

April 12, 2007

Alan L. Joles
US Department of Housing & Urban Development
Minnesota State Office
920 Second Avenue South
Minneapolis, MN 55402

Re: Responses to HUD -State of Minnesota 2007 Action Plan of the 2007-2011
Consolidated Housing and Community Development Plan

Dear Alan L. Joles:

On behalf of the Minnesota Housing Finance Agency, the Minnesota Department of Human Services, the Minnesota Department of Employment and Economic Development (DEED), as the lead agency for completing the State's Action Plan, enclosed please find the State's 2007 Action Plan responses. Included are:

- Executive Summary 91.300(entire section) – changes - summary of citizen comments and summary of goals and accomplishments.
- Action Plan 31.320(k)(2) HOME(pages 20-22) – Revised section - (ii) Resale and recapture of HOME funds used for Homeownership.

Please contact me at (651) 297-1980 or by email at reed.erickson@state.mn.us if you have any questions or need additional information.

Sincerely,



Reed Erickson, Director
Small Cities Development Program

Cc: Ruth Drolsum, HUD
Jim Cegla, Minnesota Housing
Pat Leary, Department of Human Services

Enclosures

91.300 Executive Summary

Introduction.....	2
Citizen Participation.....	2
Summary of Outcomes and Objectives.....	5
Evaluation of Past Performance.....	6

91.300(a-c) EXECUTIVE SUMMARY AND INTRODUCTION

Beginning in Fiscal Year 1995, the U.S. Department of Housing and Urban Development (HUD) required states and local communities to prepare a Consolidated Plan in order to receive federal housing and community development funding. The Plan consolidates into a single document the previously separate planning and application requirements for Small Cities Development Program (SCDP), Emergency Shelter Grants (ESG), the HOME Investment Partnerships Program and Housing Opportunities for People with AIDS (HOPWA) funding, and the Comprehensive Housing and Affordability Strategy (CHAS). Consolidated Plans are required to be prepared every five years; updates to the five-year Plan are required annually.

The Purpose of the Consolidated Plan is:

1. To identify a state's housing and community development needs, priorities, goals and strategies; and
2. To stipulate how funds will be allocated to state housing and community development nonprofit organizations and local governments.

The FY2007 State Consolidated Plan

The State of Minnesota FY2007 Consolidated Plan (Plan) represents the state's housing and community development planning and application for HUD block grants for the 2007-2011 five year period. During FY2007 the Department of Employment and Economic Development (DEED) will administer the Small Cities Development Program (SCDP), the Minnesota Housing Finance Agency (Minnesota Housing) will administer HOME and HOPWA funding, and the Department of Human Services (DHS) will administer the ESG program. DEED is lead agency in the preparation and oversight of the Plan.

The Plan provides new information and trends related to Minnesota's current and future housing and community development needs. The report contains data gathered through regional forums, key person interviews, and secondary sources. This information is used to create five-year strategies and craft a one-year action plan addressing the state's most pressing needs. These strategies will be evaluated annually in updates to the Plan, and the action items will be modified as needed.

The State of Minnesota's FY2007 Consolidated Plan was prepared in accordance with Sections 91.300 through 91.330 of the U.S. Department of Housing and Urban Development's (HUD) Consolidated Plan regulations.

Citizen Participation Process

The Consolidated Plan was developed with a strong emphasis on community input. Brochures explaining the purpose of the Consolidated Plan and how citizens can contribute to the process, including an agenda and dates of the public forums and public hearings, were emailed to citizens.

and local governmental and nonprofit organizations throughout the state at the beginning of the public process. Copies of the Draft Consolidated Plan were mailed to all the state depositories identified in the Citizen Participation Plan, which may be viewed at the DEED and Minnesota Housing websites, <http://www.deed.state.mn.us/> and <http://www.mhfa.state.mn.us/> respectively.

Citizens participated in the development of the Consolidated Plan through:

- Attending a regional public forum. Five regional public forums were held in various locations throughout the state. During the forums, participants identified the top housing and community development needs in their communities and their priorities for spending HUD funds to address the identified needs.
- Sending public comments. Citizens had a chance to submit written comments on housing and community development needs throughout the process, beginning on the date of the first public forum, July 24 and ending December 12, 2006. The draft Consolidated Plan public comment period was held between November 6 when the draft plan became available at the public depositories through December 12, 2006. Copies of public comments received, along with the state's response, are located in Appendix E.
- Attending public hearings. Two public hearings were held during the Consolidated Planning process. The first hearing was held to discuss housing and community development needs on October 10. The second hearing was held on December 12, 2006 to gather comments on the draft Plan. Copies of the comments received at the hearings are located in Appendix E.

Summary of Citizen Comments

The following is a brief summary of citizen comments that were obtained from forums held across Greater Minnesota during the spring/summer of 2006. Detailed information can be found in Appendix E - Comments.

Identified Housing and Community Development Needs

Participants expressed that the majority of CDBG funds should be focused on affordable housing creation, housing rehabilitation and preservation(including public housing), and public infrastructure. Participants felt that the greatest need for HOME funding was rehabilitation and preservation for existing housing stock. Continuation of the MURL program was discussed including the ability to use funds for mortgage financing. The public supported the continuation of funds for First Time Home buyer programs. The top concern for ESG funds was the overall cut back in funds to end long term homelessness.

Comments and views not accepted and the reasons therefore.

The state rejects the comment to use MURL funds for mortgage financing because state licensing requirements would prohibit that activity.

Summary of Goals and Accomplishments

Minnesota Housing Rental Rehabilitation. Minnesota Housing's goal for HOME Rental Rehabilitation units in 2006 was a total of 610 units. This compares to only 397 units completed in 2006. The reason for the variance is that the "goals" are based on funds to be committed to projects in the year, and "accomplishments" are completed projects which were all from loans made in previous years. For the 2006 funding cycle, Minnesota Housing committed nearly \$7 million to rehabilitate 661 units, none of which would be reported in 2006 accomplishments.

Minnesota Urban and Rural Homesteading Program. The number of households assisted was less than the units of housing Minnesota Housing had anticipated funding under this program; however, that may be due to a combination of an increase in average costs, the difference between Minnesota Housing's projection of goals for **units acquired or rehabilitated** and how HUD requires jurisdictions to report **household assisted**, and HUD's suspension of the use of contracts for deeds in the program, preventing the sale of more recent units.

ADDI. The shortfall between goals and accomplishments is the result of delays in program implementation that were required to modify the program to meet certain HUD requirements. All available funds have been committed to borrowers.

HOPWA. The difference between goals and accomplishments was insignificant.

Based on the above analysis and explanations, Minnesota Housing would do nothing to close the gap between goals and accomplishments.

CDBG. For FFY 2006, DEED awarded funds to rehabilitate 85 new residential rental units and created 42 new units (single family and multifamily housing). Not meeting the goals is a direct result of a reduction in overall funding, slowing of the housing economy, and the rising cost of new housing construction. The goal for SCDP Owner Occupied Rehabilitation was 555 units using \$9,269,130 with accomplishments of 450 units for 9,173,858. The rising cost of rehabilitation made a substantial impact on the reduction in goals. For Commercial rehabilitation the goal was 95 units with accomplishments of 117. Exceeding the goals was achieved by using a greater percentage of owner's funding combined with leveraged funds. Goals and accomplishment were equal in the Public Facility activity for an overall assistance to 6 communities. Economic Development exceeded their goals of 431 jobs by creating 445 jobs. For homeownership assistance, the goals were 14 units with 0 accomplishments as no applications were received requesting such this funding. No adjustments will be made due to the flexibility in the SCDP Program to serve multiple activities.

Summary of Objectives and Outcomes

SCDP Activities	Objective	Outcome	
Owner Occupied Rehab	2	1	Objective 1 Create suitable living environments 2 Provide decent affordable housing 3 Create economic opportunities
Rental Rehabilitation	2	1	
Commercial Rehabilitation	3	3	
Public Facilities Projects	1	3	
New Construction	2	2	
Homeownership Assistance	2	2	
Relocation	2	1	
Acquisition	1	1	
Clearance	1	1	
HOME Activities			
Rental Rehabilitation	2	2	
Single-family Rehab and Resale (MURL)	2	2	
Downpayment Assistance (ADDI)	2	2	
HOPWA Activities			
Emergency rent, mortgage, utility assistance	2	2	
ESG Activities			
Emergency Shelters	1	1	
Homeless Prevention	2	2	

Evaluation of Past Performance

(year, number, grant amount)

American Dream Downpayment Initiative (ADDI)		
2006	76 households	\$755,000
HOME Rental Rehabilitation		
2002	249 units	\$2,439,219
2003	453 units	\$5,763,244
2004	255 units	\$3,165,222
2005	365 units	\$4,822,880
2006	421 units	\$5,871,143

Minnesota Urban and Rural Homestead program (MURL)		
2002	23 units	\$1,654,482
2003	21 units	\$1,813,300
2004	42 units	\$3,549,298
2005	30 units	\$2,385,461
2006	22 units	\$2,176,838
Housing Opportunities for Persons with AIDS		
2002	78 Households	\$75,242
2003	132 Households	\$163,892
2004	142 Households	\$119,273
2005	146 Households	\$129,851
2006	120 Households	\$112,679

Evaluation of Past Performance(continued)

Small Cities Development Program		
(2006 statistics show minimal reporting at this time)		
Owner Occupied Housing		
2002	405 units	\$7,329,726
2003	695 units	\$7,215,352
2004	148 units	\$4,437,403
2005	48 units	\$3,015,861
Rental Rehabilitation		
2002	302 units	\$3,158,384
2003	71 units	\$1,005,423
2004	85 units	\$1,777,851
2005	5 units	\$194,097
Commercial Rehabilitation		
2002	121 units	\$3,158,384
2003	108	\$2,218,286
2004	19 units	\$964,595
2005	2 units	\$373,227
New Housing Construction		
2002	24 units	\$618,711
2003	8 units	\$250,000
2004	20 units	\$900,000
2005	0 units	\$0.00

Homeownership Assistance		
2002	2 households	\$25,575
2003	0	\$0
2004	6 households	\$288,744
2005	0	\$0
Acquisition of Real Property		
2002	37 units	\$780,485
2003	29 units	\$1,242,702
2004	15 units	\$805,464
2005	4 units	\$694,689
Water and Sewer		
2002		\$5,344,590
2003		\$3,221,542
2004		\$3,588,108
2005		\$540,176

Emergency Shelter Grants		
2002	32,729 individuals	\$1,173,000
2003	40,105 individuals	\$1,166,000
2004	35,408 individuals	\$1,184,699
2005	20,723* individuals	\$1,197,334
2006	In progress	\$1,198,192

*The number of individuals dropped in FFY 2005 due to ability of the new Homeless Management Information System (HMIS) data collection system to provide unduplicated counts of individuals served.

Executive Summary attachment:

Goals for Emergency Shelter Grant

"The goals for the Emergency Shelter Grants Program for FFY 2006 was to serve 19,000 homeless individuals in 36 shelters. The results for FFY 2006 were 20,723 individuals served in 43 shelters. The number of persons served closely approximated the goal. A larger number of shelters were funded than the established goal in order to meet shelter needs in previously unnerved/underserved areas."

Capacity: Points will be awarded based on the evaluation of administrative capacity to complete the activity in a timely manner. The application must include information documenting an applicant's history in administering prior SCDP funds and/or other programs similar in nature, to determine whether the applicant has the ability to complete the proposed activity. Prior SCDP performance will be taken into consideration for future funding. Organizational capacity plays a large role in the ranking of applications.

Cost-Effectiveness: Up to 30 points will be based on evaluation of the extent to which the proposed project will make cost-effective use of grant funds, including consideration with, and use of, funds from other public and private sources.

State Demographics: Up to 30 points

- a. the number of poverty-persons in the area under the applicant's jurisdiction.
- b. the percentage of persons residing in the area under the applicant's jurisdiction.
- c. the per capita assessed valuation of the area under the jurisdiction of the applicant, such that points are awarded in inverse relationship to the applicant's per capita assessed valuation.

Applicants will be notified in writing of the award decisions made within this competition. DEED will ensure that documentation and other information regarding each application submitted under this notice of funding availability is sufficient to indicate the basis upon which assistance was provided or denied.

§§91.320(k)(2) HOME

(ii) Resale and Recapture of HOME Funds used for Homeownership

The MURL Program will utilize recapture of the full amount of downpayment assistance to enforce a five year affordability period using a zero percent deferred loan secured by a junior lien.

ADDI will enforce affordability restrictions by a zero percent interest rate deferred payment subordinate mortgage that requires repayment of some or all of the HOME assistance only if the home is sold or ceases to be the borrower's principal residence during the five year period of affordability. The amount that is subject to recapture will be reduced by 20 percent of the original amount of assistance on each anniversary of the assistance until, after five years, the amount subject to recapture is zero dollars.

Amounts subject to recapture in both programs are limited to the amount of net proceeds available (sales price minus payment of superior claims against the property and closing costs). Net proceeds are first used to repay downpayment assistance before distributing the balance to the homeowner or other claimants.

(iv) HOME ADDI

ADDI will be made available for pilot projects that support EMHI, an initiative to close the gap between white-homeownership rates and homeownership rates of households of color.

Downpayment assistance of up to \$5,000 may include the cost of acquiring the home and related eligible soft costs. Rehabilitation costs will not be an eligible expense.

Marketing to mobile home parks and public housing located in the area of the selected pilot projects will be conducted directly by Minnesota Housing or by the selected pilot projects. Outreach will be a written communication on ADDI to the directors of the public housing agencies for them to give to their clients. Outreach to mobile home parks will consist of a request to the mobile home park owner or management agent to distribute fliers within the park or to post them in common areas of the park, such as laundromats, the management office, and bulletin boards.

Pilot projects will be required to ensure the suitability of families to undertake and maintain homeownership by mandating that, at minimum, buyers complete training in the "Home Stretch" curriculum or its equivalent. "Home Stretch" is the curriculum of the Home Ownership Center, a nonprofit organization dedicated to promoting sustainable home ownership for low- and moderate-income Minnesotans through the development and delivery of quality, standardized education, counseling, and related support services. The following organizations have homebuyer education requirements and have approved Home Stretch as fulfilling those requirements: Minnesota Housing, Fannie Mae, Freddie Mac, FHLMC, FHA, Rural Development, Mortgage Guaranty Insurance Corporation, and a number of private mortgage insurers.

§91.320(k)(3) Emergency Shelter Grant Program (ESGP)

ESGP funds are administered by DHS and allocated through a competitive funding process in conjunction with Minnesota Transitional Housing and Emergency Service Program funds each biennium.

Fund allocation. ESGP funds are awarded as part of a funding allocation process that combines the grant with available money from two other programs: ESP and THP. Together, ESGP and these programs provide about \$ 4.8 million annually in funding for homeless activities.

ESG funds are available on a statewide basis. Funding is awarded to programs within all CoC regions of the state. The allocation of funding is dynamic process based on the overall quality of responses to the evaluation criteria. The state does not approach the evaluation process with a set of preferred activities or funding prioritization. Rather, applications are evaluated and funded based on their overall quality and according to the regional and local priorities established by each regional CoC committee.

In recent years, because of the increase in the funding available for transitional housing projects, a greater percentage of ESGP funds have been used for emergency shelter and homeless prevention activities. This is not a result of prioritizing ESGP funds for these activities; instead, it is a product of the funding process for all of the homeless programs. (However, areas of the state without Minnesota Family Homeless Prevention and Assistance Program funds are given priority for ESGP prevention funds, limited to 30 percent of the total ESGP funds.) Because the majority of the state's funding dedicated to homelessness is restricted to other purposes such as permanent and supportive housing and transitional housing activities, the use of ESGP for emergency shelter and homeless prevention ensures that these activities receive funding.

Priorities for the use of ESG funds may change over the five year period covered by this plan depending on the changes in the availability of other homeless program funds including but not limited to the Minnesota Transitional Housing Program, Minnesota Emergency Services Program or Family Homeless Prevention and Assistance Program. The state will use the flexibility of ESG funds to create the most appropriate balance of prevention, shelter, transitional housing and supportive services only resources depending on what available in the state as a whole.

Evaluation criteria. Applications for funding are divided into CoC regions and are reviewed by DHS staff. DHS staff may also seek input from other state agencies regarding proposals pertaining to their particular area of expertise. DHS seeks input from CoC Committees by allowing each CoC to review and rank proposals and make funding recommendations based on the following criteria:

- The completeness of the application (possible 10 points)
- Collaboration and planning (10 points)
- Program design (20 points)
- Supportive services (20 points)
- Efforts to meet best practices for transitional housing programs and efforts to work with homeless (10 points)
- Revenue and other sources of support (10 points)
- Reasonableness of the budget (20 points)

¹ Pages 35 through 37 of Section V of the 2002-2006 Consolidated Plan describe the Continuum of Care regions and provide points of contact for additional information.

Notice of RFP. RFPs are sent to current grantees, all known homeless program providers in the state, social service agencies, CAAs and tribal governments (although not eligible for ESGP), and to other parties upon request.

Leveraging. Leveraging is not required for the ESGP, but the state is expected to provide matching funds equal to the amount of ESG funding, to meet the matching requirement of \$ 3,238,000. The Minnesota Transitional Housing Program and \$350,000 from the Minnesota ESP are used. Service providers leverage private and local government funds to provide an adequate funding base for their programs.

Awards Adjustment if Funding is More or Less than Initially Estimated

If the amount of ESG funds actually received are more or less than the amount of funding originally estimated in the initial fund allocation, the DHS will adjust awards as follows:

In the initial review of applications for funding, review-committee members score and rank each application according to its merit. Criteria used to score and rank proposals are:

- Completeness of application
- Need for the program
- Need for assistance
- Efforts that outreach and program recruitment efforts reach the hardest-to-serve populations
- Reasonableness and effectiveness of program design
- Reasonableness of budget

If a lesser amount of funding is received, the review committee will reconvene and apply reductions to the lowest-ranked proposals that received funding. The number of affected proposals will depend on the amount of the reduction. Similarly, if additional funding is received, the applications with the highest ranking that did not originally receive all the funding they requested will be awarded additional funds. Again, the number of affected proposals will depend on the amount of the increase.