Minnesota Housing Finance Agency

MEETINGS SCHEDULED FOR JULY

Location:

Minnesota Housing
400 Sibley Street, Suite 300
St. Paul, MN 55101

THURSDAY, JULY 23, 2015

Regular Board Meeting
State Street Conference Room – First Floor
1:00 p.m.

NOTE: The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on Thursday, July 23, 2015.

Items requiring approval are neither effective nor final until voted on and approved by the Minnesota Housing Board.

The Agency may conduct a meeting by telephone or other electronic means, provided the conditions of Minn. Stat. §462A.041 are met. In accordance with Minn. Stat. §462A.041, the Agency shall, to the extent practical, allow a person to monitor the meeting electronically and may require the person making a connection to pay for documented marginal costs that the Agency incurs as a result of the additional connection.

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Equal Opportunity Housing and Equal Opportunity Employment

AGENDA
Minnesota Housing Board Meeting
Thursday, July 23, 2015
1:00 p.m.

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. Regular Meeting of June 25, 2015
5. **Reports**
   A. Chair
   B. Commissioner
   C. Committee
6. **Consent Agenda**
   A. Amendment to Board Policy 1 (Debt Management) to Permanently Change Counterparty Ratings Requirements
   B. Modification, Flexible Financing for Capital Costs (FFCC) Program
      - Carlson Crossing (formerly Cloverdale), Saint Joseph, D1499
   C. Commitment, Low and Moderate Income Rental (LMIR) Program
      - Sunwood Village, Ramsey, D7721
   D. Commitment, Low and Moderate Income Rental (LMIR) Program and Modification, Economic Development and Housing Challenge (EDHC) Program
      - River Pointe, Thief River Falls, D7594
7. **Action Items**
   A. Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2015 Series D
   B. Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Rental Housing Bonds, 2015 Series C
   C. Modification, HOME Affordable Rental Preservation (HARP) Program
      - Seward Towers East and West, Minneapolis, D7713
   D. Updated Calculation for Distributing Housing Tax Credits to Suballocators
   E. 2016-19 Strategic Plan
   F. Concept Approval, Federal Housing Trust Fund Program
   G. Resolution Delegating Certain Authorities to the Commissioner
      - Community Homeownership Impact Fund
8. **Discussion Items**
   None.
9. **Informational Items**
   A. Restatement of Neighborhood Stabilization Program (NSP1) Funding Allocations
   B. Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2015
   C. Report of Complaints Received by Agency or Chief Risk Officer
10. **Other Business**
    None.
11. **Adjournment**

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MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, June 25, 2015
1:00 p.m.
State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order.**
Chair John DeCramer called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 1:01 p.m.
2. **Roll Call.**
Members present: Gloria Bostrom, John DeCramer, George Garnett, Craig Klausing, Stephanie Klinzing, and Rebecca Otto. Joe Johnson was absent.
Minnesota Housing staff present: Tal Anderson, Ryan Baumtrog, Paula Beck, Jean-Marie Bergman, Laura Bolstad, Dan Boomhower, Jono Cowgill, Vicki Farden, Kay Finke, Atticus Jaramillo, Karen Johnson, Bill Kapphahn, Kasey Kier, Brad LeBlanc, Eric Mattson, Judi Mortenson, John Patterson, Devon Pohlman, Terry Schwartz, Barb Sporlein, Emily Strong, Kim Stuart, Rob Tietz, Mary Tingerthal, Katie Topinka, Kong Yang, Xia Yang.
Others present: Michelle Adams (by phone), Kutak Rock; Gene Slater (by phone), CSG Advisors; Chip Halbach, Minnesota Housing Partnership; Paul Rebholz, Wells Fargo; Melanie Lien, Chris Flannery; Piper Jaffray; Cory Hoeppner, RBC Capital Markets; Celeste Grant, Office of the State Auditor; Tom O'Hern, Assistant Attorney General.
3. **Agenda Review**
There were no changes to the agenda. Mr. DeCramer announced that two documents had been distributed that would be used in the presentation and discussion about the comments received on the draft strategic plan. The first document was a summary of the comments that were received, along with the complete public comments. The second was a memo about estimating the need for workforce rental housing. Chair DeCramer stated that John Patterson would refer to the memo during his presentation on the strategic plan comments.
4. **Approval of the Minutes.**
A. Regular Meeting of Thursday, May 28, 2015
Auditor Otto moved approval of the minutes as written. Ms. Klinzing seconded the motion. Motion carried 6-0.
5. **Reports**
A. Chair
Chair DeCramer announced that Ms. Klinzing had been reappointed to the board and thanked her for reapplying.
B. Commissioner
Commissioner Tingerthal reported that the special legislative session had concluded. The session ended well for Minnesota Housing and Assistant Commissioner for Policy and Community Development Ryan Baumtrog and Legislative Liaison Katie Topinka would provide a full report later in the meeting.

Commissioner Tingerthal stated that Interagency Council on Homelessness, an 11-agency group co-chaired by herself and the Department of Human Services Commissioner, had announced that the state had seen its largest decline in homelessness based on the annual point-in-time homeless count since 2007, the earliest year for which numbers are available. The Commissioner stated that there was an overall decrease of 11% and a 17% decrease in the number of homeless families with children. The Commissioner added that families with children has been a focus for Hennepin County in particular and the Agency has provided rental assistance in support of those efforts. She added that chronic homelessness has increased, but the causes for that increase are believed to be known. Ms. Tingerthal reminded the board that the 2014 Consolidated Request for Proposals included funding for the Dorothy Day Center in Saint Paul, which is expected to break ground in September, 2015, and will provide services for those experiencing chronic homelessness. Commissioner Tingerthal offered and the board expressed interest in having Cathy ten Broeke, the State Director to Prevent and End Homelessness, provide an overview of efforts and results.

Next, Ms. Tingerthal shared that she and staff had participated in a roundtable discussion convened by Congressman Walz in Rochester about affordable housing. Ms. Tingerthal stated that there has recently been increased visibility about the growing need for affordable housing in the area, in part because of the Destination Medical Center. Ms. Tingerthal stated she was pleased to announce that the Olmsted County Board had passed a county level to support affordable housing and added that only a few counties have such a levy. Commissioner Tingerthal recognized the Greater Minnesota Housing Partnership, Minnesota Housing Partnership and civic leaders for their roles in the passage of the levy. The area needs thousands of units, and production needs to be about ten times its current level to meet demand in the area.

Commissioner Tingerthal shared the following:

- The Supreme Court had released its ruling on the fair housing issue, or what has come to be known as the disparate impact rule and invited Board Counsel and Assistant Attorney General Tom O'Hern to describe the ruling. Mr. O'Hern stated that he had briefly reviewed the opinion and the court has said that public entities need to have discretion in setting policies and priorities and empirical evidence cannot independently be used to prove discrimination. Commissioner Tingerthal added that the ruling is important because it relates to a tax credit allocating agency in Texas and Housing Finance Agencies have been watching the case closely.

- A U.S. Senate committee had voted to make drastic cuts to the HOME program. Agency staff have been in contact with Minnesota's delegation and believe the vote will not lead to cuts, but added that, if the cuts were implemented, it would reduce the HOME funds allocation to the state from $12.8 million to less than $1 million.

- On June 11, Minnesota Housing co-sponsored the state's third affordable housing conference with Winthrop & Weinstine, the University of Saint Thomas, and Baker Tilly. It was a very successful conference with more than 300 attendees.

- The Commissioner's role as chair of the Olmstead Subcabinet continues and the group is working to meet a July 10 deadline to submit a revised Olmstead Plan to the court. The activities are taking a bit of her time as that deadline approaches.

- A number of employees organized a trip to CHS Field for a Saints game early in June. More than 100 employees and family members attended.

The following employee introductions were made:

- Kay Finke introduced Brad LeBlanc, a data information strategy consultant; Salif Keita, a quality assurance analyst; and Jean-Marie Bergman, an Excel and Access developer.
- John Patterson introduced Jono Cowgill and Atticus Jaramillo, graduate students who will research the use of housing vouchers and providing housing access to hard-to-house populations.
- Rose Marsh introduced Crystal Shields, PBCA team member.
- Wes Butler introduced Sara Bunn, senior underwriter in production, and Tawanna Carter, multifamily legal administrative assistant.
- Kasey Kier introduced Judi Mortenson, Single Family Operations Manager.
- Devon Pohlman introduced Kong Yang, Lending Programs Compliance.

C. May 28, 2015 Finance and Audit Committee Meeting

Chair DeCramer reported that on May 28, the committee met with the auditors from McGladrey to review the audit plan for the agency. The Agency's financial advisor, CSG Advisors, presented the findings of its risk based capital adequacy study at that meeting. There were no action items at the committee meeting.

6. Consent Agenda

A. Resolution Authorizing Execution and Delivery of Amendments to Standby Bond Purchase Agreement with the Federal Home Loan Bank of Des Moines

B. Approval, Rental Rehabilitation Deferred Loan (RRDL), Revisions to Program Guide

C. Approval, Extension, Family Housing Fund Foreclosure Remediation Loan

MOTION: Ms. Bostrom moved approval of the consent agenda items A and B and the adoption of Resolution No. MHFA 15-024. Mr. Klausing seconded the motion. Motion carries 6-0.
MOTION: Ms. Stephanie Klinzing moved approval of the consent agenda item C and the adoption of Resolution No. MHFA 15-025. Mr. Garnett seconded the motion. Motion carries 5-0, with Ms. Bostrom abstaining.

7. Action Items

A. Affordable Housing Plan (AHP) Amendments, Home Mortgage and Downpayment Assistance Programs

Devon Pohlman presented this request to amend the AHP to meet increased production demands in the home mortgage programs area. Ms. Pohlman reported on the effect of the program changes that the Board approved in April, stating that they changes have helped, but production remains much higher than anticipated. Ms. Pohlman stated that approval of the request would allow staff to shift resources in a prudent manner to help support homeownership program production in areas where the demand is very strong. **MOTION:** Auditor Otto moved approval of the amendments to the Affordable Housing Plan. Ms. Bostrom seconded the motion. Motion carries 6-0.

B. Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2015 Series

Mr. Rob Tietz requested approval of up to $100 million in fixed rate bonds under the residential housing finance bonds indenture. Mr. Tietz stated that proceeds would be for both refunding of bonds that have reached their call dates and new money for single family production.

Mr. Tietz stated that the transaction would look similar to the December transaction and that staff are contemplating keeping the variable rate bonds, stating that, by restructuring the variable rate bonds, the Agency could have significant savings compared to utilizing a pass-through structure. Mr. Tietz stated that the Agency would not be increasing the amount of variable rate debt, but would be restructuring it. Mr. Tietz added that approval would be sought in July for the authorization of variable rate bonds. Mr. Tietz stated that the Agency's current debt management policy requires a minimum credit rating that no banks offering swaps currently have. Mr. Tietz stated that, because of this requirement, staff would need a policy waiver from the board to enter into new swap agreements with counterparties. Mr. Tietz directed members' attention to a memo provided by the Agency's financial advisor regarding the funding strategy. In response to a question from Ms. Bostrom, Mr. Tietz stated that existing variable rate debt would be refunded and replaced by new variable rate debt. Commissioner Tingerthal clarified that the board was today being asked only to approve the fixed rate bonds and acknowledged that it had been a long time since the Agency had issued variable rate debt, and, because of that, staff wanted to have a discussion this month to determine if the board was in support of a financial strategy that includes variable rate debt. Mr. Tietz reiterated that there would not be additional variable rate debt; existing debt would be replaced by the new debt.

Ms. Bostrom requested additional information about the availability and ratings of counterparties and Mr. Tietz responded that, following the credit crisis of the late 2000s, rating agencies downgraded most financial institutions and that the downgrading of the rating requirement for counterparties would not negatively impact the Agency's own ratings. Mr. Gene Slater, CSG Advisors, added that RBC currently has a lot of the Agency's swaps and they are now below the rating level required by the policy. Mr. Slater added that the policy is only in respect to new agreements, not existing counterparty relationships.

In response to a question from Mr. Garnett, Mr. Tietz clarified that today's requested action was only for approval of the fixed rate issue and staff would return in July for approval of a variable rate transaction and for a waiver to the rating requirement in the debt management policy. Both Mr. Garnett and Mr. Klausing suggested that staff request an amendment to the policy rather than a waiver if the circumstances are such that a change in the rating requirement does not increase risk to the Agency or impact the Agency's own ratings.

Ms. Michelle Adams of Kutak Rock described the resolution, stating approval would authorize up to $100 million dollars and is valid through the end of the calendar year. Ms. Adams added that the resolution stipulates a 32 year maximum maturity, stipulates the combined yield for both the fixed and variable rate debt and limits underwriter's compensation. Approval of the resolution also grants authorized officers of the Agency the authority to make final decisions regarding the structuring.

In response to a question from Ms. Bostrom, Mr. Tietz stated that there is an annual tax exempt bond allocation provided to all issuing agencies in the state and the Agency has $750 million in authority remaining. In 2016, the Agency will receive all unused authority from other issuing agencies; that amount has averaged $250-$300 million each year. Mr. Tietz added that the Agency has been issuing a lot more tax exempt bonds recently, but has plenty of authority remaining. Commissioner Tingerthal added that the Agency has been using tax exempt bonds for multifamily development in order to bring 4% tax credit equity to transactions. This use counts towards the total bonding authority as well, so, while there is sufficient authority remaining, the Agency is using more than it has in the past. The tax exempt authority is also used for the Mortgage Credit Certificate program, and staff will be researching the uses to ensure there is a unified strategy for all programs that utilize tax exempt bonding authority. **MOTION:** Auditor Otto moved approval of the item 7.B and the adoption of Resolution No. MHFA 15-023. Ms. Klinzing seconded the motion. Motion carries 6-0.

C. Selection/Commitment, Ending Long Term Homelessness Initiative Fund (ELHIF) and Housing Trust Fund (HTF) Operating Subsidy (OS) Grant Renewals

Ms. Vicki Farden presented a request for approval of operating subsidies for 27 supporting housing development and housing trust fund resources for one operating support grant. Ms. Farden stated that the funds are combined with funds from DHS to support housing developments that serve persons with severe mental illness. Ms. Farden provided background information about the program, which was developed to fill gaps in supporting housing developments which often have shortfalls because they are not able to collect enough in rents to cover their unique operating costs, like front desks and tenant services. Mr. Garnett asked for clarification about the relationship between the amount of funding provided and the number of units supported, specifically requesting information about Nicollet Square. Ms. Farden responded that the funding level from the Agency is dependent upon what other resources the development is able to bring to the table. In the case of Nicollet Square, the development serves youth, who are able to pay only a small amount of rent per month, beginning at $200 and increasing as income increases through participation in youth employment programs. Ms. Farden stated that, while the subsidy is high, it is an important resource because there is little supportive housing available for youth. **MOTION:** Mr. Garnett moved approval of the grant renewals and the adoption of Resolution No. MHFA 15-026. Ms. Bostrom seconded the motion. Motion carries 6-0.

8. Discussion Items

A. Legislative Update

Mr. Ryan Baumtrog, Assistant Commissioner for Policy and Community Development, reported that the Agency's appropriations bill was approved during the special session. Mr. Baumtrog stated that the bill included $6.5 million above the anticipated amount for appropriations, which was $3 million more than the previous biennium. Mr. Baumtrog also reported that there were no changes to the Agency's statutes or policies.

Ms. Katie Topinka, Legislative Liaison, reviewed a funding chart with the board. Ms. Topinka stated that the Agency's bill was the first bill passed and it included HMIS funding at the desired levels and earmarks from the previous biennium were reallocated as general appropriations to the Agency. Regarding the reallocations, Ms. Topinka stated that the Agency's intent is to provide a majority of that funding to the capacity building program for use by HomeLine and Open Access, two organizations that were funded directly last year. Mr. Baumtrog added that everything included in the Governor's budget was funded in the appropriations bill, but not at the same levels. Discussion item. No action.

B. Fiscal 2016 Administrative Budget

Deputy Commissioner Barb Sporlein summarized the administrative budget and stated that the Agency has just started development of the next Affordable Housing Plan. Ms. Sporlein stated that the Agency follows the state fiscal year for the operating budget, even though its program year is October through September. Ms. Sporlein stated that the administrative budget, as a share of all investments made by the Agency, is around 3%, which is a good number; 10% is considered to be good for non-profits. Ms. Sporlein stated that the primary reason for increases in the administrative budget are payroll increases due to cost of living adjustments, salary progressions and separation expenses. There are also increases due to new FTEs in the Olmstead Implementation Office and the Office to Prevent and End Homelessness. The other driver is IT investments, with the implementation of a new loan origination system and costs of carrying the legacy system for one year during the transition. Commissioner Tingerthal added that the positions in the Olmstead Implementation Office and the Office to Prevent and End Homelessness brought some money with them, so the Agency is not paying the total cost itself.

C. Draft 2016-19 Strategic Plan

John Patterson, Director of Planning, Research and Evaluation, summarized the public comments on the draft strategic plans and described the process of creating the draft. The comments received were focused on: serving households of color; the extremely tight rental market; senior housing; workforce housing, and; outreach to communities.

Mr. Garnett stated that he has worked in homebuyer education and continues to be disappointed with the relative lack of progress being made in the area, despite the substantial investments. Mr. Garnett commented on the need to open up the box about how services are delivered for communities of color. Auditor Otto added that there are extraordinary differences between households of color and, while she believes the strategic plan is very strong, there is a need to know who makes up those communities and ensure that the organizations serving them truly are culturally competent. She provided as an example East African communities, whose population has grown in the state and who tend to have large families.

Mr. Patterson responded that the Agency accounts for only 3-5% of the mortgage market and there is a question of if it is possible to bring the rest of the industry along in reaching higher numbers of households of color. Mr. Patterson stated he believed that, in preparation for the Affordable Housing Plan, staff can do a more detailed breakdown of races and how the Agency is serving them individually. Mr. Garnett acknowledged that staff has reached out to him regarding his concerns and he will be spending time with the staff who work on the programs to get a better idea of reach to allow him to make better and more specific comments while the Agency works on the Affordable Housing Plan. Mr. Garnett suggested that the issues about service in households of color may be about how the Agency designs its tools.

Ms. Klinzing commented that there will always be groups of people who need rental housing and stated that she believes the Agency slips into a default way of thinking about high rise buildings as the default source of affordable rental housing and encouraged staff to think about affordable housing not as a unit that has been built for that purpose, but consider that it could also be things like the sharing of single family homes. Ms. Klinzing encouraged the Agency to work with local governments to encourage development of housing in their communities. Ms. Klinzing gave an example of smaller communities where small construction companies or individuals would purchase distressed homes in their own communities and fix them up for resale, stating that the Agency should be thinking about those types of services in communities, acknowledge their importance and look to support them.

There was discussion regarding counseling programs and a request that a statement be made about the work that has been done and rationale for the decisions that have been made regarding the counseling programs supported by the Agency.

Commissioner Tingerthal stated that the role of working with suburban communities on providing their fair share of affordable housing has been an ongoing topic for many years, but is primarily the role of the Met Council, who has a planning and oversight role. The Agency has, and will continue to have, a dialogue with the Met Council. Regarding the counseling discussion, Commissioner Tingerthal stated that the senior leadership team had a lengthy discussion after reviewing the public comments and agreed that now is a good time to take a step back and a fresh look at all of the resources that can be brought to bear on counseling. She stated that we are coming out of time where a lot of resources went to foreclosure prevention and now homebuyer counseling is coming to the forefront again. Ms. Kasey Kier, Assistant Commissioner for Single Family, stated that

Minnesota has a unique relationship with the Homeownership Center and the Homeownership Advisory Network, which is a group of 40 member organizations that work with all types of homeowners. Ms. Kier added that nothing in the Agency's relationship with the Homeownership Center precludes it from working with other organizations.

Mr. Garnett stated that, based on some recent survey work that the Agency helped fund, he knows the Agency is not penetrating in the African American community. Mr. Garnett stated that organizations serving African Americans feel their constituents are not be connecting to opportunities for homeownership and a lot of personal financial education is needed because there is a lack of knowledge about how homeownership works. Mr. Garnett stated he was not sure the Agency is getting traction where it is needed and he looked forward to a policy review. Discussion item. No action needed.

9. Informational Items

A. Repayment of HOME Funds, HOME HELP Program

B. Post-Sale Report, Homeownership Finance Bonds, 2015 Series C

Informational items. No presentation or discussion.

10. Other Business

None.

11. Adjournment.

The meeting was adjourned at 3:02 p.m.

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AGENDA ITEM: 6.A
MINNESOTA HOUSING BOARD MEETING
July 23, 2015

ITEM: Amendment to Board Policy 1 (Debt Management) to Permanently Change Counterparty Ratings Requirements

CONTACT: Rob Tietz, 651-297-4009
rob.tietz@state.mn.us

Terry Schwartz, 651-296-2404
terry.schwartz@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☑ Administrative ☐ Commitment(s) ☑ Modification/Change ☑ Policy ☐ Selection(s) ☐ Waiver(s)

☑ Other: Board Policy

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests an amendment to the minimum required long term rating for swap counterparties under section 1.08 of the Debt Management Policy from "Aa2" in the case of Moody's Investor Service and "AA" in the case of Standard & Poor's Corporation, to "Aa3" and "AA-", respectively. The amendment is necessary because in the current environment there are no banks that meet the existing rating criteria and the Agency intends to tactically consider variable rate bond structures, consistent with our best execution funding strategy.

A blackline copy of the Debt Management Policy that incorporates this proposed change is attached. In addition to this proposed change, the blackline copy includes one additional change to make a technical correction of a reference error in the policy that was not updated when the policy was re-formatted in 2014.

FISCAL IMPACT:
Entering into new swap transactions to hedge variable rate debt will only be considered when the structure provides the best economic benefit of the bond transaction without adversely affecting Indenture ratings or the general obligation rating pledge of the Agency.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☑ Strengthening Organizational Capacity

ATTACHMENT(S):

- Debt Management Policy showing proposed changes

Policy 1 – Debt Management

Adopted: 02/22/ 1996
Amended 07/24/2003; 12/05/2008; 07/23/2009; 05/22/2014; 05/28/2015

The goal of Minnesota Housing (the "Agency”) is to raise capital for its programs at the lowest overall cost. The Agency will take into consideration desired mortgage rates and the need to maintain asset and debt management flexibility while carefully managing risk.

To achieve this, the Agency will:

1. Establish long-range financial objectives as set forth in Section 1.01. These objectives may change in response to economic and other factors.
2. Establish an Affordable Housing Plan that sets forth specific financing objectives for a one to two year period. This plan may be adjusted due to economic and other factors.
3. Maintain a debt management policy that provides for optimum access to capital markets and broad distribution capabilities, both horizontally (geographically) and vertically (both institutional and retail investors).

Agency staff will monitor these plans and the policy and recommend changes when appropriate based on results of the Risk Based Capital Study and other circumstances.

1.01 Long Range Financial Objectives

The long-range financial objectives are as follows:

- Maximize the spread between loan rates and cost of capital, where possible, in order to maximize future capital available for the Housing Investment and Housing Affordability Funds.
- Maintain program flexibility.
- Effectively manage risk so as to minimize the potential of calling upon the Agency's general obligation or the State’s moral obligation pledge.
- Maintain the Agency's Aa1/AA+ general obligation credit ratings.
- Maintain the current level of credit ratings for each bond resolution.

1.02 Finance Team

The Agency will maintain a team of finance professionals consisting of internal and external experts for the purpose of managing its borrowing activities. The team will include investment bankers, bond counsel, underwriter’s counsel, in-house counsel, a financial advisor, and Agency finance staff. Staff may recommend to the Board the addition of finance team members based on needs of specific financings.

1.03 Planning and Structuring Bond Issues

When capital is needed for program funding or for debt management purposes, the finance team will review the financing alternatives in accordance with this policy and determine whether bonds should be issued or other sources of external capital raised. Any proposed financing will be reviewed to determine the best method of accessing the financial markets to achieve the goal of issuing debt at the lowest overall interest rates and costs.

1.04 Annual Capital Needs Planning

The finance team will meet annually to review proposed capital needs and timing for the calendar year. The timing of bond sales will be based primarily upon housing program needs, but other market and tax compliance factors will also be taken into consideration. Staff will communicate the results of the planning session to the Board.

1.05 Procedures for Each Bond Issue

The finance team will recommend to the board a financing approach best suited to the current set of circumstances and consistent with the Agency's desire to issue debt at the lowest overall possible interest rates and costs while managing risks and maintaining the maximum flexibility for asset and debt management. Staff will decide how to proceed from among the recommended approaches. The rationale underlying any financing decision will be included in staff's comments to the Board at the time the Board's approval for a specific bond sale is requested.

Before each financing, the finance team will review the immediate capital and/or refunding needs, market conditions, proposed bond structure(s), merits of a negotiated, competitive or privately placed bond issue and expense guidelines. Gross spread will be finalized prior to the commencement of the order period.

Before pricing a debt offering, the financial advisor will provide the Agency with summary information and its recommendations with regard to all pertinent aspects of the financing. For negotiated issues, the pricing will generally be handled by a conference call including Agency staff, the financial advisor and the underwriters. The Chief Financial Officer, in consultation with the Commissioner, will have primary responsibility for making pricing determinations. A formal post-sale analysis will be prepared by the financial advisor and reviewed with the Board within approximately 45 days of the Board's approval of the bond issue. The post-sale analysis should include sufficient information to permit the Board to judge the performance of the investment bankers. If an offering is marketed by negotiated sale, the management fee paid should reflect reimbursement for services rendered on the particular issue in progress and for uncompensated services rendered since the last issue, if any.

1.06 Short-Term Financing Needs

From time to time, depending on conditions in the bond market and the availability of liquid funds to the Agency, it may be necessary for the Agency to borrow money on a short-term basis from a bank or other financial institution or corporation to provide sufficient liquidity for

Agency program and other operational needs. Staff is authorized to determine the need and feasibility of such short-term borrowing, in consultation with the Agency's financial advisor. The Chief Financial Officer is authorized to cause the Agency to enter into any such short-term borrowing arrangement upon consultation with the Commissioner, the Finance Director and the Agency's financial advisor, in a principal amount, at an interest rate and for a term (not exceeding 18 months) that the Chief Financial Officer determines is sufficient for the Agency's needs and financially feasible.

Any such borrowing may be secured by collateral comprising mortgage loans or other assets of the Agency to be specifically pledged thereto, but may not be secured by the general obligation of the Agency or be evidenced by a bond or note, unless approved by resolution of the Board. The Chief Financial Officer is authorized, upon consultation with the Commissioner, the Finance Director and the Agency's financial advisor, to cause the Agency to renew or extend any such short-term borrowing if circumstances then warrant. No more than $150,000,000 in principal amount of such borrowings may be outstanding at any one time, unless approved by resolution of the Board. The Agency shall count the outstanding principal amount of any such borrowings against the debt limit set forth in Minnesota Statutes, Section 462A.22, as amended.

1.07 Debt Issuance Review

The results of the Agency's debt issuance and the performance of the investment bankers will be reviewed by the Board on no less than a biannual basis. The Agency's financial advisor will prepare the report in cooperation with Agency staff.

1.08 Variable Rate Debt and Interest Rate Swap Management

The Agency may elect to issue variable-rate debt when issuing fixed-rate debt results in a cost of capital that would result in mortgage interest rates, which could not be effectively lent to borrowers of low and moderate incomes or to developers of rental properties for low and moderate-income renters. The Agency generally lends at fixed rates, which creates the potential for a mismatch between its cost of capital and its revenues. In order to manage the mismatch, interest rate swaps may be utilized. An interest rate swap is a financial agreement in which two parties agree over a fixed period of time on a stated notional principal amount to exchange interest payments, one based on a variable interest rate and the other a fixed rate. Interest rate swaps will be structured to synthetically achieve a fixed-rate cost of capital that is less than can be achieved by issuing traditional fixed-rate debt.

Authorization. For purposes of authorization, all swap transactions shall go through the same process as bond financings including review by the Agency's finance team, which includes at a minimum bond counsel and appropriate external financial advisors and formal approval by the Agency's Board. Minnesota Statutes Section 462A.105 authorizes the Agency to enter into interest rate swaps, referred to in statute as interest rate exchange agreements. The Agency's Board approved a resolution in April 2003 authorizing staff to enter into interest rate swaps and in May 2003 approved a resolution amending the Residential Housing Finance Bonds Resolution to allow for the effective administration of interest rate swaps. Interest rate swaps will be utilized in connection with a bond resolution and will be approved with the bond series resolution to which the swap applies. When and if replacement swaps are needed, they will be approved by a resolution of the Agency's Board.

Goals for Swap Transactions. Swap transactions will be used as part of a strategy to use variable-rate debt to reduce the Agency's overall cost of funds. Swap transactions will not be used for speculative purposes. The Agency acknowledges that synthetically fixing the cost of funds by use of interest rate swaps mitigates, but does not eliminate, interest rate risk due to risks factors described in the Risk Analysis section of Board Policy 1.08 ~~paragraph E of this Plan~~.

Relationship to Assets. Swap transactions will be entered into based on analysis that staff determines is adequate to indicate an expected positive impact on the Agency's ability to manage its underlying assets and liabilities. The term and structure of any swap agreement should bear a logical relationship to a specific pool of assets and the underlying liabilities financing the assets.

Risk Analysis. Before making a final decision to proceed with a swap transaction, the Agency shall analyze the risks, costs, and benefits associated with interest rate swaps to ensure that a proper and well-informed decision is being made. Specific risks that should be analyzed and understood are:

- **Amortization.** Amortization risk represents the cost to the Agency of paying interest on debt or making swap payments due to a mismatch between the amounts outstanding of the variable rate liabilities and the notional amount of the swap.
- **Basis.** Basis risk represents the potential difference between the interest rate paid by the agency on its variable rate liabilities and the rate received from the swap contract.
- **Tax.** Tax risk represents a risk that may arise due to a change in the tax code which creates or exacerbates a difference between the interest rate paid by the agency on its variable rate liabilities and the rate received from the swap contract
- **Counterparty.** Counterparty risk is the risk that the swap transaction provider will not fulfill its obligations as specified in the swap contract.
- **Termination.** Termination risk represents the risk that the swap contract could be terminated by the counterparty due to various events including downgrade, covenant defaults, payment defaults or other default events specified by the contract or Resolution.
- **Rollover.** Rollover risk is the risk that the swap contract is not coterminous with the variable rate liabilities creating the possibility that a replacement contract will be either unavailable or at terms disadvantageous to the Agency.
- **Liquidity.** Liquidity risk is the risk that the back-up liquidity facilities required by certain types of variable rate debt will not available or financially viable in the future resulting in the need to call the debt or refund it into fixed rate debt thus creating an un-hedged swap position. Liquidity risk exists with the form of variable rate debt known as Variable Rate Demand Obligations (VRDOs). VRDOs are remarketed regularly and the

risk exists that there may be an insufficient market to purchase all or some of the bonds on any given remarketing date. To mitigate this risk, a liquidity provider is engaged to purchase unremarketed bonds at a higher rate than could be achieved under a remarketing and with the expectation that the bonds will be repaid on an accelerated timetable. Additional risk exists in that the term of the VRDOs is generally longer than the term of any related liquidity facility agreement, which requires that the issuer periodically engage replacement liquidity providers during the term of the debt. Potential exists for there being available no entity willing to provide the service at an acceptable cost.

- **Rating Agency Criteria Risk.** This risk exists because the credit rating agencies may periodically change their criteria for maintaining credit ratings over the term of the variable rate debt, which may impact the cost of the variable rate debt or impose additional duties or restrictions on the Agency to maintain ratings.

Risk Mitigation. In addition to utilizing interest rate swaps to mitigate the interest rate risk associated with issuing variable-rate debt, the Agency will seek to employ other risk mitigation techniques, either from the outset of a variable rate bond issue or at any stress point during the life of the issue, and will seek to incorporate relevant optionality in any agreements entered into in connection with the debt. Examples of such techniques include but are not limited to: the option to modify the interest rate mode among variable rate alternatives or from variable to fixed; options to terminate the swap at par and at market under certain scenarios acceptable to the Agency; selection of the type of variable rate debt issued and its ability to be called at par; maintaining appropriate levels of liquidity to exercise available options; appropriate managerial oversight of the performance of the variable-rate bond issues and their related swaps; diversification among counterparties and liquidity providers.

Credit Quality. Any swap transaction entered into by the Agency shall be with a swap provider whose long term debt obligations, or whose obligations under a swap are fully covered by a swap facility whose long term debt obligations are (1) rated at least ~~“Aa2”~~ “Aa3” in the case of Moody’s Investors Service, ~~“AA”~~ “AA-“ in the case of Standard & Poor’s Corporation, or the equivalent thereto in the case of any other rating agency and sufficient to maintain any existing rating of the Agency’s long term debt and/or (2) secured by a pledge of investment obligations with the ratings and in amounts sufficient to achieve the ratings levels described in this section.

Appropriate Review. Swap transactions will be submitted to the rating agencies for their review along with all appropriate supporting documents prior to the Agency entering into any agreements. There will be procedures established for the ongoing review and management of swap transactions including regular reporting to the Board. In addition to this general Plan, rating agencies will be provided with a summary of each swap transaction in accord with their respective policies.

1.09 Conduit Debt

For purposes of this section, a “conduit bond issue” is a bond issue in which the obligation of the Agency as issuer to pay principal of and interest on the bonds is limited to the payments it receives from a private third-party borrower under a loan or lease agreement relating to revenues derived from the facilities financed or other assets of the third-party borrower.

Tax-exempt bonding authority is a valuable means of producing revenue because it enables the Agency to operate lending programs of a size far in excess of its own resources. It is therefore acknowledged that the use of bonding authority for conduit debt issuance is generally not in the best financial interest of the Agency. From time to time and under certain conditions, use of tax-exempt bonding authority for conduit issuance may be desirable to meet state housing needs and may be considered. The following threshold conditions should be present in order for staff to recommend a conduit bond issue:

- Bonding authority used for conduit issues does not cause a significant loss of authority available to operate priority programs, in the sole judgment of the Agency.
- The issuance is for preservation of affordable rental units the Agency determines are important units to preserve under its strategic plan.
- Significant barriers to issuance by a different government issuer exist, such as properties located in multiple jurisdictions, making public notice and authorization requirements difficult.
- The Agency has determined not to issue bonds secured by the Agency's general or limited obligation for the project to be financed.
- The Agency assumes no initial or continuing disclosure obligations in connection with the conduit issue.
- The Agency assumes no financial obligation in connection with the conduit issue.
- If publicly offered, the debt is expected to be rated in one of the two highest long-term rating categories by at least one nationally recognized rating agency acceptable to the Agency and, if applicable, the highest short-term rating category by at least one nationally recognized rating agency.
- If privately placed, repayment of the debt must, in the judgment of the Agency and based on information from the Agency's financial consultant, be financially feasible.
- The Agency's bond counsel must be utilized.
- All costs of issuance, maintenance and payment of the bond issue, including all Agency out-of-pocket expenses and fees and disbursements of bond counsel and the Agency's financial consultant, if any, must be paid by the borrower or, if available therefore, may be paid from proceeds of the bonds.
- Administrative fees to be paid to the Agency as issuer will not be less than, subject to arbitrage restrictions, the sum of (1) an upfront fee of 50 basis points times the original principal amount of the bonds, plus (2) an on-going fee payable semiannually equal to the greater of (a) one-half of 10 basis points applied to the then outstanding principal amount of the bonds or (b) a minimum amount to be established for the bond issue.

Additional Guidelines. Investment bankers and/or placement agents other than the Agency's bankers and financial advisors may be utilized without implying any appointment to the Agency's board-selected banking and financial advisory team. The Agency's investment bankers or financial advisors may act as financial consultant to the Agency or perform other functions for the Agency in connection with the conduit bond issue.

Results of marketing conduit bond issues are not subject to Sections 1.03, 1.04 or 1.05 of this Debt Management Policy, including requirements for formal post-sale analysis by the Agency's financial advisor, nor are they includable in the biannual investment banker review required in Section VII even if the conduit issue's investment banker is currently appointed to the Agency's banking team.

1.10 Policy on Request for Proposals

A request for proposal will be issued every four years for the Agency's financial advisor and investment bankers. Requests for proposal for financial advisor will be solicited in different years than those for investment bankers unless an early contract termination occurs.

Minnesota Housing Finance Agency

AGENDA ITEM: 6.B
MINNESOTA HOUSING BOARD MEETING
July 23, 2015

ITEM: Carlson Crossing Townhomes, Saint Joseph (D1499)

CONTACT: Marty McCarthy, 651-284-3178
Marty.p.mccarthy@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests adoption of a resolution authorizing a modification to increase the interest rate on the Flexible Financing for Capital Costs (FFCC) loan from 0% to 1%. This project was approved by the Minnesota Housing Finance Agency Board on May 28, 2015 through Resolution No. MHFA 15-015. After Board approval, the development team requested the FFCC loan carry an interest rate of 1%. The change has been requested by the developer and is a request that it is sometimes made for projects using Housing Tax Credits. Given the structure of tax credit transactions, carrying a small interest rate on a deferred loan can actually improve the yield for the investor, which is the case with this transaction.

FISCAL IMPACT:
The addition of the interest rate will result in increase earnings to the Agency of $187,000.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☑ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Resolution

Board Agenda Item: 6.B
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 15-

RESOLUTION MODIFYING THE MORTGAGE LOAN COMMITMENT
FLEXIBLE FINANCING FOR CAPITAL COSTS (FFCC) PROGRAM

WHEREAS, the Board approved Resolution No. MHFA 15-015 authorizing Agency staff to issue a commitment to provide a permanent mortgage loan to said applicant from the Housing Investment Fund (Pool 2 under the LMIR Program) and the Housing Affordability Fund (Pool 3 under the FFCC Program) for the indicated development, with specific conditions; and

WHEREAS, the the application continues to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations and policies.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to modify the interest for the FFCC loan to 1 percent from the previously approved 0 percent.

Except for the change in interest rate, all other terms and conditions of MHFA Resolution 13-015 remain in effect.

Adopted this 23rd day of July, 2015.

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CHAIRMAN

AGENDA ITEM: 6.C
MINNESOTA HOUSING BOARD MEETING
Board Meeting July 23, 2015

ITEM: Sunwood Village, Ramsey, D7721

CONTACT: Caryn Polito, 651-297-3123
caryn.polito@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☑ Administrative ☑ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Agency staff has completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of $1,375,000, and a Low and Moderate Income Rental Bridge Loan (LMIRBL) program commitment not to exceed $3,500,000, subject to the terms and conditions of the Agency mortgage loan commitment.

FISCAL IMPACT:
In the 2015 Affordable Housing Plan (AHP), the Board allocated $85 million in new activity for the LMIR program which includes $35 million from the Housing Investment Fund (Pool 2) and $50 million for LMIR and LMIR Bridge Loan activity through tax-exempt bonding. Funding for this loan falls within the approved budget and the loan will be made at an interest rate and terms consistent with what is described in the AHP. Additionally, this loan should generate approximately $27,500 in fee income (origination fee and construction oversight fee) as well as interest earnings which will help offset Agency operating costs.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☑ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Development Summary
- Resolution

BACKGROUND:
The Minnesota Housing Finance Agency (Agency) Board, at its October 23, 2014, meeting, approved this development for processing under the Low and Moderate Income Rental (LMIR) and the Low and Moderate Income Rental Bridge Loan (LMIRBL) programs. At the same meeting, the Board approved a resolution authorizing a commitment for Housing Infrastructure Bond (HIB) proceeds under the Economic Development Housing Challenge (EDHC) program. The following summarizes the changes in the composition of the proposal since that time:

DESCRIPTION:	**SELECTION**		**COMMITMENT**		**VARIANCE**	
Total Development Cost	$ 9,368,019		$10,444,034		$1,076,015	
Gross Construction Cost	$ 6,580,000		$ 7,379,370		$ 799,000	
Agency Sources:						
LMIR	$ 1,433,000		$ 1,375,000		($ 58,000)	
HIB-EDHC	$ 4,220,000		$ 4,470,000		$ 250,000	
Total Agency Sources	$ 5,653,000		$ 5,845,000		$ 192,000	
Other Non-Agency Sources:						
Tax Credit Equity	$ 2,219,268		$ 2,719,691		$ 500,423	
Anoka County HOME loan	$ 330,000		$ 300,000		($ 30,000)	
Anoka County HRA grant	$ 250,000		$ 250,000		$0	
Met Council LCDA-TOD	$ 580,000		$ 580,000		$0	
Met Council LHIA	$ 200,000		$ 200,000		$0	
Sales Tax Rebate	$ 135,751		$ 175,000		$ 39,249	
Gross Rents:						
Unit Type	**# of DU**	**Rent**	**# of DU**	**Rent**	**# of DU**	**Rent**
1 BR LTH – No rental assistance	4	$130	4	$130	0	$0
1 BR @ 50% AMI	5	$765	5	$757	0	($ 8)
2 BR @ 50% AMI	25	$896	26	$885	1	($ 11)
3 BR @ 50% AMI	13	$1031	12	$1019	-1	($ 12)
Total Number of Units	**47**		**47**		**0**	
LTH Units	**4**		**4**		**0**	
Predictive Model	0.21% above the Predictive Model		11.98% above the Predictive Model		11.77% increase	

Factors Contributing to Variances:

1. **Increased construction costs**
   Construction costs increased by 12%, resulting in a funding gap. The development team was able to value engineer the project to remove a portion of that additional cost. The team reduced unit sizes and overall building square footage in addition to changing windows, exterior finishes, flooring, and exterior design elements. These changes have been approved by the Agency architect.

   As a result of the increased costs, the developments cost per unit remains within the Agency's predictive model. The model allows a development to exceed the predictive model by 25%. At the time of selection, the budgeted TDC per unit of $198,846 was 0.21% above the

$198,434 predictive model estimate. At the time of commitment, the budgeted TDC per unit of $222,213 is 11.98% above the $198,434 predictive model estimate.

The funding gap was filled with a combination of additional tax credits in the amount of $500,423, the developer adding deferred developer fee of $373,343, and additional HIB of $250,000. There was no deferred developer fee at selection. Deferred fee is now 37% of total developer fee.

2. **Increased soft costs**
   Professional fees have increased by 53%. This is due primarily to impact fees charged to the project by the City of Ramsey totaling $307,946; the developer was not notified of these fees until after final site plan approval in May 2015 and was previously under the impression that the fees would be waived. Agency staff has reviewed documentation of these additional fees which include $103,870 for a park dedication fee, $127,981 for water and sewer trunk charges (this is separate from SAC/WAC), $32,900 for trail development, $30,255 for stormwater and street lights, and $12,940 for inspection fees. The developer has been working closely with City staff on the project since its inception and is acquiring the site directly from the City; CommonBond attempted to convince staff to reduce these additional fees and was unsuccessful.

3. **Unit mix and rents**
   Since selection, one three bedroom unit was changed to a two bedroom for a more optimal fit within the building. Net ("contract") rents have not changed since selection; however, utility allowances have changed resulting in slight changes to the gross rents.

   The change in unit mix as well as slight changes in the operating budget have resulted in a lower than anticipated first mortgage amount. These changes have been approved by the Agency Housing Management Officer.

Other significant events since Board Selection:

The Agency Mortgage Credit Committee approved a funding modification allowing a 6% increase in the Housing Infrastructure Bond (HIB) award for Sunwood Village on June 23, 2015. Because the funding modification is less than 15% of the original award amount it does not require Board approval.

DEVELOPMENT SUMMARY

DEVELOPMENT:

				D7721	
Name:	Sunwood Village			App#:	M16792
Address:	7750 Sunwood Drive NW				
City:	Ramsey	County:	Anoka	Region:	MHIG

MORTGAGOR:

Ownership Entity:	CB Ramsey Housing Limited Partnership
General Partner/Principals:	CB Ramsey Housing LLC

DEVELOPMENT TEAM:

General Contractor:	Watson-Forsberg Co., Minneapolis
Architect:	Miller Hanson Partners, Minneapolis
Attorney:	Winthrop & Weinstine, PA, Minneapolis
Management Company:	CommonBond Communities, Saint Paul
Service Provider:	CommonBond Comm. Advantage Services, Saint Paul

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$ 1,375,000	LMIR First Mortgage	
	Funding Source:	Hsg Investment Fund (Pool 2)
	Interest Rate:	5.25%
	MIP Rate:	0.25%
	Term (Years):	30
	Amortization (Years):	30
$ 3,500,000		
	LMIR Bridge Loan	
	Funding Source:	Tax Exempt Future Bond Sale
	Interest Rate:	2.0% estimated*
	Term (Months):	18

*The interest rate of the LMIR Bridge Loan will be based on the market rate at the time of the bond sale.

RENT GRID:

UNIT TYPE	**NUMBER**	**UNIT SIZE (SQ. FT.)**	**GROSS RENT**	**AGENCY LIMIT**	**INCOME AFFORDABILITY**
1BR - LTH	4	691	$ 130	$ 130	$ 5,200
1BR	5	691	$ 757	$ 812	$ 30,280
2BR	26	836	$ 885	$ 975	$ 35,400
3BR	12	1,056	$ 1,019	$ 1,126	$ 40,760
TOTAL	47				

NOTES: The LTH units do not have rental assistance

Purpose:
Sunwood Village will be a new construction, 47 unit housing community built in the heart of downtown Ramsey, approximately 30 miles northwest of Minneapolis. The development will promote walking and biking to the NorthStar Ramsey Station, nearby retail amenities, and the Mississippi River Trail. The property meets the foreclosure priority because the Ramsey Town Center master planned community fell into foreclosure in 2007. Subsequently the city acquired over 150 acres, assumed over $7 million of assessments and rebranded the master plan community into The COR. Since that time, development in the area has included the NorthStar Commuter Rail Station, a 230 unit luxury market-rate apartment community, VA Clinic, Allina Medical Center, a church, additional highway access and single-family home developments. The site will be acquired from the city upon closing of the construction financing.

Target Population:
Unit types include 9 one-bedroom units, 26 two-bedroom units, and 12 three-bedroom units. The development will target individuals and households of color, as well as single head of households with minor children. Four of the units will be set aside for long-term homeless (LTH) households. CommonBond's Advantage Services program will be available to all residents, with special programming being made available for those in the LTH units.

Project Feasibility:
The project is feasible as proposed. HIB along with Agency-issued short-term tax-exempt bonds will be used to meet the 50% test, qualifying the development for 4% tax credits of approximately $298,897. Limited partner Enterprise will contribute $2,719,691 in tax credit equity based on $0.91/credit, up from $0.84/credit at selection. Met Council has committed $580,000 in LCDA-TOD funds and $200,000 in LHIA; Anoka County has committed $300,000 in HOME funds and $250,000 from the HRA. A sales tax rebate of $175,000 is also a source. The proposed rents are 10% below the 2015 tax credit rent limits, which provides for a reasonable cushion for building occupancy and increasing rents if needed. The first mortgage amount is supported by Minnesota Housing underwriting standards. CommonBond has committed $374,343 in deferred developer fee.

Development Team Capacity:
CommonBond will be the developer, management company, and service provider. CommonBond was established in 1971 and currently has 101 developments with a total of 5,477 units. Their current portfolio consists of Section 8, tax credits, Hollman, Section 236, Section 202, Section 811, PRAC, public housing, market rate, and LTH units.

Physical and Technical Review:
This is a great example of a suburban Transit Orientated Development (TOD) with easy walkable access to transit, shopping, and other neighborhood services. The site plan includes a community room and computer lab for after-school programming and events, an office, and a playground. The project will have 60 surface parking stalls.

Market Feasibility:
The Market Study prepared by Novogradac and Company reports low vacancy rates in neighboring suburbs with a projected increase in rental households through 2018. The study did not recommend any modifications to the proposal. The Minnesota Housing Community Profiles indicate this to be a growing workforce area that is both a foreclosure and a Jobs and Housing Initiative priority area. Because this product type is new to Ramsey and the property will not have covered parking like comparable properties in surrounding suburbs, the developer and investor Enterprise set rents below the tax credit rent limits to ensure a successful lease-up.

Supportive Housing:
Commonbond Advantage Services will be the service provider and has extensive experience with the target population. Referrals will be obtained from county human services, local shelters, and community providers. A Housing First model will be utilized and services proposed include case management, housing/tenancy supports, and independent living skills. An Advantage Center will also be located within the development. LTH units will not have rental assistance (RA) and rents are underwritten at the Agency standards for LTH units without RA. CommonBond has committed service funding to support a .25 FTE.

DEVELOPMENT COST SUMMARY (estimated):

	Total		**Per Unit**
Total Development Cost	$10,444,034		$222,213
Acquisition or Refinance Cost	$435,000		$9,255
Gross Construction Cost	$7,379,370		$157,008
Soft Costs (excluding Reserves)	$2,395,514		$50,968
Reserves	$234,150		$4,982
Total LMIR Mortgage	$1,375,000		$29,255
First Mortgage Loan-to-Cost Ratio		13%	
Agency Deferred Loan Sources			
Hsg Infrastructure Bonds EDHC	$4,470,000		$95,106
LMIR Bridge Loan	$3,500,000		$74,468
Total Agency Sources (Permanent)	$5,845,000		$124,362
Total Loan-to-Cost Ratio		56%	
Other Non-Agency Sources			
Sales Tax Rebate	$175,000		$3,723
Syndication Proceeds	$2,719,691		$57,866
Anoka County HRA	$250,000		$5,319
Met Council LHIA	$200,000		$4,255
Anoka County HOME	$300,000		$6,383
Met Council TOD	$580,000		$12,340
Deferred Developer Fee	$374,343		$7,965
Total Non-Agency Sources	$4,599,034		$97,852

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 15-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM
LOW AND MODERATE INCOME RENTAL BRIDGE LOAN (LMIRBL) PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide construction and permanent financing for a multiple unit housing development to be occupied by persons and families of low and moderate income, as follows:

Name of Development:	Sunwood Village
Sponsors:	CB Ramsey Housing Limited Partnership
Guarantors:	CommonBond Communities
Location of Development:	Ramsey
Number of Units:	47
General Contractor:	Watson-Forsberg Co., Minneapolis
Architect:	Miller Hanson Westerbeck Berger Inc., Minneapolis
Amount of Development Cost:	$10,444,034
Amount of LMIR Mortgage:	$1,375,000
Amount of LMIR Bridge Loan (BL) (not to exceed):	$3,500,000

WHEREAS, the Agency has determined that such applicant is an eligible sponsor under the Agency's rules; that such permanent mortgage loan is not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the construction of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, the Agency has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations and policies.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide construction and permanent mortgage loans to said applicant from Housing Investment Fund (Pool 2 under the LMIR Program) and the sale of new tax-exempt bonds (under the LMIRBL Program) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed $1,375,000; and

2. The interest rate on the permanent LMIR loan shall be 5.25 percent per annum plus 0.25 percent per annum HUD Risk Share Mortgage Insurance Premium, with monthly payments based on a 30 year amortization; and

3. The term of the permanent LMIR loan shall be 30 years; and

4. The LMIR End Loan Commitment shall be entered into on or before January 31, 2016 and shall have an 18 month term (which shall also be the LMIR Commitment Expiration Date); and

5. The amount of the LMIR Bridge Loan shall not exceed $3,500,000 and

6. The LMIR Bridge Loan transaction will be financed with the proceeds of tax-exempt bonds of the Agency, and the commitment is subject to the ability of the Agency to sell bonds on terms and conditions, and in a time and manner acceptable to the Agency; and

7. The interest rate on the Bridge Loan will be based on the interest rate on the series of bonds issued to finance the Bridge Loan plus up to the maximum allowable spread, and is estimated to be 2.0 percent per annum payable monthly with the principal due in a balloon payment no more than 18 months after closing; and

8. Agency staff shall review and approve the Mortgagor; and

9. The Mortgagor shall execute an Agency Mortgage Loan Commitment with terms and conditions embodying the above in form and substance acceptable to Agency staff; and

10. CommonBond (or an affiliate entity approved by the Agency) shall guarantee the mortgagor's construction completion and payment obligations regarding operating cost shortfalls and debt service until the property has achieved a 1.15 debt service coverage ratio (assuming stabilized expenses) for three successive months; and

11. CommonBond (or an affiliate entity approved by the Agency) shall guarantee the mortgagor's payment under LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

12. The sponsor, the builder, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary shall execute all such documents relating to said loan, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 23rd day of July, 2015.

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CHAIRMAN

AGENDA: 6.D
MINNESOTA HOUSING BOARD MEETING
July 23, 2015

ITEM: River Pointe Townhomes, Thief River Falls (D7594)

CONTACT: Summer Watson, 651-296-9790
summer.watson@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☑ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Agency staff has completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of $587,000, and a modification to increase the Economic Development and Housing Challenge (EDHC) loan commitment by an amount up $125,000 and the terms and conditions of the Agency mortgage loan commitment.

FISCAL IMPACT:
In the 2014 amended Affordable Housing Plan (AHP), the Board allocated $51 million in new activity for the LMIR program which includes $21 million from the Housing Investment Fund (Pool 2) and $30 million for LMIR and LMIR Bridge Loan activity through tax-exempt bonding. The AHP also allocated $4.5 million in new activity under the FFCC program (funded through the Housing Affordability Fund-Pool 3). Funding for this loan falls within the approved budget and the loan will be made at an interest rate and terms consistent with what is described in the AHP. Additionally, this loan should generate approximately $60,309 in fee income (origination fee and construction oversight fee) as well as interest earnings which will help offset Agency operating costs.

The EDHC loan will be made from state appropriations and will not have any fiscal impact on the Agency's financial condition.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☑ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Development Summary
- Resolution

Background:
On November 7, 2013, the Agency's Board of Directors, approved this development for processing under the LMIR program. The following summarizes the changes in the composition of the proposal since that time:

DESCRIPTION:	SELECTION		COMMITMENT		VARIANCE	
Total Development Cost	$4,304,038		$5,038,762		$734,724	
Gross Construction Cost	$2,945,002		$3,672,166		$727,164	
Agency Sources:						
LMIR	$540,000		$587,000		$47,000	
EDHC	$554,451		$679,451		$125,000	
Total Agency Sources	$1,094,451		$1,266,451		$172,000	
Other Non-Agency Sources:						
Housing Syndication Proceeds	$3,209,587		$3,579,252		$369,665	
Deferred Developer Fee	$0		$193,059		$193,059	
Gross Rents:						
Unit Type	**# of DU**	**Rent**	**# of DU**	**Rent**	**# of DU**	**Rent**
2BR	3	$688	3	$707	0	$0
3BR	3	$802	3	$883	0	$0
2 BR	9	$695	9	$697	0	$0
3 BR	9	$802	9	$804	0	$0
Total Number of Units	24		24			
Predictive Model	4.64% below the Predictive Model		11.64% above the Predictive Model		16.28% increase	

Factors Contributing to Variances:
Construction costs are higher than anticipated at the time of application. The developer was able to realize some cost savings elsewhere, but not enough to offset the increased cost of construction. The developer has increased the deferred developer fee and the tax credit investor has increased the syndication proceeds with higher per credit pricing. The remaining offset is accomplished by an increase in Minnesota Housing funding. The additional requested EDHC funds are 22% of the original award. The total development costs per unit remains within the Agency's predictive model. The model allows a development to exceed the predictive model by 25%. At the time of selection, the budgeted TDC per unit of $179,335 was 4.64% below the $188,061 predictive model estimate. At the time of commitment, the budgeted TDC per unit of $209,949 is 11.64% above the $188,061 predictive model estimate.

Other significant events since Board Selection:
None.

DEVELOPMENT SUMMARY

DEVELOPMENT:

				D7594	
Name:	River Pointe Townhomes			App#:	M16569
Address:	1001-1032 Alice Drive				
City:	Thief River Falls	County:	Pennington	Region:	NWMIF

MORTGAGOR:

Ownership Entity: River Limited Liability Limited Partnership
General Partner/Principals: D. W. Jones, Inc.

DEVELOPMENT TEAM:

General Contractor:	Voronyak Builders. Inc., Burtum
Architect:	Ringdahl Architects PA, Alexandria
Attorney:	Gammello, Qualley, Pearson & Mallak, PLLC, Baxter
Management Company:	D. W. Jones Management Inc, Walker
Service Provider:	Inter-County Community Council, Oklee

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$ 587,000 LMIR First Mortgage

Funding Source:	Housing Invest Fund (Pool 2)
Interest Rate:	5.25%
MIP Rate:	0.25%
Term (Years):	30
Amortization (Years):	30

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORDABILITY*
2BR**	2	1,344	$ 707	$ 707	$ 28,280
2BR	5	1,344	$ 697	$ 726	$ 27,880
2BR	3	1,344	$ 697	$ 726	$ 27,880
2BR**	1	1,099	$ 707	$ 707	$ 28,280
2BR	1	1,103	$ 697	$ 726	$ 27,880
3BR**	3	1,504	$ 883	$ 883	$ 35,320
3BR	9	1,504	$ 804	$ 838	$ 32,160
TOTAL	24				

NOTES: ***Under the LMIR and Housing Tax Credit programs, rents are affordable to households at 50% Area Median Income (AMI) with incomes up to 60% AMI.
**Housing Assistance Payments (HAP) units with rents and affordability are set at the Section 8 payment standard. Four of these units will serve long-term homeless households.

Purpose:
D.W. Jones is requesting funding for the construction of River Pointe Townhomes located in the city of Thief River Falls. The development involves the new construction of a 24 unit development to consist of six, four-unit buildings with 12 – two-bedroom and 12, three-bedroom townhome style units with tuck under single car garages and surface parking. There are 23 units that have rents affordable to households with incomes at or below 50% AMI and 60% AMI, four of the units will be used to serve long term homeless families.

Target Population:
The development will target families with children, single heads of households with children, families of color, and physically disabled individuals. Four of the units will be restricted to families experiencing long-term homelessness and assisted with Section 8 rental assistance. Maximum income allowed for all units will be equal or less than 60% of the AMI.

Project Feasibility:
The proposal will result in 23 new units of affordable housing near transit, jobs, and services. Development financing includes an amortizing LMIR mortgage of $587,000 which includes $192,000 City TIF loan, and $679,451 in deferred funds. The financing will be leveraged with $33,579,252 in tax equity. The Northwest Minnesota Multi-County Housing and Redevelopment Authority has agreed to provide six units of Section 8 rental assistance for the Long-Term Homeless (LTH) units. The contract will be for 10 years. The development cash flows at the proposed rent levels and is consistent with program underwriting guidelines.

Development Team Capacity:
D. W. Jones Inc. was established in 1976. The organization's primary mission is to develop, provide, and maintain quality, affordable, and safe rental housing in Northern Minnesota. They have significant experience developing, owning, and managing this type of housing development. To date D.W. Jones, Inc. has successfully completed over 20 developments and have extensive Rural Development (RD) experience with over 10 projects in their portfolio. Their current list of developments consists of Section 8, Tax credits, LMIR, Preservatoin Affordable Rental Investment Fund (PARIF); and RD. This team has proved to be capable, competent, and their overall experience with the agency has been positive.

Physical and Technical Review:
The Architect is Ringdahl Architects, PA. The Contractor is Voronyak Builders. Applicant is proposing to construct a new 24 unit townhouse development in Thief River Falls. The site is located in the southern part of town between State Highways 59 and 32. There are other newer single family and multifamily developments located adjacent this property. There is a public street and infrastructure available to this site. A new road (an extension of Alice Drive) will run through the middle of this site. The proposed design of the townhouse dwelling units appears to be acceptable and is similar to Deer Ridge Townhomes being constructed in Alexandria.

Market Feasibility:
Thief River Falls is located in Northwest Minnesota in Pennington County and is a top growth community for workforce housing. The Agency Community Profiles indicates a significant need for affordable housing and the area has had a significant gain in jobs. The median rent is $568 and 57.9% of renters are cost burdened. The area has a 6.4% poverty rate and 4.8% unemployment rate. The average housing age is 46 years and there is a vacancy rate of 1.3% which indicates the average rental vacancy rate in Pennington County for subsidized affordable housing units in the portfolios of Minnesota Housing and USDA Rural Development.

Supportive Housing:
The service provider is Inter-County Community Council (ICCC). ICCC will provide case management, individual and family support, housing and tenancy supports, benefits assistance, financial management/budgeting, independent living skills, safety, and community involvement or social support. They will work with North Western Mental Health, Minnesota Workforce Center, Inter-County Nursing, Head State and Sanford, Social Services to provide other services such as education/ employment training, parenting training and mental and chemical health services. ICCC's Family Service Department has relationships with agencies in the area and expects to easily get referrals. Referrals will come from Pennington County Salvation Army Chapter, Pennington County Social Services, law enforcement, the Violence Intervention Project and other community organizations. ICCC's stated goal is to support a family with their own individualized goals. They will provide case management to six clients, though they are only planning to serve four LTH households. The owner will contribute $3,000 toward case management services.

DEVELOPMENT COST SUMMARY (estimated):

	Total		Per Unit
Total Development Cost	$5,038,762		$209,948
Acquisition or Refinance Cost	$373,000		$15,542
Gross Construction Cost	$3,672,166		$153,007
Soft Costs (excluding Reserves)	$929,596		$38,733
Non-Mortgageable Costs	$0		$0
Reserves	$64,000		$2,666
Total LMIR Mortgage	$587,000		$24,458
First Mortgage Loan-to-Cost Ratio		11.4%	
Agency Deferred Loan Sources			
EDHC Workforce	$679,451		$28,310
Total Agency Sources	$1,266,451		$52,769
Total Loan-to-Cost Ratio		25%	
Other Non-Agency Sources			
Syndication Proceeds	$3,579,252		$149,135
Deferred Developer Fee	$193,059		$8,044
Total Non-Agency Sources	$3,772,311		$157,179

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MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 15-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide construction and permanent financing for a multiple unit housing development to be occupied by persons and families of low and moderate income, as follows:

Name of Development:	River Pointe Townhomes
Sponsors:	River Pointe Limited Liability Limited Partnership
Guarantors:	Dale W. Jones and Ronald A. Duschaneau
Location of Development:	Thief River Falls
Number of Units:	24
General Contractor:	Voronyak Builders, Inc.
Architect:	Ringdahl Architects, PA
Amount of Development Cost:	$5,038,762
Amount of Low and Moderate Income Rental (LMIR) Mortgage:	$587,000

WHEREAS, the Agency has determined that such applicant is an eligible sponsor under the Agency's rules; that such permanent mortgage loan is not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the construction of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, the Agency has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations and policies.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide a permanent mortgage loan to said applicant from the Housing Investment Fund (Pool 2 under the LMIR Program) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed $587,000; and

2. The initial closing of the loan shall be on or before January 31, 2016 (which shall also be the LMIR Commitment Expiration Date); and

3. The interest rate on the permanent LMIR loan shall be 5.25 percent per annum plus 0.25 percent per annum HUD Risk Share Mortgage Insurance Premium, with monthly payments based on a 30 year amortization; and

4. The term of the permanent LMIR loan shall be 30 years; and

5. Agency staff shall review and approve the Mortgagor; and

6. The Mortgagor shall execute an Agency Mortgage Loan Commitment with terms and conditions embodying the above in form and substance acceptable to Agency staff; and

7. Dale W. Jones and Ronald A. Duschaneau shall guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.15 debt service coverage ratio (assuming stabilized expenses) for three successive months; and

8. Dale W. Jones and Ronald A. Duschaneau shall guarantee the mortgagor's payment under LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

9. The sponsor, the builder, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary shall execute all such documents relating to said loan, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 23rd day of July 2015.

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CHAIRMAN

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 15-

RESOLUTION APPROVING MORTGAGE COMMITMENT
ECONOMIC DEVELOPMENT AND HOUSING CHALLENGE (EDHC) PROGRAM

WHEREAS, the Board has previously authorized the commitment for the development hereinafter named by its Resolution No. 13-061; and

WHEREAS, the development continues to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations, and policies; and,

WHEREAS, Agency staff have determined that there are increased development costs created by increased construction costs.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby increases the funding commitment for the development noted below:

1. River Pointe Townhomes – D7594
    a. The amount of the Economic Development and Housing Challenge (EDHC) funding commitment shall be increased by up to $125,000, from $554,451 to a maximum of up to $679,451; and,

2. All other terms and conditions of the MHFA Resolution No. 13-061 remain in effect.

Adopted this 23rd day of July 2015.

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AGENDA ITEM: 7.A
MINNESOTA HOUSING BOARD MEETING
July 23, 2015

ITEM: Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2015 Series D

CONTACT: Rob Tietz, 651-297-4009, rob.tietz@state.mn.us — Terry Schwartz, 651-296-2404, terry.schwartz@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☑ Other: Finance

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Agency staff is preparing to issue bonds to provide funds for the acquisition of newly originated mortgage-backed securities and to refund certain single family bond series originally issued in 2006. Kutak Rock LLP, the Agency's bond counsel, will send the resolution and Preliminary Official Statement describing the transaction under separate cover. The Board will be asked to adopt a resolution approving the terms of one bond issue which will likely price July or August of 2015.

FISCAL IMPACT:
The transaction will result in the Agency earning the maximum allowable spread on the bonds.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Preliminary Official Statement (provided under separate cover)
- Resolution (provided under separate cover)

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Minnesota Housing Finance Agency

AGENDA ITEM: 7.B
MINNESOTA HOUSING BOARD MEETING
July 23, 2015

ITEM: Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Rental Housing Bonds, 2015 Series C

CONTACT: Rob Tietz, 651-297-4009 rob.tietz@state.mn.us

Caryn Polito, 651-297-3123 caryn.polito@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☑ Selection(s) ☐ Waiver(s)

☑ Other: Finance

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:

Agency staff is preparing to issue bonds to provide a bridge loan to CB Ramsey Housing Limited Partnership for the Sunwood Village project. Kutak Rock LLP, the Agency's bond counsel, will send the resolution and Preliminary Official Statement describing the transaction under separate cover. The Board will be asked to adopt a resolution approving the terms of the bond issue on a not-to-exceed basis.

FISCAL IMPACT:

The transaction will result in the Agency earning approximately a 1% spread on the bonds.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):

- Preliminary Official Statement (provided under separate cover)
- Resolution (provided under separate cover)

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AGENDA ITEM: 7.C
MINNESOTA HOUSING BOARD MEETING
July 23, 2015

ITEM: Seward Towers East and West, Minneapolis, D7713

CONTACT: Dan Walsh, 651-296-3797
dan.walsh@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☑ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Minnesota Housing Finance Agency ("Agency") staff has completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing a HOME Affordable Rental Preservation ("HARP") commitment in an amount not to exceed $5,322,000, subject to the review and approval of the Mortgagor, the terms and conditions of the Agency mortgage loan commitment and Mortgage Credit Committee approval. This loan will be made from federal HOME appropriations.

FISCAL IMPACT:
The 2015 amended Affordable Housing Plan (AHP) allocated nearly $21 million in new activity for the HARP program. Funding for this loan falls within the approved budget, and the loan will be made at interest rates and terms consistent with what is described in the AHP. Per Agency guidelines, the loan will not generate fee income because the Agency earns an administrative fee under the HOME program.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Resolution

Background

The Agency Board, at its October 23, 2014, meeting, approved this development for processing under the HARP program. The following summarizes the changes in the composition of the proposal since that time:

DESCRIPTION:	**2014**		**2015**		**VARIANCE**	
Total Development Cost	$91,178,000		$93,779,000		$2,601,000	
Gross Construction Cost	$35,075,000		$35,828,000		$753,000	
Professional Fees	$3,048,000		$4,859,000		$1,811,000	
Financing Costs	$4,427,000		$5,631,000		$1,204,000	
Reserves	$2,175,000		$3,387,000		$1,212,000	
Agency Sources:						
HARP	$3,649,000		$5,322,000		$1,673,000	
Forgivable HTF Loan (Existing)	$150,000		$0		($150,000)	
Other Non-Agency Sources:						
4% Housing Tax Credit Proceeds from Wells Fargo ($1.05 equity factor)	$28,883,000		$28,991,000		$108,000	
HUD 221(d)(4) First Mortgage	$24,214,000		$29,750,000		$5,536,000	
Seller Cash Flow Loan	$21,512,000		$16,594,000		($4,918,000)	
Minneapolis Cash Flow CDBG Loans (Existing)	$2,719,000		$4,117,000		$1,398,000	
Reserves (Existing)	$2,710,000		$2,783,000		$73,000	
Interim Income	$750,000		$1,170,000		$420,000	
Met Council Deferred TBRA Loan	$0		$518,000		$518,000	
Hennepin County Deferred AHIF Loan	$0		$300,000		$300,000	
Sales Tax Rebate	$0		$608,000		$608,000	
Deferred Developer Fee	$3,800,000		$3,627,000		($173,000)	
Funding Gap	$2,791,000		$0		($2,791,000)	
Total Permanent Sources	$91,178,000		$93,779,000		$2,601,000	
Gross Rents:						
Unit Type	**# of DU**	**Rent**	**# of DU**	**Rent**	**# of DU**	**Avg. Rent**
O BR / SRO (Section 8)	110	$644-$659	100	$732	0	$80
O BR / SRO (LTH Section 8)	0	N/A	10	$732	10	$732
O BR / SRO	2	$531	2	$626	0	$95
1 BR (Section 8)	401	$664-$816	413	$891	12	$151
1 BR	15	$742	3	$759-$837	(12)	$56
2 BR (Section 8)	112	$785-$1,045	100	$1,147	(12)	$232
2 BR	0	N/A	12	$880-$1,041	12	$961
Total Number of Units	640		640		0	
Predictive Model	4.81% above the Predictive Model		7.82% above the Predictive Model		3.01% increase	

Factors Contributing to Variances:

Costs

- The Gross Construction Cost has increased primarily due to construction scope additions per funder requirements and recommendations.
- The Professional Fees have increased primarily due to temporary relocation expenses. The relocation plan will comply with Uniform Relocation Act ("URA") requirements. The developer anticipates zero permanent relocations based on its analysis. During construction, blocks of residents will internally move and 80 residents will move offsite to a newly constructed building a half mile away.
- The Financing Costs have increased primarily due to city bond related costs and bridge loan and first mortgage interest estimates.
- The Reserves have increased due to HUD's required operating deficit and working capital escrows.
- The total development cost (TDC) per unit remains within the Agency's predictive model. The model allows a development to exceed the predictive model by 25%. At the time of selection, the budgeted TDC per unit of $142,465 was 4.81% higher than the $135,927 predictive model estimate. At the time of commitment, the budgeted TDC per unit of $146,560 is 7.82% above the estimate.

Agency Sources

- The $1,673,000 increase in deferred funding is needed to close the permanent funding gap. Without these funds, it is reasonable to assume the development may not go forward at all for the following reasons:
    - The development was selected for a partial funding award in 2014 and had a gap of nearly $2.8 million. Predevelopment activities and detailed analyses have tightened up cost estimates, the first mortgage has been maximized and the developer has secured a number of additional funding sources.
    - Current market conditions—particularly the more-than-a-dollar tax credit equity factor and historically low interest rates—make it possible for a development of this magnitude to occur.
    - If Seward Towers does not close by the first quarter of 2016, credit delivery would be pushed to 2018, and the housing tax credit investor would reduce its equity factor to approximately 95 cents, creating a $2.8 million funding gap according to current projections.
    - To close by January 2016, Oak Grove will submit its firm application to HUD in August. To process the application, HUD requires all funding sources to be secured. A 0.25% increase in the first mortgage interest rate alone would create a $1 million gap according to current projections.
    - According to the general contractor for Seward Towers, construction prices have increased 10% on average in the last year, and it is reasonable to assume price increases will continue in the next year in part because of the new energy code. A 5% increase in construction prices would create an estimated $1.2 million gap in the budget.
    - Seward Towers would also lose its temporary relocation agreement creating a burden for the residents and increasing relocation expenses. The current relocation plan allows the majority of the relocated residents to live together in a building located nearby.
- Minnesota Housing has approved the forgiveness of its existing forgivable Housing Trust Fund (HTF) loan. The Agency made the loan in 1995, and its current balance was $85,000. There have been no events of default. The loan document terms anticipated forgiveness. The new HARP financing will ensure that restrictions similar to those of the HTF loan will continue for the next 40 years.

Non-Agency Sources

- The developer has formally secured Wells Fargo as its tax credit investor and increased the equity factor by five cents to $1.05, which led to an increase in tax credit proceeds. Basis calculations also affected the amount.
- The owner is pursuing an early-termination-long-term-renewal of its HAP contracts and is in the final stages of the process. Staff is considering sizeable increases to the HAP rents thereby increasing the supportable first mortgage amount.
- Approximately $2 million of the existing first mortgage payoff, nearly $1.4 million in accrued interest on the existing city loans and the payoff of the existing $1.5 million Wells Fargo loan were not included in the original seller note calculation proposed by the developer in 2014 by mistake. The existence of this additional existing debt reduced the sales proceeds the related party seller could put back into the transaction as a seller's loan. The seller and its affiliated entities will not take any cash from the acquisition transaction.
- Detailed analyses of existing property reserves and interim income led to modest increases in those sources.
- The developer secured deferred funding from the Metropolitan Council and Hennepin County.
- The development will receive a sales tax rebate on construction materials. Minnesota Housing staff required the addition of the rebate as a source.
- The developer will defer 50% of its total developer fee, which is the maximum allowed by the tax credit investor.

Gross Rents, Unit Types and Population Served

- There are 623 units in the development that will continue to benefit from project-based Section 8 rent assistance as a result of this financing.
- As a condition of the HARP loan modification increase, the owner has agreed to reserve 10 units for households who have experienced long-term homelessness. The property management company will fill the units with LTH households at turnover. LTH residents will receive project-based Section 8 rent assistance and service funding from CommonBond's Advantage Services department.
- To support the increase to the first mortgage, the borrower will increase existing rents on the 17 non-Section-8-assisted units by approximately $95.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 15-

RESOLUTION APPROVING MORTGAGE COMMITMENT MODIFICATION
HOME AFFORDABLE RENTAL PRESERVATION (HARP) PROGRAM

WHEREAS, the Agency Board, at its October 23, 2014, meeting, previously authorized a commitment for the development hereinafter named by its Resolution 14-047; and

WHEREAS, the application continues to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations and policies;

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby increases the funding commitment on the development noted below and hereby confirms the renewal of said commitment, subject to any revisions noted:

1. Seward Towers East and West – D7713: The amount of the HARP program funding commitment shall be increased by up to $1,672,805 to $5,322,000; and

2. All other provisions of Resolution 14-047 remain unchanged.

Adopted this 23rd day of July 2015.

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CHAIRMAN

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AGENDA ITEM: 7.D
MINNESOTA HOUSING BOARD MEETING
July 23, 2015

ITEM: Updated Calculation for Distributing Housing Tax Credits to Sub-allocators

CONTACT: John Patterson, 651-296-073
john.patterson@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ___________________________

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
For Board approval, staff is submitting an updated calculation for distributing Housing Tax Credits to sub-allocators. Because of demographic shifts, sub-allocators will be assigned a smaller share of the state's annual tax credit allotment.

FISCAL IMPACT:
The change will annually increase the Agency's share of the state's tax credit allotment by about $790,000 (based on current federal allocation levels), assuming that the Agency continues to administer the credits for the Greater Minnesota sub-allocators under joint powers agreements.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- New Tax Credit Distribution Shares for Sub-allocators
- Public Comments

New Tax Credit Distribution Shares for Sub-allocators
Proposal to Minnesota Housing's Board of Directors

Under Minnesota Statutes 462A.222, subdivision 4, Minnesota Housing has the authority to amend the plan for distributing Low-Income Housing Tax Credits to sub-allocators, after consulting with representatives of local governments and housing and redevelopment authorities. Because of demographic shifts and new forecasts from the Metropolitan Council, Minnesota Housing is amending the plan by updating each sub-allocator's share. Tables 1 and 2 show the current distribution share for each sub-allocator, the proposed new shares, and the factors used to calculate the shares. In performing the allocation process, the distribution shares are calculated after the state's annual allotment of tax credits has been split between the metro area and Greater Minnesota and the credits for the non-profit set-aside have been taken out. Minnesota Housing administers the credits going to the Balance of the Region and the non-profit set-aside. In addition, in Greater Minnesota, the USDA-RD set-aside will come out the Balance-of-the-Region's share.

Table 1: Seven-County Metro Area - Tax Credit Shares and Factors

	Current Distribution Shares	**Proposed New Shares**	Share of Households (2014)	Share of Forecasted Household Growth (2010-30)	Share of Employment (2014)	Share of Forecasted Employment Growth (2010-30)	Share of Severely Cost Burdened Renters (2011-2013)
Minneapolis	20.4%	**17.0%**	15.0%	11.7%	18.8%	13.7%	25.9%
St. Paul	15.2%	**10.5%**	9.9%	7.8%	10.8%	7.6%	16.6%
Dakota County	14.5%	**12.3%**	13.5%	13.8%	11.0%	13.5%	9.6%
Washington County	7.8%	**6.8%**	7.9%	10.9%	4.7%	6.9%	3.9%
Balance of Region	42.1%	**53.4%**	53.7%	55.8%	54.8%	58.3%	44.0%
Total**	100.0%	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%

Table 2: Greater Minnesota - Tax Credit Shares and Factors

	Current Distribution*	**Proposed New Shares**	Share of Households (2014)	Share of Household Growth (2004-14)	Share of Employment (2014)	Share of Employment Growth (2004-14)	Share of Severely Cost Burdened Renters (2011-2013)
Duluth	7.6%	**4.1%**	3.7%	0.4%	5.5%	2.5%	8.5%
Rochester	5.9%	**7.2%**	4.5%	11.0%	7.9%	6.7%	5.8%
St. Cloud	4.1%	**3.7%**	2.6%	1.9%	4.8%	2.5%	6.4%
Balance of Region	82.4%	**85.0%**	89.2%	86.7%	81.8%	88.3%	79.3%
Total**	100.0%	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%

*The share depends on when the USDA RD set-aside is taken out (before or after the sub-allocator assignment). The shares in this table assume that the 10% nonprofit set-aside is taken out, credits are assigned to sub-allocators, and then the USDA RD set-aside ($300,000 in 2015) is taken out of the share going to the Balance of the Region.

For the seven-county Twin Cities Metro area, the proposed new shares are based on the same factors outlined in the Metropolitan Council's original distribution plan from September 1990. These include each jurisdiction's share of the region's: (1) households, (2) forecasted household growth, (3) employment, (4) forecasted employment growth, and (5) severely cost-burdened renters, with each of the five factors receiving an equal weight. Staff has updated the calculation using the most current data that is available. While the original distribution plan used a 12-year window for the forecasted household and employment growth (1988 to 2000), the proposed distribution calculation uses a 20-year window (2010 to 2030). The 20-year window more closely captures the long term nature of housing investments.[1]

The calculation of the proposed distribution shares for Greater Minnesota uses different factors than the original distribution plan from 1990, which was based on each sub-allocator's population. The new calculation mirrors the methodology used for the metro area for statewide consistency. However, there are no forecasts of household and employment growth for the Greater Minnesota sub-allocators. Consequently, the distribution calculation is based on growth over the previous ten years (2004 to 2014), rather than a forward looking forecast.[2] Currently, all three sub-allocators in Greater Minnesota do not choose to receive tax credits for allocation within their jurisdiction; rather they have entered into joint powers agreements with Minnesota Housing to have the Agency allocate their credits.

Consultation Process

- February 2 and 3, 2015 – Commissioner Tingerthal called the Metropolitan Council and the seven sub-allocators to notify them about and discuss the proposed changes to the distribution plan.

- February 12, 2015 – Discussed the proposed changes with the sub-allocators at the Agency's annual meeting with sub-allocators.

- February 23, 2015 – Opened the public comment period regarding the proposed changes – outreach included emails to 1,300 multifamily partners and stakeholders and notices on the Agency's website, State Register, and statewide edition of the Star/Tribune. Also, directly notified the Minnesota League of Cities and the Minnesota Chapter of the National Association of Housing and Redevelopment Officials (NAHRO), asking them to notify their members.

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[1] The data sources are: (1) Metropolitan Council for 2014 households and the forecasts of household and employment growth (2010 to 2030), (2) Minnesota Department of Employment and Economic Development (DEED) for 2014 employment, and (4) U.S. Census Bureau's American Community Survey (2011-13 three year sample) for the severely-cost-burdened households.

[2] The data sources are: (1) State Demographer's Office for 2014 households and 2004-14 household growth, (2) DEED for 2014 employment and 2004-14 employment growth, and (3) U.S. Census Bureau's American Community Survey (2011-13 three year sample) for the severely-cost-burdened households

- March 27, 2015 – Ended the public comment period. The Agency received comments from seven different organizations – see attachment, which includes a summary and the original comments. All the comments applied to the metro area distribution; we received no comments specifically regarding the distribution in Greater Minnesota.

- April 10, 2015 – Met with representatives from the Metropolitan Council and the seven sub-allocators to review and discuss the proposed changes and public comments. Primary concerns from the sub-allocators were:

    1. Delay the changes until the allocation of the 2017 credits; do not apply them to the 2016 credits.
    2. Before finalizing the changes, wait for the Metropolitan Council to issue its revised forecasts and for the Department of Employment and Economic Development (DEED) and the Demographer's Office to come out with their 2014 data for employment and households.
    3. Consider a 10-year forecast window for household and employment growth, rather than a 30-year, which was used in the original update proposal.
    4. Consider doubling the weight given to severely-cost-burdened households (which would increase the shares for Minneapolis and St. Paul, but decrease them for Dakota and Washington counties).
    5. Consider each sub-allocator's share of the region's population as an allocation floor (which would increase Washington and Dakota counties' share).
    6. Give the sub-allocators more time to review the proposed changes and identify concerns about or alternatives (factors and weights) to the share calculation.

  At that time, Minnesota Housing staff agreed to implement items 1, 2, and 6 and to continue reviewing items 3-5.

- May 22, 2015 – Deadline for sub-allocators to submit additional concerns and alternative calculations. Received comments from just St. Paul and Dakota County, which did not propose additional changes to the distribution calculation. (See attachment)

- June, 2015 – Gathered most recent data from the Metropolitan Council, DEED, and the State Demographer's office and updated the calculations with the new data – using the same factors and weights.

Staff did not incorporate into the final calculation suggestions 4 and 5 from above. Agency staff members believe that continuing the factors and weights used in the Metropolitan Council's original distribution plan but with updated data is the most consistent and reasonable approach for allocating tax credits to meet the metro region's affordable housing needs and priorities. For statewide consistency, staff believes that the same factors and weights should be used in Greater Minnesota. Regarding suggestion 4, staff recommends an updated 20-year forecast window as it reflects the longer term nature of housing investments.

Attachment A: Public Comments

Comments about Proposed Formula for Distributing Low-Income Housing Tax Credits to Suballocators

February and March 2014

Comments from the four metro area suballocators, which were also jointly submitted to the Governor's Office

- The suballocators do not support the changes. Specifically:
  - There will be a large percentage reduction in their tax credit allocations and a large loss of private equity:
    - St. Paul: 32% reduction ($1,056,694 to $716,521), which will result in a $3 million loss of private equity
    - Minneapolis: 19% reduction ($1,417,737 to $1,147,824), which will result in a $2.5 million loss of private equity.
    - Dakota County: 13.7% reduction ($1,007,303 to$869,564), which will result in a $1.37 million loss of private equity.
    - Washington County: 11% reduction (from $545,390 to $486,956), which will result in a half million dollar reduction in private equity.
  - Some suballoactors will be unable to annually fully-fund one housing tax credit project:
    - St. Paul would have potentially chosen the rehabilitation of Wilder Square Apartments (750 North Milton Street), which provides 136 units of affordable housing to seniors and individuals with mental disabilities (11 two-bedroom and 125 one-bedroom units). 40% of the units have Section 8 subsidies, with the remaining subsidized through 236. These 236 mortgages are set to expire at the end of 2015. With less tax credits and a larger gap, St. Paul's deferred loan request to Minnesota Housing will be over $2 million higher. If the additional funding is not provided, the project will be delayed a year.
    - In Dakota County, Artspace is currently working with the City of Hastings for a new 35 unit tax-credit development. If funded, this project would have used all of Dakota County's allocation before the proposed reduction.
    - Washington County is expecting a 40 unit affordable housing development to apply for 2016 tax credits. With the decreased allocation to the county, the credits would need to be awarded over two years, not one, which will delay the creation of the units. In addition, applications like this, receive other funding (e.g. CDBG, HOME, and local gap financing programs), which have their own program goals and expenditure requirements. The proposed change would result in a delay of reaching those goals.
  - The reduction creates a need for more gap financing in these communities.

        - Gap financing is already insufficient to meet demand, these projects may become financially infeasible.
        - In Dakota County, Lakeshore Townhomes is a 50 unit workforce housing development in Eagan with largely 2 and 3 bedrooms in 10 townhome-style buildings. With the current tax credit allocation, this development would be left with a $1 million funding gap.
        - In Washington County, Killarney Cottages is a proposed 42 unit workforce townhome development in Forest Lake with two and three bedroom units. The county has budgeted and requested a special benefit levy of $420,000 in anticipation of this development. With the reduction in the tax credit allocation, the development will require an additional $503,595 of local resources or an additional request for Minnesota Housing deferred loan financing.

    - Suballocators have made significant investments of their own funds to support tax credit developments:
        - Minneapolis has budgeted up to $10 million of its own funds in 2015 for affordable housing, which will help the feasibility of the awarded 2016 tax credits.

    - There is strong demand for tax credits in these jurisdictions:
        - In the last five years, Minneapolis has received eligible requests of $5 for every $1 of available credits. 2016 should be similar - including: (1) three supportive housing developments for people with HIV/AIDS, homeless youth, and formerly incarcerated men, (2) a substantial rehabilitation project identified by the Interagency Stabilization Group, and (3) one or two new construction developments for families.
        - The Met Council's Housing Policy Plan indicates that Dakota County will need 5,940 units of affordable housing between 2020 and 2030. Dakota County currently manages a portfolio of 771 tax credit units with over 2,200 families on waiting lists.
        - In 2015, Washington County's tax credit allocation of $545,390 credits was over subscribed by $1.9 million. The county's Comprehensive Housing Needs Assessment projects demand for 4,600 units of workforce housing by 2030.

    - The reduction hurts the most vulnerable and cost-burdened households.

    - There needs to be more discussion of the factors used in the formula.
        - The formula has five factors that are equally weighted.
            - Two are based on the current number of households and jobs and two are based on forecasted household and job growth. Because tax credit developments are typically placed in service two years after allocation, it could be argued that current need is more important than future need.
            - The forecasts of household and employment growth have jumped from a 12-year window in the existing formula to a 30-year window in the

proposed formula. Minnesota Housing has not explained the reason for this shift.

        - Minneapolis believes that the Met Council's forecasts have underestimated population growth in the city and that the forecasts will be amended as the cities in the region work with the Council in response to System Statements. For example, between 2010 and 2014, 54% of the region's multifamily building permits have been in Minneapolis. Due to these potential amendments, any decisions based on these forecasts should be delayed.
        - The Met Council's Affordable Housing Need Allocation process is currently underway, which will lay the groundwork for adjusting community goals for affordable housing. This process is using different data and weighting factors than Minnesota Housing's proposed distribution formula. For example, it is using the ratio of low-wage jobs to low-wage workers as a factor. Minneapolis's ratio is above 1.5 and among the highest in the metro area and demonstrating the availability of jobs for tax credit tenants.

    - The consultation process is inadequate, and the suballocators have had limited time (less than 60 days from first notification to the end of the public comment period) to react. In addition, there has been insufficient time to understand the change in data on the proposed distribution amount.

    - Given the significance and magnitude of the change, Minnesota housing should delay any changes and keep the existing formula for a year, which will allow time for more meaningful discussion of the distribution formula, consultation, and planning. The current timing forces immediate action because the 2016 Qualified Allocation Plan, including the estimate of available credits, must be posted by March 30, 2015 to fulfill the public notice requirements.

Comments from Others

- Minnesota NAHRO:
    - Concerns about the timing of the process - In the last two weeks, there have been numerous tax credit comments periods and deadlines, including the 2016 QAP (March 17th), 2017 QAP (March 19th), and LIHTC distribution to suballocators (March 27th). This created challenges for providing substantive input.
    - Concerns about timing of implementation - Suballocators, which first learned of the proposed changes on February 2, 2015, have to implement the reduced funding level during the 2015 award process.   This compressed implementation schedule affects many projects already under consideration and may delay important projects across the state.

- Metropolitan Consortium of Community Developers:
    - All suballocators are receiving a reduction, with the largest in Minneapolis and St. Paul. These communities have significant housing needs.

        - Some areas have significant community recovery needs because of the foreclosure crisis, the north Minneapolis tornado, and ongoing disinvestment by market forces.
        - Other areas are becoming favorable places to live (particularly for millennials and seniors) lowering vacancy rates, driving up rents, and driving upscale housing developments.
        - In response, cities have redoubled their affordable housing efforts; for example, Minneapolis has budgeted $10 million toward its Affordable Housing Trust Fund.
        - A reduction in LIHTC will work against these efforts.
    - The reduced allocations may substantially slow housing developments that are not prioritized by Minnesota Housing. Local control and local partnerships in affordable housing development are important for ensuring regional and state-wide support. Reducing tax credits to suballocators may reduce their interest in and support of affordable housing.
    - With fewer credits, Minneapolis and St. Paul will have less flexibility to fill financing gaps when development costs outpace estimates or when unexpected hurdles are encountered.
    - Decreasing local resources by reducing suballocator credits may hinder these communities from meeting their affordable housing goals, including the targets set by the Met Council.

- <u>Housing Preservation Project:</u>
    - The original formula developed by the Met Council in 1990 to distribute tax credits to suballocators did not conform to the statutory direction, which states the formula is to be "based on regional housing needs and priorities". The formula is based on five factors: (1) share of severely cost-burdened households, (2) employment, (3) employment growth, (4) households, and (5) household growth, with each equally weighted. The latter four factors have at best an indirect relationship to "housing priorities". In addition, severely cost burdened households is related to need, but it is seriously undervalued in the formula as just one of five equally weighted factors. Minnesota Housing should not continue replicating a formula that does not comply with legislative direction.
    - The formula described in the Met Council's 1990 memo was not accurately used in 1990.
    - The consultation process has been inadequate. Consultation implies a back and forth exchange of facts and opinions. Rather, Minnesota Housing has set out its intention and sought reactions.
    - The actual distribution of housing need, realistically formulated affordable housing priorities, and issues of fair housing and equity raised in the Council's Choice, Place, and Opportunity document should come into play in setting out a future tax credit distribution plan.

No comments were received regarding the distribution of tax credits in Greater Minnesota.

HOUSING AND REDEVELOPMENT AUTHORITY
Jonathan Sage-Martinson, Executive Director

CITY OF SAINT PAUL
Christopher B. Coleman, Mayor

25 West Fourth Street
Saint Paul, MN 55102

Telephone: 651-266-6655
Facsimile: 651-228-3261

March 26, 2015

Governor Mark Dayton
Office of the Governor
130 State Capitol
75 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

RE: PROPOSED DISTRIBUTION OF LOW-INCOME HOUSING TAX CREDITS IN THE TWIN CITIES AREA

Dear Governor Dayton:

The Saint Paul Housing and Redevelopment Authority, City of Minneapolis-Community Planning and Economic Development Department, Washington County Housing and Redevelopment Authority, and the Dakota County Community Development Agency appreciate this opportunity to express our individual and joint concerns about the Minnesota Housing's Proposed Distribution of Low Income Housing Tax Credits ("Credits") in the Twin Cities Metropolitan Area.

For your review, each Credit Suballocator has attached individual letters of concern regarding the Proposed Distribution of Low Income Housing Tax Credits and its impact on affordable housing development for their housing cost-burdened citizens.

As Credit Suballocators, we recognize that MHFA must constantly balance competing public policies to develop affordable housing. However, more time is needed to have a thoughtful discussion on the equitable distribution of Housing Credits in the Twin Cities area.

We appreciate your willingness to listen to our concerns.

HOUSING AND REDEVELOPMENT
AUTHORITY
Jonathan Sage-Martinson, Executive Director

CITY OF SAINT PAUL
Christopher B. Coleman, Mayor

25 West Fourth Street
Saint Paul, MN 55102

Telephone: 651-266-6655
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March 26, 2015

Governor Mark Dayton
Office of the Governor
130 State Capitol
75 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

RE: PROPOSED DISTRIBUTION OF LOW-INCOME HOUSING TAX CREDITS IN THE TWIN CITIES AREA

Dear Governor Dayton:

Saint Paul Housing and Redevelopment Authority (Saint Paul) **does not support** Minnesota Housing's changes to the proposed distribution of Low Income Housing Tax Credits (Credits) in the Twin Cities Metropolitan Area for the following reasons:

- Saint Paul will not be able to fully-fund one housing tax credit project. The proposed 2016 distribution results in a **32% reduction** in Saint Paul's credits from $1,056,694 to $716,521.
- The proposed change creates an estimated $3 million loss of private equity investment in 2016 that cannot be replaced by local City funds.
- Proposed distribution effectively hurts Saint Paul's most housing cost-burdened residents.
- If approved, Saint Paul has limited time (less than 60 days), to alter housing strategies to build or preserve affordable housing which often take multiple years to secure financing.

Attached is a description of a project we expect to re-apply and score high for Saint Paul's 2016 Credits. The reduced Credit formula would delay the project another year without additional funding support from Minnesota Housing.

As an alternative, Saint Paul HRA requests that Minnesota Housing delay the proposed changes to the 2017 Credit Year, and Saint Paul's 2016 Credit Allocation remains at no less than $1,056,694. This delay would allow time for meaningful discussion of the distribution formula factors.

Saint Paul HRA recognizes that MHFA must constantly balance competing public policies to equitably develop affordable housing metro-wide. However, more time is needed to have a thoughtful discussion on how the locations of affordable housing can effectively empower low-income residents to achieve self-sufficiency.

I look forward to your response. Please contact me if I can provide more assistance.

Sincerely,

Jonathan Sage-Martinson, Executive Director
Housing and Redevelopment Authority of the City of Saint Paul

cc: Commissioner Mary Tingerthal
Mayor Chris Coleman
Russ Stark, Saint Paul City Council President
Amy Brendmoen, Saint Paul HRA Chairperson

HOUSING AND REDEVELOPMENT AUTHORITY
Jonathan Sage-Martinson, Executive Director

CITY OF SAINT PAUL
Christopher B. Coleman, Mayor

25 West Fourth Street
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March 26, 2015

Commissioner Mary Tingerthal
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
Saint Paul, MN 55101

RE: PROPOSED DISTRIBUTION OF LOW-INCOME HOUSING TAX CREDITS IN THE TWIN CITIES AREA

Dear Commissioner Tingerthal:

Saint Paul Housing and Redevelopment Authority (Saint Paul) appreciates the opportunity to comment on the Proposed Distribution of Low Income Housing Tax Credits (Credits) in the Twin Cities Metropolitan Area.

Saint Paul **does not support** Minnesota Housing's changes to the proposed distribution of Low Income Housing Tax Credits (Credits) in the Twin Cities Metropolitan Area for the following reasons:

- Saint Paul will not be able to fully-fund one housing tax credit project. The proposed 2016 distribution results in a **32% reduction** in Saint Paul's credits from $1,056,694 to $716,521.
- The proposed change creates an estimated $3 million loss of private equity investment in 2016 that cannot be replaced by local City funds.
- Proposed distribution effectively hurts Saint Paul's most housing cost-burdened residents.
- If approved, Saint Paul has limited time (less than 60 days) to alter housing strategies to build affordable housing which often take multiple years to secure financing. [a]
- Affordable housing projects identified by the Interagency Stabilization Group (ISG) may not be preserved in a cost-efficient timely manner.

As an alternative to the proposed implementation, Saint Paul HRA requests that Minnesota Housing delay the proposed changes to the 2017 Credit Year, and Saint Paul's 2016 Credit Allocation remains at no less than $1,056,694. This delay would allow time for meaningful discussion of the distribution formula factors.

[a] In 2014, with the proposed revisions to the 2016 QAP, Minnesota Housing recognized that extended timelines may well pay some benefits for applicants who must respond to the proposed QAP changes as "[u]nder the Agency's revised qualified allocation plan schedule, applicants will have 15 months to respond versus 2-3 months in the past." Minnesota Housing Minutes of Regular Meeting February 27, 2014.

Saint Paul HRA has long-supported MHFA's strategic priorities – especially its goal to leverage all available multi-family development funding sources to produce the maximum number of affordable workforce housing units with additional assistance to serve households at 30 percent of AMI.[b]

Attached is a description of a project we expect to re-apply and score high for Saint Paul's 2016 Credits. The reduced Credit formula would delay the project another year without additional funding support from Minnesota Housing.

Saint Paul HRA recognizes that MHFA must constantly balance competing public policies to equitably develop affordable housing metro-wide. However, more time is needed to have a thoughtful discussion on how the locations of affordable housing can effectively empower low-income residents to achieve self-sufficiency.[c]

I look forward to your response. Please contact me if I can provide more assistance.

Sincerely,

Jonathan Sage-Martinson, Executive Director
Housing and Redevelopment Authority of the City of Saint Paul

cc: Mayor Chris Coleman
Russ Stark, Saint Paul City Council President
Amy Brendmoen, Saint Paul HRA Chairperson

---

[b] To meet this goal, Saint Paul HRA Board has adopted Saint Paul's Credit Selection Priority Process, Saint Paul Affordable Housing Policy, and its Locational Choice Policy which moves the City towards "a more equitable distribution of affordable housing" citywide.

[c] While Saint Paul may not be a high-growth city, many of Saint Paul's affordable housing residents have easy transit access to the State's major employers. Affordable housing developments, such as Renaissance Box, Minnesota Building, Commerce Building, and Hamline Station Family Housing, are located near Central Corridor LRT with transit access to major employers such as State of Minnesota (#1), U.S. Federal Government (#2), Target Corporation (#4), Wells-Fargo Bank Minnesota (#8) and University of Minnesota (#9). Minnesota Department of Employment and Economic Development website.

Some affordable housing residents even live within walking distance of Saint Paul Port Authority Industrial Parks in which businesses must pay a living wage of $11 dollars/hour plus benefits. As an example, residents riding the Route 54 Bus along West 7th Street can access Downtown Saint Paul, Saint Paul' Port Authority Crosby Industrial Park, the airports, Mall of America, or the new jobs at the upcoming Phase 2 of the Mall of America.

At the same time, Saint Paul residents living along University Avenue have transit access to educational opportunities, such as Saint Paul Central High, magnets schools along Central Corridor Light Rail Transit, Saint Paul College, Metro State University, and the University of Minnesota.

Wilder Square Apartments

Wilder Square Apartments located at 750 North Milton Street, was built in 1974 and provides 136 units of affordable housing in an eleven-story apartment building. The development serves both seniors 62+ and mentally disabled individuals and families, including individuals who have experienced long term homeless and/or have serious mental illness. The unit mix is comprised of 11 two-bedroom and 125 one-bedroom units. 40% of the units receive Section 8 subsidy. The rest of the units are subsidized through the HUD 236 first mortgage program. The HUD 236 first mortgage expires at the end of 2015. Real Estate Equities, plans to acquire and rehabilitate the building from the previous owner the Wilder Foundation, using 9% Low Income Housing Tax Credits (LIHTC).

The total development costs (TDC) is **$11,905,775**

	Sources with Annual Tax Credit Request of $941,543	**Sources with Reduced Annual Tax Credit of $716,521**
First Mortgage	$ 2,206,851	$ 2,206,851
LIHTC Equity	$ 8,473,844	$ 6,448,689
Saint Paul CDBG Loan	$ 325,000	$ 325,000
Capital Region Watershed	$ 80,000	$ 80,000
MHFA Deferred Loan*	$ 820,080	$ 2,845,235
Total Sources	$11,905,775	$11,905,775

* Request to MHFA would Increase by $2,025,155 to be funded by one of their sources of deferred loan funding.

Minneapolis
City of Lakes

Community Planning & Economic Development

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March 24, 2015

Governor Mark Dayton
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130 State Capitol
75 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

RE: PROPOSED DISTRIBUTION OF LOW-INCOME HOUSING TAX CREDITS IN THE TWIN CITIES AREA

Dear Governor Dayton:

The City of Minneapolis (Minneapolis) was informed in early February that Minnesota Housing proposes to amend the distribution plan for Low Income Housing Tax Credits (Credits) in the Twin Cities Metropolitan Area. While we recognize that there may be cause to revisit the distribution plan formula and update the data applied to the formula, we respectfully request that Minnesota Housing postpone amending the distribution plan for one year to allow for meaningful discussion of distribution formula factors. If approved, the amended distribution plan would negatively impact Minneapolis as follows:

- Minneapolis would receive a **19% reduction** in 2016 Credits from $1,417,737 to $1,147.824.
- A 19% reduction in Credits results in a $2.5 million loss of private equity investment in 2016.
- Minneapolis' most housing cost-burdened and vulnerable residents would have reduced access to affordable housing.
- Minneapolis would have limited time (less than 60 days) to alter housing strategies.

In most cases, Credits alone are not sufficient to fund an affordable housing project. Minneapolis has made a significant investment in affordable housing. Minneapolis budgeted up to $10 million in 2015 to provide gap funding for affordable housing developments, helping to ensure the feasibility of projects awarded 2016 Credits.

There is strong demand and need for affordable housing in Minneapolis. Over the last five years, Minneapolis has received eligible requests of $5 for every $1 in available tax credits. Minneapolis anticipates similar interest in

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Affirmative Action Employer

2016 Credits, including three supportive housing developments for persons living with HIV/AIDS, homeless youth, and formerly incarcerated men; one development proposing the substantial rehabilitation of existing affordable housing identified by the Interagency Stabilization Group for preservation; and 1-2 new construction developments for families.

Without time to plan, it seems unlikely that the communities that would receive the Credits formerly allocated to Minneapolis would be able to timely commit the local funds necessary to fully finance successful affordable housing developments.

Due to the negative impacts of a significant reduction in 2016 Credits, we request that Minnesota Housing implement the current distribution plan for 2016 Credits, resulting in Minneapolis' 2016 Credit allocation to be no less than the 2015 Credit allocation amount of $1,417,737.

I look forward to your response. Please contact me if I can provide more assistance.

Sincerely,

D. Craig Taylor

D. Craig Taylor, Director
Community Planning and Economic Development

cc: Commissioner Mary Tingerthal
Mayor Betsy Hodges
Barbara Johnson, Minneapolis City Council President
Elizabeth Glidden, Minneapolis City Council

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March 24, 2015

Commissioner Mary Tingerthal
Minnesota Housing Finance Agency
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Saint Paul, MN 55101

RE: PROPOSED DISTRIBUTION OF LOW-INCOME HOUSING TAX CREDITS IN THE TWIN CITIES METRO AREA

Dear Commissioner Tingerthal,

Thank you for the opportunity to comment on the proposed amendment to the distribution plan for Low Income Housing Tax Credits in the Twin Cities Metropolitan Area. The proposed amendment decreases the share of the metropolitan area tax credits allocated by Minneapolis by nineteen percent (19%), from 20.4 percent to 16.5 percent. Under this amended plan, the City of Minneapolis would be authorized to allocate $269,913 fewer tax credits in 2016 than authorized in 2015. This translates into a reduction of an estimated $2.5 million in private equity for the creation and/or preservation of affordable housing in Minneapolis.

The City of Minneapolis was informed on February 2, 2015 of this proposed change in the distribution plan, which has been in place since 1991. City staff was advised that the proposed amendment to the distribution plan would be considered for approval by the Minnesota Housing Board of Directors on April 23, 2015.

Given the significance and magnitude of this change, the City should be provided with sufficient time and opportunity to engage in this process and prepare for any adverse impact of the proposed plan. The distribution percentages currently in place should be implemented for the distribution of 2016 tax credits to allow for consultation and planning processes to occur.

The City of Minneapolis dedicated $10 million of locally administered funding in its 2015 budget to support affordable housing production. These gap funds are essential to the feasibility of projects that receive an allocation of tax credits. The sizing of this commitment relied on an assumption of a 3 percent increase in 2016 tax credits, based on the current distribution plan and historical average increases. The City has demonstrated its financial commitment to the full utilization of this federal resource.

The proposed amended distribution plan results in a greater share of the region's tax credits distributed to suburban communities. Without sufficient planning, analysis and consultation, it is not clear whether local communities benefiting from an increased share of this federal resource will make the financial commitment necessary to ensure its full utilization. Without this clarity, these projects have no alternative but to rely on State resources for gap funding to ensure feasibility. This will further penalize Minneapolis and other suballocator jurisdictions that have committed local resources to affordable housing, by reducing the availability of State funds available to support affordable housing in suballocator jurisdictions. Suballocator jurisdictions should be provided with sufficient notice of a proposed reduction in tax credit resources to allow for adequate planning and budgeting of resources.

Additionally, more discussion is needed regarding the data sources used in the proposed amendment. The proposed distribution plan uses current population and employment numbers and projections from 2010 to 2040, and weighs these variables equally with each community's share of severely cost burdened households. The two factors of household and employment growth forecasts are proposed to change from a 12-year to a 30-year projection. Tax credits are allocated to developments that are placed in service within 2 years of allocation. It could be argued that current need is more relevant than projected need in 30 years. More discussion of the appropriate factors and their respective weight is warranted.

Minneapolis believes the current Thrive 2040 population forecasts underestimate current and potential future growth for the city, based on the following:

- The current projections for Minneapolis from 2010-2040 are an increase in population from 382,747 to 487,700 (an increase of 105,122 people) and an increase in households from 163,540 to 209,900 (an increase of 46,360 units).
- Minneapolis issued building permits for 10,190 new housing units in the last five years (2010-2014). This is 25% of the metro area total for the same period. For multifamily housing units, it is 54% of the total of new units the metro area.
- By way of comparison, the Thrive 2040 forecasted growth for Minneapolis in households from 2010-2040 is only 9.2% of the metro area total.
- We feel the modeling used in Thrive 2040, which is based on past longitudinal trends, doesn't fully capture and recognize the last 5 years of growth as part of a national "return to the city" redefinition of housing preference in the United States. As a result it overemphasizes past suburban development practices and therefore overemphasized demand in

the Suburban Edge and Emerging Suburban Edge communities and discounts growth in the Urban communities.

- Additionally, the City of Minneapolis believes that these forecasts may be amended as the cities within the region work with the Metropolitan Council in response to System Statements in the 3rd and 4th Quarter of 2015. Due to this potential change, the City of Minneapolis recommends that any decisions that will utilize these forecasts be delayed until 2016.

Rents per square foot in Minneapolis are the highest in the metropolitan area. The production trend of the last five years demonstrates strong demand for rental housing in urban, walkable, transit oriented neighborhoods near jobs. Investments in affordable housing are needed to provide opportunities for low income households to live in these areas as well.

The Metropolitan Council's Affordable Housing Need Allocation process is currently underway. This lays the groundwork for next steps on adjusting the existing community goals for housing affordability. This analysis is separate from the analysis done for the amendment to the distribution plan, using different data and weighting factors. One factor considered is the ratio of low wage jobs to low wage workers. The City of Minneapolis ratio is above 1.50 and among the highest in the metropolitan area, demonstrating the availability of jobs at wage levels that qualify households for tax credit units. Worth noting is that the Need Allocation process to date has rejected the use of concentration of poverty as a measure for allocation to communities. This is in part because it is recognized that no community is entirely covered by concentrations of poverty and communities with these concentrations can invest in new affordable housing in "non-impacted" areas (as defined by the U.S. Department of Housing and Urban Development). In fact, the City of Minneapolis Qualified Allocation Plan for Low Income Housing Tax Credits sets forth selection criteria prioritizing tax credit awards to new development proposals in non-impacted areas.

The need for new affordable housing in Minneapolis is growing, and the supply is severely limited by the shortage of resources available to finance new production. Over the last five years, the City has received eligible requests of $5 for every $1 in tax credits the City is authorized to allocate.

The proposed amendment to the distribution plan merits more discussion. Tax credits are the most valuable resource available for the creation and preservation of affordable housing. Considering the strong market rate housing production trends and corresponding need for affordability in the City of Minneapolis, and the City's commitment of funding to support affordable housing, a 19% reduction in tax credits to the City of Minneapolis should not be implemented without more meaningful consultation. It is respectfully requested that Minnesota Housing delay adoption of an amended distribution plan to allow for this consultation. It is further requested that the Minneapolis allocation percentage remain at 20.4% for 2016 tax credits.

The City of Minneapolis greatly appreciates its long standing partnership with Minnesota Housing in providing housing options for low and moderate income residents in Minneapolis. We thank you for considering this request and look forward to your response. Please contact me with any questions or requests for further information.

Sincerely,

D. Craig Taylor

D. Craig Taylor, Executive Director
City of Minneapolis Department of Community and Economic Development

CC:

Mayor Betsy Hodges, City of Minneapolis
City Council - City of Minneapolis
Susan Segal – City Attorney
Gene Ranieri – Intergovernmental Relations
Chuck Lutz - CPED
Andrea Brennan - CPED

Dakota County
Community Development
Agency
CDA

1228 Town Centre Drive | Eagan, MN 55123
PHONE 651-675-4400 | TDD/TTY 711
www.dakotacda.org

March 26, 2015

Governor Mark Dayton
Office of the Governor
116 Veterans Service Building
20 W. 12th Street
Saint Paul, MN 55155

Re: PROPOSED DISTRIBUTION OF LOW-INCOME HOUSING TAX CREDITS IN THE TWIN CITIES METRO AREA

Dear Governor Dayton,

The Dakota County Community Development Agency (CDA) **does not support** Minnesota Housing's proposed changes to the distribution of Low Income Housing Tax Credits for the following reasons:

- **The 2016 allocation proposal represents a 13.7% decrease from the CDA's 2015 allocation ($1,007,303).** This amount is less than the CDA's 2010 allocation and the reduction equals a loss of $1.37 million in private equity for workforce housing in Dakota County.

- **Allocation reduction creates need for more gap financing.** Recent developments would have faced additional financial gaps of between $400,000 and $800,000. These gaps are large enough that they may have made these projects financially infeasible. Current gap funding is already insufficient to meet demand.

- **Need for affordable workforce housing in Dakota County continues to grow.** New projections recently released from Metropolitan Council's Housing Policy Plan show a need for 5,940 units of affordable housing in Dakota County between 2020-2030.

The CDA is requesting the implementation of the allocation distribution changes be delayed to the 2017 tax credit year and requests Dakota County's allocation to be held to the current distribution percentage (14.5%) until an agreed upon revised formula is reached between Minnesota Housing and suballocators.

I look forward to your response. If you have any questions, please call me at 651-675-4477.

Sincerely,

Kari R. Gill

Kari R. Gill
Acting Executive Director

cc: Commissioner Mary Tingerthal, Minnesota Housing
Dakota County CDA Board of Commissioners
Brandt Richardson, Dakota County Administrator

Dakota County
Community Development
Agency
CDA

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March 26, 2015

Commissioner Mary Tingerthal
Minnesota Housing
400 Sibley Street, Suite 300
Saint Paul, MN 55101

Re: PROPOSED DISTRIBUTION OF LOW-INCOME HOUSING TAX CREDITS IN THE TWIN CITIES METRO AREA

Dear Commissioner Tingerthal,

Thank you for the opportunity to provide comments on the Proposed Distribution of Low Income Housing Tax Credits in the Twin Cities Metropolitan Area. The 2016 allocation proposal represents a 13.7% decrease from the Dakota County CDA's 2015 allocation ($1,007,303). This amount is less than the CDA's 2010 allocation and the reduction equals a loss of $1.37 million in private equity for workforce housing in Dakota County.

The CDA is requesting the implementation of the allocation distribution changes be delayed to the 2017 tax credit year to allow suballocators the opportunity to engage in a broader discussion with Minnesota Housing on the data used for the suballocation methodology and exploration of alternative distribution approaches. Further, the CDA requests Dakota County's allocation to be held to the current distribution percentage (14.5%) until an agreed upon revised formula is reached between Minnesota Housing and suballocators.

The rationale for delayed implementation of the proposed distribution change is based on the following points:

- **Need for affordable workforce housing in Dakota County continues to grow.** The CDA currently manages a portfolio of 771 tax credit units with over 2,200 families on waiting lists for these homes. New projections recently released from Metropolitan Council's Housing Policy Plan show a need for 5,940 units of affordable housing in Dakota County between 2020-2030.

- **Allocation reduction creates need for more gap financing.** Recent developments receiving tax credits through the CDA would have faced additional financial gaps of between $400,000 and $800,000. These gaps are large enough that they may have made these projects financially infeasible. A typical tax credit development in Dakota County will now need $2.5 to $3 million in total gap financing in order to be financially feasible. The lower gap amount would require that additional tax credits be available for projects through Minnesota Housing's competitive Round 2 allocation. Current gap funding is already insufficient to meet demand.

- **Higher interest rates could impact tax credits.** The Low Income Housing Tax Credit Program is being impacted by the extremely low interest rate environment, with historic lows in the floating credit rate. Once interest rates rise and the floating rate increases, developments will be eligible for additional credits. There is also an effort in Congress to fix the tax credit rate at a full 9%, allowing developments to qualify for the maximum possible credits. This would reduce the need for gap financing for tax credit developments.

The CDA understands Minnesota Housing's desire to revise the suballocation methodology; however, the timing of the implementation has a significant financial impact on affordable housing projects planned for Dakota County.

For example, Artspace is currently working with the City of Hastings on securing a site for a new development and intends to apply for tax credits from the CDA for a 35 unit development. Artspace anticipates using the full allocation the CDA would receive without the allocation reduction. This project presents an exciting opportunity for Dakota County and Hastings to provide affordable rental housing for artists – a new, unique housing option from a highly respected national developer.

In closing, the CDA has a strong history of using our annual tax credit allocation for developments in Dakota County. Since becoming a suballocator, the CDA has acted in good faith to promptly return unused tax credits to Minnesota Housing so they can be used elsewhere. Though, due to demand, the CDA has only had to return minimal amounts of tax credits on six occasions.

Thank you for your consideration of our request. I look forward to your response on this issue. If you have any questions, please call me at 651-675-4477.

Sincerely,

Kari R. Gill

Kari R. Gill
Acting Executive Director

cc: Dakota County CDA Board of Commissioners
Brandt Richardson, Dakota County Administrator

Lakeshore Townhomes

Lakeshore Townhomes is a workforce housing development in Eagan and is currently under construction. The development will consist of 10 buildings with a total of 50 townhome style units of workforce housing. The unit mix is comprised of 3 one-bedroom, 23 two-bedroom and 24 three-bedroom units and will be restricted to households at or below 60% of the area median income, specifically targeted to families with children, female heads of households, and households of color. Approximately 13 of the units will be further restricted to households at 50% of the area median income.

As a result of the proposed decreased allocation under the proposed Housing Tax Credit distribution, the development will require an additional $1,038,020 of gap funding. If not funded at the CDA, an additional request to Minnesota Housing would be required.

Total development costs is **$12,284,699**.

Sources	**Sources with Tax Credit Request of $975,495**	**Sources with Reduced Tax Credit of $869,564**
LIHTC Tax Credit Equity	$9,558,895	$8,520,875
GP Capital Contribution	$63,605	$63,605
First Mortgage	$624,199	$624,199
HOPE (local source)	$400,000	$400,000
HOME	$943,000	$943,000
Met Council LHIA	$200,000	$200,000
MHFA RFP	$495,000	$495,000
Total	**$12,284,699**	**$11,246,679**
GAP		**$1,038,020**

WASHINGTON COUNTY HOUSING AND REDEVELOPMENT AUTHORITY

March 24, 2015

Governor Mark Dayton
Office of the Governor
130 State Capitol
75 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

RE: PROPOSED DISTRIBUTION OF LOW-INCOME HOUSING TAX CREDITS IN THE TWIN CITIES METRO AREA

Dear Governor Dayton,

Washington County and the Washington County Housing and Redevelopment Authority (the "Authority") have submitted comments objecting to the proposed distribution of Low Income Housing Tax Credits in the Twin Cities area. A copy of that letter is attached. In summary:

- The consultation process is not adequate and requires the Authority to implement the change immediately in order to allocate tax credits for 2016.
- There has been insufficient opportunity to fully understand the impact the change in data sources on the proposed distribution amount.
- The immediate implementation of these changes delays the new construction of 40 affordable housing units and represents a loss of half a million dollars in private equity investment for another year.

The proposed 2016 distribution results in an eleven percent (11%) decrease from $545,390 to $486,956 for credits in Washington County. The proposed change rolls back the credit amount to the 2011 level.

It is requested that Minnesota Housing Finance Agency delay implementation to the 2017 tax credit year to permit a discussion among suballocators on an alternative distribution approach. Second, it is requested that the Washington County allocation be held at the 2016 amount until the agreed upon formula reaches a level which would dictate an increase.

I look forward to your response. Please contact me if I can provide more assistance.

Sincerely,

Barbara Dacy
Executive Director

cc: Commissioner Mary Tingerthal
Gary Kreisel, Washington County Chairperson
William Hargis, Washington County HRA Chairperson
Molly O'Rourke, Washington County Administrator

fax 651.458.1696 | tel. 651.458.0936 | www.wchra.com | 7645 Currell Boulevard | Woodbury, MN 55125

Washington County

Board of Commissioners
Fran Miron, District 1
Ted Bearth, District 2
Gary Kriesel, District 3
Karla Bigham, District 4
Lisa Weik, District 5

March 24, 2015

Commissioner Mary Tingerthal
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
Saint Paul, MN 55101

RE: PROPOSED DISTRIBUTION OF LOW-INCOME HOUSING TAX CREDITS IN THE TWIN CITIES METRO AREA

Dear Commissioner Tingerthal,

Thank you for the opportunity to comment on the Proposed Distribution of Low Income Housing Tax Credits in the Twin Cities Metropolitan Area. On behalf of Washington County and the Washington County Housing and Redevelopment Authority, we write to object to the proposed rule change and its implementation.

The proposal decreases the suballocation for Washington County by eleven percent (11%) from $545,390 to $486,956 for credits to be allocated in 2016. The proposed change rolls back the credit amount to the 2011 level and represents a loss of half a million dollars in private equity investment. As a result, the proposed change negatively affects the ability to meet the demand for affordable housing, especially workforce housing in Washington County.

It is understandable for the state to update the data on which the suballocation methodology is based; however, the Washington County Board of Commissioners (the "County") and the Washington County Housing and Redevelopment Authority Board of Commissioners (the "Authority") are deeply concerned about the insufficient consultation process regarding this change, and further, strongly oppose the timing of the implementation. It is requested that Minnesota Housing delay implementation to the 2017 tax credit year to permit a discussion among suballocators on an alternative distribution approach. Second, it is requested that the Washington County allocation be held at the 2016 amount until the agreed upon formula reaches a level which would dictate an increase.

The rationale for delayed implementation of the proposed distribution change is based on the following points:

- The consultation process is not adequate and requires the Authority to implement the change immediately in order to allocate tax credits for 2016. Minnesota Statutes 462A.222 subd.4(a) states in part: "The agency may amend the distribution plan after consultation with the Metropolitan Council, representatives of local governments, and housing and redevelopment authorities". From the date of first notification (February 2, 2015) through the end of the public hearing comment period, the Authority will have been given less than 60 days to react to the updated data and distribution plan. This timeframe is too brief given the significant short term and long term implications of the change. It is very difficult within this timeframe to have a thoughtful discussion with communities and private developers in the county. The presentation on the proposed distribution on February 12, 2015 to metropolitan area suballocators did not rise to the level of "consultation", and concerns that were expressed at the February 12th suballocator meeting were not addressed in the notice published on February 23, 2015. Finally, the timing of the proposed change forces immediate implementation because the 2016 Qualified Allocation Plan, including

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William Hargis
Chair, Washington County HRA Board of Commissioners

CC: Washington County Commissioners
Commissioner Fran Miron, District 1
Commissioner Ted Bearth, District 2
Commissioner Karla Bigham, District 4
Commissioner Lisa Weik, District 5
County Administrator Molly O'Rourke

Washington County HRA Commissioners
Commissioner Tom Triplett, District 1
Commissioner Brian Zeller, District 3
Commissioner Matthew Kowalski, District 4
Commissioner Jim Widen, District 5
Commissioner Ted Bearth, At Large Commissioner
Commissioner Lisa Thibodeau, Public Assistance Commissioner
Barbara Dacy, Executive Director

Legislative Delegation from Washington County
Senator Roger Chamberlain, District 38
Senator Karin Housley, District 39
Senator Charles Wiger, District 43
Senator Susan Kent, District 53
Senator Katie Sieben, District 54
Representative Linda Runbeck, District 38A
Representative Matt Dean, District 38B
Representative Bob Dettmer, District 39A
Representative Kathy Lohmer, District 39B
Representative Peter Fischer, District 43A
Representative Leon Lillie, District 43B
Representative JoAnn Ward, District 53A
Representative Kelly Fenton, District 53B
Representative Dan Schoen, District 54A
Representative Denny McNamara, District 54B

an estimate of available credits, must be posted by March 30, 2015 in order to fulfill the public notice requirements.

- There has been insufficient opportunity to fully understand the impact the change in data sources on the proposed distribution amount. The original 1991 distribution formula is based on the average share of five factors: cost burdened households, number of households, household growth, employment, and employment growth. While the five factors of the distribution formula remain the same, the sources from which these data factors are derived have changed from the original distribution plan. The two factors of household and employment growth forecasts have also changed from a 12 year to a 30 year projection. Minnesota Housing has not explained the rationale for these changes. Additional time is needed to research and understand how the data sources will impact the distribution to the County.

- The immediate implementation of these changes delays the new construction of 40 affordable housing units for another year. The Authority began planning for its 2016 allocation program last July. In 2014, Washington County's Housing Tax Credit program was oversubscribed for 2015 tax credits by $1.9 million. It is expected that one of the prior year applications will resubmit this year for allocation of 2016 credits. It was anticipated that the Authority would be able to fulfill a credit request and create 40 affordable housing units to begin construction in 2016. With the proposed decrease to the allocation amount, the tax credits will have to be allocated over a two year period thereby delaying the creation of those units by another year and likely increasing development costs. In addition, these applications rely on receiving other funding sources (e.g. CDBG, HOME, or local gap financing programs) which have their unique program goals and expenditure requirements. Thus the proposed change could result in a delay of reaching other program benchmarks as well.

While Washington County is proposed to have the smallest decrease in the metro area, the loss of $58,434 of credits will have a devastating domino effect on the ability to help communities reach affordable housing goals. Projected employment and household growth in the county will create a demand for 4,600 units of workforce housing by 2030 (*Comprehensive Housing Needs Assessment for Washington County* 2013). The Housing Tax Credit tool is the only reliable tool cities have to create housing for a growing labor force; without it, affordable rental housing will not be built. Jobs in the county are comprised of lower wage sectors like educational services, retail, and accommodation/food service. Many workers cannot afford to live in the county.

Thank you for your consideration of our request. We look forward to your response. Please contact Melissa Taphorn, Deputy Executive Director, at 651-202-2821 with any questions or requests for further information.

Sincerely,

Gary Kriesel

Gary Kriesel
Chair, Washington County Board of Commissioners

Killarney Cottages

Killarney Cottages is a proposed workforce housing development in Forest Lake. The development is proposed to include 42 rental townhomes serving families with two and three bedroom units. Forest Lake is one of the highest need markets in Washington County where 29% of the rental demand is for affordable general occupancy apartments. The Washington County HRA has budgeted and requested special benefit levy funds of $420,000 in anticipation of this development. As a result of the decreased allocation under the proposed Housing Tax Credit distribution, the development will require an additional $503,595 of local resources. These funds are not available in 2016. If not funded at the HRA, a request to Minnesota Housing would be required to be funded by one of their sources of deferred loan funding.

Total development costs (TDC): $8,131,518

Killarney Funding Sources 2015 Tax Credit Allocation versus Proposed 2016 Allocation

	Sources with Annual Tax Credit Request of $545,390	Sources with Reduced Annual Tax Credit Request of $486,956
First Mortgage	$1,890,000	$1,890,000
Syndication Proceeds	$5,030,859	$4,527,264
TIF Note	$550,000	$550,000
Deferred Developer Fee	$240,659	$240,659
Local Funding (GROW)	$420,000	$923,595
TOTAL	$8,131,518	$8,131,518

MINNESOTA NAHRO SERVING MINNESOTA'S HOUSING & COMMUNITY DEVELOPMENT NEEDS

March 27, 2015

Commissioner Mary Tingerthal
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St Paul, Minnesota 55101-1998

Sent via email to mn.housing@state.mn.us

RE: Comments on the Proposed Low Income Housing Tax Credits (LIHTC) Distribution

Dear Commissioner Tingerthal:

On behalf of Minnesota NAHRO and its members, thank you for the opportunity to provide comment on the Proposed Distribution of Low Income Housing Tax Credits in Greater Minnesota and the Twin Cities Metropolitan Area. Minnesota NAHRO members own, manage or administer the majority of subsidized rental housing in Minnesota including all public housing plus the administration of the Housing Choice Voucher/Section 8 program. Please consider this letter our comments on the proposed distribution of LIHTC beginning in 2016.

Opportunity for Input
It is understandable for Minnesota Housing to update the data and the distribution formula that determines the allocation of LIHTC across the state. However, the process by which Minnesota Housing sought and secured input on the proposed changes to the distribution formula is of concern due to the timing and impact on the allocation. Over the period of just two weeks, there were several deadlines for comments including revisions to the 2016 QAP due March 17th, the proposed 2017 QAP due March 19th 23 and the proposed distribution of LIHTC due March 27th. Each proposal included significant changes and the analysis required to provide constructive input is both time consuming and multifaceted. The compressed timeline by which these proposals are released for public comment creates challenges for stakeholders to effectively provide substantive input. Minnesota Housing is encouraged to seek and incorporate input on these critical programs earlier in the process and to allow for more time for stakeholders to provide comments.

Implementation Timeline
Another concern is the extremely short timeline by which Minnesota Housing proposes to implement the changes to the LIHTC distribution. As the agency is well aware, the proposed change to the LIHTC distribution impacts the 2016 allocation which is awarded in 2015. Impacted parties were only informed of this proposed change in February 2, 2015 and expected to implement the changes in their respective 2015 award process. Such a compressed timeline impacts many projects already under consideration and may delay important projects across the state due to the significant shift in LIHTC resources.

Thank you for the opportunity to submit these comments on behalf of Minnesota NAHRO member agencies. If I can be of further assistance, please do not hesitate to contact me.

Sincerely,

Shannon

Shannon Guernsey, JD
Executive Director

Minnesota Chapter of NAHRO
National Association of Housing and Redevelopment Officials
555 Wabasha Street North / Suite 245 / St. Paul / Minnesota / 55102
651-925-4070 (phone) ▪ 651-293-0576 (fax) ▪ www.mnnahro.org

MCCD
Metropolitan Consortium of Community Developers

3137 Chicago Ave
Minneapolis, MN
55407

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612-822-1489 fax

www.mccdmn.org
info@mccdmn.org

March 23, 2015

Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

Re: Written Comments Regarding Proposed Changes to the 2016 Distribution of LIHTC in the Twin Cities Metropolitan Area

Dear Commissioner Tingerthal,

The Metropolitan Consortium of Community Developers (MCCD) and our 48 members appreciate the work that Minnesota Housing has done to support affordable housing development in the Twin Cities Metro Area and we look forward to working collaboratively to support that work in the future. We appreciate the opportunity to provide feedback to the proposed distribution of Low-Income Housing Tax Credits in the Twin Cities Metropolitan Area. However, we are concerned about the development ramifications that the proposed distribution could have on local communities.

Reductions in Local Funding

Under the new distribution, all of the sub-allocators receive a reduction in their distribution, with large reductions being proposed for Minneapolis and St. Paul. There are two important issues that the Metro area is wrestling with that will be impacted by a reduction in sub-allocator LIHTCs. First, there are areas with significant community recovery needs due to the foreclosure crisis, the North Minneapolis tornado and ongoing divestment by market-forces. There are also neighborhoods in the Metro area where it has quickly become a favorable place to live, and millennials and retirees are flocking there, driving up rents, lowering vacancy rates and driving upscale housing development. Many cities have responded by redoubling their efforts to support affordable housing through local budgets. Minneapolis in particular has responded to these challenges by budgeting $10 million toward the Affordable Housing Trust Fund. With affordable housing development and preservation requiring substantial upfront investments, a reduction of LIHTC credits will work against those efforts by reducing the resources available for affordable housing. This will leave sub-allocators with few dollars of their own to invest in developments they strongly support, and will further impede their ability to invest in challenged neighborhoods or create new affordable housing in non-impacted areas.

Local Control

We are concerned that this change will substantially slow affordable housing development that is not prioritized by Minnesota Housing. Local control and local partnership in affordable housing development is important in ensuring regional and state-wide support for affordable housing. We are concerned that by reducing the tax credits that sub-allocators are able to control, will also reduce their interest and support in affordable housing development. We respect and support local communities being able to prioritize specific developments and use their tax credit allocations to ensure that they are funded.

Filling Development Gaps

We also know how important it is for Minneapolis and St. Paul to have enough tax credits to be able to fill financing gaps when development costs outpace estimates, or when unexpected hurdles are encountered. We are concerned that this reduction in credits will leave sub-allocators unable to play that important role, and could substantially harm development.

Meeting Affordable Housing Targets

The Met Council just released their affordable housing targets. There are hefty goals in that plan, spread throughout the region. To meet the need, sub-allocators along with local governments, developers and Minnesota Housing will have to work collaboratively to stretch every dollar and overcome what can often be vehement resident opposition to affordable housing development proposals. However, with the Met Council's plan relying heavily on city comprehensive plans, local governments are experts in the types of affordable housing development they would like to see in a given area. We are concerned that decreasing local resources by decreasing sub-allocator LIHTCs for affordable housing development would hinder progress toward these goals.

Moving Forward

Minnesota Stat. § 462A.222 Subd. 4(a) provides authority for Minnesota Housing to amend the tax credit sub-allocator distribution plan after consultations with local government and housing and redevelopment authorities. We understand that our government partners share many of our concerns about these proposed changes and are urging Minnesota Housing to amend the tax credit sub-allocator distribution plan. Therefore, with statutory authority to support such changes, we strongly encourage Minnesota Housing to continue to consult with local government partners and to develop an alternative sub-allocator distribution plan that will to allow local governments to meet their affordable housing goals.

Thank you for your consideration,

Jim Roth
Metropolitan Consortium of Community Developers
Executive Director

HPP
Housing Preservation Project
Public Interest Legal Advocates

March 4, 2015

Mary Tingerthal
Commissioner
Minnesota Housing Finance Agency
400 Sibley St. Suite 300
St. Paul, MN 55101-1998

Re: distribution of low income housing tax credits to sub-allocators proposed for 2015 and beyond

Dear Ms. Tingerthal:

We believe that there are a number of important, and somewhat complicated, issues related to the MHFA's proposed redistribution of tax credits to metro area suballoctors and would urge that any new distribution scheme be subject to significant public discussion before adoption:

The proposed formula replicates the original formula developed in 1990 pursuant to Minn. Stat. 462A.222 Subd. 4(a). The statute dictates that the allocation formula is to be "based on regional housing needs and priorities." The statute goes on to require, in Subd. 4(c), that: "In preparing the distribution plans, the Metropolitan Council and the agency (MHFA) shall estimate the number of households in the metropolitan area…who are paying more than 50 percent of their income for rent and the cost of providing sufficient rental or other assistance so that no household pays more than 50% of its income for rent. In addition, the Metropolitan Council and the agency shall identify the nature and scope of existing programs which primarily serve families at 60 percent of the median income and individuals at 30 percent of median income."

In fact, the original formula was not developed in conformance with this statutory mandate. According to a Sept. 26, 1990 Memo from the Metropolitan Council regarding development of the 1991 allocation plan (attached), the formula is based on these factors, given equal weight: housing need (represented by share of severely cost burdened households), employment, employment growth, households, and household growth. The latter four factors have at best an indirect relationship to "housing priorities" reasonably related to needed tax credit housing. Employment generally has little connection to priorities for tax credit housing. An excess of low wage jobs over low wage workers (currently used by the Metropolitan Council in allocating housing need) has a much more obvious relationship to affordable housing priorities. Similarly, population and population growth have little to do with affordable housing priorities while tax credit-eligible population and growth do. Arguably, housing need, the only basis for allocation specifically mentioned in the legislation was seriously undervalued in the formula, to the substantial detriment of the two central cities where that need was concentrated (60% according to the tables used in 1990). The Sept. 26, 1990, memo offers no indication that the information required by Subd. 4(c) was ever collected or considered and a Data Practices Act request to the MHFA revealed that the agency no longer has any material related to the process of developing the 1990 policy.

Comparing the 1990 data to the current data indicates that there has been a significant shift of housing need to the suburbs. But potentially offsetting that, the central cities have arguably been penalized, contrary to the intent of the Legislature, by an under-allocation of tax

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credit units since 1991, since the same numerical percentages calculated in 1990 have been used ever since then. Under the MHFA's current proposal, the central cities, with 42.5% of the severely cost burdened households, would be allocated only 24.7% of the federal resources needed to address those cost burdens. There certainly is no reason why the MHFA should continue to frustrate legislative intent by slavishly replicating the formula adopted in 1990 when that formula appears to have largely disregarded the Legislature's directions and when the Metropolitan Council has recently developed much more sophisticated measures to set regional housing priorities.

While the new distribution percentages proposed by the MHFA for 2015 use the method that was described in the Sept. 26, 1990 memo, that method quite obviously was not actually used in setting the allocation percentages. According to the 1990 description, Minneapolis' percentage should have been (40.11% + 23.34% + 5.19% + 19.18% + 3.05%)/5 = 18.17% The actual allocation was 20.18%. I don't believe it's any longer possible to re-construct the actual basis on which the Metropolitan Council assigned allocation percentages, making it even less reasonable for the MHFA to simply adopt the old, inaccurate, formula which was, in any event, inconsistent with the statutory language.

Subd. 4(a) of the statute provides that the MHFA may amend the distribution plan "after consultation with representatives of local governments and housing and redevelopment authorities." Consultation implies a back and forth exchange of facts and opinions. That is what clearly needs to happen here, rather than the MHFA simply setting out its intentions and getting reactions. The actual distribution of housing need, realistically formulated affordable housing priorities, and Issues of fair housing and equity raised in the Council's Choice, Place, and Opportunity document all should come into play in setting out a future tax credit distribution plan. These are complicated issues that need public discussion.

Yours truly,

Jack Cann
For HPP

Additional Comments from Sub-allocators in May, 2015

HOUSING AND REDEVELOPMENT AUTHORITY
Jonathan Sage-Martinson, Executive Director

CITY OF SAINT PAUL
Christopher B. Coleman, Mayor

25 West Fourth Street
Saint Paul, MN 55102

Telephone: 651-266-6655
Facsimile: 651-228-3261

May 21, 2015

Commissioner Mary Tingerthal
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
Saint Paul, MN 55101

RE: PROPOSED DISTRIBUTION OF LOW-INCOME HOUSING TAX CREDITS IN THE TWIN CITIES AREA

Dear Commissioner Tingerthal:

The Housing and Redevelopment Authority of the City of Saint Paul (Saint Paul HRA) recognizes the large and growing need for affordable rental housing units throughout the Twin Cities Metropolitan Area and appreciate all your current and past efforts at the Legislature to secure additional financial resources toward this need. As a fully-built city, Saint Paul will have continual need for Low-Income Housing Tax Credits (Credits) due to demand for preserving existing affordable housing projects and the fact that cost-burdened residents[1] will continue to choose to live in Saint Paul.

Saint Paul HRA also recognizes that Minnesota Housing must constantly balance competing public policies to equitably develop affordable housing metro-wide. Saint Paul HRA has long-supported Minnesota Housing's strategic priorities – especially its goal to produce the maximum number of affordable workforce housing units as well as units serving severely cost-burdened households. We appreciate Minnesota Housing's willingness to approve the additional time necessary to implement the proposed distribution of Credits.

I look forward to our continual partnership with Minnesota Housing.

Sincerely,

Jonathan Sage-Martinson, Executive Director
Housing and Redevelopment Authority of the City of Saint Paul

cc: Mayor Chris Coleman
Russ Stark, Saint Paul City Council President
Amy Brendmoen, Saint Paul HRA Chairperson

[1]According to 2007 – 2011 Comprehensive Housing Affordability Strategy (CHAS) data, Saint Paul has 24,300 households living at 0 – 30% of AMI (nearly 80% are cost-burdened - 20% are cost burdened and 60% are severely cost burdened).

Dakota County
Community Development
Agency
CDA

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May 22, 2015

Commissioner Mary Tingerthal
Minnesota Housing
400 Sibley Street, Suite 300
Saint Paul, MN 55101

Re: PROPOSED DISTRIBUTION OF LOW-INCOME HOUSING TAX CREDITS IN THE TWIN CITIES METRO AREA

Dear Commissioner Tingerthal,

Thank you for the opportunity to provide comments on the Proposed Distribution of Low Income Housing Tax Credits in the Twin Cities Metropolitan Area.

The Dakota County CDA understands Minnesota Housing's desire to revise the suballocation methodology. We recognize that Minnesota Housing must balance competing public policies to equitably develop affordable housing through the metro and state. We have long supported Minnesota Housing's strategic priorities and appreciate the agency's willingness to postpone allocation changes for one year to allow for current projects to proceed as anticipated.

Dakota County will have an ongoing need for tax credits as affordable housing demands continue to grow with our changing population. Currently, the CDA currently manages a portfolio of 771 tax credit units with over 2,200 families on waiting lists for these homes. New projections recently released from Metropolitan Council's Housing Policy Plan show a need for 5,940 units of affordable housing in Dakota County between 2020-2030.

We look forward to continuing to work with you and your staff.

Sincerely,

Kari R. Gill

Kari R. Gill
Acting Executive Director

AGENDA ITEM: 7.E
MINNESOTA HOUSING BOARD MEETING
July 23, 2015

ITEM: 2016-19 Strategic Plan

CONTACT: John Patterson, 651-296-0763
john.patterson@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff is providing the Agency's 2016-19 Strategic Plan for the Board's approval.

FISCAL IMPACT:
There is no direct fiscal impact.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☑ Prevent foreclosures and support community recovery ☑ Strengthening Organizational Capacity

ATTACHMENT(S):
- 2016-19 Strategic Plan

Housing is the Foundation for Success: 2016-2019 Strategic Plan

Minnesota Housing Finance Agency

A STRONG FOUNDATION.

As Minnesota Housing completes its 2013 to 2015 Strategic Plan, we have moved successfully from the dark days of the mortgage crisis and the Great Recession to a robust housing market and a Minnesota Housing that is well-positioned for a strong future.

We are pleased to share *Housing is the Foundation for Success,* our 2016-2019 Strategic Plan, as we help Minnesotans build strong futures through affordable housing.

OUR FUTURE:
The 2016-2019 Strategic Plan

Our Strategic Plan anticipates a strong economy and housing market but recognizes the growing number of families and individuals that struggle to afford the place they call home. We believe having an affordable, stable home is the foundation for success. This Plan focuses on serving the housing needs of individuals, families and communities that are underserved. We recognize the systemic and institutional barriers people face in seeking safe, stable and affordable housing, and we will work to remove these obstacles.

This Plan identifies five priority areas for the next four years. These priorities will build on our core housing activities and will be guided by our **principles**:

- We focus on **people with the greatest needs, fewest choices, and largest barriers**.
- We ensure that people from all backgrounds and cultures have **equitable access to housing** through our programs.
- **We work with community leaders** across the state to help them understand and address their local housing needs.
- **We maintain multiple programs** so that individuals and families with a wide range of needs can obtain stable, affordable housing.
- We deploy our financial resources in ways that **meet multiple policy goals and leverage other resources**.
- We encourage the development of **housing that is cost effective and sustainable**.

We will use this Strategic Plan to guide the work of developing our annual Affordable Housing Plans and operating budgets for the next four years.

We will use this framework to manage our work and measure results.

We will go beyond the “sticks and bricks” of housing and focus on the ways that housing is the foundation for success – making individuals, families, and communities stronger. Housing is the foundation for family and community stability. Safe, stable, affordable housing is critical for success in education, health, and economic stability, and we will emphasize housing strategies that are linked to these broader outcomes.

OUR VISION:
The big, audacious goal

All Minnesotans
live in a safe, stable home they can afford
in a community of their choice.

OUR MISSION:
The core purpose

Housing is the foundation for success,
so we collaborate
with individuals, communities and partners
to create, preserve and finance
affordable housing.

OUR VALUES:
The fundamental beliefs

We achieve **results** to improve the lives of Minnesotans.
We strive for **equity** in access to housing choices.
We lead with **respect** and act with **integrity**.
We **engage** people, communities and partners
across Minnesota.
We are **innovative** problem solvers.
We seek **diversity** in thought and in partnership.
We are **accountable** for our actions.

OUR CORE ACTIVITIES:
The ongoing work each year

Although specific programs will evolve from year to year, we remain committed to the following core activities to achieve our mission.

Promote and Support Successful Homeownership

Successful homeownership allows individuals and families to place roots in a community, create stability, and build wealth. Receiving the keys to a first home is a powerful memory associated with a bright future and new opportunities. Homeownership is also a significant responsibility with many challenges and risks. We support successful homeowners through:

- Comprehensive homebuyer and homeowner support, including outreach, education, and counseling.
- Affordable and accessible homebuyer financing, including first mortgages and downpayment and closing cost assistance.
- Affordable home improvement financing.

While our programs serve a range of low- and moderate-income owners and buyers, we focus our efforts on individuals and families who face barriers to homeownership but can be successful homeowners with support. We are committed to eliminating racial disparities in homeownership.

Finance New Affordable Rental Opportunities

We believe rental housing should be high quality and affordable, with access to employment, services, amenities, public transportation, quality schools, and other opportunities. With rental vacancy less than 3 percent and 67 percent of lower-income renters spending more than 30 percent of their income on housing, the lack of affordable rental housing is both chronic and severe. The production of new affordable rental housing is critically important to meet the needs of communities across Minnesota.

We support new affordable rental opportunities by financing the construction of new units and providing rent assistance. We offer amortizing first mortgages, housing tax credits, and deferred loans for housing that serves a range of households and needs. Under this Strategic Plan, we will focus on bringing new rental units that are high quality and affordable to market as quickly and cost effectively as possible. We will continue to support fair housing choices by balancing the dual goals of providing housing that gives lower-income households opportunities to live in higher-income communities and supporting housing development that revitalizes communities.

OUR CORE ACTIVITIES:
The ongoing work each year

Preserve the Existing Housing Stock

Existing affordable housing is a critical component of our state infrastructure, providing homes for thousands of Minnesotans. However, many of these homes and apartments need extensive rehabilitation and may be lost if not preserved. Repairing existing housing is less expensive than building new housing, and we will continue to work with community leaders, individual owners, developers, lenders, and other funders to preserve the existing housing stock by:

- Starting with a strong understanding of the existing stock and its condition.
- Assessing and setting priorities for possible investments.
- Providing flexible financing tools that meet different types of home improvement and preservation needs.
- Providing technical assistance and support to those applying for financing.
- Supporting effective management of the properties after the investment.

Provide Housing Resources to Support Community and Economic Development

Safe, stable, and affordable housing is a critical component of a vibrant community. For communities to thrive there needs to be an array of housing choices that meet the needs of all Minnesotans. Community and economic development goes beyond housing to include access to jobs, transportation, education, health, and safety. We support community and economic development by:

- Engaging with community leaders to better understand their housing needs and help them identify opportunities to create housing that is affordable to the local workforce.

- Providing communities with the tools they need to understand and analyze their local housing needs.
- Supporting local partners with technical assistance and flexible financing.
- Collaborating with federal, state, and local entities to align resources and address community needs.

Lead, Collaborate, and Take Action on Critical Housing Issues

As we experience increasing affordable housing needs, limited resources, and rapidly changing housing and financial markets, we will identify and articulate housing and community needs. We will collaborate to develop solutions and secure the resources to implement those solutions. We will continue to work closely with our network of lenders, developers, property managers and owners, and service partners to meet our mission. We will engage both our traditional development and service partners, as well as people from all communities that could benefit from our programs.

Strengthen the Financial and Organizational Capacity of the Agency

We depend on our people and financial strength to achieve our mission. We are well managed and our track record of earnings has put us in a strong financial position. We have a broad range of programs designed to meet a variety of housing needs. We finance our programs through a combination of state and federal appropriations, tax-exempt bonds, tax credits, and Agency earnings. We pay for our operating expenses with revenue generated from our financing activities without using scarce state appropriations.

We will strengthen our financial capacity by maintaining our earnings and effectively managing our operating costs. Our work is only as strong as our staff, processes, and systems, so we will also strengthen our organizational capacity by attracting, developing, and retaining a diverse workforce and improving our business processes and supporting technology.

STRATEGIC PRIORITY:
Preserve Housing with Federal Project-Based Rent Assistance

Federal project-based rent assistance is a critical housing resource in Minnesota, allowing more than 60,000 lower-income renter households to spend no more than 30 percent of their income on housing. These properties are home to some of our lowest income households. Most of these Section 8, USDA Rural Development, public housing and other units were built in the 1970s and 1980s, and many are at risk of being lost due to poor physical condition, limited owner or management capacity, or the opportunity to convert to market-rate housing. Preserving these properties is a priority not only to maintain the quality of this critical housing resource, but also to ensure that Minnesota continues to receive hundreds of millions of dollars of rent assistance from the federal government.

STRATEGY: **Strengthen our understanding of housing with federal project-based rent assistance**

ACTIONS:

- Gain a better understanding of federally-assisted properties by looking at existing data sources, accessing information from Agency staff and our partners, and having discussions with developers and local communities.
- Work with the interagency stabilization and preservation groups, and assess the needs and risks in the state's overall portfolio to refine and enhance the priority criteria and selection process.

STRATEGY: **Secure resources**

ACTIONS:

- Secure and target funds for preservation, including funds from the state and federal government.
- Develop products to meet different preservation needs and pursue and secure funds for those products, including General Obligation Bonds for public housing and state appropriations for the Rental Rehabilitation Deferred Loan Program to preserve small rural properties.
- Be poised to take advantage of new sources of capital or rental assistance as they become available from the federal government by closely monitoring HUD notices.

STRATEGY: **Fund the highest priority projects**

ACTIONS:

- Collaborate with our funding partners to identify potential projects.
- Proactively work with and provide technical assistance to property owners during the concept and application process to promote quality applications.
- Become even more strategic, systematic, and transparent in how we assess and prioritize preservation proposals in our selections and funding.
- Allocate limited resources based on priorities.
- Run efficient, effective, flexible, and timely funding processes that provide the right resources to the right projects at the right time.
- Support properties after funding through proactive asset management.

STRATEGIC PRIORITY:

Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

In 2013, Minnesota had the third highest disparity in the homeownership rate between white/non-Hispanic households and households of color. While the rate for white/non-Hispanic households is 76.0 percent, it is 40.6 percent for households of color and Hispanic ethnicity. We are committed to working with our partners to close this gap and help more families of color become successful homeowners.

We are proud of our track record of lending to households of color and Hispanic ethnicity and will encourage the larger lending industry to follow our lead.

We will refine our strategies through a gaps analysis, under which we will identify the needs of people of color and Hispanic ethnicity, the effectiveness of our current strategies to meet those needs, and the gaps between the two.

STRATEGY: **Emphasize homebuyer and financial counseling and coaching**

ACTIONS:

- Continue to support our traditional Homebuyer Education, Counseling & Training (HECAT) program.
- Identify lessons learned from our Enhanced Homeownership Capacity Initiative, a pilot program that provides specialized support to people who are likely to be successful homeowners with intensive financial empowerment and homeownership coaching.

STRATEGY: **Continue to design and offer mortgage programs that support homeownership for households of color and Hispanic ethnicity**

ACTIONS:

- Understand the needs of our borrowers and lower-income homebuyers before making any program changes.
- Understand the potential impact of alternative program designs and underwriting guidelines.

STRATEGY: **Support post-purchase success for homeowners**

ACTION:

- Provide at-risk homeowners with access to affordable home improvement financing and post-purchase counseling.

STRATEGY: **Grow our outreach and marketing efforts for diverse communities**

ACTIONS:

- Proactively engage counselors, lenders, real estate agents, and other industry professionals that serve, and who are ideally from, communities of color or Hispanic ethnicity. Educate them about our programs and support their work. Support and expand the work of our Business Development Team to reach these underserved communities. Expand marketing and create co-branded opportunities to promote our programs to households of color and Hispanic ethnicity.
- Proactively participate in community events throughout the year to connect with people who are under-represented in the homebuying market.
- Invite influential lending partners who represent diverse communities to partner with us.

STRATEGY: **Be an industry leader in promoting successful homeownership for households of color and Hispanic ethnicity**

ACTION:

- Demonstrate to mortgage industry professionals strategies and programs that successfully serve households of color and Hispanic ethnicity. Encourage them to follow our lead, since we only account for three to six percent of the state's home-purchase mortgage production and more effort is needed to reach all potential homebuyers.

STRATEGIC PRIORITY:
Prevent and End Homelessness

People experiencing homelessness have significant needs and often face multiple and large barriers to having stable housing. Stable housing is a critical element of well-being, including educational performance and health. According to the state's 2015 annual homeless count, the number of homeless in Minnesota on a given day is about 7,500, which is a 10 percent decline from the previous year. This recent decline in the number of homeless provides initial evidence that the state's strategies to prevent and end homelessness are working. We will continue to play a leadership role in this effort.

STRATEGY: **Continue to lead the Interagency Council on Homelessness**

ACTIONS:

- Play a leadership role in the 11-agency Council on Homelessness.
- Provide support for the Office to Prevent and End Homelessness (the administrative arm of the Interagency Council) with office space and resources.
- Align resources, coordinate efforts, and focus on key areas of program improvement, which could include coordinated grant making across agencies.

STRATEGY: **Support the development of a stronger infrastructure to combat homelessness statewide**

ACTIONS:

- Serve as the lead agency in charge of overseeing the Homeless Management Information System (HMIS) with the goal of making it a more robust and effective resource for local service providers and the state to understand who is homeless, their needs, the services they receive, and their outcomes.
- Provide funding to support the organizations responsible for coordinating homeless services across regions and implementing new federal requirements, including coordinated entry for people receiving homeless services.

STRATEGY: **Use data and research to target resources through evidence-based decisions**

ACTIONS:

- Utilize an improved HMIS, annual homeless count, and coordinated entry to make better informed decisions regarding our homeless strategies and investments.
- Link HMIS data with other state data systems that have information about people experiencing or at risk of homelessness.

STRATEGY: **Secure resources and support a comprehensive continuum of housing and service options**

ACTIONS:

- Ensure that each individual and family experiencing or at risk of homelessness receives the right assistance to meet their needs for the right period of time in the right setting.
- Secure resources to: (1) construct new housing and preserve existing housing, (2) subsidize ongoing property operations in targeted cases, (3) provide monthly rent assistance, and (4) provide grants for prevention activities.
- Work with the Minnesota Department of Human Services (DHS) and our service partners to provide housing and services more seamlessly, rather than two completely separate resources that are administered independently. Support services are critical because three out of four adults experiencing homelessness on a given night have at least one of the following: a chronic health condition, serious mental illness, or substance abuse disorder.
- Establish alternative options for people who have stabilized their lives in supportive housing. These options will still provide affordable housing but with a lower level of services or no services.

STRATEGIC PRIORITY:
Finance Housing Responsive to Minnesota's Changing Demographics

In the coming years, we will see significant shifts in Minnesota's population. The number of people age 65 and older will nearly double in the next 25 years, and the number of people from communities of color and Hispanic ethnicity will increase by 50 percent in the next 20 years. With these shifts, new affordable housing needs will emerge and existing needs will become more complicated. We will determine how to best meet these emerging needs by partnering with communities and listening to their needs, crafting solutions based on data and analysis, and piloting innovative approaches.

STRATEGY: **Understand the changing demographics and identify solutions to better address changing and unmet needs**

ACTIONS:

- Assess annual demographic data from the U.S. Census Bureau's American Community Survey, the State Demographer's Office, and other sources. Combine these statewide analyses with data and information from local housing studies and plans.
- Convene statewide and community dialogues to discuss the implications of the data, local housing needs, and the development of housing solutions together.
- Compile a set of solutions and assess their potential through research on national best practices and our ongoing dialogues with state and local and community experts.

- Expand our partner network to ensure underserved population needs are being addressed.

STRATEGY: **Evaluate and strengthen current programs and implement new approaches**

ACTIONS:

- Evaluate existing programs to ensure they continue to meet evolving needs and are effectively managed.
- Strengthen existing programs and pilot innovative and new approaches.
  - **Large families**: To better serve large families, we will examine our funding criteria to ensure that they provide appropriate incentives for developers to construct some larger, multi-bedroom units in communities with a growing number of large families.
  - **Culturally specific housing**: We will also explore additional opportunities to better serve new immigrant housing needs.
  - **Aging in place**: With the oldest baby boomers reaching age 70 in 2016, most lower-income seniors are still homeowners and living independently. As a result, we will initially focus on financing home repairs and modifications, which will allow individuals to age in place for as long as it is appropriate and possible.
  - **Senior rental housing**: Over the next couple of decades, there will be tens of thousands of additional senior renter households with extremely low incomes. We will explore ways to provide the lowest-income seniors with affordable multifamily housing choices that include an array of service options.

STRATEGIC PRIORITY:
Address Specific and Critical Local Housing Needs

We recognize that housing issues are local. The needs of an individual community or region cannot be met though a statewide priority framework alone. We strive to be adaptable and flexible so that all communities can access our resources to meet local housing needs.

STRATEGY: **Work with local communities to assess their housing needs and identify strategies and resources available to meet those needs**

ACTIONS:

- Encourage communities to prepare housing studies and plans so they can identify and prioritize community needs and initiate action steps, which can range from supportive housing for the homeless to workforce housing that supports job growth.
- Help convene discussions and dialogues in communities throughout the state so we have a shared understanding of local and regional issues, needs, and solutions.
- In the context of broader community planning, we will:
  - Provide communities with tools they can use to understand demographic and market conditions, including our *Community Profiles*.
  - Help connect communities with the key partners and resources they will need to address their local housing priorities.
  - Honor our organizational commitment to be an active and engaged partner.

STRATEGY: **Provide communities with an understandable set of financing tools to meet their housing needs**

ACTIONS:

- Communicate clearly with local communities about the full array of financial resources available to ensure they are fully and effectively used.
- Encourage communities to apply for resources that best meet their needs, and to use the most flexible resources to fill gaps when more restrictive options are not viable.

STRATEGY: **Provide resources that are as simple, flexible, accessible, and timely as possible**

ACTIONS:

- Examine our programs and products to ensure that they do not create unnecessary barriers for organizations and communities as they work to meet local housing needs.
- Ensure our resources serve the intended population, comply with federal and state regulations, are sound investments, and are appropriately used.
- Continuously improve our programs and processes, using technology to meet needs most efficiently.



OUR LEADERSHIP:
MINNESOTA HOUSING BOARD

John DeCramer, Chair
Greater Minnesota

Gloria Bostrom
Twin Cities Metro

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Twin Cities Metro

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The Honorable Rebecca Otto, State Auditor
Ex-officio member

MINNESOTA HOUSING COMMISSIONER

Mary Tingerthal

This plan and associated resources can be found by visiting www.mnhousing.gov and clicking About Us > Strategic Plans.

NEXT STEPS.

We start our work on this strategic plan with a sense of optimism and momentum. Economic conditions and housing markets are strong. Changes we have made at Minnesota Housing over the last four years are multiplying the impact of our work. But our challenges are large, as housing costs grow faster than incomes for many of the households we serve. With this plan, we move forward to meet those challenges so that housing can be the foundation of success for more Minnesotans.

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Minnesota Housing Finance Agency

Minnesota Housing
Finance Agency

AGENDA ITEM: 7.F
MINNESOTA HOUSING BOARD MEETING
July 23, 2015

ITEM: Program Concept, Federal Housing Trust Fund Program

CONTACT: Jim Cegla, 651-297-3126 jim.cegla@state.mn.us

Ryan Baumtrog, 651-296-9820 ryan.baumtrog@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☑ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:

Approve the proposed characteristics for the use of funds in Minnesota anticipated to be received in 2016 under the federal government's new Housing Trust Fund program. In order for these funds to be eligible for expenditure in federal fiscal year 2016, the State must include these proposed characteristics in its annual action plan, which must be submitted to HUD in August of 2015.

FISCAL IMPACT:

Staff expects the agency will receive approximately $3 million in spring of 2016, of which 10% may be used for planning and administration.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):

- Proposed Program Characteristics

The National Housing Trust Fund Program

The Housing and Economic Recovery Act of 2008 (HERA) amended the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and established the Housing Trust Fund (Federal HTF) -- a formula grant to States administered by HUD. This program is funded by levies against the new business of Fannie Mae and Freddie Mac (the GSEs). However, shortly after enactment of HERA, the GSEs were placed in conservatorship under their regulator, the Federal Housing Finance Agency (FHFA), and contributions to the funds were suspended.

In December 2014, Mel Watt, the current director of the FHFA, directed the GSEs to make contributions to the Federal HTF based on their new business beginning January 1, 2015. The GSEs will make their contributions available for distribution by HUD in 2016. It is anticipated that Minnesota Housing will be designated by Governor Dayton as the recipient of Minnesota's Federal HTF funds. The law established the minimum grant to a state to be $3 million, which is the most staff expects the first year.

HUD published an interim rule for the Federal HTF in January, 2015. The rule closely tracks the HOME program rule in many significant respects, but also deviates from it in others. Significant differences are:

1. Like HOME, the Federal HTF requires an affordability period where the property must meet certain restrictions and housing quality standards or the Federal HTF investment must be repaid; but unlike HOME, the affordability period is 30 years regardless the amount of the Federal HTF investment,

2. If available funds are less than $1 billion in a year nationwide, Federal HTF rules require targeting 100% of its funds to families at 30% of area median income or the poverty line, whichever is greater; 75% when available funds exceed $1 billion. We do not expect funds to exceed $1 billion in 2016.

3. Federal HTF limits to 10% the portion of the grant that may be used for homeownership activities,

4. Federal HTF permits up to one-third of the grant to be used for operating assistance,

5. Federal HTF rents are linked to the income of the tenants. For extremely low income families the rent is the 30% of the greater of 30% of area median income or the poverty line; for very low income families, rent is 30% of 50% of area median income.

Like HOME, the Federal HTF program the agency will undertake must be described in the State's annual action plan, which normally doesn't come to the Board for approval until much further in the process. Because the Federal HTF is a new program to the agency, staff is looking for direction from the Board so that when a draft action plan is available for public review and comment in August, it is aligned with the Agency's priorities.

Proposed characteristics of Minnesota's program implementing the Federal Housing Trust Fund

Application requirements and selections

Staff recommends that the agency not provide grants to local governments to administer because of the risk of required repayment during the 30-year affordability period. Instead, developers and owners should apply directly to the agency through the consolidated RFP, and be evaluated and selected in the same manner as non-Federal HTF projects of similar type. The agency should retain the option to offer funds on a pipeline basis in the event that suitable consolidated RFP applications are insufficient to use the entire Federal HTF grant.

Eligible recipients (developers/owners)

Staff recommends that the same eligibility criteria for developers and owners apply as for the agency's other programs.

Eligible activities under federal guidelines – Recommendations for Minnesota program

- **Homeownership housing**

  While homeownership housing is an eligible use of Federal HTF, the dollar limitation on homeownership activities of 10% of the grant, an expected total grant of $3 million or less, and other restrictions make Federal HTF an impractical funding source for homeownership, especially with the other resources already available through existing agency programs.

  Staff recommends that homeownership housing not be an eligible use of Federal HTF under the agency program.

- **Rehabilitation, preservation, and new construction of rental housing**

  All three of the above rental activities are eligible under the federal program.

  Staff recommends that rental housing applications be evaluated and selected in accordance with the agency's priorities for rental housing, including potentially any of these activities.

- **Operating assistance**

  There are two types of operating cost assistance that are an eligible expense for rental properties that receive Federal HTF capital funding.

  \- *Operating cost assistance* may be provided for up to five years under a written agreement with an owner, but must be drawn down within five years of the Federal HTF grant that provides the funds. Operating cost assistance grants may be renewed as new Federal HTF grants become available to the agency.

  \- *Operating cost assistance reserves* may be funded for up to the full 30-year affordability period. Operating cost reserves may be funded for less than 30 years and may be renewed throughout the affordability period, to the extent that Federal HTF funds continue to be available.

  Staff recommends that the agency make available up to one-third of its Federal HTF award (the maximum permitted by the Federal HTF rule) for providing either operating cost assistance grants or operating cost reserves for projects. Operating assistance may be necessary to achieve affordable rents for the target group of extremely low-income families in projects that do not receive other rent or operating assistance that is sufficient for the projects to be successful.

- **Refinancing**

  Refinancing is permitted under the federal program, but the limited amount of Federal HTF funds available and the availability of other resources for refinancing make this use of funds unnecessary.

  Staff recommends that the agency not refinance properties with the Federal HTF.

Maximum per-unit development subsidy amount

This is the maximum amount of Federal HTF that may be invested for development costs. Unlike the HOME program where HUD determines subsidy limits, the agency would determine “reasonable” subsidy limits, which must be based on actual costs of developing non-luxury apartments. The limits must be adjusted for the number of bedrooms and geographic location.

Staff recommends that the agency adopt development subsidy amounts that agree with the thresholds established in our Qualified Allocation Plan (QAP), which are based on whether a project is located in the Twin Cities Metro area or Greater Minnesota, is for rehabilitation or new construction, and the mix of units by number of bedrooms.

Property standards

Staff recommends that the program implement the same property standards as HOME.

Financing Terms and Conditions

Staff recommends that capital funds be provided to projects as 30-year, zero percent interest rate deferred loans, 100% payable upon an event of default, including default triggered by failing to meet affordability restrictions for the full 30-year affordability period. If necessary, the interest rate could be modified to facilitate combining Federal HTF funds with other sources of financing, such as Housing Tax Credits. Funds provided for operating assistance would be governed by a regulatory agreement with the borrower.

AGENDA ITEM: 7.G
MINNESOTA HOUSING BOARD MEETING
July 23, 2015

ITEM: Resolution Delegating Certain Authorities to the Commissioner
- Community Homeownership Impact Fund

CONTACT:

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REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☑ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other:

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests authority to make funding modifications, "Incentive Fund Awards," to Impact Fund awardees selected under the Single Family Request for Proposals (RFP). This additional incentive funding would be available to administrators who have made documented progress on an open Impact Fund award.

FISCAL IMPACT:
Impact Fund staff has estimated that to support Incentive Fund Awards, potentially $100,000-$250,000 in Economic Development and Housing Challenge Program (Challenge) funds and/or $100,000-$200,000 in Partnership for Affordable Housing (PAH) interim loan funds may be needed per year. Incentive Fund Awards would be subject to the availability of Challenge or PAH funds, and depend on the actual progress of Impact Fund administrators.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☑ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Resolution

BACKGROUND

Staff proposes that the board delegate to the Commissioner the authority to approve modifications of Community Homeownership Impact Fund awards. The goal of these modifications, herein referred to as the "Incentive Fund Awards," is twofold:

1. **To reward administrators who are on track, implementing housing activities per the term of their original 20-month award.**

   If provided via a funding modification, these additional funds would allow the administrator to complete a small volume of additional program activity. In the cases where administrators quickly allocate and expend funds under one award, some have commented about a subsequent lag time between two non-consecutive annual RFP cycles in that they are left in need of additional funds to pull them through to the next construction season prior to receiving a subsequent award.[1] This recommendation seeks to address this need, to partially bridge the timing gap between Impact Fund awards made through the RFP in two non-consecutive years.

2. **To provide the incentive of additional funds to administrators that might otherwise lag behind on implementation of their awards (e.g., those that have applied for and receive award term extensions).**

   Currently, there are 92 open Impact Fund awards and 64 of these (70%) are within their original 20-month period, having been awarded funds in the past two annual RFP rounds. However, there are 23 open awards that are in an extension period (beyond the original 20 months) due to construction or market-related delays. Impact Fund staff approve an extension when an administrator has documented clear progress, giving the administrator time to fully complete the activity.

   The Impact Fund team believes that if administrators had the prospect of accessing additional funding toward the end of their 20-month award term, it would act as an incentive to complete an award in a more timely way.

Considerations and recommendations for the funding modification policy

In creating parameters for the Incentive Fund, Impact Fund staff considered:

- The utility of the "Incentive Fund Award" from the administrator perspective;
- How to reward or provide incentive to administrators without creating big administrative burdens; and
- That award cancellations, partial de-obligations, and ongoing repayments result in significant Challenge funds returning to the account each year. For example, to date during the 2015 Affordable Housing Plan year that ends September 30, 2015, the Impact Fund has already de-obligated a total of $325,027 in Challenge funds.

To minimize administrative burdens, staff recommends that an Incentive Fund Award funding modification would be required to adhere to the terms of the original award, including the specific activity, target area, and funding type(s).

[1] For example, an administrator awarded funds through the RFP in October 2015 would have access to Impact Fund dollars under a funding agreement with a term of Dec. 1, 2015-Aug. 1, 2017. Similarly, an administrator awarded funds through the RFP in October 2017 would have access to Impact Fund Dollars under a funding agreement with a term of Dec. 1, 2017-Aug. 1, 2019. Under this scenario, there would be a 4-5 month timing gap during which no Impact Fund dollars are available.

Organizations would have access to Incentive Fund Awards on a first-come, first-served basis subject to funding availability and review of feasibility and capacity. As needed, a waiting list may be established and maintained by Agency staff.

Incentive Fund Awards are proposed to be: (1) an amount **less than or equal to four times the per-unit Impact Fund gap subsidy,** up to $150,000, as specified in the administrator's Funding Agreement; or (2) an amount sufficient to fund **one additional unit of PAH interim construction financing, up to a maximum of $300,000**.

Comparable Multifamily RFP funding modification authority that has been previously approved by the Board includes funding modification increases to developments approved via the Multifamily RFP that are less than the greater of **$100,000 or 15%** of the RFP funding amount, **up to $300,000**, for all deferred loan/interim loan/grant funds, including funding partners. This authority has existed in some form since 2001 and was formalized by resolution in 2013.

Additional requirements for an Incentive Fund Award include, but are not limited to:

- Availability during the first 20-month award period, not during an extension period;
- For owner-occupied rehabilitation and the stand-alone Affordability Gap programs, the administrator must have closed 90% of the units under the award, and the remaining 10% must have closing dates already set (unless waived by Impact Fund staff); and
- For New Construction and Acquisition-Rehabilitation-Resale awards, all but one of the units using award funds must have already been sold to end buyers (unless waived by Impact Fund staff).

Recommendation:
Staff recommends the Board adopt the attached resolution delegating to the Commissioner the authority to approve modifications of Community Homeownership Impact Fund awards.

Board Agenda Item: 7.G
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 15-
BOARD DELEGATION NO. 017

RESOLUTION DELEGATING AUTHORITY TO THE COMMISSIONER REGARDING COMMUNITY HOMEOWNERSHIP IMPACT FUND AWARD MODIFICATIONS

WHEREAS, the Minnesota Housing Finance Agency ("Agency") Commissioner ("Commissioner") has requested the Minnesota Housing Finance Agency Board ("Board") to delegate to the Commissioner certain authority regarding the administration of loans and grants in order to improve the efficiency of the Agency's loan and grant programs; and

WHEREAS, such authority would permit the Commissioner to perform the activities encompassed by the delegation without prior Board approval; and

WHEREAS, the Board has considered the request and finds that it is in the best interests of the Agency to delegate such authority.

NOW, THEREFORE, BE IT RESOLVED that the Board delegates the authority described below to the Commissioner so long as such authority is exercised in accordance with the parameters and requirements stated herein. This delegated authority shall remain in effect for the current and future Commissioners until revoked.

DELEGATED AUTHORITY
To authorize the Commissioner to make certain funding modifications, herein called "Incentive Fund Awards," under the Community Homeownership Impact Fund ("Impact Fund").

PARAMETERS OF DELEGATED AUTHORITY
1. The amount of Incentive Fund Awards is limited to:
    a. Four times the per-unit Impact Fund gap subsidy, as approved in the original funding commitment, up to a maximum of $150,000 for any single Impact Fund Award gap subsidy contract, or
    b. An amount sufficient to fund one additional unit of Partnership for Affordable Housing (PAH) interim construction financing, up to a maximum of $300,000 for any single PAH interim construction financing contract.

2. Funding is available only during the first 20-month award period.

3. For owner-occupied rehabilitation and the stand-alone Affordability Gap program, the administrator must have closed 90% of the units under the award. The remaining 10% of units must have closing dates scheduled. This parameter may be waived by Impact Fund staff.

4. For New Construction and Acquisition-Rehabilitation-Resale awards, all but one of the units built or rehabilitated using Impact Fund award funds must have already been sold to end buyers. This parameter may be waived by Impact Fund staff.

5. Incentive Funding is subject to the terms and conditions of the original Impact Fund award, including the specific activity, target area, and funding type(s).

6. The Impact Fund Workout Group, or its successor, must approve all Incentive Funding Awards.

REPORTING REQUIREMENTS

The Commissioner shall make a written report to the Board at least annually describing the actions taken utilizing the delegated authority and shall indicate whether the parameters of the delegated authority merit revision.

Adopted this 23rd day of July, 2015

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CHAIRMAN

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AGENDA ITEM: 9.A.
MINNESOTA HOUSING BOARD MEETING
July 23, 2015

ITEM: Restatement of Neighborhood Stabilization Program (NSP1) Funding Allocations

CONTACT: Nira Ly, 651-296-6345
nira.ly@state.mn.us

REQUEST:

☐ Approval ☐ Discussion ☑ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other:

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
Minnesota Housing has reallocated Neighborhood Stabilization Program (NSP1) funds according to the Substantial Amendment to the 2008 NSP1 Action Plan. This information is provided to the Board for the purpose of explaining how NSP1 funds were reallocated by Minnesota Housing among its Subrecipients.

FISCAL IMPACT:
None.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☑ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background

BACKGROUND

In 2009, the Department of Housing and Urban Development (HUD) granted Minnesota Housing $38.8 million (Grant Funds) in the first round of the Neighborhood Stabilization Program (NSP1) to purchase, develop, and sell foreclosed and blighted properties. Minnesota Housing selected 21 Subrecipients consisting of Minnesota cities and counties to implement NSP1 in their communities.

In June 2013, the Minnesota Housing Board of Directors approved the Substantial Amendment to the 2008 NSP1 Action Plan. The Substantial Amendment stipulates that Grant Funds and Program Income (collectively "NSP1 funds") remaining with Subrecipients that complete all of their NSP1 projects be reallocated to other Subrecipients. Program Income is income earned from the sale or rental of NSP1 properties or from the recapture of NSP1 funds.

Under the Substantial Amendment, NSP1 funds will be reallocated as follows. Minnesota Housing will first reallocate NSP1 funds to Subrecipients in need of additional dollars to complete their current projects. Minnesota Housing will then reallocate any remaining NSP1 funds to Subrecipients working in areas of greatest need. The Substantial Amendment allows Minnesota Housing to reallocate NSP1 funds as needed for the success of the NSP1 grant and to achieve an earlier closeout date with HUD.

The following summarizes the reallocations that have been made based on the Substantial Amendment.

Subrecipient in Need

The City of Big Lake received $120,000 in reallocated NSP1 funds. The City had drawn all of its NSP1 Grant Funds and Program Income. It required these reallocated funds to complete four of its NSP1 projects. The reallocated NSP1 funds will be used for value gap and down payment assistance.

Subrecipients in Areas of Greatest Need

The Substantial Amendment identifies Hennepin County, the City of Minneapolis, and the City of St. Paul as the Subrecipients working in areas of greatest need. Minnesota Housing reallocated NSP1 funds equally among these three Subrecipients. While the Substantial Amendment allows for, but does not require, reallocation proportionate to need, the method of equal reallocation will better enable Minnesota Housing to achieve success in its grant and move towards an earlier closeout date with HUD.

Reallocated amounts were as follows:

- Hennepin County: $272,542.92
- City of Minneapolis: $272,542.93
- City of St. Paul: $272,542.92

The City of Minneapolis received one cent more than Hennepin County and the City of St. Paul to round out the remaining reallocated NSP1 funds. Minnesota Housing selected the City of Minneapolis because it is the area with the greatest need of the three identified Subrecipients.

These three Subrecipients will use the reallocated NSP1 funds to complete their current projects and to purchase, develop, and resell or rent additional properties.

Minnesota Housing Finance Agency

AGENDA ITEM: 9.B
MINNESOTA HOUSING BOARD MEETING
July 23, 2015

ITEM: Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2015

CONTACT: Terry Schwartz, 651-296-2402
terry.schwartz@state.mn.us

Rob Tietz, 651-297-4009
rob.tietz@state.mn.us

REQUEST:

☐ Approval ☐ Discussion ☑ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
The Agency's board-approved Debt Management Policy calls for the ongoing review and management of swap transactions including regular reporting to the board. This reporting is accomplished though the Semi-annual Variable Rate Debt and Swap Performance Report.

FISCAL IMPACT:
None

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Report Highlights
- Report: Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2015

- All of the Agency's swap contracts were evaluated and determined to be effective hedges, at this point in time, under the accounting guidance provided by GASB 53.

- Basis Risk: During the period January, 2015 to June, 2015 the variable interest received on swaps and the variable interest paid on variable rate bonds performed with the anticipated correlation. Staff continues to expect that, over time, the two rates will track each other as originally anticipated.

- Counterparty/Termination Risk: The market value of swaps, which the Agency would owe to the counterparties only if the swaps were terminated, decreased from $15.3 million on January 1, 2015 to $12.6 million on July 1, 2015. While the market value of a swap is a means to quantify current termination risk, it is not a suitable measure to evaluate the original decision to enter into the swap contract. Swap contracts' market values will evaporate as they approach their maturity date. The Agency does not intend to prematurely terminate any of the swap contracts, barring termination events, unless doing so is economically advantageous within the context of a bond refunding.

- Liquidity Risk: The short-term credit ratings of all the Agency's liquidity providers were unchanged from January 1, 2015 to July 1, 2015.

- Long-term Debt, Fixed vs. Variable graph: Total outstanding variable rate debt remained the same at 9% of total long-term debt on July 1, 2015 compared to January 1, 2015.

Minnesota Housing
Finance Agency

Semi-annual Variable-Rate Debt and Swap Performance Report

July 1, 2015

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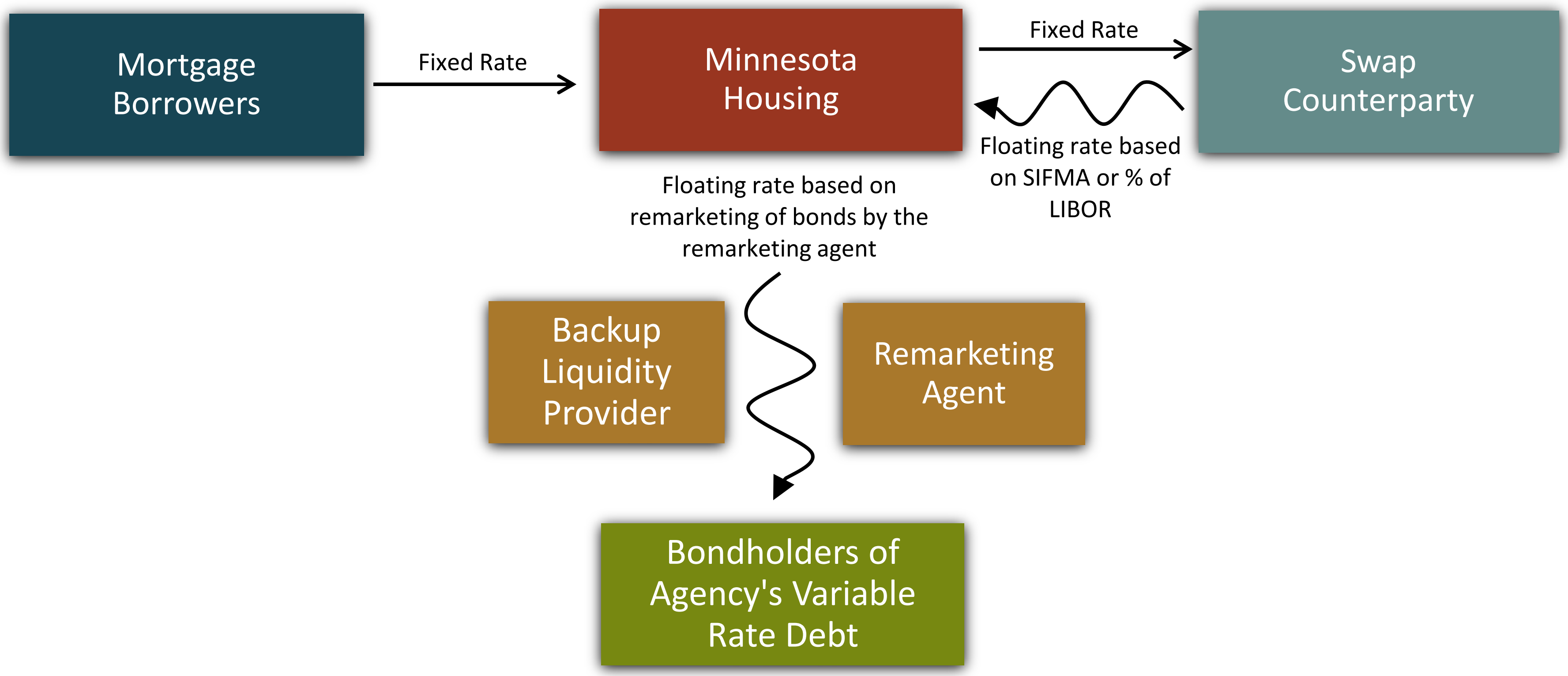
Floating-to-Fixed Interest Rate Swap Structure: Overview

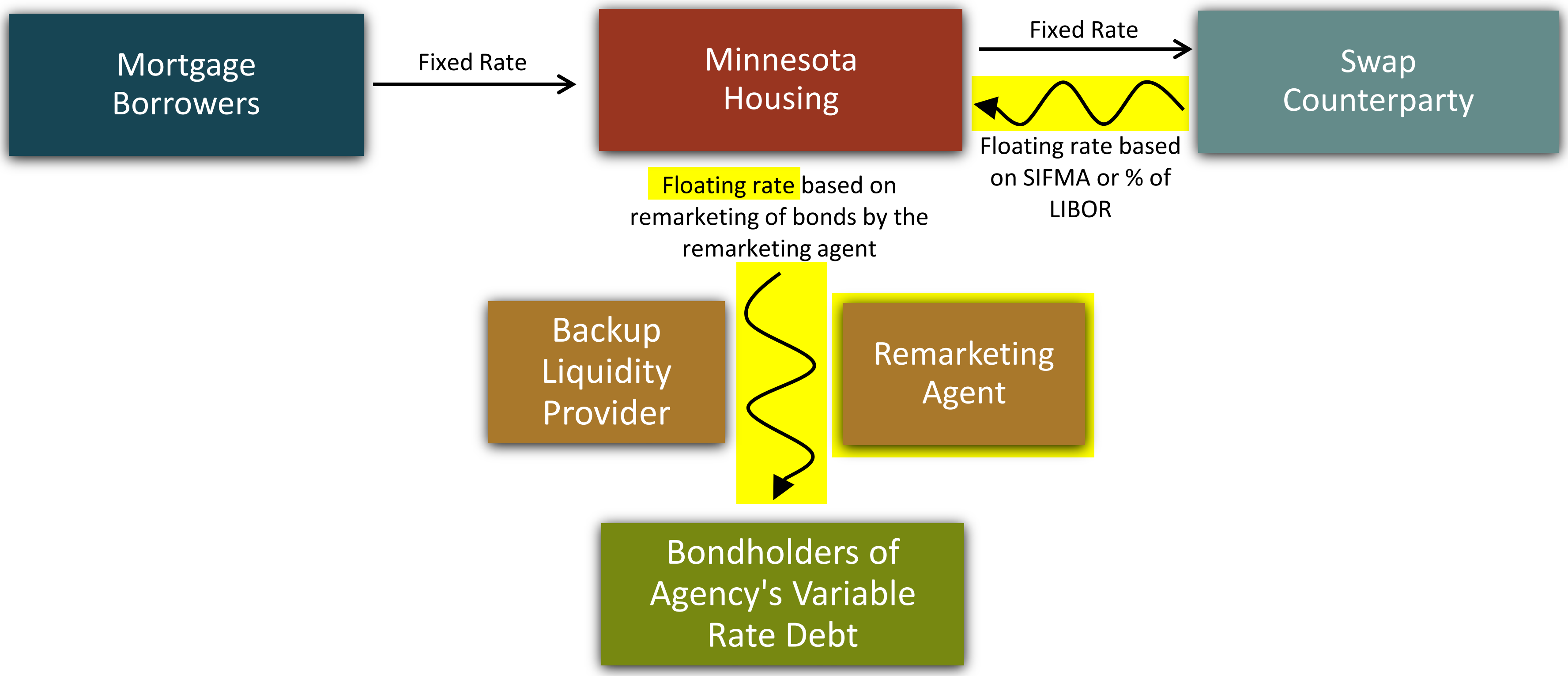


Overview of Swaps

July 1, 2015

Bond Series	Issue Date	Original Notional Amount of Swap	Notional Amount Outstanding	Counterparty	Floating Rate Received
RHFB 2003 B	07/23/2003	$ 25,000,000	$ 9,975,000	The Bank of New York Mellon	65% of LIBOR + 23 basis points
RHFB 2003 J	10/15/2003	25,000,000	8,145,000	The Bank of New York Mellon	65% of LIBOR + 23 basis points
RHFB 2004 G	07/01/2204	50,000,000	17,325,000	Royal Bank of Canada	64% of LIBOR + 26 basis points
RHFB 2005 C	03/02/2005	25,000,000	NA	NA	NA
RHFB 2005 I	06/02/2005	40,000,000	NA	NA	NA
RHFB 2005 M	08/04/2005	60,000,000	NA	NA	NA
RHFB 2006 C	03/21/2006	28,335,000	18,225,000	The Bank of New York Mellon	64% of LIBOR + 29 basis points
RHFB 2007 E (Taxable)	03/07/2007	25,000,000	6,215,000	Royal Bank of Canada	One-month LIBOR
RHFB 2007 J (Taxable)	05/17/2007	37,500,000	9,320,000	Royal Bank of Canada	One-month LIBOR
RHFB 2007 S	12/19/2007	18,975,000	18,635,000	The Bank of New York Mellon	100% of SIFMA Index Rate + 6 basis points
RHFB 2007 T (Taxable)	12/19/2007	37,160,000	14,005,000	The Bank of New York Mellon	One-month LIBOR
RHFB 2008 C	08/07/2008	40,000,000	33,210,000	Royal Bank of Canada	64% of LIBOR + 30 basis points
RHFB 2009 C	02/12/2009	40,000,000	40,000,000	Royal Bank of Canada	64% of LIBOR + 30 basis points
RHFB 2009 F	12/01/2009	34,120,000	9,755,000	Royal Bank of Canada	100% of SIFMA + 8 basis points
	Totals	**$ 486,090,000**	**$ 184,810,000**		.

Floating-to-Fixed Interest Rate Swap Structure: Basis Risk

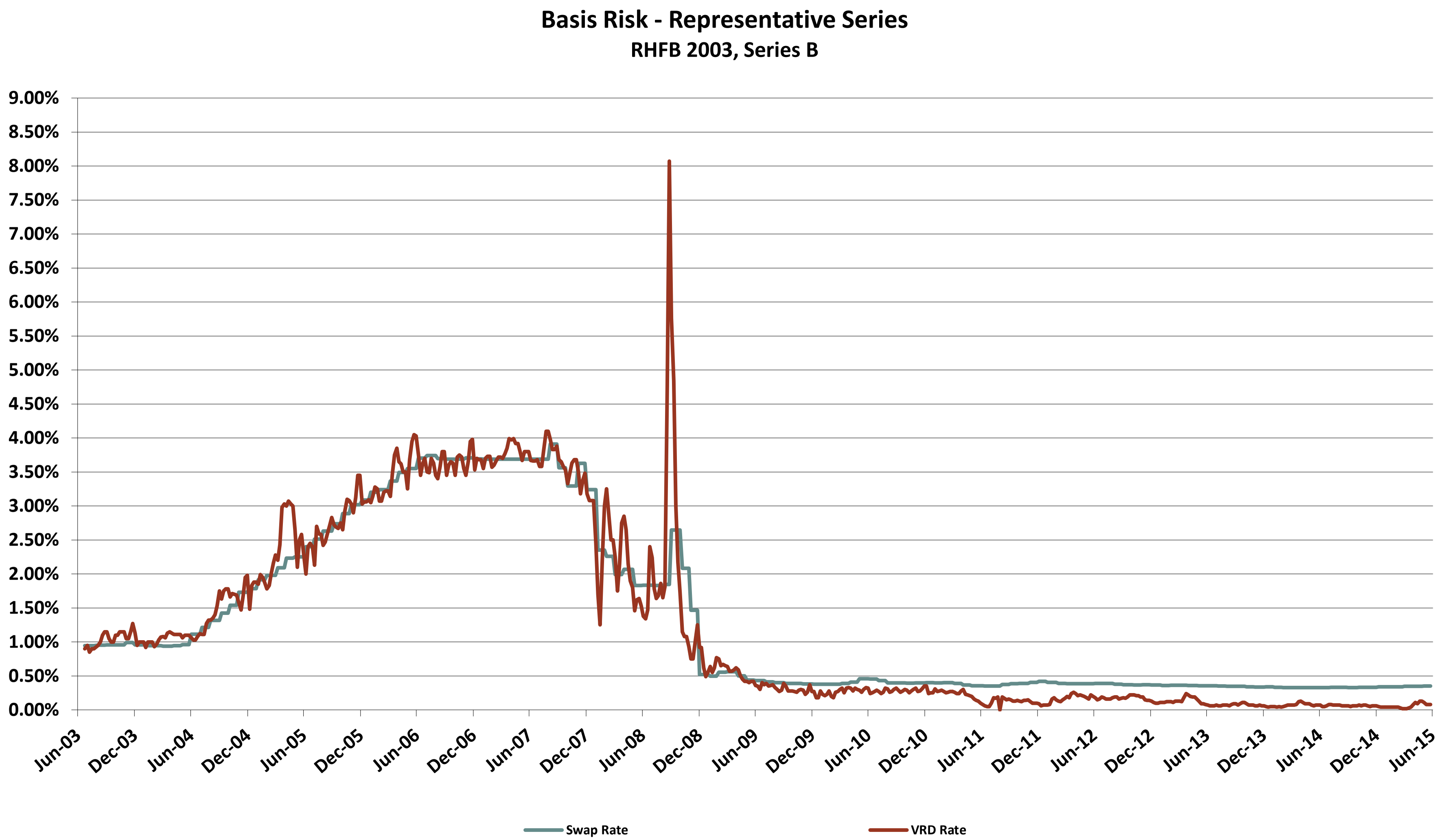


Basis Risk

July 1, 2015

Bond Series	Issue Date	VRDO's and Swaps Outstanding	Net Variable Interest Paid (Received) Basis Risk	Contractual Swap Fixed Rate	Effective Swap Fixed Rate	Effective Rate As a Percentage of Swap Fixed Rate
RHFB 2003 B	07/23/2003	$ 9,975,000	$ (201,889)	3.532%	**3.473%**	98.33%
RHFB 2003 J	10/15/2003	8,145,000	(141,562)	4.183%	**4.128%**	98.69%
RHFB 2004 G	07/22/2004	17,325,000	(306,604)	4.165%	**4.097%**	98.37%
RHFB 2005 C	03/02/2005	NA	NA	NA	NA	NA
RHFB 2005 I	06/02/2005	NA	NA	NA	NA	NA
RHFB 2005 M	08/04/2005	NA	NA	NA	NA	NA
RHFB 2006 C	03/21/2006	18,225,000	(365,574)	3.788%	**3.636%**	95.99%
RHFB 2007 E (Taxable)	03/07/2007	6,215,000	123,135	5.738%	**5.825%**	101.52%
RHFB 2007 J (Taxable)	05/17/2007	9,320,000	194,886	5.665%	**5.759%**	101.66%
RHFB 2007 S	12/19/2007	18,635,000	(69,906)	4.340%	**4.292%**	98.89%
RHFB 2007 T (Taxable)	12/19/2007	14,005,000	318,932	4.538%	**4.692%**	103.39%
RHFB 2008 C	08/07/2008	33,210,000	(523,694)	4.120%	**3.940%**	95.63%
RHFB 2009 C	02/12/2009	40,000,000	(773,718)	4.215%	**3.917%**	92.93%
RHFB 2009 F	12/01/2009	9,755,000	(88,480)	2.365%	**2.300%**	97.25%
	Totals	**$ 184,810,000**	**$ (1,834,474)** [1]			

[1]The cumulative net of total variable interest paid on all outstanding VRDO's ($25,855,931) and all variable interest received on the outstanding swaps ($27,690,405).


Basis Risk - Representative Series
RHFB 2003, Series B
9.00%
8.50%
8.00%
7.50%
7.00%
6.50%
6.00%
5.50%
5.00%
4.50%
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
Jun-03
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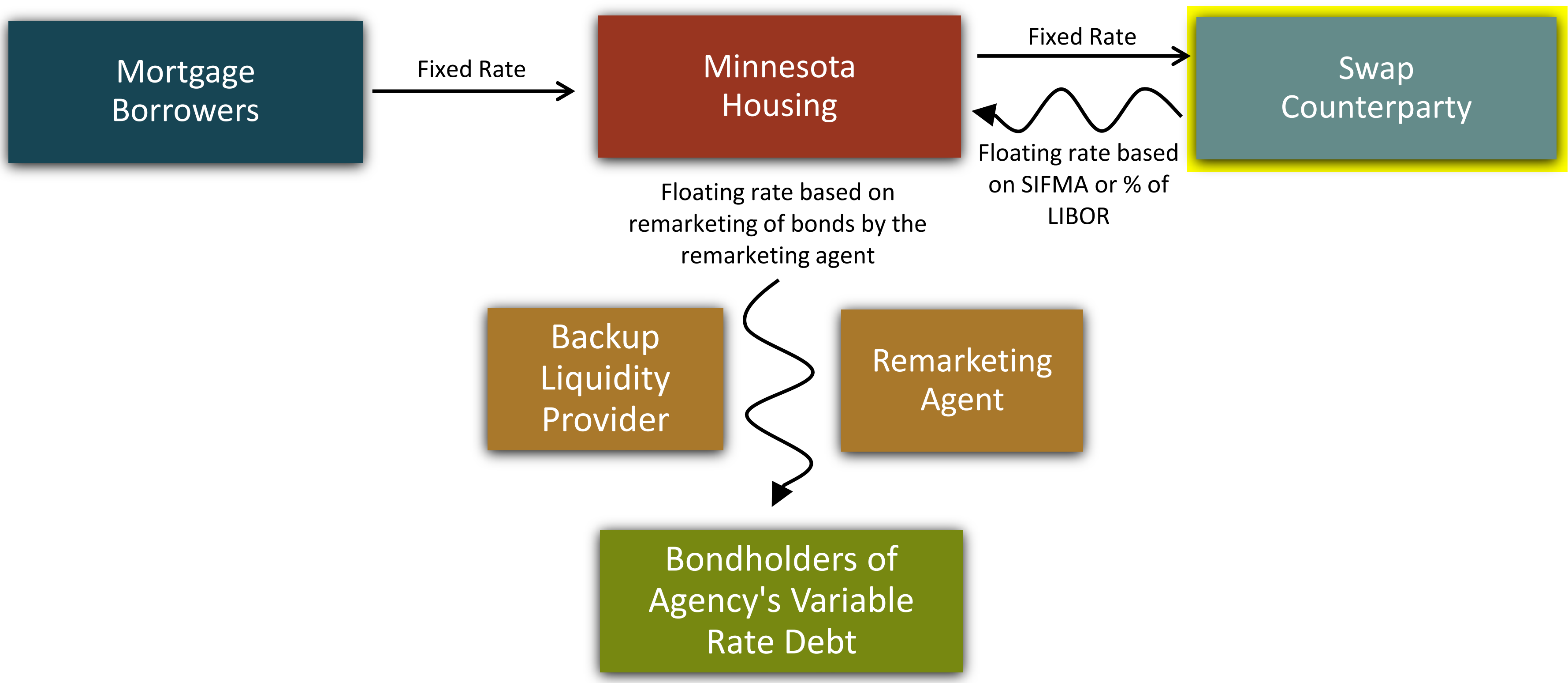
Swap Rate
VRD Rate

Floating-to-Fixed Interest Rate Swap Structure: Counterparty/Termination Risk



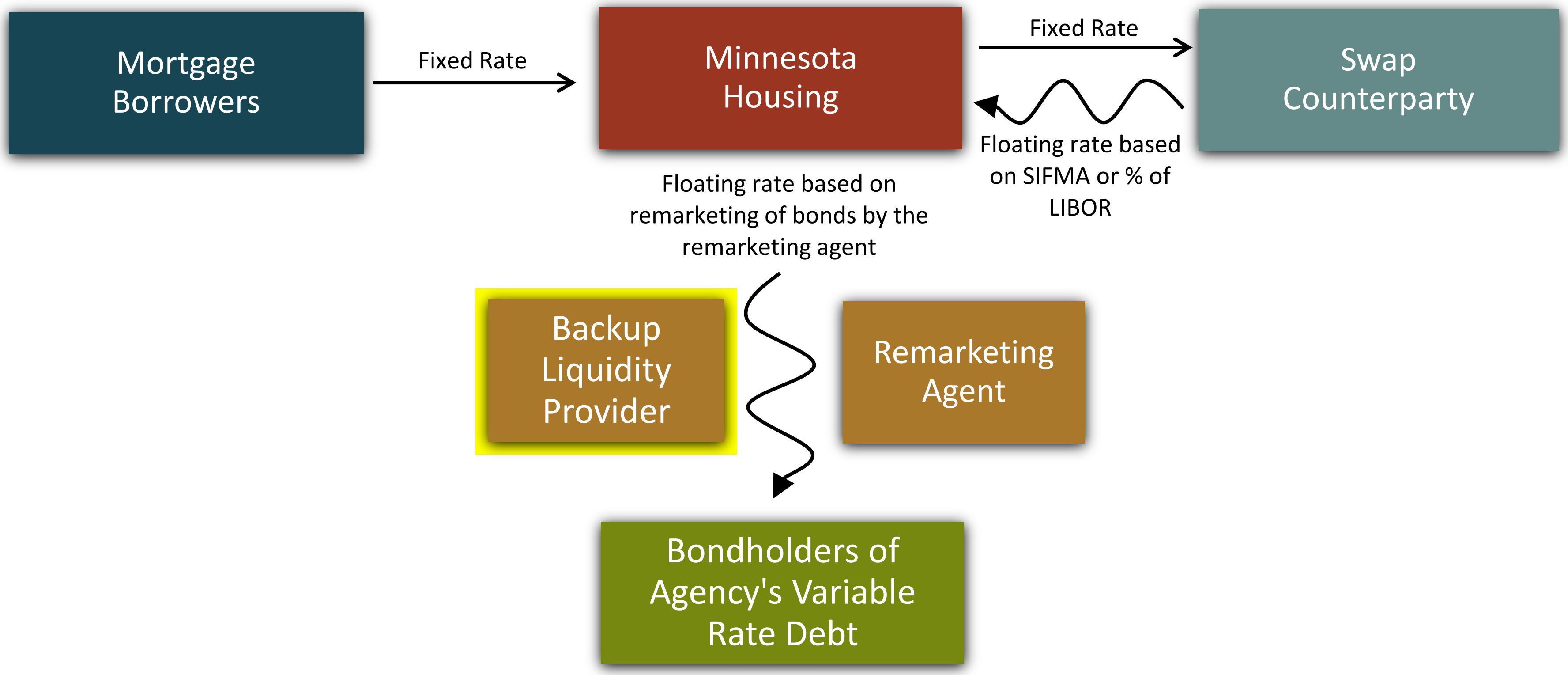
Counterparty/Termination Risk

July 1, 2015

Bond Series	Counterparty	Short-term Credit rating	Long-term Credit Rating of Provider at Swap Inception	Long-term Credit rating	Long-term Credit Outlook	Notional Amount Outstanding	Swap Maturity	Swap Average life at 100% PSA (years)	Swap Fixed Rate	Market Value[1] as of 06/30/2015
RHFB 2003 B	The Bank of New York Mellon	P-1/A-1+	Aa2/AA-	Aa1/AA-	Stable/Stable	$ 9,975,000	01/01/2033	21	3.532%	$ (943,577)
RHFB 2003 J	The Bank of New York Mellon	P-1/A-1+	Aa2/AA-	Aa1/AA-	Stable/Stable	8,145,000	07/01/2033	14.3	4.183%	(1,120,474)
RHFB 2005 C	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
RHFB 2005 I	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
RHFB 2005 M	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
RHFB 2006 C	The Bank of New York Mellon	P-1/A-1+	Aa2/AA-	Aa1/AA-	Stable/Stable	18,225,000	01/01/2037	10.6	3.788%	(348,665)
RHFB 2007 S	The Bank of New York Mellon	P-1/A-1+	Aa2/AA-	Aa1/AA-	Stable/Stable	18,635,000	07/01/2038	27.4	4.340%	(1,021,718)
RHFB 2007 T	The Bank of New York Mellon	P-1/A-1+	Aa2/AA-	Aa1/AA-	Stable/Stable	14,005,000	07/01/2038	11.8	4.538%	(881,372)
	Total The Bank of New York Mellon					**68,985,000**				**(4,315,806)**
RHFB 2004 G	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Aa3/AA-	Negative/Negative	17,325,000	01/01/2032	11.3	4.165%	(653,615)
RHFB 2007 E	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Aa3/AA-	Negative/Negative	6,215,000	07/01/2038	12	5.738%	(310,839)
RHFB 2007 J	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Aa3/AA-	Negative/Negative	9,320,000	07/01/2038	11.8	5.665%	(458,392)
RHFB 2008 C	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Aa3/AA-	Negative/Negative	33,210,000	07/01/2048	20.6	4.120%	(2,509,098)
RHFB 2009 C	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Aa3/AA-	Negative/Negative	40,000,000	07/01/2039	18.9	4.215%	(4,206,915)
RHFB 2009 F	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Aa3/AA-	Negative/Negative	9,755,000	07/01/2039	4.2	2.365%	(194,012)
	Total Royal Bank of Canada					**115,825,000**				**(8,332,871)**
	Total All Swaps					**$ 184,810,000**				**$ (12,648,677)**

[1]A positive market value represents money due the Agency from the Counterparty upon termination. A negative number represents money payable by the Agency upon termination. Valuations are provided by BLXSwap.

Floating-to-Fixed Interest Rate Swap Structure: Liquidity Risk



Liquidity Risk
July 1, 2015

Bond Series	Current Liquidity Provider	Short-term Credit Rating	Long-term Credit Rating	Long-term Credit Outlook	VRDO's Outstanding	VRDO Maturity	Liquidity Facility Maturity	Liquidity Fee	Original Liquidity Fee
RHFB 2003 B	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Negative/Negative	$ 9,975,000	01/01/2033	07/16/2018	0.500%	0.300%
RHFB 2003 J	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Negative/Negative	8,145,000	07/01/2033	07/16/2018	0.500%	0.300%
RHFB 2004 G	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Negative/Negative	17,325,000	01/01/2032	07/15/2016	0.400%	0.195%
RHFB 2005 C	NA	NA	NA	NA	NA	NA	NA	NA	NA
RHFB 2005 I	NA	NA	NA	NA	NA	NA	NA	NA	NA
	Royal Bank of Canada subtotal				**35,445,000**				
RHFB 2005 M	NA	NA	NA	NA	NA	NA	NA	NA	NA
RHFB 2006 C	Wells Fargo	P-1/A-1+	Aa1/AA-	Stable/Stable	18,225,000	01/01/2037	03/11/2016	0.400%	0.092%
RHFB 2007 E	Wells Fargo	P-1/A-1+	Aa1/AA-	Stable/Stable	6,215,000	07/01/2038	03/20/2017	0.450%	0.092%
RHFB 2007 J[1]	Wells Fargo	P-1/A-1+	Aa1/AA-	Stable/Stable	9,320,000	07/01/2038	03/10/2017	0.450%	0.092%
RHFB 2007 S	Wells Fargo	P-1/A-1+	Aa1/AA-	Stable/Stable	18,635,000	07/01/2038	03/10/2017	0.450%	0.092%
RHFB 2007 T	Wells Fargo	P-1/A-1+	Aa1/AA-	Stable/Stable	14,005,000	07/01/2048	03/10/2017	0.450%	0.092%
	Wells Fargo subtotal				**66,400,000**				
RHFB 2008 C	FHLB - Des Moines[2]	P-1/A-1+	Aaa/AA+	Stable/Stable	33,210,000	07/01/2048	08/07/2015	0.250%	0.250%
RHFB 2009 C	FHLB - Des Moines[2]	P-1/A-1+	Aaa/AA+	Stable/Stable	40,000,000	07/01/2036	02/12/2016	0.250%	0.250%
RHFB 2009 F	FHLB - Des Moines[2]	P-1/A-1+	Aaa/AA+	Stable/Stable	9,755,000	07/01/2031	12/01/2016	0.250%	0.250%
	FHLB - Des Moines subtotal				**82,965,000**				
	Total All Liquidity Providers				**$ 184,810,000**				

[1]Federal Home Loan Bank of Des Moines

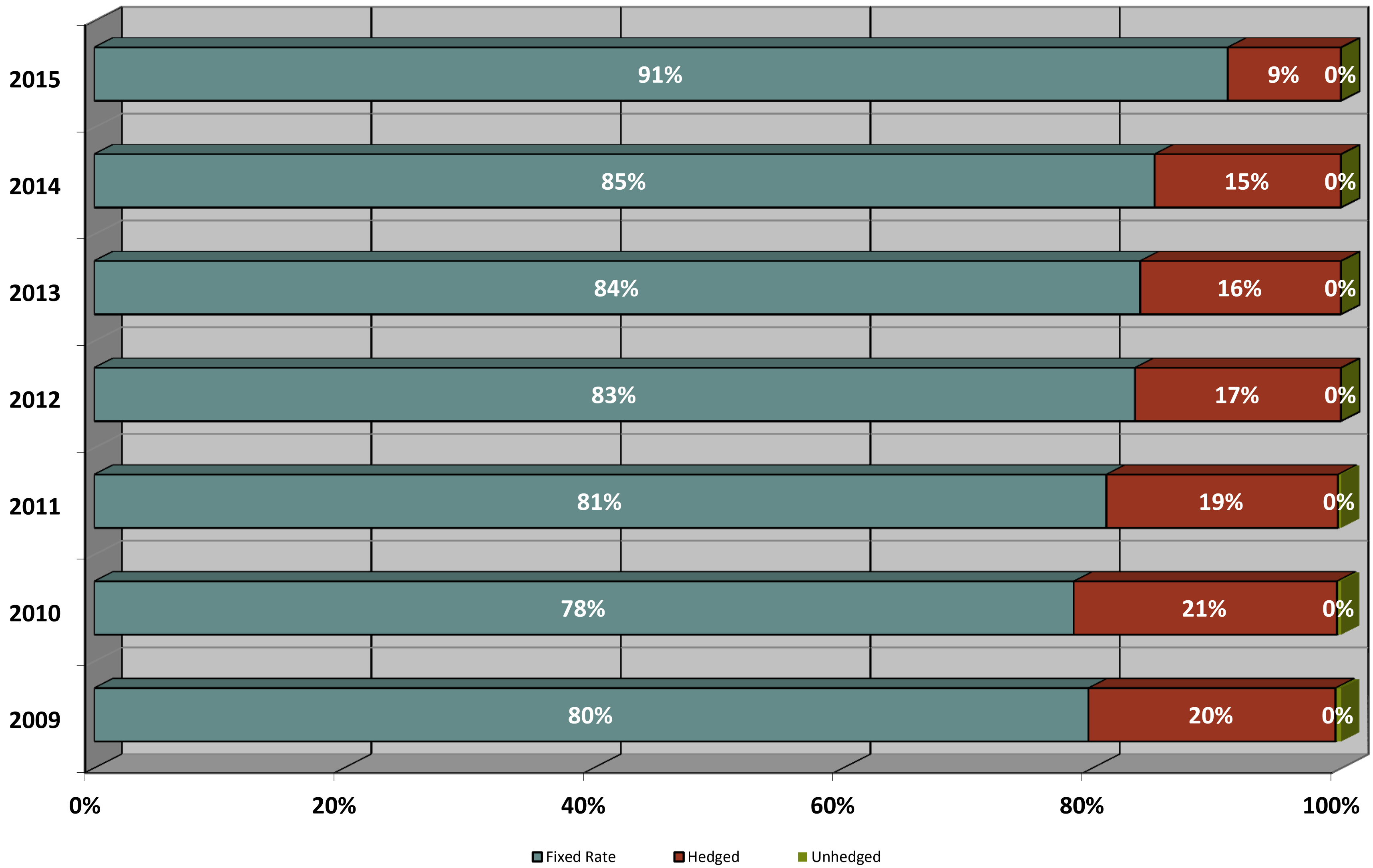
Liquidity Renewal Requirements

July 1, 2015

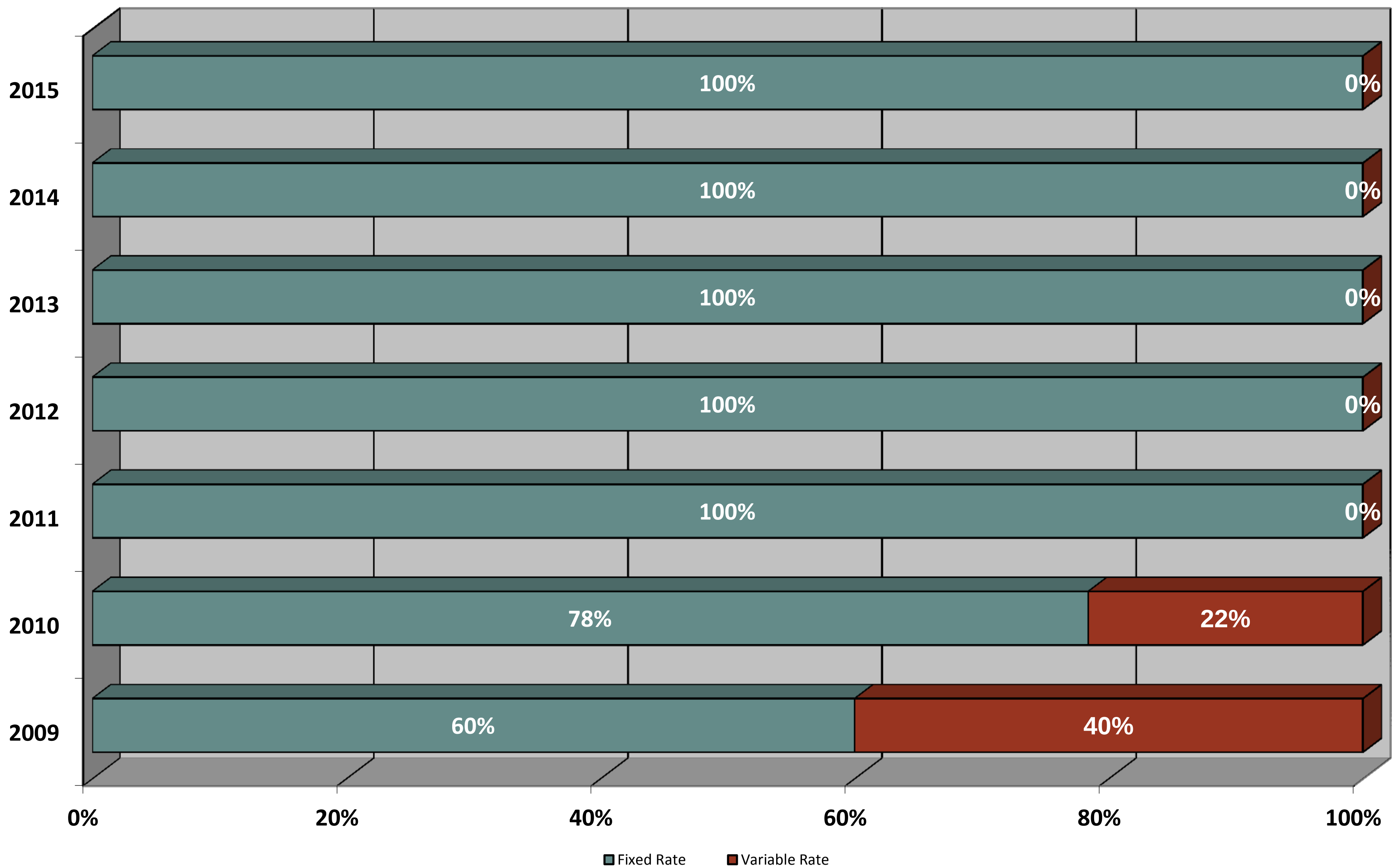
Issue	Liquidity Provider	Final Swap Maturity	Full Optional Termination Date	Liquidity Expiration Date	Original Notional Amount	Outstanding Notional Amount as of 07/01/15	Scheduled Notional Amount Outstanding at Liquidity Expiration	Minimum Notional Amount Outstanding at Liquidity Expiration	Swap Counterparty
2003 B	Royal Bank of Canada	01/01/2033	01/01/2022	07/16/2018	25,000,000	9,975,000	9,975,000	7,200,000	BNY[1]
2003 J	Royal Bank of Canada	07/01/2033	01/01/2023	07/16/2018	25,000,000	8,145,000	7,430,000	5,840,000	BNY[1]
2004 G	Royal Bank of Canada	01/01/2032	07/01/2016	07/15/2016	50,000,000	17,325,000	16,540,000	-	RBC[2]
2005 C	NA	NA	NA	NA	25,000,000	NA	NA	NA	NA
2005 I	NA	NA	NA	NA	40,000,000	NA	NA	NA	NA
	Royal Bank of Canada subtotal				165,000,000	35,445,000	33,945,000	13,040,000	
2005 M	NA	NA	NA	NA	60,000,000	NA	NA	NA	NA
2006 C	Wells Fargo	01/01/2037	01/01/2016	03/11/2016	28,335,000	18,225,000	17,135,000	-	BNY[1]
2007 E	Wells Fargo	07/01/2038	07/01/2016	03/10/2017	25,000,000	6,215,000	5,465,000	-	RBC[2]
2007 J	Wells Fargo	07/01/2038	07/01/2016	03/10/2017	37,500,000	9,320,000	8,205,000	-	RBC[2]
2007 S	Wells Fargo	07/01/2038	07/01/2017	03/10/2017	18,975,000	18,635,000	18,635,000	15,235,000	BNY[1]
2007 T	Wells Fargo	07/01/2046	07/01/2017	03/10/2017	37,160,000	14,005,000	9,615,000	9,615,000	BNY[1]
	Wells Fargo subtotal				206,970,000	66,400,000	59,055,000	24,850,000	
2008 C	FHLB - Des Moines[3]	07/01/2048	07/01/2018	10/06/2015	40,000,000	33,210,000	33,210,000	33,210,000	RBC[2]
2009 C	FHLB - Des Moines[3]	07/01/2036	01/01/2019	02/12/2016	40,000,000	40,000,000	40,000,000	40,000,000	RBC[2]
2009 F	FHLB - Des Moines[3]	01/01/2017	NA	12/01/2016	34,120,000	9,755,000	2,480,000	2,480,000	RBC[2]
	FHLB - Des Moines subtotal				114,120,000	82,965,000	75,690,000	75,690,000	
	Total All Liquidity Providers				486,090,000	184,810,000	168,690,000	113,580,000	

[1]The Bank of New York Mellon [2]Royal Bank of Canada [3]Federal Home Loan Bank of Des Moines

Total Long Term Debt: Fixed vs. Variable
Fiscal Year Ending June 30



Annual Long Term Debt Issuance: Fixed vs. Variable
Fiscal Year Ending June 30



Glossary of Terms

The following are explanations of certain terms used in this presentation:

Amortization Risk
Minnesota Housing is subject to amortization risk on its hedged VRDOs because the prepayments from mortgage loans securing the bonds may cause the outstanding principal amount of bonds to decline faster than the nominal amount of the swap. To manage amortization risk, termination options have been structured into its outstanding swaps to enable Minnesota Housing in certain circumstances to reduce the nominal amounts of the swaps to correspond to the outstanding principal amount of the bonds hedged by the swap. Additionally, Minnesota Housing may terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Basis Risk
Basis risk refers to a mismatch between the floating interest rate received from the swap counterparty and the interest actually paid on the related series of Minnesota Housing's variable rate bonds. Under its outstanding swaps, Minnesota Housing pays a fixed interest rate and in return receives a floating variable rate based on LIBOR or the SIFMA Municipal Swap index, plus a specified spread if the swap relates to tax-exempt bonds. Minnesota Housing's bonds hedged by its swaps bear interest at a variable rate that is reset weekly, based on market conditions. Minnesota Housing's risk is that the variable interest payments received from the counterparty will be less than the variable interest payments actually paid on the bonds. This mismatch between the actual bond interest rate and the swap floating interest rate would cause additional interest expense to Minnesota Housing. A mismatch could occur for various reasons, including an increased supply of tax-exempt bonds, deterioration of the credit quality of Minnesota Housing or the liquidity facility provider, or a reduction of federal income tax rates for corporations and individuals. Basis risk varies over time due to inter-market conditions. Tax risk is a form of basis risk.

Counterparty Risk
Counterparty risk is the risk that the swap counterparty will not perform pursuant to the swap contract's terms, either in making regular payments or termination payments. Under a fixed payor swap, for example, if the counterparty defaults, Minnesota Housing could be exposed to unhedged variable rate bonds. The creditworthiness of the counterparty is indicated by its senior unsecured long-term credit rating. The outstanding swap agreements contain varying collateral requirements based on the respective parties' credit ratings and the fair value of the swaps to mitigate potential credit risk exposure.

LIBOR
London Interbank Offered Rate.

Glossary of Terms (continued)

Liquidity Risk
Issuers of VRDOs face liquidity risk due to the ability of holders of the bonds to tender them for purchase upon short notice. The bonds are to be remarketed by a remarketing agent appointed by the issuer, but if the remarketing were to fail, the liquidity facility provider providing liquidity support to cover tenders would be required to purchase the bonds. In such event, the bonds, known as "bank bonds," would bear interest at a higher "bank rate" and be subject to principal amortization over a much shorter period than their stated terms. The bank rate typically floats at a few percentage points higher than the prime rate. Because of turmoil in the financial markets, substantially fewer financial institutions are providing liquidity facilities and at a substantially higher cost. Consequently, at the expiration of a liquidity facility, Minnesota Housing may have difficulty obtaining a replacement liquidity facility or may have to pay substantially higher fees.

SIFMA
Securities Industry and Financial Markets Association.

Tax Risk
All issuers who issue tax-exempt variable rate debt inherently accept risk arising from changes in marginal federal income tax rates. For variable rate tax-exempt bonds hedged with LIBOR-based swaps, basis risk may be realized if changes in the federal tax code alter the historical relationship between taxable and tax-exempt short-term rates on which the swap was structured.

Termination Risk
Termination risk is the risk that the swap may be terminated as a result of any of events specified in the swap, which may include a ratings downgrade for Minnesota Housing or its counterparties, covenant violation by either party, bankruptcy of either party, swap payment default by either party, events of default under the bond resolution and certain specified termination events.

Upon a termination of the swap at fair value, a termination payment may be due by one party to the other based upon the fair value of the swap at the time (even if the payment is owed to the defaulting party). The potential termination risks to Minnesota Housing are
the liability for a termination payment to the counterparty or the inability to replace the swap with favorable financial terms, in which event the variable rate bonds would no longer be hedged. Under its outstanding swaps, Minnesota Housing has the ability in certain circumstances to terminate the swap in whole or in part at par, rather than at fair value, in order to mitigate amortization risk.

VDROs
Variable Rate Demand Obligations ("VDROs") are floating rate bonds that have a stated long-term maturity but bear interest at a short-term rate that is reset periodically (generally weekly). The holder of the bonds has the option to tender the bonds for purchase upon short notice (generally seven days). If the bonds cannot be remarketed by the remarketing agent, the liquidity facility provider (and not the issuer) is obligated to purchase the bonds.

AGENDA ITEM: 9.C
MINNESOTA HOUSING BOARD MEETING
July 23, 2015

ITEM: Report of Complaints Received by Agency or Chief Risk Officer

CONTACT: Will Thompson, 651-296-9813 will.thompson@state.mn.us
Paula Beck, 651-296-9806 paula.beck@state.mn.us

REQUEST:

☐ Approval ☐ Discussion ☑ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☑ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:

The Agency and the Chief Risk Officer have developed procedures for the receipt, retention and treatment of complaints received by the Agency or the Chief Risk Officer regarding conflict of interest, misuse of funds and fraud that have been submitted by any person external or internal to the Agency.

Update from the Chief Risk Officer regarding complaints of potential conflict of interest, alleged misuse of funds and alleged fraud that have been reported to the Agency or the Chief Risk Officer since the Board adopted Reporting Non-Compliance with Agency Policy and Procedures on January 27, 2011.

FISCAL IMPACT:

There were 55 instances of potential conflicts of interests, alleged misused funds and alleged fraudulent activity for the 55-month period beginning December 2010 and ending June 2015. A total of $494,253 has not been recovered: $416,710 in misused funds (an increase of $102,844 from last quarter), and $77,543 in fraudulent activity (unchanged from last quarter).

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☑ Strengthening Organizational Capacity

ATTACHMENT:

Reporting Non-Compliance with Agency Policy and Procedures.

Reporting Non-Compliance with Agency Policy and Procedures

This reporting is designed to convey to the Board any complaints received, their current status, and their resolution, if one has been reached.

An updated report will be delivered to the Board quarterly, with the next report due November 19, 2015.

Complaints Received by Agency or Chief Risk Officer

Complaint	Status		
Resolution	Closed	In Process	Grand Total
Conflict of Interest	**7**	**7**	**14**
External Employment Approved	2		2
Insufficient Evidence	3		3
None Yet		7	7
Issue Resolved	2		2
Fraud / Embezzlement	**7**		**7**
Funding Transferred to Different Entity	1		1
Insufficient Evidence	3		3
FBI Investigation Initiated	1		1
Seller Repurchase	2		2
Misuse of Funds	**31**	**3**	**34**
All Funds Returned to Agency	3		3
Insufficient Evidence	3		3
Issue Cured	4		4
Negotiated Settlement	10		10
None – Nonviable Counterparty	1		1
OLA Forwarded Complaint to County	1		1
Revenue Recapture	4		4
Entry of Judgment	2		2
None Yet		3	3
None - Affordability Period Expired	3		3
Grand Total	**45**	**10**	**55**

Key Trends:

- One new alleged fraud case and nine alleged conflict of interest cases opened from April 2015 through June 2015
- Ten cases closed from April 2015 through June 2015

Report Legend:

- Complaint – An allegation or inquiry of non-compliance with Agency policy and procedures
- Status – Can be either In Process or Closed
- Resolution – How was the complaint resolved (Closed Status) or current disposition (In Process)