



2014 Capital Investment Request

for Supportive Housing, Federally Assisted Housing Preservation and Foreclosure Remediation, and Public Housing Rehabilitation

\$50 million

\$40 million in Housing Infrastructure bonds (Appropriation bonds)
\$10 million in Public Housing bonds (Government Obligation or GO bonds)

The Need

- More than 600,000 households in Minnesota pay more than 30% of their income for housing.
- More than 10,000 Minnesotans are homeless on a given day.
- Children with their parents make up thirty-five percent (35%) of the homeless population; a 9% increase since 2009.
- The gap between incomes and the cost of housing inhibits our ability to improve educational outcomes for our children, build a stronger workforce, improve health and reduce disparities.

The Request

Funds will be used to:

- **PRESERVE** existing federally subsidized rental housing (**HIB**)
- **STABILIZE** communities impacted by the foreclosure crisis by creating new affordable rental housing opportunities and homeownership opportunities through community land trusts (**HIB**)
- **CONSTRUCT** or acquire and rehabilitate supportive housing, particularly for persons experiencing or at risk of experiencing homelessness (**HIB**)
- **REHABILITATE** public housing to improve health and safety issues, reduce energy consumption and reduce operating costs (**GO**)

The Results

Investment of \$50 million would build or rehab an estimated 2,500 housing units which will:

- Help reduce chronic homelessness, which can help lower the expenditures on jails, emergency rooms and detox facilities.
- Help communities recover from foreclosure by rehabilitating deteriorated foreclosed homes.
- Preserve federally assisted Section 8 housing units throughout the state, which leverages some of the state's most affordable housing with ongoing federal subsidies.



Why Now?

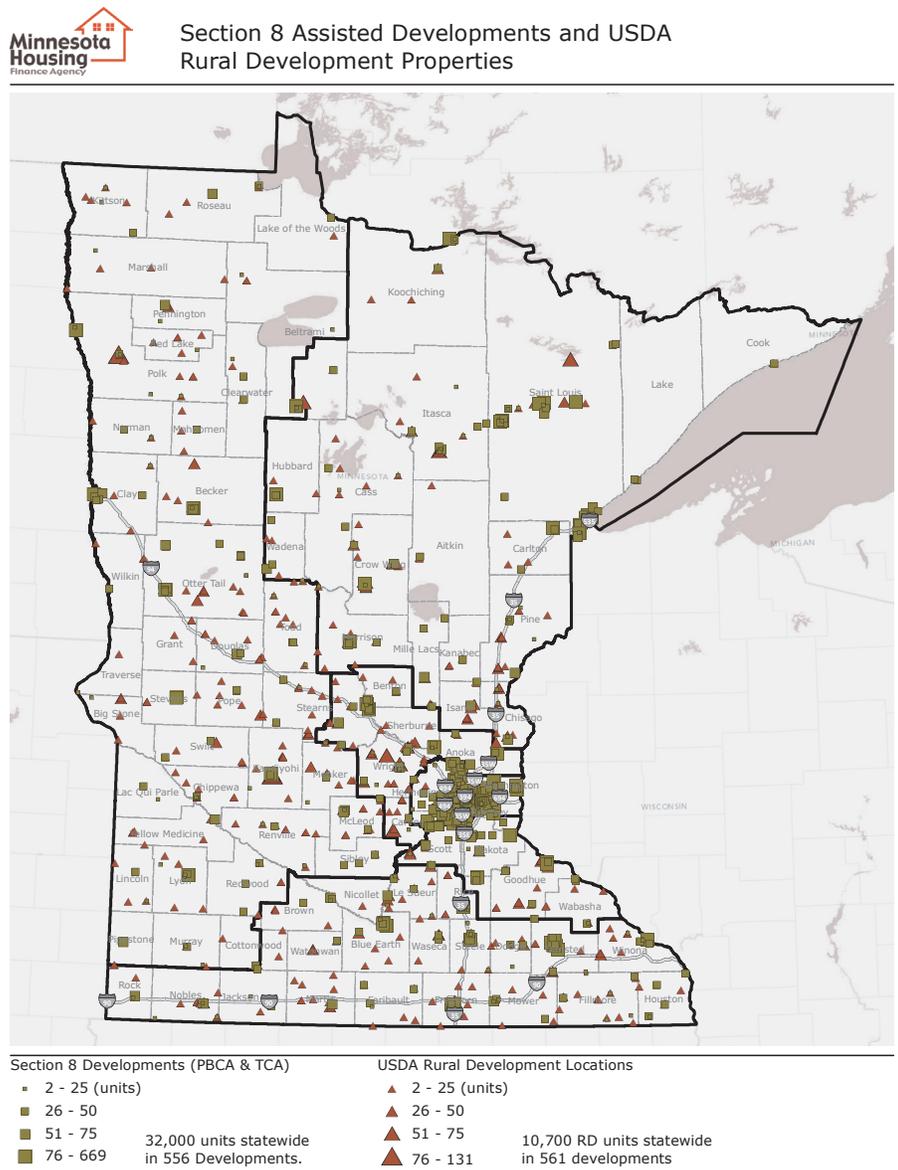
Affordable housing is an important essential part of Minnesota's infrastructure. Stable housing results in better educational outcomes for our children, a stronger workforce now and in the future, better health outcomes and reduced disparities among communities.

Preserve At-Risk Affordable Housing (HIB)

- Every \$1 in state funding for gap financing for preservation leverages approximately \$3 in private capital funding. For every \$1 in state funding for preservation of federally assisted housing, \$4 in future federal funding is secured.
- Much of Minnesota's affordable housing stock is at least 30 years old and many of the properties do not generate sufficient income to maintain long-term viability as affordable housing.
- Section 8 housing is among the most affordable housing in the state. Tenants pay 30% of their income towards the rent with the balance paid by the federal government.
- In the next 5 years an estimated 30% of the 31,000 privately owned, federally assisted Section 8 housing units are at risk of opting out of the program and may no longer be affordable housing.

Rebuild Communities through Foreclosure Recovery (HIB)

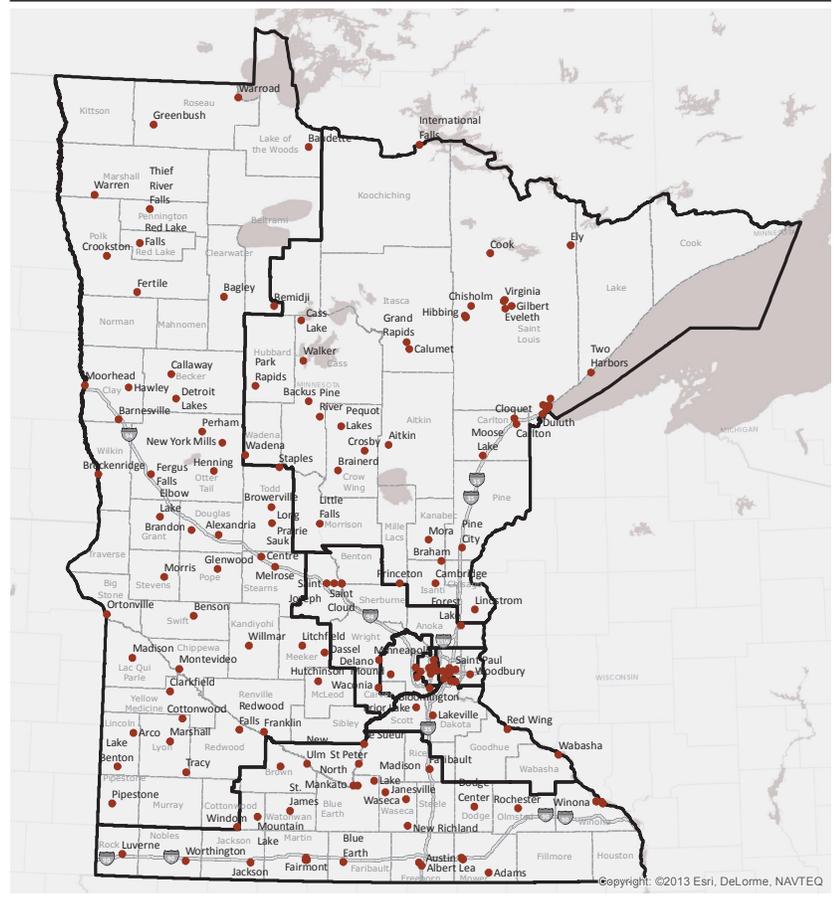
- The rate of foreclosures in the first two quarters of 2012 was twice that of historic levels. 18,000 residential mortgages were foreclosed in 2012 and 9,757 were foreclosed in the first three quarters of 2013.
- There are roughly 75,000 underwater mortgages in Minnesota with a mortgage amount that exceeds the current value of the property.
- Communities become less stable, have a difficult time attracting new residents and businesses and the remaining residents' homes lose value when significant portions of a community's residential properties are vacant and/or foreclosed.



Reduce Homelessness with Supportive Housing (HIB)

- Affordable housing paired with supportive services is a proven strategy that increases housing stability: 86% of the households served in permanent supportive housing in Minnesota were still housed at after a year.
- Housing with supportive services reduces barriers for people who have experienced homelessness. Sixty percent (60%) of the persons experiencing long-term homelessness suffer from a serious mental illness. Fifty-four percent (54%) of all persons experiencing long-term homelessness suffer from at least one chronic health condition.
- The request is consistent with the Plan to Prevent and End Homelessness, developed by 11 state agencies in 2013, which focuses on:
 - Preventing and Ending Homelessness for Families with Children and Unaccompanied Youth by 2020
 - Finishing the Job of Ending Homelessness for Veterans and for People Experiencing Chronic Homelessness by 2015

Minnesota Housing Finance Agency Public Housing in Minnesota



• Public Housing Locations 2011 (163 developments)

Rehabilitate Public Housing (GO)

- Public housing provides affordable housing to 36,000 low-income Minnesotans.
- Minnesota's 21,000 public housing units are owned and operated by 124 local housing authorities across the state.
- 12,000 public housing residents are children.
- More than 65% of the households living in public housing have incomes under \$15,000 per year.
- Minnesota's public housing units are full and most local agencies are maintaining waiting lists.
- More than 90% of Minnesota's public housing units are more than 20 years old and more than one-half of all of these units are in excess of 35 years old.

Housing Infrastructure Bonds (HIB)

How They Work

- Funds will be awarded through a competitive process.
- Funds will be made available for eligible projects throughout the state.
- Housing must be affordable to and occupied by low-and moderate income households.
- Affordability must be maintained for at least the term of the bonds (20 years).
- Annual debt service on \$40 million is \$3.2 million; a standing appropriation for the term of the bonds must be made. Costs to the State of appropriation bonds are not materially different from costs of GO bonds.

Specifics

- Housing Infrastructure Bonds are appropriation bonds for the public purpose of providing housing for low and moderate income families who are unable to afford adequate housing without assistance and to improve substandard housing.
- The full faith and credit of the state and its taxing power are not irrevocably pledged to appropriation bonds. Appropriation bonds are characterized as moral obligation bonds.
- Specific appropriations for the debt service must be made separate and apart from the appropriations made for GO bonds.
- Minnesota Housing issues the bonds.
- Appropriation bonds do not require public ownership of the property funded with the bond proceeds.
- Funding will be provided to the extent that the property, due to the occupants' low incomes, cannot support debt and no other resources are available.

Rationale

- Private ownership of affordable and supportive housing is more acceptable in many communities than public ownership – 72,000 privately owned, subsidized units compared to 21,000 public housing units
- Financing for housing through GO bond proceeds is an impediment to leveraging other resources available for affordable housing.
- Combining GO bond proceeds with other funding sources adds costs to projects, both in terms of construction and legal fees.
- For smaller projects, the complexities almost outweigh the benefits.
- In small communities, the public entity may not have the capacity to directly own and operate the housing.