $1 million for anticipated volume of $20 million.

Private Mortgage Coinsurance Program

RECOMMENDATION: The State of Minnesota should establish a statewide coinsurance program to be administered by MHFA that will provide private mortgage insurance on high loan-to-value ratio (greater than 90%) conventional mortgage loans in areas where such insurance is currently unavailable. The program would be developed in conjunction with existing mortgage insurance providers with the coinsurance program sharing a specified percent (e.g. 50%) of the claims with private mortgage insurance carriers.

BACKGROUND: In recent years, private mortgage insurance companies have found it necessary to carefully scrutinize their policies regarding mortgage risk underwriting and have significantly tightened the standards under which they will provide mortgage insurance. One area where private mortgage insurance companies have reportedly implemented stricter policies is in providing mortgage insurance on proposed high loan-to-value ratio mortgage loans in areas or communities in which mortgage insurance default and claims frequency data reveal that the overall real estate market is "soft". In Minnesota, the implementation of this policy has resulted in the unavailability of private mortgage insurance for high loan-to-value ratio mortgage loans in large areas of the state. Because these mortgage loans are often requested by first-time homebuyers and other buyers with low and moderate incomes, the lack of this insurance is a substantial barrier to homeownership for these populations.

IMPLEMENTATION: MHFA-administered program in cooperation with existing private mortgage insurance carriers. The program would work in conjunction with mortgage loan programs delivered by local lenders in all parts of the state.

COMMISSION'S FUNDING RECOMMENDATION: $500,000 in state appropriations will provide coinsurance on approximately $15 million in loans.

Existing Home Purchase/Rehabilitation Program

RECOMMENDATION: The State of Minnesota should authorize the development of a market rate purchase/rehabilitation mortgage program that would enable borrowers to raise the funds to simultaneously purchase and rehabilitate existing housing through the execution of a single mortgage. Under the proposed program MHFA would purchase and/or process market rate FHA/VA and conventional mortgage loans. The program would require that homes meet industry-accepted underwriting criteria upon completion. The program would target the following properties:

1) modestly priced existing homes in need of substantial rehabilitation and repair;

2) homes that need to be made accessible for households with a disabled family member;

3) homes that need to be improved to provide greater energy efficiency.

The program would target low and moderate income households whose income does not exceed 110 percent of area median income. Furthermore, the program would provide additional assistance through MHFA's Homeownership Assistance Fund to first-time homebuyers whose income did not exceed 80 percent of area median income.

BACKGROUND: Several technical working groups reporting to the Governor's Commission on Affordable Housing have stressed the importance of preservation of the existing housing stock. Demographic trends are likely to result in the need for less new construction during the 1990's, which further stresses the need to maintain and improve existing housing. Many communities have expressed concern about abandoned and/or boarded up homes, substandard and/or deteriorating single family dwellings, and decline in the quality and appearance of the housing stock. One means to assist communities in addressing these concerns is to develop and implement an existing home purchase/rehabilitation mortgage loan program.

IMPLEMENTATION: MHFA-administered program.

COMMISSION'S FUNDING RECOMMENDATION: $1.5 million for anticipated mortgage loan volume of $10 million.

Home Equity Conversion Demonstration Program

RECOMMENDATION: MHFA should develop and implement a secondary market for home equity conversion loans for modest income elderly homeowners to encourage Minnesota participation in the HUD Home Equity Conversion Mortgage Insurance Demonstration. Borrowers over 62 years of age with substantial equity in their homes and incomes at or below 50 percent of area median income will be eligible for the program.

BACKGROUND: Home equity conversion refers to a means whereby individuals may convert the equity which is tied up in their homes into spendable cash while the owner still lives in and retains title to the home. To encourage the further development of home equity conversion mortgage loans, the Home Equity Conversion Mortgage Insurance Demonstration was authorized under the federal Housing and Community Development Act of 1987. Under the demonstration, HUD will insure mortgages on the homes of elderly homeowners enabling them to convert their equity into cash. To encourage use of the HUD demonstration program in Minnesota, MHFA proposes to work towards the development of a secondary market for home equity conversion mortgage loans meeting appropriate criteria.

IMPLEMENTATION: MHFA-administered program; amend Chapter 462A to provide MHFA with authority to make or purchase home equity conversion loans.

COMMISSION'S FUNDING RECOMMENDATION: The commission recommends no new funding for this program but encourages the MHFA to pursue the program using existing resources.

HOME IMPROVEMENT FINANCING

The most affordable housing is housing that already exists. It is much more cost effective to improve and maintain the condition and quality of existing housing than to build new units. Housing and neighborhood preservation will become increasingly important as the effects of the demographic realities of the 1990's are felt in the housing market. Reduced demand for rental housing and for small single family homes will result in some property owners deferring or neglecting needed maintenance activities. This, coupled with the aging of the housing stock in Minnesota, points to the need for state support of efforts to maintain and rehabilitate housing. The recommended home improvement programs are designed to promote the preservation of housing for low and moderate income households and to assist cities in neighborhood preservation activities. These recommendations are summarized briefly below:

•The MHFA currently administers several home improvement loan programs. The proposed Low Interest Rehabilitation Loan Program will provide affordable financing to low and moderate income households who, because they don't have enough income, don't qualify for financing under current MHFA programs.

•In many areas there are entire neighborhoods that require the rehabilitation of the housing stock, in addition to capital improvements, in order to make the neighborhood an attractive place for people to live. The recommended Neighborhood Preservation Loan Program will provide financing for housing improvements in areas designated by cities in an effort to promote neighborhood preservation. Cities will be expected to participate in the program with their own funds.

•Energy conservation improvements continue to be an important component of home improvement activities in Minnesota. The commission recommends that oil overcharge monies continue to be designated to subsidize loans for energy conservation improvements.

Low Interest Rehabilitation Loan Program

RECOMMENDATION: State appropriation of $2 million to provide funds for approximately 350 low interest rehabilitation loans over a two-year period.

BACKGROUND: The purpose of this program is to provide affordable financing to low and moderate income persons and families (adjusted family income not exceeding $12,000) who do not qualify for financing either under the MHFA Home Improvement Loan Program because they are considered a high credit risk or under the MHFA Rehabilitation Loan Program because their incomes are too high. Loans must be used to correct property defects or deficiencies that affect the safety, habitability, or energy consumption of the property.

IMPLEMENTATION: MHFA-administered program, delivered through community action agencies and local governments in all parts of Minnesota.

COMMISSION'S FUNDING RECOMMENDATION: $2 million

Neighborhood Preservation Loan Program

RECOMMENDATION: State appropriation of $2 million for an insurance reserve and interest rate write-down on 1,000 loans.

BACKGROUND: This program would provide property improvement financing with attractive terms and conditions as an incentive for neighborhood preservation activities. Eligible neighborhoods would be designated by cities. Cities will be expected to participate in the program with their own funds. Taxable debt will be the source of capital for this program.

IMPLEMENTATION: MHFA-administered program. Loans would be made by private lenders or local government agencies in the designated communities.

COMMISSION'S FUNDING RECOMMENDATION: $2 million

Home Energy Loan Program

RECOMMENDATION: The commission encourages the allocation of $3.1 million of oil overcharge funds to subsidize approximately 3,700 loans totaling $13 million.

BACKGROUND: The purpose of the program is to provide below market rate financing to persons and families for the purpose of making energy conservation improvements and for preventing, reducing, or eliminating radon gas in residential properties. A portion of the funds for the program revolve and are re-used so as to get more return on the investment of funds.

IMPLEMENTATION: MHFA-administered program delivered through local lenders in all parts of the state.

COMMISSION'S FUNDING RECOMMENDATION: $3.1 million of oil overcharge funds.

PROPERTY TAX

High property taxes are a principal barrier to providing affordable rental housing in Minnesota. According to a 1987 study published by the Institute of Real Estate Management, of a total of 120 cities of all sizes and types throughout the country, the Twin Cities had the highest property taxes per square foot for rental housing. On average, 20 percent of a tenant's rent goes for paying property taxes. Clearly, as property taxes increase, rents also increase and housing becomes less affordable.

The differential between property taxes on a homestead versus a nonhomestead residential property is large. For properties with the same assessed value, the property tax on the nonhomestead property is two to three and one-half times greater than the property tax on the homestead property. The property tax system needs to be reformed to narrow the tax disparity between rental and owner-occupied residential property and to simplify the system as a whole.

As the demographic realities of the 1990's begin to be felt in the housing market, it will be increasingly important to promote activities which preserve the quality and condition of the existing stock of housing. High property taxes discourage the rehabilitation of existing rental housing. The re-assessment of property after it has been rehabilitated translates into higher taxes and therefore can act as a disincentive for maintenance and preservation activities, which will be critically important in the 1990's. In addition, the disparity in tax rates described above acts as a disincentive for maintaining single family homes when rental is the only market option, a situation that is expected to occur with greater frequency in the 1990's.

The long-term affordability of housing is an important objective of the commission. In order to ensure that housing stays affordable over an extended period of time, rent restrictions are often tied by a public agency to favorable financing terms for the project. The property tax system can discourage the development of housing with long-term affordability objectives. If financing is received through the MHFA, a favorable tax classification is applied. However, if financing is received from a local government, no reduction in the tax rate is extended. Furthermore, not considering rent restrictions, which limit the income from a property, results in an inflated assessed value for the property, and inflated tax payments.

The property tax recommendations of the commission have been developed to address the issues described briefly above. The recommendations are as follows:

- Endorse efforts to reform the property tax system.
- Lower Tax Rates for Rent Regulated Properties.
- Lower the Nonhomestead Tax Rate.
- Tax Incentives for Rental Rehabilitation.
- Review of Property Assessment Procedures.

Property Tax Reform--Need for Legislative Action

RECOMMENDATION: The commission urges property tax reform in Minnesota. Tax reform should reduce the disparity between property taxes paid on rental versus owner-occupied residential property in such a way that property taxes do not constitute a barrier to the provision of affordable rental housing in the state. Reform should also result in a simpler and more understandable property tax system. Furthermore, reform must ensure that city tax bases are not negatively affected.

BACKGROUND: Property taxes on rental housing in Minnesota are the highest in the country. As such, the property tax system constitutes a barrier to the provision of affordable housing in the state. The differential between property taxes on rental versus owner-occupied housing is high. For properties of the same assessed value, the property taxes are two to three and one-half times higher on a rental property than on a homestead property.

Lower Tax Rates for Rent Regulated Properties

RECOMMENDATION: The Title II classification should be extended to any development where there are restrictions enforced by a public agency to ensure the affordability of rents. This would include projects financed by local governments and federal tax credit projects. This tax classification change would not apply to developments where the current tax rate is lower than the Title II rate.

BACKGROUND: MHFA-financed and federally subsidized developments get a lower (Title II, 2.5%) tax rate under the current tax system. The same rate should be available to projects that have rent restrictions tied to affordability objectives but are not MHFA-financed or federally subsidized projects. In addition, federal tax credit projects built before May 1988 do not qualify for the Title II class. This recommendation would extend the Title II rate to all federal tax credit projects, including those put in service before May 1988.

IMPLEMENTATION: Statutory change.

Lower Property Tax Rate for Residential Nonhomestead Properties

RECOMMENDATION: Reduce the property tax capacity rate from 3.5 percent to 2.5 percent for residential nonhomestead dwellings. This change would apply to nonresort rental dwellings with three or fewer units. The implementation of this recommendation shall be done in such a way that cities do not lose state aid as a result of the change.

BACKGROUND: Demographic projections suggest that there will be more and more owners of single family dwellings in areas where rental is the only viable market option for their units. The current tax system, with the disparity between nonhomestead and homestead tax rates, acts as a disincentive for maintaining single family homes as a source of affordable rental housing.

IMPLEMENTATION: Statutory change.

Rental Rehabilitation Property Tax Relief

RECOMMENDATION: For rental rehabilitation of low income housing, the Title II (2.5%) classification should be applied for a period of five years after the re-assessment. After the five-year period, the property would revert back to its old classification. Tax relief will only be granted for projects where the total cost of rehabilitation is at least 10 percent of the value of the building.

BACKGROUND: Higher property tax payments after a property has been rehabilitated and re-assessed acts as a disincentive for the rehabilitation of rental properties. Lowering the tax capacity percentage for five years after a property is rehabilitated would provide incentive for the rehabilitation of affordable rental units and may prevent these units from being lost from the housing inventory due to long periods of disrepair and deferred maintenance.

IMPLEMENTATION: Statutory change.

Review of Property Assessment Procedures

RECOMMENDATION: The commission requests a review of the training of property assessors and of the assessment appeals process to ensure that properties tied to long-term affordability agreements are being properly valued for tax purposes.

BACKGROUND: Under state law, assessors are supposed to take into account the cash flow of a building when assessing its value. For properties that have long-term rent requirements tied to affordability standards, cash flow considerations are a critical element of the assessment process. Not considering rent restrictions, which limit income from a project, results in an inflated assessment of the property and inflated tax payments.

IMPLEMENTATION: Request to the Department of Revenue.

ABANDONED HOUSING

The abandonment of housing, both multifamily and single family, is a growing problem in Minnesota and is expected to worsen in the 1990's. Saint Paul and Minneapolis have begun to keep some data on vacant/boarded-up buildings. In Minneapolis, there were 224 vacant/boarded-up buildings identified by the housing inspections division in January 1988, 30 percent more than were in the inventory in January 1985 (173 buildings). In Saint Paul, there were 235 vacant/boarded-up buildings in June 1988, 45 percent more than in March 1986 (162 buildings) when reliable records were first kept. Very little information exists documenting the reasons why owners walk away from their properties, the magnitude of the problem statewide, and the length of time housing remains vacant.

It is anticipated that the problem of housing abandonment will worsen in the 1990's. It is not and will not be a problem just faced by the Twin Cities. In the 1990's there will be fewer young households that traditionally have been renters and first-time homebuyers. In some communities, lack of demand will result in the abandonment of properties. Also, as property taxes on rental housing become more burdensome and the full impact of the federal 1986 Tax Reform Act is felt, it is expected that more rental housing will be abandoned.

When a property is abandoned, it deteriorates quickly, and becomes a blight on the neighborhood. It detracts from surrounding properties and represents a fire and safety hazard to neighborhood residents. The first two recommendations involve strengthening existing statutes to help local governments, nonprofit organizations, and other development entities intervene before housing is allowed to deteriorate, is abandoned, and is lost as a housing resource. The third recommendation enables cities to more effectively recover the cost of demolishing those buildings that have been abandoned and represent a safety hazard to neighborhood residents. These recommendations are:

- Strengthen the existing receivership statute.

- Shorten the redemption period on unoccupied, nonagricultural residential mortgage-foreclosed property.

- Allow cities to bring a judgment against the owner of abandoned property to cover the costs of removing the hazardous condition.

Strengthening the Receivership Statute

RECOMMENDATION: Amend Minnesota Statutes Sec. 566.29 to allow for the following:

(1) Add nonprofit organizations, neighborhood groups, financial institutions, and local authorities of the municipality to those entities eligible to be receivers.

(2) In addition to making the repairs necessary to abate violations, the receiver should be empowered, with the permission of the court, to effect the rehabilitation of the property in such a fashion as is consistent with maintaining safe and habitable conditions over the useful life of the property.

(3) Establish a revolving loan fund of $250,000 for use in receivership projects. Receivers should be allowed to cover their administrative expenses out of the fund. Property owners will be billed for expenses paid for by the fund.

(4) Building repairs and other services necessary to keep the building habitable (i.e., utility payments) would receive first priority for the use of the funds. Other expenses, such as tax payments and mortgage payments not able to be paid out of building income after these first priority expenses are covered, remain the responsibility of the property owner.

(5) Give receiver's expenses first lien status superior to all prior or subsequent liens with the exception of taxes and assessments.

(6) The receiver shall not be held personally liable except in extreme cases involving misfeasance, malfeasance, or nonfeasance of office.

BACKGROUND: Minnesota is one of ten states that has a receivership statute. However, receivership has rarely been used in Minnesota to address the problem of substandard and neglected property because of a lack of financial assistance available for receivers and because of potential receivers' fear of liability. Receivership would be used only in cases where there has been a history of non-compliance with the local housing code and when other enforcement measures (i.e., fines, court appearances) have been ineffective.

IMPLEMENTATION: Strengthen existing state statute. Establish a revolving loan fund of $250,000 to be administered by MHFA.

COMMISSION'S FUNDING RECOMMENDATION: $250,000

Shortening the Notice and Redemption Period for Vacant Single Family Mortgage-Foreclosed Properties

RECOMMENDATION: Change the existing statutes to reduce the public notice requirement from eight weeks to four weeks and the redemption period from six months to one month for all nonagricultural residential property that is unoccupied. Make the change applicable to dwellings with one to four units.

BACKGROUND: For those owners who have vacated a property and have no intention of curing the default situation, the notice period and the redemption period become a time of rapid deterioration of the property. The dwelling sits vacant, it becomes susceptible to vandals and criminal activity, and it represents a blight on the neighborhood. Frequently, by the end of the redemption period, the property has deteriorated to the point where it requires substantial rehabilitation to make it habitable and it no longer represents a viable, mortgageable property.

IMPLEMENTATION: Change in existing state statutes (580.23, 580.031).

Judgment Against the Owner for a Hazardous Building

RECOMMENDATION: Amend Minnesota Statute 463.21 to make the cost of removing the hazardous condition a judgment against the owner of the property and not a lien against the property.

BACKGROUND: Housing that has been abandoned often reaches the point where it must be demolished. Under the Hazardous Building Statute, a municipality may, after going through due process, demolish a hazardous building and assess the cost of the demolition against the property. Cities rarely recover these costs. The owners have walked away from the property, frequently taking insurance payments with them. Furthermore, the assessment against the property makes it difficult to sell the lot and re-use it for housing or some other function. Enabling municipalities to make a judgment against the owner rather than the property will allow cities to initiate collection proceedings against the owner and will make it more likely that costs will be recovered.

IMPLEMENTATION: Change existing state statute.

ACCESSIBLE HOUSING

For people with certain physical mobility disabilities, the search for affordable housing is complicated by their unique housing requirements. Wider doors, grab bars in the toilet and bathtub, lower electric switches and environmental controls, and maneuverable kitchens and bathrooms are the minimum features needed to make housing accessible to people in wheelchairs. In recognition of these special housing needs, the State of Minnesota requires through its state building code that approximately five percent of the units in newly constructed multifamily structures are made handicapped accessible. Although this requirement has increased the housing stock for disabled individuals, housing problems for the disabled persist.

One problem expressed by advocates for the disabled is the lack of accessible units with more than one bedroom. Because the state building code does not require that accessible units be of any particular size, there appears to be an adequate supply of accessible efficiencies and one-bedroom units and a shortage of larger (two or more bedroom) accessible units in some areas of the state. A second problem expressed by both landlords and disabled individuals is the lack of timely information about available vacant accessible units. Landlords complain that they cannot find disabled tenants who want to rent the units, while disabled individuals claim that they do not know when accessible units become available. In such instances, landlords who may prefer to rent accessible units to disabled persons may rent the unit to a nondisabled person. Landlords are not required by law to rent their accessible units to disabled tenants. A third problem faced by people with disabilities is the cost of converting standard housing into accessible housing. The cost of the necessary modifications to a single family home is often prohibitively expensive for disabled individuals and their families.

In order to alleviate these problems, the commission recommends that the State of Minnesota implement the following measures:

- Modify the human rights act so that priority for renting accessible units is given to disabled individuals.
- Conduct a study to determine the number and types of accessible units needed in Greater Minnesota. The results of this study and a similar study conducted by the Metropolitan Council may be used to modify the state building code to ensure that adequate numbers of accessible units larger than one bedroom are built.
- Establish five clearinghouses throughout the state to assist landlords looking for disabled tenants and disabled individuals looking for suitable housing.
- Increase the funding for an existing MHFA program that assists families who want to make their single family homes accessible for family members with disabilities.
- Provide funds to pay for the additional cost of making 20 percent of the proposed newly constructed, affordable, three-bedroom units accessible.

During the time that the commission was forming its recommendations on affordable housing for the disabled, the federal government was in the midst of enacting new fair housing legislation. Included in the new federal fair housing law is a provision requiring that all new multifamily structures with four or more units made ready for initial occupancy by March 13, 1991, be accessible and adaptable to people in wheelchairs. In buildings with no elevators, only ground floor units are required to comply with the law's provisions. Specifically, the law requires that all covered units and buildings be designed to include wide doorways, accessible entrances, reinforced bathroom walls, accessible controls and electrical switches, and wheelchair-maneuverable kitchens and bathrooms. The commission understands that the new federal law will affect the housing situation of disabled individuals in Minnesota. Therefore, the commission recommends that the State of Minnesota, at an appropriate time in the future, reexamine its accessible housing laws and regulations in light of these changes. The commission expects that the needs assessment study it is recommending will assist the state in this reexamination process.

Single Family Home Accessibility Modification Program

RECOMMENDATION: State appropriations of $250,000, in addition to the MHFA appropriations request, to be used to fund modifications made in single family homes needed to make the homes accessible to disabled residents.

BACKGROUND: The program would provide no-interest deferred accessibility loans/grants to homeowners for the modification of their existing homes.

IMPLEMENTATION: MHFA program administered through Community Action Programs and local governments.

COMMISSION'S FUNDING RECOMMENDATION: $250,000

Clearinghouse and Needs Assessment for Accessible Units

RECOMMENDATION: In an effort to assist both landlords and disabled individuals, the state should fund five clearinghouses for information on accessible units. The clearinghouses, located throughout the state, would provide an inventory of all accessible units and maintain a central waiting list for all existing vacancies. In addition, the state should fund a needs assessment study in Greater Minnesota of rental housing for the disabled. The study would examine the rent ranges of those seeking accessible units, the types of units needed, the current stock of accessible housing, and the rent ranges of those units. The Metropolitan Council will be conducting a similar study in the Twin Cities metropolitan area.

BACKGROUND: A lack of information about accessible units exists. Disabled persons who need housing often cannot find suitable vacant units and landlords who own such units often cannot find disabled tenants at the time the unit becomes available. Without an expedient means of locating a disabled tenant, landlords may rent the unit to a nondisabled person. Furthermore, there is not sufficient information about the demand and supply for such units, including the types of units needed and the rent levels people can afford. Additional information can assist the state in identifying and responding to the need for affordable, accessible housing.

IMPLEMENTATION: Administered by the Minnesota State Council on Disability.

COMMISSION'S FUNDING RECOMMENDATION: $150,000: Needs Assessment for Greater Minnesota = $25,000; Five Clearinghouses = $125,000 (these are estimated costs). Both the needs assessment and the clearinghouses are to be administered by the Minnesota State Council on Disability. The costs of the clearinghouses reflect start-up costs. There will be a need for continued financial support of this project beyond the 1990/91 biennial budget.

Modifications in State Human Rights Act and State Building Code

RECOMMENDATION:

(1) The State of Minnesota should amend the state human rights act to give priority for the rental of accessible units to disabled individuals. If a family that does not include a disabled person is living in an accessible unit, the family would be required to leave the unit if each of the following three conditions apply: they have lived in the unit at least six months, a disabled person wants the unit, and a similar nonaccessible unit in the complex is available at the same rent. All nondisabled persons renting an accessible unit would be informed of the possibility of losing their housing to a disabled person prior to entering into any legal rental agreement.

(2) Chapter 1340 of the state building code requires that approximately five percent of all new multi-unit construction be accessible. If the needs assessment of rental housing for the disabled (see the previous recommendation) determines that there is a need for larger accessible units, chapter 1340 of the state building code should be changed to require that a certain percentage of newly constructed accessible units be larger than one bedroom.

BACKGROUND: Current regulations on federally assisted multi-unit rental construction and the state building code require that five percent of all new rental units be accessible; however, most of the units produced under this law are efficiencies or one-bedroom units. The consensus among those working in the field is that a shortage of affordable, larger (two or more bedroom) accessible units exists.

IMPLEMENTATION: Change in existing legislation.

Newly Constructed Three-Bedroom Accessible Units

RECOMMENDATION: The State of Minnesota should appropriate $150,000 to fund the cost of making 20 of the proposed 500 newly constructed two- and three-bedroom rental units accessible. This recommendation is made in conjunction with the recommendation entitled Rental Housing for Low Income Families in the Rental Housing section of the report. The funds would be used to pay for the additional cost of making 20 percent of the three-bedroom units accessible.

BACKGROUND: As of 1985, there were only 45 accessible, subsidized, three-bedroom rental units in the entire state of Minnesota. The lack of larger, affordable, accessible units limits the housing options for disabled individuals with families and/or live-in help. Thus, there is a need to ensure that adequate numbers of three-bedroom accessible units are included in the rental housing construction program.

IMPLEMENTATION: MHFA-administered program.

COMMISSION'S FUNDING RECOMMENDATION: $150,000

FAIR HOUSING

Fair housing law guarantees equal access to housing for all Minnesotans regardless of race, color, creed, religion, national origin, sex, disability, familial status, or status with regard to public assistance. Nonetheless, discrimination in housing still occurs. The Minnesota Department of Human Rights has documented cases of housing discrimination based on race, gender, national origin, disability, and familial status. Moreover, the number of complaints has increased in recent years. For the past four years, the department received an average of 100 housing-related complaints per year, whereas in previous years the annual average in Minnesota was approximately 60 cases. Although the number of reported cases may appear to be small, it is important to realize that housing discrimination is subtle and often difficult to detect. Even when discrimination is recognized, the victims often choose to find another place to live rather than go through the process of filing a complaint. Thus, it is reasonable to assume that housing discrimination is far more prevalent in Minnesota than the figures suggest.

Because the populations affected by discrimination in housing are often populations with limited incomes, fair housing problems constitute a barrier to affordable housing for many Minnesotans. In order to increase the opportunity for all Minnesotans to attain decent and affordable housing, the commission recommends that the State of Minnesota take the following actions:

- Extend the affirmative marketing guidelines to include all housing construction in which the developer receives over $50,000 in state or local funds.
- Fund a statewide fair housing education and public information campaign.
- Utilize the existing Minnesota statute which prohibits local and municipal governments from discriminating against residential settings for special populations, and establish an allocation plan that mandates the distribution of these facilities throughout the state.

In addition to individual instances of housing discrimination, the commission recognizes that certain lending practices of some financial institutions may result in limited investment in certain neighborhoods, communities, and regions. In order to discourage discriminatory lending practices by financial institutions and encourage investment in local neighborhoods and communities, the commission recommends that the Minnesota Commissioner of Commerce recommend in his report to the state legislature that the State of Minnesota adopt community reinvestment legislation. Specifically, the commission recommends that the community reinvestment legislation contain the following provisions:

- Adopt the proposed rules governing the monitoring of investment activity of interstate banks.
- Extend the interstate banking law to include all state financial institutions accepting deposits.
- Institute an incentive system that links the ability of a financial institution to serve as a depository of state funds with a high community investment rating.

Extending Affirmative Marketing Guidelines

RECOMMENDATION: The State of Minnesota should extend affirmative marketing regulations to include all housing construction in which the developer receives over $50,000 in state or local funds. Although no quotas will be required, goals would be set and the management and/or marketing agency must actively inform minorities and other protected groups about the available housing in an effort to achieve these goals.

BACKGROUND: One way to promote open housing policies is through affirmative marketing programs. Modeled after affirmative action hiring programs, affirmative marketing encourages the practice of open housing by providing information about housing availability to minorities and other protected classes. Specifically, affirmative marketing guidelines require that housing developers and management companies actively inform protected classes of the housing opportunities available to them.

IMPLEMENTATION: Change in existing statute. Compliance with the affirmative marketing regulations will be enforced through the local or state funding agency.

Recommendations to the Commerce Department on State Community Investment Legislation

RECOMMENDATION: The Commission on Affordable Housing requests that the Commissioner of Commerce incorporate the following recommendations into his report to the legislature on state community investment legislation:

1) Support of Proposed Changes in Rules on Interstate Banking: The proposed rules governing the monitoring of the investment activity of interstate banks should be adopted. According to the proposed rules, the Department of Commerce will establish a rating system that will assign each interstate-owned financial institution a rating of excellent, good, satisfactory, less than satisfactory, or unsatisfactory based on the financial institution's community lending performance. In addition, the Commissioner of Commerce should assure that the reports submitted to the department are in a form which is easily understood by and accessible to the public.

2) Extend the Interstate Banking Law to Include All State Financial Institutions Accepting Deposits: Current state legislation monitoring the investment practices of banks applies only to interstate financial institutions operating in Minnesota. The law should be extended to include all state chartered financial institutions accepting deposits.

3) Linked Deposit Incentives: The State of Minnesota should provide financial institutions with incentives to achieve a high community investment rating. Specifically, the state should link the ability of a financial institution to serve as a depository for state funds with a community investment rating of good or excellent. Presently, there are no incentives for financial institutions to achieve a high community investment rating.

BACKGROUND: Because some financial institutions discourage investment in certain communities and/or geographic areas, securing financing has become one of the major obstacles faced by many low income neighborhoods and communities engaged in housing and/or community development. In order to identify and inhibit discriminatory lending practices by financial institutions, state and federal governments enacted legislation that prohibits such practices and requires public disclosure of community investment activity. Although well-intended, these laws have not had a large impact on community investment activity, primarily because they lack an effective rating system, do not provide banks with incentives for community investment, and in the case of state legislation, apply only to a limited number of financial institutions.

IMPLEMENTATION: Letter to Commissioner of Commerce.

Enforcement of Existing State Override of Local Ordinances for Residential Group Settings

RECOMMENDATION: In an effort to ensure suitable housing for special populations, the state should utilize existing legislation to override local zoning ordinances that attempt to restrict the placement of residential homes for special populations. According to Minnesota Statutes Section 245A.11 local municipalities cannot exclude persons of disability from any municipal zoning ordinance. In addition to enforcing current state law, the state should estimate the housing needs of special populations and establish an allocation plan that mandates the distribution of these facilities throughout the state in a way that provides locational choice and avoids over concentration.

BACKGROUND: In order to protect persons of disability (mentally ill, developmentally disabled, physically handicapped, or functionally impaired) from discriminatory housing practices, state law preempts local zoning ordinances that treat licensed residential settings for people of disability different from other types of residential housing. Specifically, a municipality must consider a Department of Human Services (DHS) licensed residential setting that houses six or fewer persons of disability as a permitted single family residential use of the property for zoning purposes. Furthermore, a locality must consider a licensed residential setting that houses between seven and 16 persons of disability as a permitted multifamily use of the property for zoning purposes. An allocation plan would be a more affirmative, proactive, and effective way of meeting the housing needs of special populations.

IMPLEMENTATION: Responsibility of enforcement lies with the Department of Human Services. DHS should work with the Metropolitan Council, counties, and cities to establish the allocation plan.

Fair Housing Education and Public Information Campaign

RECOMMENDATION: The State of Minnesota should fund a fair housing education and public information campaign which seeks to fight discrimination by educating Minnesotans about fair housing laws and policies. The program components would include: (1) conducting a public information advertising campaign; (2) creating a library/index for fair housing information; (3) carrying out a fair housing education campaign for children in grades K-12; and (4) providing special fair housing education and training to key participants in the housing system, such as appraisers.

BACKGROUND: Although illegal, discrimination in housing occurs in Minnesota. Many individuals who face discrimination are not aware of fair housing laws which protect their right to equal access to housing. Increasing people's awareness of their rights promotes open housing practices and combats discrimination.

IMPLEMENTATION: Department of Human Rights.

COMMISSION'S FUNDING RECOMMENDATION: The Housing Trust Fund monies designated for the Real Estate Education Research and Recovery Fund (5% of the total Housing Trust Fund) shall be used to fund the campaign. The campaign budget is estimated at $150,000.