Minnesota Housing Finance Agency

MEETINGS SCHEDULED FOR SEPTEMBER

Location:

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

THURSDAY, SEPTEMBER 24, 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, September 24, 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.

This page intentionally blank.

Minnesota Housing Finance Agency

400 Sibley Street | Suite 300 | Saint Paul, MN 55101-1998 | 651.296.7608
800.657.3769 | fax: 651.296.8139 | tty: 651.297.2361 | www.mnhousing.gov
Equal Opportunity Housing and Equal Opportunity Employment

AGENDA

Minnesota Housing Board Meeting

Thursday, September 24, 2015

1:00 p.m.

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. Regular Meeting of August 27, 2015
5. **Reports**
   A. Chair
   B. Commissioner
   C. August 31 Program and Policy Committee Meeting
6. **Consent Agenda**
   A. Approval, Extension, Family Housing Fund Foreclosure Remediation Loan
   B. Neighborhood Stabilization Program (NSP1) Hennepin County Target Area Expansion
7. **Action Items**
   A. Resolution Relating to Multifamily Housing Revenue Bonds, Series 2015 (Winhaven Court); Authorizing the Issuance and Sale Thereof
   B. 2016 Affordable Housing Plan
   C. Approval, Eventual Tenant Homeownership Guide
   D. Commitment Extension, Housing Infrastructure Bond - Housing Trust Fund (HIB-HTF) Program
      - VA St. Cloud (formerly known as CommonBond VA St. Cloud), St. Cloud
   E. Selections, Homeownership Education, Counseling and Training Fund
   F. Updated Calculation for Distributing Housing Tax Credits to Sub-allocators
8. **Discussion Items**
   A. 2015 Cost Containment Report
9. **Informational Items**
   A. Report of Action Under Delegated Authority
      - Certain Changes to the Affordable Housing Plan"
10. **Other Business**
    None.
11. **Adjournment**

This page intentionally blank.

MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, August 27, 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, Craig Klausing, Stephanie Klinzing and Celeste Grant (Proxy for Rebecca Otto). George Garnett joined the meeting at 1:05 p.m. Joe Johnson was absent.
Minnesota Housing staff present: Leslee Post, Mary Beth Kehrwald, Lori Gooden, Mary Tingerthal, Megan Ryan, Mike Thomas, Nira Ly, Paula Beck, Paula Rindels, Kevin Johnson, Rob Tietz, Susan Haugen, Tal Anderson, Terry Schwartz, Will Thompson, Xia Yang, Angelica Ruiz, Ashley Oliver, Becky Schack, Carrie Marsh, Chuck Commerford, Dan Boomhower, Dan Walsh, Debbi Larson, Diana Lund, Elaine Vollbrecht, Eric Mattson, Erin Coons, Gene Aho, Jeanette Rose, Jessica Deegan, Jim Cegla, Joel Salzer, John Patterson, John Rocker, Julie Tarlizzo, Karin Todd, Kay Finke, Kim Stuart.
Others present: Melissa Taphorn, Washington County HRA; John Werner, Chip Halbach, Minnesota Housing Partnership; Jean Lee, APAHC, CHI/RRFC; Tom O'Hern, Assistant Attorney General.
3. **Agenda Review**
Chair DeCramer announced that Item 7.F., the Selection and Commitment for Lakeside Manor in Redwood Falls under the Publicly Owned Housing Program, had been revised to reflect a corrected unit count and copies of the revised memo had been distributed to members. Chair DeCramer also announced that item 8.A, the Briefing on the Interagency Council on Homelessness, will be presented immediately following the approval of the minutes.
4. **Approval of the Minutes.**
A. Regular Meeting of Thursday, July 23, 2015
Mr. Klausing moved approval of the minutes as written. Ms. Klinzing seconded the motion. Motion carried 5-0, with Ms. Bostrom abstaining.
5. **Reports**
A. Chair
None.
B. Commissioner
Commissioner Tingerthal reported that it is the time of year where staff is working on the annual consolidated RFP selections and there is a lot of work happening around that process. Next, Commissioner Tingerthal shared that there are two major systems projects happening and the team for one of those projects, the single family loan origination system, was having discovery meetings with the vendor this week. Commissioner Tingerthal also shared that many staff are working on the customer relationship management project, the other major system project.

Next, Commissioner Tingerthal reminded members that there was a committee meeting scheduled for Monday, August 31 at which the board would review and discuss public comments on the affordable housing plan. Commissioner Tingerthal stated that the committee will also review the factors considered by staff when updating the data used in the calculation for the distribution of housing tax credits to sub-allocators.

Commissioner Tingerthal stated that final versions of the strategic plan and information about a celebration for retiring Federal Liaison Jim Cegla had been distributed at members' places.

The following employee introductions were made:
- Terry Schwartz introduced Debbi Larson. Ms. Larson had joined the Agency as its controller. Ms. Larson brings more than 25 years of experience in financial management and has previously served as the CFO for MinnCorr.
- Kaye Finke introduced Kevin Johnson, a customer relationship management (CRM) expert who will lead the solution architecture for the Agency's CRM project.
- Joel Salzer introduced Angelica Ruiz, a member of the supportive housing team who has both lending and human services experience.
- Dan Boomhower introduced Mary Beth Kehrwald, who will provide administrative assistance to the Human Resources department.
- Julie Tarlizzo introduced Jeanette Rose, Multifamily legal technician who will support closings and servicing.
- Gene Aho introduced Ben Landwehr, Single Family servicing liaison on the portfolio management team.

C. August 27 Finance and Audit Committee Meeting

Chair DeCramer reported that the Finance and Audit Committee had accepted the results of the 2015 annual financial audit and Federal single audit. Chair DeCramer reported that no management letter was issued by McGladrey, the auditing firm. Chair DeCramer reported that staff had presented the 2015 financial results and the committee approved the Agency's 2015 interfund transfers. **MOTION:** Ms. Klinzing moved to accept the report and ratify the actions of the committee. Mr. Klausing seconded the motion. Motion carries 6-0.

6. Consent Agenda

A. Selection/Commitment, Section 811 Project Based Rental Assistance (PRA)

B. Selection/Commitment, Housing Opportunities for Persons with AIDS (HOPWA) Grant Renewal

C. Selection/Commitment, Housing Trust Fund (HTF) Rental Assistance Grant Renewals

D. Family Homelessness Prevention and Assistance Program (FHPAP) Funding Modification

E. Modification, Little Earth of United Tribes, Minneapolis, D0871

MOTION: Ms. Gloria Bostrom moved approval of the consent agenda the adoption of Resolutions No. MHFA 15-035, MHFA 15-036, MHFA 15-037, and MHFA 15-038. Mr. Garnett seconded the motion. Motion carries 6-0.

7. Action Items

A. Modification, Bridges Rental Assistance

Ms. Carrie Marsh presented this request to allocate $2.5 million in additional appropriations for the Bridges Rental Assistance program. Ms. Marsh also requested that the eligible applicants for the program be modified to include non-profit housing agencies as eligible applicants. **MOTION:** Ms. Klinzing moved approval of the funding allocations and adoption of Resolution No. MHFA 15-039. Ms. Bostrom seconded the motion. Motion carries 6-0. **MOTION:** Ms. Klinzing moved that non-profit housing agencies be included as eligible applicants for the Bridges program. Ms. Bostrom seconded the motion. Motion carries 6-0.

B. Neighborhood Stabilization Program (NSP) Procedural Manual Changes

Ms. Nira Ly presented this request to make certain changes to the program procedure manual. Ms. Ly described the changes, which included the incorporation of HUD closeout requirements, modifications of those closeout requirements, updating of definitions to be in compliance with HUD's definitions and plain language and formatting revisions. In response to a question from Mr. Garnett, Ms. Ly stated that the Agency had received multiple rounds of funding under the NSP program and anticipate close out of the program in 2016 or late 2017. Ms. Ly stated that there remained a significant amount of funding under NSP 1 and NSP 3 would be closing soon. **MOTION:** Mr. Garnett moved approval of the manual changes. Mr. Klausing seconded the motion. Motion carries 6-0.

C. Multifamily Development Costs and Predictive Cost Model Policy

Mr. John Patterson presented this item, stating that staff would like to formalize the policy. Mr. Patterson added that there is a mathematical model for everything that comes through whereupon costs are estimated. Mr. Patterson added that, if proposed costs are more than 25% above the anticipated costs, those projects will be identified for the board and staff will provide rationale for recommending the funding of those projects.

Ms. Bostrom stated that she was glad to have the policy clarified for the board and for others and asked that Mr. Patterson clarify what is done currently and to describe the amount of change seen in the model annually. Mr. Patterson stated that the model is tweaked every year and stated that the board would receive a report in September about cost containment strategies and how the predictive cost model fits with all other cost containment activities. Mr. Patterson added that the model explains a percentage of all variations of costs and that he has confidence in the model. Ms. Bostrom stated that she felt the 25 percent threshold seemed high and asked that staff share how that number was picked. Mr. Patterson stated that over the past decade, one in five projects have costs that fall outside the model. Twenty-five percent was selected as a threshold where costs were still reasonable but staff would not be overloaded with additional work. Mr. Patterson stated that details of the model would be shared in detail at the September meeting. **MOTION:** Mr. Klausing moved adoption of Board Policy 13 – Multifamily Development Costs and Predictive Cost Model. Ms. Klinzing seconded the motion. Motion carries 6-0.

D. Modification, Housing Infrastructure Bond Proceeds Under the Economic Development Housing Challenge Program (HIB-EDHC) - Prior Crossing, Saint Paul, D7595

Mr. Dan Walsh presented this request to modify a loan for Prior Crossing, a new construction project along the Green Line that will provide housing for homeless youth and will have 23 units reserved for those experiencing long term homelessness and 23 units of project based rental assistance. Mr. Walsh stated the need for a funding modification exists primarily due to staff error in sizing the HIB award selection because a smaller developer fee than was requested was used and because the dual applications for nine and four percent tax credits were not compared and adjusted. The development now requires additional housing infrastructure bonds in order to meet the minimum to generate four percent tax credits. Mr. Walsh stated that Prior Crossing is a strong supportive housing proposal and demonstrates the impact of housing infrastructure bonds. In response to a question from Mr. DeCramer regarding the 17% construction costs overrun, Mr. Walsh stated that bids came in higher than anticipated, which is being seen frequently in the current environment. Mr. Walsh also stated that some developers are better at estimating than others, but construction costs are increasing overall. **MOTION:** Mr. Garnett moved approval of the modification and adoption of Resolution No. MHFA 15-040. Ms. Bostrom seconded the motion. Motion carries 6-0.

E. Selection/Commitment, Preservation Affordable Rental Investment Fund (PARIF) program - Lonnie Adkins, Saint Paul, D2461

Ms. Leslee Post presented this request, sharing that the development, located in St. Paul, has 77 units, 57 of which receive Section 8. Ms. Post stated that the current Section 8 contract expires in 2019 and the remaining units are income restricted by the first mortgage, which matures in December, 2015, at which time all use restrictions on those units will expire. Ms. Post stated that, as part of the funding, the building will receive preservation vouchers from the St. Paul HRA for the 20 non-Section 8 units and the new owner will be required to renew the Section 8 contract. **MOTION:** Ms. Bostrom moved approval of the selection and commitment and the adoption of Resolution MHFA 15-041. Mr. Garnett seconded the motion. Motion carries 6-0.

F. Selection/Commitment, Publicly Owned Housing Program - Lakeside Manor, Redwood Falls, D7812

Ms. Susan Haugen presented this request, stating Lakeside Manor was a 56 unit high rise development in Redwood Falls which overlooks a lake and is within a few blocks of the downtown area, and was heavily damaged by arson in the last year. Ms. Haugen stated that the development had scored very competitively in the POHP RFP but funds were not awarded at that time because HUD had not yet acted on the development's application for disaster funding. The development was approved by HUD to receive funds for rehabilitation and funding commitments for the remaining financial need are required by September 15 in order to receive the more than $1 million in HUD disaster funding. Ms. Haugen stated that the report provided to members had been revised to reflect a correct unit count of 51 units rather than 52. Mr. DeCramer shared that he had been in Redwood Falls and saw the devastation of the fire and he was glad to see this request to help bring the building back into service. **MOTION:** Ms. Bostrom moved approval of this request and adoption of Resolution No. MHFA 15-042. Ms. Klinzing seconded the motion. Motion carries 6-0.

8. Discussion Items

A. Briefing on the Interagency Council on Homelessness

Ms. Cathy ten Broeke shared the results of the point-in-time homeless count, which had been presented at the most recent Minnesota Interagency Council on Homelessness meeting. Ms. ten Broeke stated the point in time count is used to count people experiencing homelessness on a single night in January and is a Federal requirement that is also linked to Governor Dayton's dashboard. The persons counted are those in unsheltered situations, such as living outside, and people who are temporarily sheltered in transitional shelters, temporary shelters, and motels through social service programs. People doubled up or temporarily living with others are not counted. Ms. ten Broeke added that homelessness in Greater Minnesota often looks different than in the metropolitan area and is often about being doubled up rather than being in shelters or outside.

Ms. ten Broeke shared that Wilder Research conducts a survey every three years in Minnesota, adding that the Wilder survey is richer and gets more to the circumstances of people's experiences with homelessness. The surveys are two different methodologies and sets of circumstances and the numbers are not comparable to one another, but trends within both sets of data are watched and there is a higher level of confidence in the data because of improvements that have been made in the survey processes.

Ms. ten Broeke highlighted some of the survey results, including a 10 percent decrease in those experiencing homelessness across the state, but with three areas of the state, all in Greater Minnesota, seeing an increase in homelessness. Ms. ten Broeke stated the decrease is strongly driven by the decrease in homelessness among families with children, which saw its first decrease in many years. The decrease was greatest in the metro area and that decrease was primarily driven by work in Hennepin County around families.

Ms. ten Broeke shared that the state had a goal to end veteran homelessness by the end of 2015 and has seen a 54 percent reduction in homelessness among veterans. A key strategy for ending homelessness in this population is the use of a veteran registry, which identifies every veteran by name and enables quick service to veterans. Ms. ten Broeke did share that additional group residential housing capacity, a maximization of HUD VASH vouchers and more effective targeting of resources are needed to eliminate homelessness among veterans.

Next, Ms. ten Broeke shared information about families experiencing homelessness, a group for which there has been a reduction in seven of ten areas statewide. Ms. ten Broeke added that the improved economy explains some of the drop, but the decrease is not a national trend. Ms. ten Broeke also stated that Hennepin County's strategy of putting policies in place to target rapid re-housing and Family Homeless Prevention and Assistance Program dollars have helped to drive the decrease in that county. The county is also doing more with young parent headed families by linking them to more services, case management, rent subsidies, MFIP, childcare assistance, and family home visits. The work being done within the county is data driven and uses an interagency model to leverage homeless specific dollars and other mainstream systems. The initiative is showing a lot of success and is getting national attention.

Ms. ten Broeke next discussed youth homelessness, stating there is no trend data available statewide and this was the first year in which every region in the state did a comprehensive look at youth homelessness. Ms. ten Broeke added that there are 942 young people statewide experiencing homelessness and the state has a goal to end youth homelessness by 2020.

Ms. ten Broeke shared that chronic homelessness has increased since 2014 and it is believed that most of the increase was in Hennepin County, where there may have been mistakes in identification. Ms. ten Broeke cautioned that, while chronic homelessness has not decreased, it likely didn't increase to the extent indicated. In response to a question from Ms. Bostrom, Ms. ten Broeke stated the "chronic homelessness" categorization includes overlap of subpopulations, such as families, individuals, and veterans.

Mr. Klausing inquired about what drives the high percentages in the areas with the highest concentrations of homelessness. Ms. ten Broeke responded that resources are focused in the metro area and that is one reason for the higher percentage in the metro – there are more shelters there. Ms. ten Broeke also stated that the HUD survey does not count those who are doubled up as being homeless and she also acknowledged that being doubled up is, in some circumstances, a healthy living situation. Mr. DeCramer inquired about the information in the veteran registry and if there is a distinction on ages of veterans experiencing homelessness. Ms. ten Broeke stated she believed that veterans experiencing homelessness tend to be older.

In response to a question from Ms. Klinzing, Ms. ten Broeke stated that ex-offenders are not a subpopulation within the HUD count, but the Wilder survey does inquire about criminal history. Ms. ten Broeke added that the issue of criminal history as a barrier is very top of mind for all subpopulations and the Interagency Council is developing a cross cutting strategy around how to open up opportunities for persons with criminal history. Mr. Patterson added that an intern project this summer reviewed barriers to housing and found that recidivism is low after two years and very low after seven years.

Ms. ten Broeke shared that evidence based practices for ending youth homelessness is newer than for other populations. The focus areas for ending youth homelessness include providing effective crises response systems, as well as determining how to provide supports for young persons leaving the foster care system. Ms. Klinzing added that out-of-home placements respond to an immediate need and there needs to be an understanding of what happens further down the road. Ms. ten Broeke shared that the Interagency Council on Homelessness is developing the first statewide plan to prevent and end youth homelessness.

Ms. Bostrom inquired about how Minnesota compares nationally and Ms. ten Broeke responded that it depends on the year and the trend data, but we currently are leading the nation in reductions in family homelessness. Ms. ten Broeke shared that Hennepin County is one of only five places in the country with a "right to shelter" policy, and when a reduction is seen there, it is a real reduction, not because there are no more beds available, adding that Hennepin County may be the only place with that policy that had a reduction. Mr. Patterson added that Minnesota is 33rd nationally, but cautioned that states with the highest numbers are very progressive and have the best means of counting and states with low numbers are not counting effectively. Discussion item. No action needed.

B. Funding Modification of Higher Ground, Saint Paul, D7702

Mr. John Rocker provided an update on Higher Ground for informational purposes, stating the project was a concrete example of what Ms. ten Broeke had presented earlier. Mr. Rocker stated that environmental clean-up of the site has started and construction would begin in about a month. Mr. Rocker then highlighted some funding changes for the development. Mr. Rocker stated that the first phase of the project would have a shelter, transitional housing and a service center, with two sections of permanent supportive housing and a shelter on the lower floors. Mr. Rocker stated that the apartment portion of the project will have 193 single room occupancy units and is funded by housing infrastructure bonds. The second phase of the project will replace the existing Dorothy Day Center. Mr. Rocker stated that, last October, the project was selected to receive $19 million in housing infrastructure bond proceeds and, at that time, Catholic Charities was not planning to use tax credits and the development was anticipated to have a $1 million funding gap. The project scope was changed in February and costs increased $6 million due to the increased size of building, changes in scope and a higher bid environment. At that time, the financial structure was changed to include tax credits, which will be purchased by US Bank as a limited partner and will generate $8 million in equity. Mr. Rocker stated that, as a result of this transaction, Minnesota Housing has reduced it is contribution to $17 million. Mr. Rocker shared that the project is on schedule to have bonds sold in mid-September and will close shortly thereafter, with construction of phase one expected to be completed by the end of 2016 and phase two commencing in 2017. Ms. Bostrom congratulated staff on finding a way to finance the project and allowing it to move forward. No action needed.

C. 2016 Draft Affordable Housing Plan

Mr. John Patterson reviewed with the board the executive summary of the affordable housing plan, which, at $961 million, is the largest program budget ever. Mr. Patterson drew attention to two items in particular – the historic level of mortgage funding and the tight rental market.

Mr. Klausing inquired how the Agency arrived at its households of color goal for homeownership. Mr. Patterson stated that a review of census data indicates that 25 percent of renter households of color are eligible for Agency programs and added that the just 10 percent of borrowers served by the mortgage lending industry as a whole are households of color. Mr. Patterson added that there is a challenge in trying to bring the entire industry along, because the Agency accounts for only three to six percent of mortgages. Mr. Patterson shared information about actions being taken to improve the number of homeowner households of color, including a coalition that includes the Minnesota Homeownership Center, lenders, Realtors, counselors and state agency staff. Mr. Klausing stated that he thought the work is important and hoped that the Agency can have impact. Mr. Patterson added that the Agency is increasing the percentage of households of color moving to homeownership and that downpayment assistance is a piece of that, with 34 percent of downpayment assistance recipients being households of color.

Commissioner Tingerthal added that there is a recommendation to continue putting additional dollars in the enhanced homeownership capacity initiative, where a number of non-profit counseling and coaching organizations provide more in-depth coaching. Commissioner Tingerthal stated that 442 families had commenced in the program and 90% of those participants are households of color.

Mr. Patterson shared information about funding levels for homebuyer first mortgage, the targeted mortgage opportunity program, downpayment assistance, multifamily first mortgage lending, the Rental Rehabilitation Deferred Loan program, the HOME program, Pool 3 funding levels and other program areas. Mr. Patterson also shared information about funding levels for programs designed to decrease disparities.

Mr. Klausing inquired about the budget for first mortgage lending, stating the amount was far underestimated the previous year. Mr. Patterson responded that there was a desire to boost production during the previous year and it was too successful, adding that the changes made recently to the downpayment assistance programs will limit production. Ms. Kim Stuart added that regulatory changes in first mortgage lending may impact production, as well as the fact that the Agency is for the first time running these new homebuyer programs in a healthy economy. Ms. Stuart added that program staffs continually monitor production and available resources and program changes can be made when needed.

Mr. Garnett inquired if the Agency was funding the Ending Long Term Homelessness Initiative Fund at an adequate level. Commissioner Tingerthal responded that ELHIF is used only to support operations of supportive housing developments built in the mid-2000s which were underwritten in a way in which ongoing operating support is needed. Commissioner Tingerthal added that the Agency had since changed its underwriting approach to ensure these types of developments would not need ongoing service funding. Because of this change in underwriting, the resources in ELHIF are sufficient to meet their intended purpose.

Regarding overall affordability gaps, Commissioner Tingerthal stated that, over the past 13 years, there is an increasing gap between incomes, which are falling (down 7.1 percent), and the cost of housing, which is increasing (up 4.7 percent). In response to a request for clarification from Ms. Bostrom, Commissioner Tingerthal stated that the affordability gap applies to all markets and not just affordable housing.

Mr. Patterson shared the next steps for the review and approval of the 2016 Affordable Housing Plan. Discussion item. No action.

9. Informational Items

A. 2015 Affordable Housing Plan and 2013-15 Strategic Plan: Third Quarter Progress Report

B. Post-Sale Report, Residential Housing Finance Bonds, 2015 Series ABCD

Informational items. No presentation or discussion.

10. Other Business

A. National Council of State Housing Boards Workshop

Commissioner Tingerthal shared that she and member Craig Klausing had attended the National Council of State Housing Boards' annual conference in Annapolis. Mr. Klausing stated it was a very valuable experience for him and a very informative workshop. Chair DeCramer thanked Mr. Klausing for attending the workshop.

11. Adjournment.

The meeting was adjourned at 2:42 p.m.

Board Agenda Item: 6.A
Date: 9/24/2015

Item: Approval, Extension, Family Housing Fund Foreclosure Remediation Loans

Staff Contact(s):
Karen Johnson, 651.297.5146, karen.l.johnson@state.mn.us

Request Type:

☒ Approval	☐ No Action Needed
☒ Motion	☐ Discussion
☒ Resolution	☐ Information

Summary of Request:
Staff requests adoption of a Resolution to extend two concurrent $5 million Foreclosure Remediation loans to the Family Housing Fund (FHF) that mature on October 13, 2015. The $5 million loans were used by the FHF to fund a $10 million loan to the Greater Metropolitan Housing Corporation (GMHC) to facilitate foreclosure remediation activities in North Minneapolis. A short-term, 9-day extension, for an extended maturity date of October 22, 2015 is requested to allow additional time to complete the analysis and recommendation by the October board meeting.

Fiscal Impact:
The Foreclosure Remediation loans are funded using existing Pool 2 and Pool 3 resources and comply with the Economic Development and Housing Challenge Fund rules.

Meeting Agency Priorities:
☒ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Background
- Resolution

BACKGROUND

In April 2007, Minnesota Housing provided a $10 million interim Foreclosure Remediation loan to the FHF using $5 million funded from Pool 2 and $5 million funded from Pool 3 resources for foreclosure remediation efforts in targeted neighborhoods of Minneapolis. The transaction was structured as two concurrent loans, both maturing on July 19, 2010. The Pool 3 loan is interest-free and the Pool 2 loan accrues interest at 6% annually for a blended annual rate of 3%.

The loan proceeds were intended to be used by the FHF to fund nonprofit housing development organizations to facilitate foreclosure remediation activities through the acquisition, demolition, renovation and/or construction of housing units in North Minneapolis for sale to and occupancy by low- and moderate-income households (115% AMI). The FHF selected the Greater Metropolitan Housing Corporation (GMHC) to initiate these activities and funded a $10 million loan to GMHC at a blended rate of 3% annually maturing on July 19, 2010.

In October 2008, the FHF requested an extension on the existing $10 million Foreclosure Remediation loans. While FHF noted that GMHC had made considerable progress acquiring properties in North Minneapolis, remaining challenges induced them to request the extension. These challenges included delayed closings due to numerous title issues, poor property conditions lengthening the time to rehabilitate the homes, increased rehabilitation costs, limited mortgage choices for buyer(s) as a result of the tightened credit markets, and local market challenges stemming from long-term perceptions of the North Minneapolis area. The Board approved a five-year extension on the existing $10 million loans to a maturity date of July 19, 2015 and further amended the terms to require semi-annual interest payments.

In June 2015, the Board approved a 90-day extension on the existing $10 million FHF Foreclosure Remediation loans for a maturity date of October 13, 2015 to allow staff additional time to complete a thorough analysis on the FHF and GMHC and to make a recommendation for restructuring the loans.

Staff has had continued conversations with the FHF and GMHC to assess the structure of the existing credit facilities, analyze the financial statements of each organization, and review GMHC’s portfolio of properties. Staff has also corresponded with the City of Minneapolis in review of GMHC’s strategic acquisition portfolio. In addition, Minnesota Housing received a large principal payment on one of the $5 million Foreclosure Remediation loans.

While significant progress has been made in the analysis of each organization and of GMHC’s strategic acquisition portfolio, staff requests a short-term, 9-day extension, for a maturity date of October 22, 2015 to coincide with the October Board meeting allowing time to complete the review and make a recommendation for restructuring the loans.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street – Suite 300
Saint Paul, Minnesota 55101

RESOLUTION NO. MHFA 15-

RESOLUTION APPROVING AN EXTENSION OF THE FORECLOSURE REMEDIATION LOANS TO THE FAMILY HOUSING FUND

WHEREAS, the Board adopted Resolution No. MHFA 07-23 related to the financing of two concurrent $5 million Foreclosure Remediation loans funded from Pool 2 and Pool 3 to the Family Housing Fund (FHF) on April 26, 2007;

WHEREAS, by motion the Board approved a modification of terms to extend the loan maturity to July 19, 2015 and semi-annual interest payments on the existing financing to the FHF on October 23, 2008;

WHEREAS, the Board adopted Resolution No. MHFA 15-025 modifying the term extending the loan maturity to October 13, 2015 on June 25, 2015;

Whereas, Agency staff seeks to modify the term extending the loan maturity for 9-days to October 22, 2015 to complete its analysis of the existing financing to the FHF; and

WHEREAS, Agency staff has determined that changes to the terms of the credit facility will assist in fulfilling the purposes of Minnesota Statutes, Chapter 462A.

NOW THEREFORE, BE IT RESOLVED THAT the Agency hereby approves the following:

1. Modification of the maturity date on the existing $5 million, Pool 2, Foreclosure Remediation loan to the FHF to a maturity date of October 22, 2015; and
2. Modification of the maturity date on the existing $5 million, Pool 3, Foreclosure Remediation loan to the FHF to a maturity date of October 22, 2015.

NOW THEREFORE, BE IT FURTHER RESOLVED THAT all provisions in Resolutions No. MHFA 07-23 and of the motion adopted on October 23, 2008 remain in force and are not modified by this resolution.

Adopted this 24th day of September, 2015.

____
CHAIRMAN

This page intentionally blank.

Board Agenda Item: 6.B
Date: 9/24/2015

Item: Neighborhood Stabilization Program (NSP1) Hennepin County Target Area Expansion

Staff Contact(s):
Nira Ly, 651.296.6345, nira.ly@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☐ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
Staff recommends the approval of the expansion of Hennepin County's Neighborhood Stabilization Program (NSP1) target area to include the following zip codes: 55422, 55428, 55429, 55430, and 55443. The foreclosure rate in the expansion area is one and a half times higher than the state average. Additionally, the expansion will provide Hennepin County with a larger inventory of properties to acquire and develop.

Fiscal Impact:
None.

Meeting Agency Priorities:
☒ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Background
- Hennepin County NSP1 Target Area Map

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 or lease foreclosed, abandoned, and blighted properties.

In June 2013, Minnesota Housing executed amended contracts with 13 NSP1 Subrecipients who at the time had active NSP1 programs, including Hennepin County. The amended contracts included revised target areas for each of the 13 Subrecipients. In May 2014, following a target area expansion request from Hennepin County, the Minnesota Housing board of directors approved a new target area that added three census tracts in Brooklyn Park to the target area established in 2013.

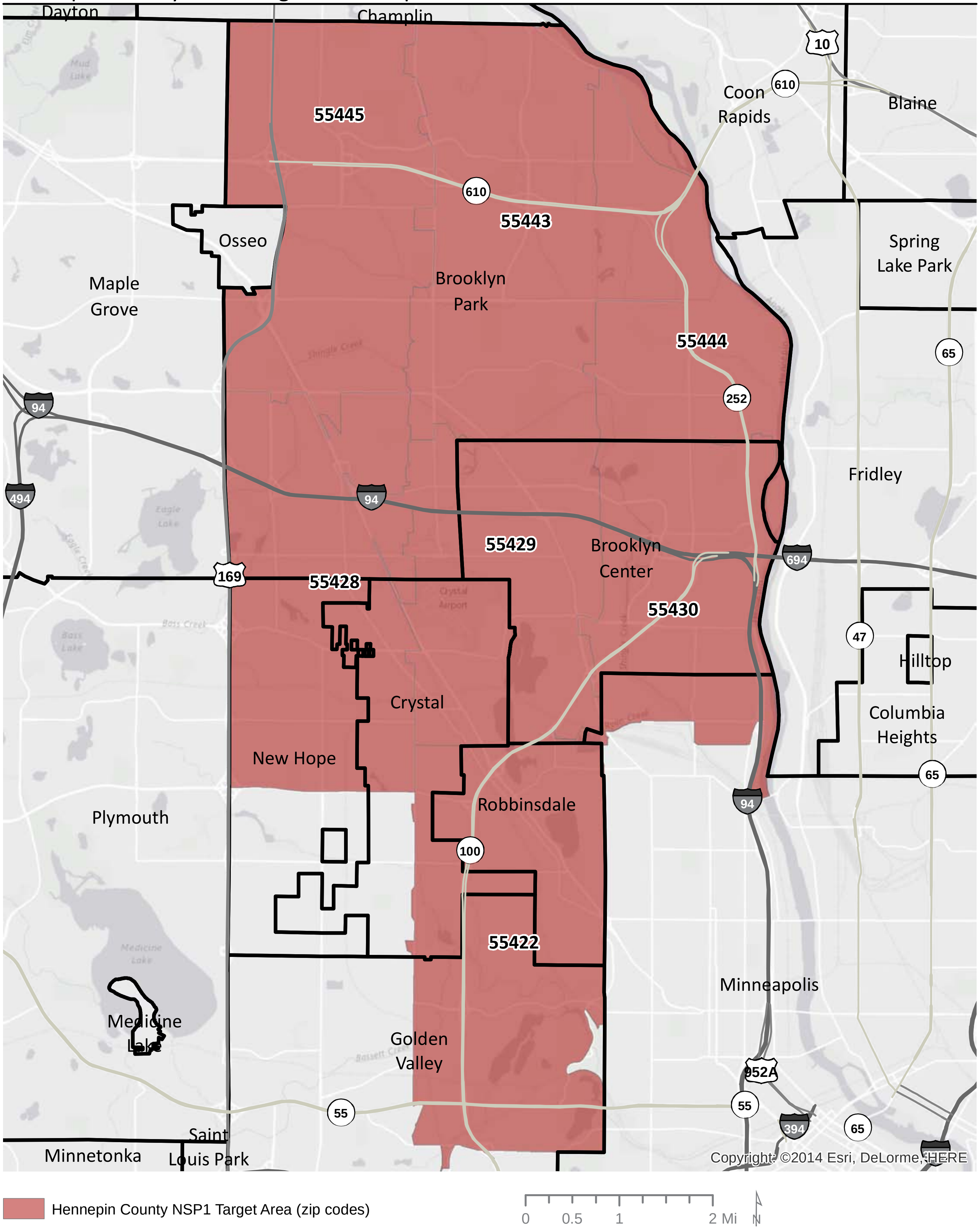
In August 2015, Hennepin County requested an expansion to its current NSP1 target area. Hennepin County has had difficulty acquiring properties in the current target area due to the decreasing inventory of foreclosed single family homes. It has identified potential properties in other areas of the county that are eligible to be acquired for NSP1.

To determine whether an expansion would be reasonable, Minnesota Housing staff conducted an analysis of the foreclosure need in the current target area as compared to all areas of suburban Hennepin County. The analysis is limited to suburban Hennepin County because the City of Minneapolis administers the NSP1 program within the City. Five zip codes in suburban Hennepin County have foreclosure rates that are one and a half times higher than the state foreclosure rate. These zip codes include the cities of Brooklyn Park, Brooklyn Center, Robbinsdale, and Golden Valley.

Staff recommends expanding the current target area to include the five zip codes with foreclosure rates that are one and a half times higher than the state foreclosure rate. First, there is a demonstrable need in the recommended target area due to the high foreclosure rate. Second, expanding the target area will increase the number of eligible properties to be acquired, which will enable Hennepin County to acquire and develop more properties under NSP1.

The recommended target area will include the following zip codes: 55422, 55428, 55429, 55430, 55443, 55444, and 55445. This is includes the five highest need zip codes in suburban Hennepin County and two zip codes that encompass the current target area. Attached is a map of the recommended target area.

Hennepin County NSP1 Target Area Map



Source: Minnesota Housing analysis. Includes expanded NSP1 target areas revised 09/2015.

This page intentionally blank.

Board Agenda Item: 7.A
Date: 9/24/2015

Item: Resolution Relating to Multifamily Housing Revenue Bonds, Series 2015 (Winhaven Court); Authorizing the Issuance and Sale Thereof

Staff Contact(s):
Rob Tietz, 651.297.4009, rob.tietz@state.mn.us
Paula Rindels, 651.296.2293, paula.rindels@state.mn.us

Request Type:

☒ Approval	☐ No Action Needed
☒ Motion	☐ Discussion
☒ Resolution	☐ Information

Summary of Request:
Agency staff is preparing to issue bonds to provide a bridge loan to Windhaven Court LP for the acquisition and rehabilitation of an approximately 118-unit multifamily rental housing project located in Winona, Minnesota. The bonds will be special, limited obligations of the Agency payable solely from and secured by the cash collateral deposits to the Indenture and the loan repayments to be made by the borrower. 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 Agency will collect an up-front fee of 0.5% of the par amount of the bond issue, and will receive a semi-annual fee of 0.05% (with a $2,500 minimum) for as long as the bonds are outstanding. In addition, the developer will pay the fees and expenses of the Agency's bond counsel and financial advisor.

Meeting Agency Priorities:
☒ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota's Changing Demographics
☒ Preserve Housing with Federal Project-Based Rent Assistance
☒ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Preliminary Official Statement (provided under separate cover)
- Resolution (provided under separate cover)

Board Agenda Item: 7.B
Date: 9/24/2015

Item: 2016 Affordable Housing Plan

Staff Contact(s):
John Patterson, 651.296.0763, john.patterson@state.mn.us

Request Type:

☒ Approval	☐ No Action Needed
☒ Motion	☐ Discussion
☐ Resolution	☐ Information

Summary of Request:
Staff has prepared the 2016 Affordable Housing Plan for your approval. There are only a few changes from the draft that the Board reviewed in August. Staff has:

- Added a few clarifications to the text;
- Revised the estimates of federal and state funds that will remain uncommitted and carry forward from the 2015 AHP to the 2016 AHP; and
- Increased funding for the Enhanced Homeownership Capacity Initiative from $650,000 to $750,000. With the $750,000, we expect to support about 500 total prospective homebuyers.

Fiscal Impact:
The 2016 AHP allocates $966 million of federal, state, and Agency sources for program activity during the period of October 1, 2015 through September 30, 2016.

Meeting Agency Priorities:
☒ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota's Changing Demographics
☒ Preserve Housing with Federal Project-Based Rent Assistance
☒ Prevent and End Homelessness
☒ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Funding Changes from August Draft
- 2016 Affordable Housing Plan (provided separately)

2016 AHP – Funding Changes from August Draft

		August Draft	Final	Change
	Homebuyer Financing and Home Refinancing	**$553,700,000**	**$553,700,000**	**$0**
1	Home Mortgage Loans	$510,000,000	$510,000,000	$0
2	Targeted Mortgage Opportunity Program	$4,000,000	$4,000,000	$0
3	Mortgage Credit Certificates (MCC)	$15,400,000	$15,400,000	$0
4	Deferred Payment Loans	$11,000,000	$11,000,000	$0
5	Monthly Payment Loans	$11,300,000	$11,300,000	$0
6	Habitat for Humanity Initiative	$2,000,000	$2,000,000	$0
	Homebuyer/Owner Education and Counseling	**$2,167,000**	**$2,267,000**	**$100,000**
7	Homebuyer Education, Counseling & Training (HECAT)	$1,517,000	$1,517,000	$0
8	National Foreclosure Mitigation Counseling (NFMC)	$0	$0	$0
9	Enhanced Homeownership Capacity Initiative	$650,000	$750,000	$100,000
10	Homeowners Armed with Knowledge (HAWK)	$0	$0	$0
	Home Improvement Lending	**$25,980,000**	**$25,980,000**	**$0**
11	Home Improvement Loan Program	$17,380,000	$17,380,000	$0
12	Rehabilitation Loan Program (RLP)	$8,600,000	$8,600,000	$0
	Rental Production- New Construction and Rehabilitation	**$126,688,860**	**$128,395,925**	**$1,707,065**
13	First Mortgage - Low and Moderate Income Rental (LMIR)	$70,000,000	$70,000,000	$0
14	First-Mortgage - MAP Lending (Multifamily Accelerated Processing)	$15,000,000	$15,000,000	$0
15	Flexible Financing for Capital Costs (FFCC)	$3,500,000	$3,500,000	$0
16	Low-Income Housing Tax Credits (LIHTC)	$9,308,770	$9,308,770	$0
17	Housing Trust Fund (Capital from Housing Infrastructure Bonds)	$11,038,569	$10,849,200	-$189,369
18	Preservation - Affordable Rental Investment Fund (PARIF)	$8,725,165	$9,492,171	$767,006
19	Preservation - HOME	$410,570	$814,938	$404,368
20	Preservation - Publicly Owned Housing Program (POHP)	$500,000	$1,300,378	$800,378
21	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	$8,205,786	$8,130,468	-$75,318
	Rental Assistance Contract Administration	**$181,322,117**	**$181,322,117**	**$0**
22	Section 8 - Performance Based Contract Administration	$129,000,000	$129,000,000	$0
23	Section 8 - Traditional Contract Administration	$52,000,000	$52,000,000	$0
24	Section 236	$322,117	$322,117	$0
	Resources to Prevent and End Homelessness (Non-Capital)	**$30,669,430**	**$30,325,667**	**-$343,763**
25	Housing Trust Fund (HTF)	$14,186,254	$13,948,678	-$237,576
26	Ending Long-Term Homelessness Initiative Fund (ELHIF)	$1,722,601	$1,722,601	$0
27	Bridges	$4,801,295	$4,695,108	-$106,187
28	Section 811 Demonstration	$1,217,100	$1,217,100	$0
29	Family Homeless Prevention and Assistance Program (FHPAP)	$8,594,184	$8,594,184	$0
30	Housing Opportunities for Persons with AIDS (HOPWA)	$147,997	$147,997	$0
	Rental Portfolio Management	**$3,444,176**	**$3,444,176**	**$0**
31	Asset Management	$0	$0	$0
32	Asset Management - Financing Adjustment Savings	$3,444,176	$3,444,176	$0
	Multiple Use Resources	**$34,394,788**	**$36,995,322**	**$2,600,534**
33	Economic Development and Housing/Challenge (EDHC) - Regular	$16,792,575	$19,575,000	$2,782,425
34	EDHC - Housing Infrastructure Bonds (HIB)	$9,607,046	$9,480,800	-$126,246
35	EDHC - Bridge to Success	$0	$0	$0
36	EDHC - Community-Owned Manufactured Home Parks	$2,000,000	$2,000,000	$0
37	Single Family Interim Lending	$1,562,000	$1,562,000	$0
38	Technical Assistance and Operating Support	$2,433,167	$2,377,522	-$55,645
39	Organizational Loans	$0	$0	$0
40	Strategic Priority Contingency Fund	$2,000,000	$2,000,000	$0
	Other	**$3,476,058**	**$3,853,641**	**$377,583**
41	Housing Infrastructure Bond Issuance and Other Costs	$900,000	$900,000	$0
42	Manufactured Home Relocation Trust Fund	$1,190,114	$1,196,644	$6,530
43	Flood Disaster	$0	$0	$0
44	Disaster Relief Contingency Fund	$1,385,944	$1,756,997	$371,053
	Total	**$961,842,428**	**$966,283,848**	**$4,441,420**

- Line 9 shows a $100,000 increase in Pool 3 funding for the Enhanced Homeownership Capacity Initiative.

- All the other changes reflect revisions to our estimates of federal and state funds that will remain uncommitted and carry forward from the 2015 AHP to the 2016 AHP. We are initially conservative in these estimates, and they generally go up when we make revisions.

Board Agenda Item: 7.C
Date: 9/24/2015

Item: Eventual Tenant Homeownership Guide

Staff Contact(s):
Kayla Schuchman, 651.296.3705, kayla.schuchman@state.mn.us
Anne Heitlinger, 651.296.9841, anne.heitlinger@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☐ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
Staff requests approval the Eventual Tenant Homeownership Guide to be implemented by the multifamily division for owners who wish to convert tax credit units to homeownership units following the 15 year compliance period.

Fiscal Impact:
None.

Meeting Agency Priorities:
☒ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☒ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Background
- Housing Tax Credit Program Eventual Tenant Ownership Guide

Background:

Under the Low Income Housing Tax Credit Program, a rental project may be converted to homeownership and units sold to income qualified tenants after the initial 15 year compliance period. Several Agency tax credit projects are now past year 15 and interested in such a conversion. Tribal projects in particular have planned for this conversion since their inception. To date, the Agency has not developed a program guide as to how the conversion process will occur.

The IRS provides only a minimal amount of guidance on the conversion process: who is qualified to purchase such units and a minimum purchase price. Minnesota Housing staff has created this guide in consultation with tribes, community partners, single family staff, and with other Housing Finance Agencies with established conversion programs.

A public comment period was held from July 28, 2015 to August 17, 2015. No public comments were received. Agency staff held a tribal consultation regarding the draft Guide with representatives of the Red Lake and Leech Lake bands.

Minnesota Housing Finance Agency

Housing Tax Credit Program
Eventual Tenant Ownership Guide

August 26, 2015

Table of Contents

Introduction

Housing Tax Credits

Minnesota Housing is designated by the Minnesota Legislature as the primary apportionment Agency for Housing Tax Credits (HTC) in Minnesota. Qualified local cities and counties have also been designated by the Legislature as sub-allocators of the HTC and award HTC through their own competitions: currently the cities of St. Paul and Minneapolis, and Washington and Dakota counties.

Compliance with Section 42 Requirements

This guide is intended to comply with Internal Revenue Code (IRC) Section 42, as may be amended or interpreted from time to time by regulation or public pronouncement issued by the Internal Revenue Service (IRS). If any portion of this Guide is found to be inconsistent with any provisions of IRC Section 42, or official IRS interpretations thereof, then such inconsistent provision(s) shall be construed and applied in a manner so as to comply with IRC Section 42.

This guide has **not** been reviewed or approved by the IRS and should not be relied upon for compliance with the Internal Revenue Code, Treasury Regulations or any other laws or regulations governing Tax Credits. The responsibility for compliance with Section 42 rests with the property owner. Interested parties should obtain advice from independent sources, including consultation with knowledgeable legal counsel and tax professionals.

Chapter 1 - Tenant to Homeowner Conversion

Under the Low Income Housing Tax Credit program, a property owner (which may include tribal governments, for-profits, qualified nonprofits, certain tenant groups, and governmental entities) may convert rental units to homeownership units following the initial 15-year Compliance Period for all buildings. This is accomplished by allowing the tenants to exercise a Right of First Refusal (ROFR) as provided for in Section 42(i)(7) of the Internal Revenue Code (Code).

Tenant to homeowner conversion plans must be approved by Minnesota Housing. This process guide describes Minnesota Housing's requirements for an owner to convert one or more units to homeownership.

1.01 Tenant Eligibility and Right to Remain

- Units may only be sold to income eligible tenants. However, all existing tax credit qualified tenants may purchase their units, even if their income is currently above the tax credit income limit.
- If a tenant is unable or uninterested in purchasing their unit, they must be allowed to remain in their unit. They cannot be evicted or their tenancy terminated unless the lease terms are violated. Tenants may voluntarily relocate to a comparable or better unit. As the LURA is in effect until a unit is sold, vacant units must be made available for rent; they cannot be held vacant until a tenant is found who is both tax credit qualified and interested in purchasing the unit.
- Due to the fact that not all tenants may choose to purchase their units, owners must be prepared to continue operating rental units through the end of the extended use period.
- For the remaining term of the Extended Use Period, the homeownership units must be the principal residence of the purchaser for as long as the purchaser owns the property.

1.02 Unit Standards and Reserves

- Minnesota Housing will require a Physical Capital Needs Assessment (PCNA) for each unit assessing physical needs for the next 20 years. Minnesota Housing's 20-Year Capital Expenditure (20YCE) Template (or other Minnesota Housing approved form) with Expected Useful Life (EUL), Age, and Effective Remaining Life (ERL) of major elements and assemblies must be completed.
- Any existing physical needs as well as any needs projected to arise within five years after conversion as identified by the 20YCE must be repaired or replaced by the owner prior to conversion or the owner must establish a reserve account to address those needs.

- All improvements must meet Minnesota Housing's Limited Scope design and sustainability standards. Compliance will be demonstrated through submittal of the following completed forms:
  - Abbreviated Design Standards for Limited Scope Rehabilitation Projects Form
  - Sustainability Requirements for Limited Scope Rehabilitation Projects Form
- An inspection of all private wells or septic systems must be completed by a qualified third party professional. The inspection must:
  - Determine age of well/septic system;
  - Estimate Effective Remaining Life (ERL);
  - Determine code, ordinance or regulatory non-compliance;
  - Identify immediate, short term, or long term maintenance requirements; and
  - Offer an opinion whether or not the current system is safe to operate.
- If outstanding physical needs exist, then any remaining replacement reserves not spent on repairing the unit per the needs identified in the Physical Needs Assessment (PNAT) should transfer (in a pro rata amount) to a homeownership reserve for each unit upon the sale, or as agreed upon by Minnesota Housing. If all the needs identified in the PCNA have been addressed, the reserves may be retained by the owner.
- If the tenants had maintenance responsibilities during the rental period, for which they received a benefit, this should be detailed in the Conversion Plan and will be addressed on a case by case basis.

1.03 Homebuyer Training and Support

Homebuyer training, one-on-one support, credit counseling, maintenance training, and post-purchase counseling must be offered at no cost to all tenants interested in becoming homeowners, and in the case of post-purchase support, once the tenants have become homeowners.

1.04 Purchase Price

The Code ((Section 42(i)(7)(B)) mandates a minimum purchase price for each unit sold to a qualified tenant exercising their right of first refusal. That price is the sum of:

i. *the principal amount of outstanding indebtedness secured by the building (other than indebtedness incurred within the 5 year period ending on the date of the sale to the tenants); and*

ii. *all Federal, State, and local taxes attributable to such a sale.*
Except in the case of Federal income taxes, there shall not be taken into account under clause (ii) any additional tax attributable to clause (ii).

The maximum purchase price for any unit is the amount that is affordable to a household meeting the tax credit income restrictions applicable to that unit.

The monthly payments of principal, interest, taxes and insurance must not exceed the greater of the current monthly rent and utility payment or 30% of the household's gross annual income. If the minimum purchase price is not affordable to the current resident, and they are deemed qualified for homeownership, the owner must demonstrate that financial assistance is available to buy down the purchase price in order to make the unit affordable to the resident. Documentation of this will be required prior to the sale of a unit.

Once a unit is sold to a qualified purchaser, the unit is then released from the LURA.

Chapter 2 - Exploring Conversion to Homeownership

Plans for conversion should begin well in advance of the end of the initial compliance period. In evaluating how an owner might convert to homeownership, initial steps include those set forth in this Chapter.

2.01 Assemble a Conversion Team

Assemble a team of professionals to analyze the possibility of conversion and implement the eventual conversion plan.

These professionals include (but are not limited to):

- An attorney to review key Section 42 requirements, partnership documents, the Housing Tax Credits Land Use Restriction Agreement (LURA), loan agreements with existing lenders, and advise on options.
- An accountant to review partnership financials and to advise on exit taxes.
- A Needs Assessor to determine the physical needs of the units. The Needs Assessor is a third party entity with no identity of interest with the owner, contractor/subcontractor providing rehab/construction work on the property, or other entity involved with the conversion. The Needs Assessor must be a licensed architect, licensed professional engineer, or an individual who meets the definition of a Qualified Rehab Specialist (QRS).
- A cost estimator or construction contractor may be necessary if immediate (life safety) needs and improvements for items identified in the 20YCE with five years or less of ERL are identified. Cost estimating may be provided by the Needs Assessor.
- A homeownership educator to help create a training and support program.
- Asset or property management staff to determine how to simultaneously operate both a rental property and homeownership conversion program, perhaps for the remainder of the Extended Use Period, in the event all the units are not sold.

Once a conversion team is assembled, Minnesota Housing staff in both multifamily and single family divisions will be available to provide further technical assistance on the conversion planning and implementation.

2.02 Review the Land Use Restriction Agreement (LURA) (aka Declaration of Land Use Restriction Covenant)

- Review the LURA (or another document - see Definitions section) to determine whether it contains language granting the tenants a ROFR allowing for conversion.
- If the LURA does not allow for conversion, the owner must apply to Minnesota Housing to amend the LURA to provide tenants a Right of First Refusal. Application is

made by submitting a Request for Action (RFA) (which is described in detail in Chapter 4). This RFA should be submitted along with the Conversion Plan.

- The conversion to homeownership cannot begin until the end of the initial compliance period for all buildings, which is at the conclusion of the 15th taxable year after the first credit year.

2.03 Review Other Legal Documents

- Limited Partnership Agreement
  - Determine if the Partnership Agreement contains a ROFR provision. If not, discuss with the limited partner if the Agreement can be amended.
  - Determine the exit requirements of the limited partner.
  - Consult with your attorney and accountant on issues such as exit taxes.
- Review Loan Documents
  - Determine if any of the loan documents or regulatory agreements contains restrictions on the disposition (e.g., use of reserves or additional income restrictions).
  - Determine if all existing lenders will agree to partial payoffs or releases as individual units are sold.
  - Determine if conversion will trigger debt repayment and if so, how lenders will be repaid.
  - If a request will be made to Minnesota Housing for subordination or partial repayment of any existing loans, these changes will be requested through the Request for Action (RFA) process. For projects amending the LURA to add a ROFR, the RFA to modify debt should be submitted at the same time. For projects with a ROFR, the RFA to modify debt should be submitted with the Conversion Plan.

Chapter 3 - Conversion Plan

Minnesota Housing requires the submission of a conversion plan, which must be approved prior to active steps being taken toward conversion.

3.01 Required Conversion Plan Elements

1. Identify key staff who will implement the conversion.
2. Provide a timeline that includes physical assessment of units, communication with residents, training, and conversion from rental to homeownership.
3. Describe how the current limited partner will exit – timing, cost, other requirements imposed by the limited partner.
4. Describe how existing debt will be handled as individual units are sold, including debt from Minnesota Housing. Provide evidence that other lenders agree to the conversion.
5. Detail the current amount of replacement and operating reserves, the projected amount at the time of conversion, and the expected disposition of reserves at the time of limited partner exit and conversion.
6. Provide a budget and identify sources for conversion related costs.
7. Provide details on the tenant communication plan, including:
    a. Method of determining tenants' interest in and capacity for homeownership.
    b. Information to be provided to current and prospective tenants on the conversion.
    c. Proposed lease provisions notifying new tenants of the conversion plan.
    d. How much notice will be provided to tenants upon the expiration of the compliance period.
    e. Length of time for tenants to exercise their ROFR.
8. Detail the pre- and post-purchase homebuyer training and support that will be offered, including:
    a. Who will provide the training.
    b. The homebuyer training program or curriculum to be used.
    c. Proposed schedule and frequency.
    d. How individual household assessment and support will be provided.
    e. Details on maintenance training.
    f. Credit counseling.
    g. How and for what length of time post- purchase support will be offered.

9. If it is anticipated that tenants will voluntarily relocate, describe the relocation assistance and compensation that will be provided, as well as how comparable units will be identified.
10. Describe the timing of and responsible parties for the PNAT, 20YCE, and cost estimates for needed repairs. Include details on any tenant maintenance responsibilities.
11. Identify who will be responsible for the well and/or septic system inspection (if applicable).
12. Provide the estimated purchase price for each unit, including evidence that the proposed price is compliant with minimum price requirements in Section 42 and that the proposed purchase price is affordable to households meeting credit eligibility requirements.
13. Describe financing sources available to homebuyers, and how units are expected to be affordable to existing tenants.
14. Describe any monetary or in-kind support that will be provided to homeowners post-purchase (e.g., maintenance, snow removal, discounted septic pumping).
15. Describe the continued operation of rental units if not all units are sold.

Once submitted, Minnesota Housing staff will review the plan and provide an initial response within 45 days. If approved, a letter of approval will be sent and if applicable, a LURA Amendment will also be provided.

Chapter 4 - Implementing a Conversion Plan

Following written approval of a Conversion Plan, the owner may actively implement the Conversion Plan.

4.01 Tenant Issues: Renters and Future Homeowners

- Once a conversion plan is approved, notify current and prospective tenants of the pending conversion. Even if a prospective tenant is not interested in becoming a homeowner, they are still eligible to rent a unit, and cannot be turned down on that basis. However, preference can be given to prospective tenants who are qualified potential purchasers.
- Provide current and prospective tenants with a general price estimate for the unit.
- Notify all tenants of training and counseling opportunities and implement the tenant communication plan, as well as homeownership training and counseling.
- If a tenant is unable to or uninterested in purchasing their unit, then the tenant may stay in their unit and continue to rent. The unit will remain rental until converted to homeownership upon turnover or at the end of the Extended Use Period. Owners cannot evict tenants or terminate leases of tenants except for just cause. Any relocation of tenants must be voluntary.
- Once conversions have begun and a unit becomes vacant, the unit must be rented to a qualified tenant, who may later convert the unit to homeownership. In order to exercise the ROFR, the purchaser must first be a tenant.

4.02 Assess and Address Physical Needs

- Prior to selling the properties to tenants, the physical needs of each property must be assessed by a qualified third party. The assessment should be documented with the PNAT and the 20YCE. The assessments should be performed early to allow time to evaluate the results and complete the required scope of work.
- Any physical needs, including the well/septic system, identified in the PNAT and 20YCE within the five years following the conversion must be addressed by the owner prior to selling the unit.
- Minnesota Housing templates for Physical Needs Assessments (PNA) for both multifamily buildings and single family homes, as well as the Limited Scope Design Standards and Limited Scope Sustainability Standards can be found on our Building Standards web page.
- In order for tenants to clearly understand the physical condition of their units prior to purchase, they must be provided with a copy of the PNAT and 20YCE, as well as the list of repairs that were completed.

4.03 Exit of the Limited Partner

- After the initial 15-year compliance period, work with the limited partner to sell/transfer their partnership interest to the general partner or sponsor.
- Notify Minnesota Housing of change in owner by submitting a Request for Action (RFA).

4.04 Submissions to Minnesota Housing For Approval to Proceed

Prior to the sale of any unit, the following must be submitted to Minnesota Housing so that an Approval to Proceed may be issued prior to the sale.

The owner may not begin selling homes under its tenant homeownership conversion plan until all of the following items have been completed:

- PNAT and 20YCE reports, well/septic inspection report, list of repairs completed. Completed and signed Minnesota Housing Limited Scope forms.
  - Abbreviated Design Standards for Limited Scope Rehabilitation Projects Form
  - Sustainability Requirements for Limited Scope Rehabilitation Projects Form
  - If available, provide architectural plans, specifications, photos, or any other information to help Minnesota Housing understand any proposed rehabilitation, repair, or construction scope of work.
- Information on any reserves that will transfer to the unit.
- Evidence of buyer completion of homeowner training and counseling.
- Proof of land subdivision and separate legal description for unit to be sold. Each home must have access to all necessary utilities by and through public rights of way and/or permanent easements. Each home must have direct vehicular access to a public street or a street that will be maintained by the tribe or tribally designated housing entity (TDHE).
- Evidence that all existing lenders will allow partial payment or will provide a partial release of their outstanding debt at the time of sale.
- Purchase agreement for the individual units.
- Evidence of income qualification, along with evidence of affordability.
- Submit a draft of the Deed or in the case of Tribal land, there must be a land lease and building deed.
- Certification that all conditions of Minnesota Housing's Conversion Plan approval have been met.

Prior to any tenant being relocated, the owner must submit to Minnesota Housing the following:

- Documentation of communication with the resident that relocation is voluntary.
- Description of the relocation assistance and compensation to be provided to the tenant.
- A signed agreement with the resident documenting their agreement to relocation, and the benefits to be provided to them.
- Information on the comparable unit.

4.05 Post Sale Submissions

Submit an RFA to Minnesota Housing for partial release of the LURA for each unit that is sold, and for sales of units on Tribal land, a copy of the fully executed land lease to the homeowner from the Tribe and a copy of the submission request to the Bureau of Indian Affairs (BIA) for recording. Once recorded by the BIA, submit the new Title Status Report and Certification of Title Ownership.

4.06 Request for Action (RFA)

Many Minnesota Housing approvals related to conversion will be provided through an RFA, which allows Minnesota Housing to approve changes to existing legal documents and agreements. To submit an RFA, download the form from Minnesota Housing's website.

Submit the RFA to the staff person listed on the RFA form. Once the signed RFA is submitted, a checklist of required documents will be sent to the requestor. When all the checklist items are returned to Minnesota Housing, they will be reviewed and considered for approval.

Chapter 5 - Summary of Minnesota Housing Approvals

1. A request to add a ROFR to the LURA if applicable, along with request for approval of conversion plan (including plan for any existing Minnesota Housing debt).

   OR

   If LURA already includes a ROFR, request approval of the conversion plan (including plan for any existing Minnesota Housing debt).

   Letter of approval will be provided within 45 days from Minnesota Housing, along with the suggested form of the LURA amendment.
2. Notification of a change in owner when selling/transferring limited partnership interest.
3. Requests for action on existing Minnesota Housing debt.
4. Approval to Proceed prior to sale of each unit. Approval will be provided within 30 days.
5. Approval for partial release of each unit as sold (including, if applicable, a copy of documentation of ownership). Approval will be provided within 30 days.

Chapter 6 - Financing Homeownership Resources

Minnesota Housing offers a variety of programs for first mortgage financing and downpayment and closing cost assistance.

In addition to the programs listed at the above-noted link, Minnesota Housing also offers the Community Homeownership Impact Fund to its partners (banks, mortgage companies, local community development organizations and Native American Tribes) to finance affordable housing projects in member communities. The Impact Fund provides loans and grants awarded through the Single Family Request for Proposal (RFP); a competitive application process that may be used for new construction housing, acquisition-rehabilitation-resale of existing housing or for affordability gap financing. Minnesota Housing examines overall scores of applicants based on project eligibility, feasibility and organizational capacity. Partners are required to serve households earning at or below 115% of area median income (AMI).

Finally, Minnesota Housing offers Homebuyer Education, Counseling and Training to provide financial support for the full continuum of homeownership education and counseling services and to support cooperative relationships and partnerships that provide access to clients for a full range of homeownership education and counseling activities. Eligible entities include nonprofit housing organizations as defined in MN Statutes Section 462A.03, Subd. 22, which includes housing and redevelopment authorities and other political subdivisions.

Additional helpful information is available through the Minnesota Homeownership Center.

Other programs for individuals interested in purchasing their first home are available through various resources including but not limited to:

- Department of Housing and Urban Development (HUD)
- Rural Development
- Federal Home Loan Bank
- Department of Veteran's Affairs

The best way to determine which program may be suitable is for each purchaser to contact a local lender.

Minnesota Housing has a network of lenders across the state who work with our programs and other financing programs, too.

Appendix A: Definitions

8609 Form	An Internal Revenue Service (IRS) document that is filed with a partnership tax return for each year during the Compliance Period, declaring the amount of tax credits for each building and the placed in service date. This is issued after construction is completed and all costs are accounted for.
Affordability Restrictions	Recorded tenant income and rent restrictions that are placed on a project by a city, state (including the state credit allocating agency), bank or other lender of funds to the project. These restrictions are monitored by designated credit agencies and are enforceable for a set period of time. The restrictions bind the property and are assumed by any purchaser of the property.
Buyout Option	The option giving the General Partner the right to purchase the Limited Partner's interest in the partnership at the buyout price.
Buyout Price	The greater of (1) fair market value of the limited partner's interest or (2) unpaid benefits (under some agreements) plus all federal, state, and local taxes incurred as a result of the sale of the limited partner's interest.
Capital Needs Assessment	An inspection completed by an architect or engineer which identifies physical work that a property may need and/or a timeline of when repairs may be necessary. The report also includes the cost to make the repairs.
Compliance Period	Begins the first year tax credits are taken for each building and ends at the conclusion of the 15th taxable year after the first credit year.
Exit Taxes	When the cumulative tax losses claimed by an investor exceed the amount of capital invested, then the investor will recognize a gain at the time of disposition of the property of the investor's interest in the partnership. This gain is taxable, and will result in a tax liability, which is referred to as an "exit tax",

	meaning taxes due when the investor exits the partnership.
Extended Use Period	Begins on the first day of the compliance period and ends on the later of 1) the date specified by the agency in the agreement and 2) the date 15 years after the close of the compliance period.
Income Eligible Households	A household whose gross annual income (adjusted for household size) is within the median income limit for a unit given its tax credit restrictions.
Land Use Restriction Agreement (LURA)	The document containing the Affordability Restrictions and other restrictions placed on the project related to the Housing Tax Credits.
Limited Partnership Agreement	A comprehensive agreement between the limited partners and general partner that reflects the duties, rights, fiduciary obligations and responsibilities of the partners. The Partnership Agreement is the definitive guide to financial requirements and oversight of the operating and disposition of the partnership assets. Partnership Agreement requirements vary by syndicator and by investment funds.
Minimum Purchase Price	The minimum purchase price for a qualified tenant exercising their Right of First Refusal is the sum of the property's outstanding debt and any taxes due upon the sale of the property, as defined in IRS Code 42(i)(7)(B).
Maximum Purchase Price	The purchase price which is affordable to the household meeting the tax credit income restrictions applicable to a particular unit.
Outstanding Debt	The sum of all debt secured by the Project including accrued interest. Although a loan may have a 30-year term, upon a transfer, including sale to a tenant, the full amount of the debt must be repaid, assumed or forgiven, unless the lender approves a modification.
Qualified Rehab Specialist	A non-licensed professional (or entity) with at least five years of experience providing needs assessments

	and preparing work scopes for multifamily rehabilitation projects similar in scope and operation to those typically financed by Minnesota Housing. For single family homes and town home buildings with four units or less, this may also include home inspectors, licensed home builders, and residential real estate appraisers with at least five years' experience of providing third party home inspections.
Request For Action (RFA)	The form and process for requesting changes to Minnesota Housing's legal documents.
Right of First Refusal	A right offered, which allows the holder to the right to purchase the property at a Minimum Purchase Price. The statutory authority for the right of first refusal is contained in Section 42(i)(7) of the Code which applies to projects with HTC tax credits allocated after 1989.

Many definitions provided courtesy of Enterprise.

Appendix B: Sample Timeline

The timeline below assumes that a Tenant to Homeownership plan was not submitted at the time of application. The timeline contains steps that should occur between years 1-15 of the initial compliance period. These timeframes are only suggestions, and not program requirements.

As early as possible	Assemble conversion team Survey tenants regarding interest in homeownership Assess resident level of readiness for homeownership and what training is needed Inform new residents at move-in about the potential for homeownership
Year 13	Determine if LURA contains Right-of-First Refusal. If not, submit RFA with conversation plan to Minnesota Housing to amend LURA. If the LURA give the tenants a right of first refusal, create conversion plan and submit plan to Minnesota Housing for review Inform residents of conversion plan Identify homeownership counseling resources Create and implement homeownership training for interested residents
Year 14	Assess and document the rehabilitation needs of units and septic/well systems Determine how needed repairs will be paid for and completed
Year 15	Work with limited partner on their exit from

	ownership Determine minimum and maximum purchase price for each unit Identify sources of first mortgage financing and assistance for buyers
Year 16	Complete needed building repairs Request Notice to Proceed from Minnesota Housing Begin sales to tenants Request partial release of the LURA from Minnesota Housing as units are sold

Board Agenda Item: 7.D
Date: 9/24/2015

Item: VA St. Cloud, Saint Cloud, D7602

Staff Contact(s):
Dan Walsh, 651-296-3797, dan.walsh@state.mn.us

Request Type:

☒ Approval
  ☒ Motion
  ☐ Resolution

☐ No Action Needed
  ☐ Discussion
  ☐ Information

Summary of Request:
Staff requests adoption of the attached resolution extending the commitment for the referenced development to allow additional time for the finalization of due diligence items.

Fiscal Impact:
The 2013 amended Affordable Housing Plan (AHP) allocated $30 million in new activity for the Housing Infrastructure Bond 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. The loan will not generate fee income because the Agency does not charge a fee on deferred loans.

Meeting Agency Priorities:
☒ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☒ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Background
- Resolution

Background

At its October 25, 2012 meeting, the Minnesota Housing Finance Agency Board approved this development for a commitment of $3,920,380 under the Housing Infrastructure Bond Housing Trust Fund (HIB-HTF) program, executing resolution 12-066. At its October 23, 2014 meeting, the Board approved this development for an additional $1,930,641 in HIB-HTF funding with an initial commitment that expires June 30, 2016.

Closing was initially delayed because the development did not secure the anticipated rent assistance through HUD-Veterans Affairs Supportive Housing (HUD-VASH) vouchers. The project as it was originally proposed encountered resistance from the St. Cloud VA Medical Center because of the nature of a program offered on the medical center campus. The development team and proposal have been restructured. In particular, the developer switched from CommonBond to Sand Companies. The U.S. Department of Veterans Affairs (VA) has approved this change in connection with its long-term lease for the site of the project.

Minnesota Housing extended the 2012 funding award's initial commitment term, and its third extension expires on October 31, 2015. The development team is submitting final due diligence and working towards a closing in late October.

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

RESOLUTION NO. MHFA 15-
Modifying Resolution No. MHFA 14-046

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT MODIFICATION
HOUSING INFRASTRUCTURE BOND HOUSING TRUST FUND (HIB-HTF) PROGRAM

WHEREAS, the Agency Board, at its October 23, 2014, meeting, previously authorized a commitment extension for the development hereinafter named by its Resolution No. 14-046; and

WHEREAS, it is the desire of the Agency to extend the expiration date to allow for closing of the loan; 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 extends the HIB-HTF loan commitment expiration date for the VA St. Cloud development from October 31, 2015 to April 30, 2016.

THAT, except for the extended commitment expiration date, all other terms and conditions of MHFA Resolution No. 14-046 remains in effect.

Adopted this 24nd day of September 2015.

____
CHAIRMAN

This page intentionally blank.

Minnesota Housing Finance Agency

Board Agenda Item: 7.E
Date: 9/24/2015

Item: Selections, Homeownership Education, Counseling and Training Fund

Staff Contact(s):
Tal Anderson, 651.296.2198, tal.anderson@state.mn.us
Ruth Hutchins, 651.297.3128, ruth.hutchins@state.mn.us

Request Type:

☒ Approval	☐ No Action Needed
☒ Motion	☐ Discussion
☐ Resolution	☐ Information

Summary of Request:
The Homeownership Education, Counseling and Training (HECAT) Fund provides yearly financial support for comprehensive homebuyer training which may include education and counseling in a variety of areas, including: in-person homebuyer education and counseling (pre-purchase), home equity conversion counseling, and foreclosure prevention counseling.

Staff is hereby requesting Board approval of its funding recommendations for participants in the HECAT program.

Fiscal Impact:
HECAT funding recommendations are supported by the Affordable Housing Plan (AHP) budget, state appropriations and committed co-funder leverage. The program does not generate income to the Agency but supports our strategic priority of reducing Minnesota's racial and ethnicity homeownership disparity and is consistent with the AHP.

Meeting Agency Priorities:
☐ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota’s Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☒ Reduce Minnesota’s Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Background
- 2015 HECAT Proposals Recommended for Approval

BACKGROUND
Minnesota Housing and its funding partners (Minnesota Home Ownership Center, the Greater Minnesota Housing Fund, and the Family Housing Fund) accepted proposals under the Homeownership Education, Counseling and Training Fund (HECAT) program on June 10, 2015.

The HECAT application and selection process supports organizations wishing to expand existing activities, services and partnerships, while recognizing the importance of supporting established organizations providing continuity of service.

The funding process supports efforts toward establishing and coordinating a statewide partnership delivery model for the continuum of services needed to promote successful and sustainable homeownership and awards organizations that demonstrate strong experience, leveraging ability and targeting efforts in accordance with the Agency's program outreach goals and strategic direction.

Proposal Review and Selection Process:
HECAT proposals submitted to Minnesota Housing must address a number of criteria as established by the Minnesota statute governing the program. Specifically, proposals are reviewed and recommended pursuant to the following criteria:

- The extent to which there is an equitable geographic distribution of funds among program applicants.
- The prior experience of the applicant in administering and delivering specified comprehensive homebuyer training services.
- The reasonableness of the applicant's budget, including the applicant's ability to leverage other resources with program funds.
- The extent to which program services are targeted to low-income and/or emerging market populations.
- The credentials and/or certifications demonstrated by the applicant pertaining to the specific service(s) the applicant proposes to provide.

All proposals are initially reviewed and evaluated by both Minnesota Housing and Minnesota Home Ownership Center staff. Proposals are presented to a selection committee, which score proposals pursuant to the criteria summarized above. The selection committee was comprised of staff from Minnesota Housing, the Minnesota Home Ownership Center, the Greater Minnesota Housing Fund, and the Family Housing Fund.

In an effort to assure equitable funding allocations, a tiered outputs-based performance model is used which reviews applicant past performance in relation to the number of households served by HECAT providers. The tiered funding model allows for some flexibility in funding award levels within specified ranges, based on performance within the range and overall strength of a specific organization's proposal.

DISCUSSION
Recommended Selections
The total amount of funding available for the 2015-2016 HECAT year is $1.5 million with contributions of $912,567 from Minnesota Housing and $650,000 from the Minnesota Home Ownership Center, the Greater Minnesota Housing Fund and the Family Housing Fund. Thirty-nine proposals were received this funding round requesting a maximum amount of just under $2.1 million.

Sixty-three percent of the funds are allocated for homebuyer counseling and homebuyer education and thirty-two percent for foreclosure counseling. Five percent of the funds are allocated for home equity conversion mortgage counseling.

In addition to HECAT, Minnesota Housing also funds foreclosure prevention counseling with federal funds from the National Foreclosure Mitigation and Counseling (NFMC) program. The additional NFMC funds ensure that foreclosure prevention counseling organizations have capacity to meet consumer demand for this counseling service. Funding through NFMC Round Nine was awarded in March 2015 for $158,115 and will run through December 31, 2015.

Final funding awards will be presented to awardees once the HECAT funding partners have obtained Board approvals this month. Awards are subject to grantee agreement to meet performance and service area expectations as outlined in individual funding contracts.

2015 Outcomes and Selection Trends
Two organizations were added this year including First Home Network and Umoja Community Development Corporation, both with a focus on serving African American and other households of color.

The proposals selected for funding this round provide a full spectrum of comprehensive homebuyer training program services. Selected activities include: 1) foreclosure prevention counseling; 2) in-person homebuyer education workshops in several languages; 3) individualized homebuyer counseling; and 4) home equity conversion counseling.

Foreclosure Prevention: The number of foreclosures affecting many areas of the state continues to heighten the awareness of foreclosure prevention counseling supported under HECAT. In 2014, HECAT grantees served a total of 2,691 households with 58 percent of those households in the Twin Cities Metro area and 42 percent of those households in Greater Minnesota. Sixty-four percent of those households avoided foreclosure.

While foreclosure most dramatically affects the borrower losing a home, neighborhoods impacted by concentrations of foreclosures are vulnerable to its social costs, including increases in boarded, vacant houses and declining home prices. In light of this trend, 18 providers are being recommended for $493,985 in HECAT funds to provide foreclosure counseling services.

Pre-purchase Education and Counseling: One of the best ways to prevent foreclosure is to assure that potential homebuyers have access to information to enable success in the first place. Minnesota is recognized as having the best infrastructure for homebuyer education and counseling in the country. In 2014, a total of 8,454 households received homebuyer education and counseling services with 63 percent of those households in the Twin Cities Metro and 37 percent of those households in Greater Minnesota. Of the 8,454 that received services, 4,075 received classroom education, 2,154 completed the online version of homebuyer education (Framework), and the remaining 2,225 received homebuyer counseling. While the number is likely much higher, it’s known that 25 percent of those households purchased a home with an average interest rate of 4.5 percent. The selection committee is committed to sustaining this infrastructure, and recommends funding 34 organizations with $987,582 in HECAT funding.

Home Equity Conversion Counseling (HECM): Home equity conversion loan options continue to grow slowly in acceptance. In 2014, 655 households received this service statewide. These loan programs, which require borrower counseling, are supported by three counseling organizations which HECAT recommends funding in the amount of $81,000.

Emerging Markets: Minnesota has the third highest disparity between homebuyers of color and white homebuyers. The funding recommendation includes eleven organizations that provide services to households of color and Hispanic ethnicity for in-person homebuyer education and counseling services. Of those that received services in 2014, 47 percent were households of color in the Twin Cities Metro and 24 percent were households of color in Greater Minnesota.

2015-2016 HECAT PROPOSALS RECOMMENDED FOR APPROVAL

PROVIDER	Amount Requested	Amount Recommended	Funding Recommendation by Program: Homebuyer Education	Homebuyer Counseling	Home Equity Conversion Counseling	Foreclosure Counseling
1st Home Network*	$ 16,000	$ 16,000	$ 6,000	$ 10,000		
African Development Center	$ 125,000	$ 60,000	$ 28,500	$ 31,500		
African Economic Development Solutions	$ 45,000	$ 19,500	$ 14,500	$ 5,000		
African Families Development Network	$ 70,000	$ 34,000	$ 20,000	$ 14,000		
Anoka County Community Action Program, Inc.	$ 52,000	$ 50,000	$ 15,000	$ 15,000		$ 20,000
Arrowhead Economic Opportunity Agency	$ 148,083	$ 52,500	$ 18,000	$ 16,500		$ 18,000
Bi-County Community Action Programs, Inc.	$ 22,042	$ 13,035				$ 13,035
Bii Gii Winn CDLF	$ 12,000	$ 12,000	$ 7,000	$ 5,000		
Carver County Community Development Agency	$ 30,000	$ 26,000	$ 6,500	$ 5,000		$ 14,500
CCCS of The Village Family Service Center	$ 35,000	$ 35,000	$ 17,500	$ 17,500		
Central Minnesota Housing Partnership	$ 25,000	$ 25,000	$ 20,000	$ 5,000		
Communidades Latinas Unidas en Servivio (CLUES)	$ 40,000	$ 38,500	$ 22,500	$ 8,500		$ 7,500
Community Action Duluth	$ 40,000	$ 37,000	$ 17,000	$ 20,000		
Community Action Partnership for Suburban Hennepin	$ 100,000	$ 89,500	$ 33,000	$ 26,500	$ 10,000	$ 20,000
Community Neighborhood Housing Services dba NeighborWorks Home Partners	$ 80,000	$ 80,000	$ 35,000	$ 30,000		$ 15,000
Dakota County Community Development Agency	$ 68,000	$ 50,000	$ 20,000	$ 22,000		$ 8,000
Headwaters Regional Development Commission	$ 25,000	$ 23,500	$ 9,000	$ 14,500		
Hmong American Partnership	$ 75,000	$ 21,000	$ 16,000	$ 5,000		
Housing and Redevelopment Authority - City of St. Paul	$ 25,000	$ 22,500				$ 22,500
KOOTASCA Community Action, Inc.	$ 24,000	$ 25,000	$ 5,000	$ 20,000		
Lao Assistance Center	$ 12,750	$ 14,000	$ 9,000	$ 5,000		
Lutheran Social Service of Minnesota	$ 256,000	$ 256,000			$ 36,000	$ 220,000
Mankato Economic Development Authority	$ 11,312	$ 10,500	$ 10,500			
Model Cities Community Development Corporation	$ 23,500	$ 23,082	$ 12,082	$ 11,000		
Neighborhood Development Alliance	$ 70,000	$ 69,000	$ 16,000	$ 33,000		$ 20,000
Northwest Community Action, Inc.	$ 13,723	$ 5,000	$ 5,000			
One Roof Community Housing	$ 50,000	$ 45,000	$ 25,000	$ 20,000		
PRG, Inc.	$ 103,200	$ 98,000	$ 46,000	$ 40,000		$ 12,000
Reverse Mortgage Counselors, Incorporated	$ 35,000	$ 35,000			$ 35,000	
Rochester/Olmsted Community Housing Partnership	$ 40,000	$ 38,000	$ 17,000	$ 10,000		$ 11,000
Scott County Community Development Agency	$ 37,000	$ 34,500	$ 8,000	$ 7,000		$ 19,500

2015-2016 HECAT PROPOSALS RECOMMENDED FOR APPROVAL (continued)

PROVIDER	Amount Requested	Amount Recommended	Funding Recommendation by Program: Homebuyer Education	Homebuyer Counseling	Home Equity Conversion Counseling	Foreclosure Counseling
Southwest Minnesota Housing Partnership	$ 25,000	$ 18,000	$ 8,000	$ 10,000		
Three Rivers Community Action Inc.	$ 60,000	$ 34,500	$ 16,000	$ 18,500		
Twin Cities Habitat for Humanity	$ 32,000	$ 22,000				$ 22,000
Umoja Community Development Corporation*	$ 40,000	$ 12,000	$ 12,000			
Washington County HRA	$ 61,000	$ 55,000	$ 15,000	$ 18,000		$ 22,000
West Central MN Communities Action, Inc.	$ 30,000	$ 22,450	$ 5,500	$ 8,500		$ 8,450
White Earth Investment Initiative	$ 18,000	$ 10,000	$ 5,000	$ 5,000		
Wright County Community Action, Inc.	$ 43,637	$ 30,500	$ 10,000			$ 20,500
TOTALS:	**$ 2,003,247**	**$ 1,562,567**	**$ 530,582**	**$ 457,000**	**$ 81,000**	**$ 493,985**

*New Applicant

2015-2016 HECAT RECOMMENDATION BY PROGRAM

PROGRAM	Dollar Amount	Percentage of Total Funds
Homebuyer Education	$ 530,582	34%
Homebuyer Counseling	$ 457,000	29%
Home Equity Conversion Counseling	$ 81,000	5%
Foreclosure Counseling	$ 493,985	32%
TOTALS:	**$ 1,562,567**	**100%**

Board Agenda Item: 7.F
Date: 9/24/2015

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

Staff Contact(s):
John Patterson, 651.296.0763, john.patterson@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☐ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
For board approval, staff is submitting an updated calculation for distributing Housing Tax Credits to sub-allocators.

Staff presented this request at the July meeting and action was deferred. The Program and Policy Committee reviewed and discussed the methodology at its August 31, 2015 meeting. At the committee meeting, the committee voted 6-1 in favor of recommending the board approve the use of updated data in the formula.

The consultation process with sub-allocators is described in the attachment. Public comments were shared with the board when this item was initially presented in July. These comments have not been included at this time, but are available upon request.

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:
☒ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota's Changing Demographics
☒ Preserve Housing with Federal Project-Based Rent Assistance
☒ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- New Tax Credit Distribution Shares for Sub-allocators

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.

- 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

[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

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.

This page intentionally blank.

Minnesota Housing Finance Agency

Board Agenda Item: 8.A
Date: 9/24/2015

Item: 2015 Cost Containment Report

Staff Contact(s):

John Patterson, 651.296.0763, john.patterson@state.mn.us

Request Type:

☐ Approval	☒ No Action Needed
☐ Motion	☒ Discussion
☐ Resolution	☐ Information

Summary of Request:

For you review and discussion, staff has prepared the 2015 Cost Containment Report. It outlines the efforts the Agency has taken to contain housing development costs and the outcomes achieved.

Fiscal Impact:

None

Meeting Agency Priorities:

☒ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota's Changing Demographics
☒ Preserve Housing with Federal Project-Based Rent Assistance
☒ Prevent and End Homelessness
☒ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s)

- 2015 Cost Containment Report

This page intentionally blank.

Planning, Research & Evaluation

2015 Cost Containment Report

9/15/2015

Minnesota Housing
Finance Agency

OVERVIEW AND CONTEXT

Containing the cost of developing housing is a critical issue in Minnesota. In 2013, nearly 600,000 Minnesota households were cost burdened by spending more than 30 percent of their income on housing. Since 2000, this number has increased 68 percent because median household incomes have declined by 7.1 percent (after adjusting for inflation) and median housing costs have increased by 4.7 percent.[1] If we are to address the growing need for affordable housing, we must build and preserve as many affordable units as possible with the limited resource available, which requires us to be cost conscious. However, cost containment requires tradeoffs and a balanced approach.

- Using lower quality materials and less efficient systems will reduce upfront costs, but they can also increase ongoing maintenance, repair, and utility costs, which may not be cost-effective in the long run.
- Using lower quality materials and more basic designs for a building's exterior will also reduce costs, but they will also make it more challenging to fit affordable housing in the surrounding neighborhood, particularly higher-incomes communities, which can lead to community opposition and increase costs related to delays, re-design, and projects not moving forward.
- Siting developments in less desirable locations can save money, but it can also reduce the tenants' access to opportunity, including jobs, services, amenities, safe neighborhoods, public transportation, good schools, and other benefits.

We based our 2016-19 Strategic Plan on the principle that housing is the foundation for success, providing individuals, families and communities the opportunity to thrive. To achieve this outcome for as many lower-income households as possible, we need to finance high-quality, durable, location-efficient housing that is built at the lowest possible cost. We are balancing the goal of cost containment with other policy objectives.

Overall, as the following assessment shows, we have been effective at containing costs over the last decade – maintaining relatively consistent total development costs (TDC) while pursuing other policy objectives that tend to increase costs, including supportive housing for people experiencing long-term homelessness, energy-efficient and healthy homes, and location efficiency. Nevertheless, we are under constant pressure to do more with less and will continue to identify and pursue additional strategies to contain and reduce costs.

This report is broken into two sections – the first addresses multifamily costs, and the second addresses single family costs.

---

[1] Minnesota Housing Analysis of data from the U.S. Census Bureau's *2000 Decennial Census* and *2013 American Community Survey*.

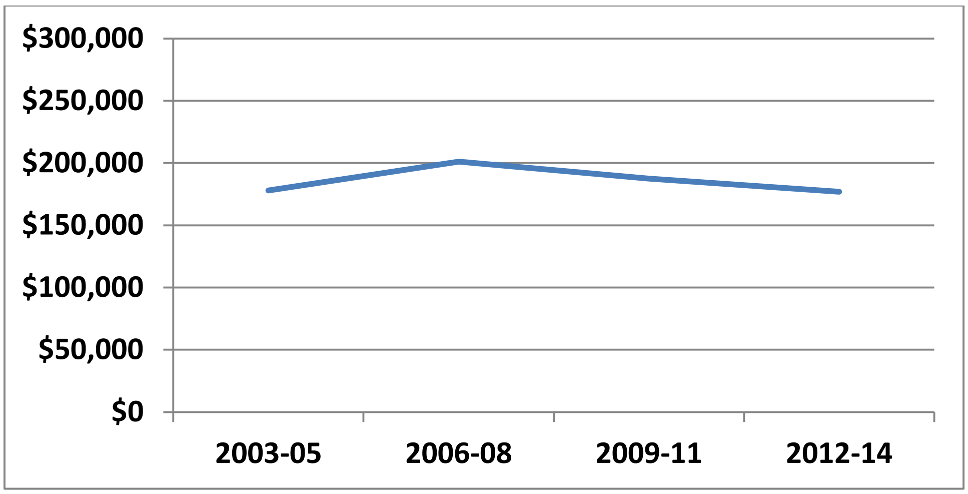
MULTIFAMILY COSTS

In a typical year, we distribute just under $100 million for multifamily development. We must ensure that these funds are efficiently and effectively used to address the growing need for affordable housing. This section of the report shows how we have taken steps to maximize production by containing development costs. The first part of the section provides an overview of our results, and the second part outlines our strategies for achieving those results and improving performance.

Overview of Multifamily Costs

Overall, the average TDC per unit has remained at or below $200,000 for the last decade, after controlling for inflation. The data in Figure 1 applies to all types of developments, including new construction, rehabilitation, metro area, Greater Minnesota, tax credit, and non-tax credit. The trend line is influenced not only by the underlying cost trends but also by the mix of projects in a given year.[2] For example, a larger share of resources going to new construction developments with tax credits in the metro area will increase costs, while a larger share going to rehabilitation developments without tax credits in Greater Minnesota will decrease costs.

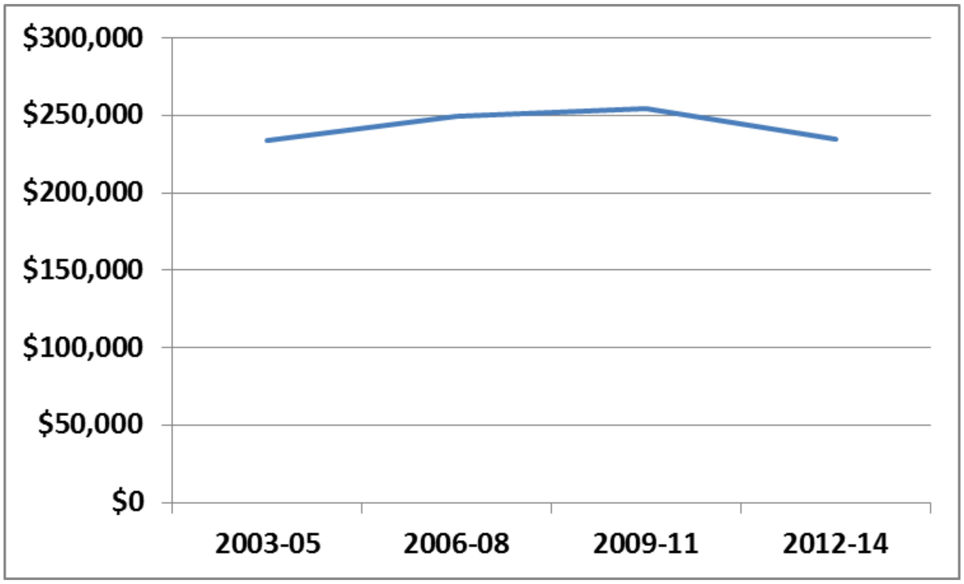
Figure 1: Average TDC per Unit 2003 to 2014 – All Types of Developments (Adjusted for Construction Inflation, 2015 Dollars)



To control for the mix of projects in the trend line, Figure 2 shows average TDC per unit just for new construction projects with tax credits in the Metro area. Again, average costs are relatively constant, but at a slightly higher $250,000 level. The relatively consistent or contained cost is the key finding.

[2] To increase the comparability of the data, we excluded developments with a TDC per unit that were less than $40,000, which took out rehabilitation projects with a more limited scope of work and added consistency to the level of rehabilitation being assessed. We also excluded developments with an overall acquisition cost of less than $10,000, which excludes projects with no acquisition or heavily subsidized acquisition.

Figure 2: TDC per Unit 2003 to 2014 – New Construction with Tax Credits in the Metro Area (Adjusted for Construction Inflation, 2015 Dollars)



Most importantly, we have contained costs while taking on policy initiatives that tend to increase costs.

- In 2003, we added a selection and funding priority for supportive housing for people experiencing long-term homelessness, which is generally a more costly type of development.
- In 2007, we added our Green Communities Overlay, which requires our developments to have energy-efficient and healthy-home features.
- In the last couple of years, we strengthened our location efficiency priority by making it more geographically precise and increasing the points it receives in the selection process. Housing that is in a walkable neighborhood and near transit, jobs, and other amenities can be more expensive.

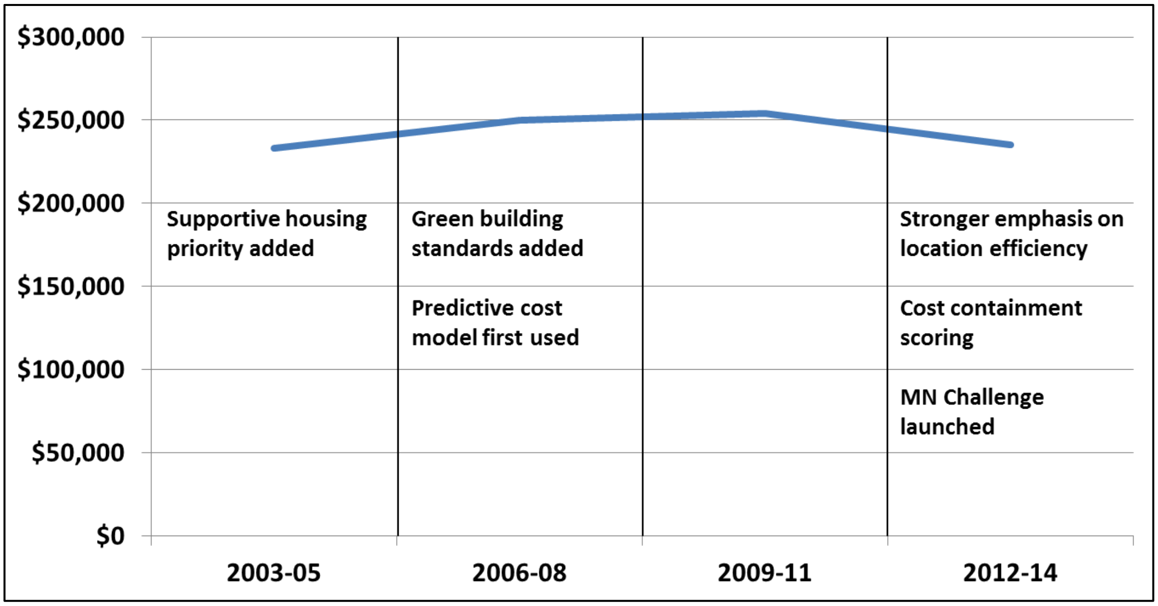
While we added or enhanced these policy priorities, we also added cost containment provisions.

- In 2006, we first developed and used our predictive cost model, which compares a development's proposed costs with the costs that we would expect for that development based on the Agency's experience with similar projects and industry-wide standards. This process flags high cost developments and ensures that costs are reasonable.
- With the Qualified Allocation Plan for the 2014 Low-Income Housing Tax Credits (LIHTC), we added a selection criterion that gives preference to the 50 percent of tax credit applications with the lowest TDC per unit.
- In 2014, we also launched the MN Challenge to Lower the Cost of Affordable Housing, which was initiated as an idea competition to identify and address system-level factors that increase costs.

More information on these initiatives is provided in the report's next section.

Figure 3 shows the trend line from Figure 2, but also includes information about when we added the new policy and cost containment initiatives.

Figure 3: TDC per Unit 2003 to 2014 – New Construction with Tax Credits in the Metro Area, with Information about New or Enhanced Policy and Cost Containment Initiatives (Adjusted for Construction Inflation, 2015 Dollars)



To effectively contain costs, we must understand the factors that are driving costs. Table 1 provides a break out of costs by project type, location and cost component.

- As discussed previously, new construction with tax credits in the Twin Cities metro area is the most expensive type of project, while rehabilitation without tax credits in Greater Minnesota is the least expensive.

- Not surprisingly, construction accounts for the clear majority of costs in new construction projects, while construction and acquisition costs are both key cost drivers of rehabilitation projects. Addressing these costs will have the largest impact in reducing or containing TDCs.

- While soft costs account for a smaller share of TDC (14 percent to 25 percent), they should be a key focus of cost containment strategies. Reducing construction costs can affect the quality, durability, and energy efficiency of the housing; and reducing acquisition costs can affect location efficiency and desirability. While soft costs are a necessary component of a housing development, eliminating inefficiencies in these costs will not affect the quality of the housing.

- Low-Income Housing Tax Credits (LIHTC) appear to add five to nine percentage points to the share of TDC attributable to soft costs, which is not surprising given the added complexity and cost of putting together and financing a tax credit deal. For developments without tax credits, soft costs account for 14 percent to 17 percent of TDC. That percentage jumps to 21 percent to 25 percent for developments with tax credits.

Table 1: Share of TDC by Project Type, Location & Cost Component
Developments Completed between 2003 and 2014
(Adjusted for Construction Inflation, 2015 Dollars)

				Share of TDC			
			Avg. TDC per Unit	Construc-tion	Acquisi-tion	Soft Costs	# of Projects
New Con	LIHTC	Metro	$242,997	67%	8%	25%	80
New Con	No-LIHTC	Metro	$189,485	72%	11%	17%	19
New Con	LITHC	Grtr. MN	$196,570	72%	6%	23%	52
New Con	No-LIHTC	Grtr. MN	$172,565	76%	7%	17%	22
Rehab	LIHTC	Metro	$183,220	38%	39%	23%	34
Rehab	No-LIHTC	Metro	$126,058	42%	44%	14%	31
Rehab	LITHC	Grtr. MN	$116,604	39%	40%	21%	30
Rehab	No-LIHTC	Grtr. MN	$97,636	44%	40%	16%	18

Over time, each of the three cost components have accounted for a consistent share of TDC, indicating that we are containing each cost component, not just overall costs. See Table 2.

Table 2: New Construction with Tax Credits in the Metro Area –
Cost Component Share of TDC 2003 to 2014

	Construc-tion	Acquisi-tion	Soft Costs	# of Projects
2003-05	69%	7%	24%	28
2006-08	68%	8%	24%	28
2009-11	63%	9%	27%	13
2012-14	67%	8%	25%	11
2003-14	**67%**	**8%**	**25%**	**80**

Strategies for Containing and Reducing Multifamily Costs

As mentioned earlier, we have taken a three pronged approach to containing costs.

1. Predictive Cost Model and Cost Reasonableness Assessment
2. Tax Credit Selection Priority for Developments with Lower Total Development Costs per Unit
3. MN Challenge to Lower the Cost of Affordable Housing

Strategy 1: Predictive Cost Model and Cost Reasonableness Assessment

We have developed a cost model that predicts a development's TDC per unit based on its characteristics. To develop the parameters for the model, we run a linear regression analysis on the inflation-adjusted costs and characteristics of the developments that the Agency financed between 2003 and 2015. The analysis uses the historical data to assess the effect that each of the following factors simultaneously has on TDC per unit:

- Activity Type:
    - New Construction
    - Extensive Rehabilitation[3]
    - More Limited Rehabilitation
    - Combination of New Construction and Rehabilitation
    - Conversion/Adaptive-Reuse
- Building Type:
    - Walkup
    - Elevator
    - Townhome
    - Single Family Home/Duplex
    - Other
- Unit Size – based on average number of bedrooms per unit in the development
- Gross Square Footage
- Amount of Non-Residential Space
- Location:
    - Minneapolis or Saint Paul
    - Suburbs in Twin Cities Seven-County Metro Area
    - Greater Minnesota – Large City[4]
    - Greater Minnesota – Regional Job Center[5]
    - Greater Minnesota - Rural
- Year Built
- Garage Type:
    - None
    - Above ground
    - Underground
- Acquisition:
    - Land
    - Structure
    - None

[3] This involves more extensive work on the interior, exterior, electrical, and mechanical systems of a property. “Extensive” versus “more limited” is determined by staff using internal definitions.
[4] The large cities are Duluth, Rochester, St. Cloud, Moorhead, and Mankato; and include a five-mile commute shed around the cities.
[5] There are 51 regional job centers, which are the top 15 percent of cities and townships in number of jobs. They include: Albert Lea, Albertville, Alexandria, Austin, Baxter, Bemidji, Brainerd, Buffalo, Cambridge, Cloquet, Cold Spring, Crookston, Detroit Lakes, Elk River, Fairmont, Faribault, Fergus Falls, Goodview, Grand Rapids, Hibbing, Hutchinson, International Falls, La Prairie, Little Falls, Marshall, Montevideo, Monticello, Morris, North Mankato, Northfield, Onamia, Owatonna, Park Rapids, Perham, Pipestone, Red Wing, Roseau, Saint Michael, Saint Peter, Sartell, Sauk Rapids, Thief Rivers Falls, Virginia, Waite Park, Waseca, Willmar, Windom, Worthington, Wyoming. These areas also include a five-mile commute shed around the cities.

- Financing:
    - Tax Credits
    - Number of Funding Sources
- Special Costs:
    - Historic Preservation
    - Environmental Abatement
    - Supportive Housing

Using those same factors for a proposed development and the model's cost parameters, the model provides a predicted cost for that development. The model is also benchmarked against industry-wide cost data provided by RSMeans to ensure that our costs are in line with the industry.[6]

Overall, the model has worked very well for the Agency. It explains a sizable portion (61 percent to 77 percent) of the variation in the costs for developments that the Agency financed between 2003 and 2015, which is a statistically robust result. In addition, over the last ten years, it has proven very effective at objectively and systematically flagging developments with high costs. Each year, we revise and enhance the model based on the previous year's results and staff feedback.

Over time, we have tested models that predict costs on a per-unit and a per-square-foot basis. Based on our testing, the per-unit models have explained a larger share of the variation. We believe that this has occurred for two reasons. First, some costs are clearly tied to the unit and do not increase with the size of the units. For example, apartments regardless of unit size have one kitchen (unless single-room-occupancy). Second, and most importantly, the per-unit model that we use includes a cost factor for that accounts for unit size. Developments with larger units and more bedrooms have higher predicted costs.

Under the policies of Minnesota Housing's Board, when staff recommend to the Board developments for selection and funding, they must identify the developments that have a proposed cost that is more than 25 percent higher than the predicted cost. Staff must also explain why the proposed cost is reasonable even though it is more than 25 percent greater than the predicted cost. There are a wide range of reasons why the costs could be reasonable. For example, a housing development and site may be critical to meeting a local housing need, but the site requires an unusually large amount of environmental remediation.

The professional judgement and expertise of our underwriting and architectural staff also play a critical role in the assessment of cost reasonableness. Even if a project has costs that are within the 25 percent threshold, staff will still question costs if they seem high given the context of the development. Our staff

[6] RSMeans, *Building Construction Cost Data, 73rd Annual Addition, 2015*. According to RSMeans, construction costs for a 21,000 square-foot walkup apartment with 19 units in Minneapolis are $115,434 per unit (excluding acquisition and soft costs). Our model initially predicts $124,793 per unit for construction costs for this development, or 7 percent higher. As a result, when providing a final predicted cost, our model lowers the initial prediction for construction costs by 7 percent to bring it in line with the RSMeans data.

has extensive experience reviewing funding applications and development costs. Each year, they typically evaluate 75 or more applications.

Strategy 2: Tax Credit Selection Priority for Developments with Lower Total Development Costs per Unit

Starting with our Qualified Allocation Plan (QAP) for the 2014 Low-Income Housing Tax Credits, we added a cost criterion for selecting developments to receive the credits. Under the new criterion, the 50 percent of tax credit applications with the lowest TDC per unit are eligible to receive four points in the selection process.[7] We control for activity-type and location cost differences by dividing the applications into four groups.

1. New Construction in the Twin Cities metro area
2. New Construction in Greater Minnesota
3. Rehabilitation in the Twin Cities metro area
4. Rehabilitation in Greater Minnesota

Within each of the four groups, the applications with the lowest costs are eligible for the points. As a result, projects are only competing with similar projects for the points. When comparing costs and awarding points, we also adjust costs to account for unit size differences. Projects predominantly with smaller units (efficiencies and one bedroom) have their costs adjusted upward when making comparisons; and projects predominantly with large units (three or more bedrooms) have their costs adjusted downward.[8]

We added the new criterion to encourage cost reductions, not just cost reasonableness. With cost reasonableness and the predictive cost model, developers only have the incentive to propose costs that are in line with previous projects that we have funded. With the new scoring criterion, they now have the incentive to identify costs that may not be necessary, and reduce their costs in the hope of being in the 50 percent of developments with the lowest costs. Because the competition is "blind" (developers do not know the costs of the competing applications and how their development will rank on cost), developers have an incentive to reduce their costs as far as prudently possible.

We do not want the competition to become a "race to the bottom," with developers sacrificing quality and other policy objectives in the name of cost reduction. Thus, we very strategically chose to award four selection points to projects that meet this criterion.

Table 3 provides the maximum points awarded under each selection criteria for the 2016 QAP.

---

[7] The criterion only applies to applications requesting nine percent credits. It does not apply to applications requesting four percent credits with tax-exempt bonds. Receiving four percent credits is a non-competitive process, where projects only need to meet a minimal threshold. The costs of developments seeking four percent credits are assessed using the predictive cost model.

[8] To be classified as a development with small units, 75 percent or more of the units have to be efficiencies or have one bedroom. To be classified as a development with large units, 50 percent or more of the units have to have three or more bedrooms.

- Four points is meaningful in the selection process and should influence the decisions of developers. In many years, there is only a one point difference between the last project selected for credits and the first one not selected. There are often several projects within four points of the selection threshold. For example, with the October 2014 selections, 12 of the 52 tax credit applications scored within this range.

- Four points is less than the points awarded for workforce housing, location efficiency, economic integration, and homelessness. Developers do not have an incentive to sacrifice those other funding priorities to achieve cost containment.

Table 3: Tax Credit Selection Points, 2016 QAP

Criterion	Points
Supportive Housing for Homeless	10 with 100 bonus
Preservation	35
Unacceptable Practices	-25
Rental Assistance	21
Financial Readiness to Proceed	14
Lowest Income / Rent Reduction	16
Strategically Targeted Resources	12
Federal/Local/Other Contributions	10
Household Targeting	10
Foreclosure	10

Criterion	Points
Economic Integration	9
Location Efficiency	9
Intermediary (Soft) Costs	6
Workforce Housing Community	5
Universal Design	5
Cost Containment	**4**
High Speed Internet Access	1
Smoke Free Building	1
QCT / Community Revitalization	1
Eventual Tenant Ownership	1

Finally, developers cannot sacrifice quality and energy efficiency because all developments must meet our design and green standards.

We have limited this selection priority to just developments applying for nine percent tax credits for two reasons. First, tax credit developments generally have higher costs and containment is a larger issue. Second, the level of work done on tax credit developments, particularly rehabilitation, is more consistent across projects and allows for more appropriate and equivalent cost comparisons. The level of rehabilitation, particularly for non-tax credit developments, can vary a lot, and we do not want to incent developers to just pick the projects with minimal rehabilitation needs.

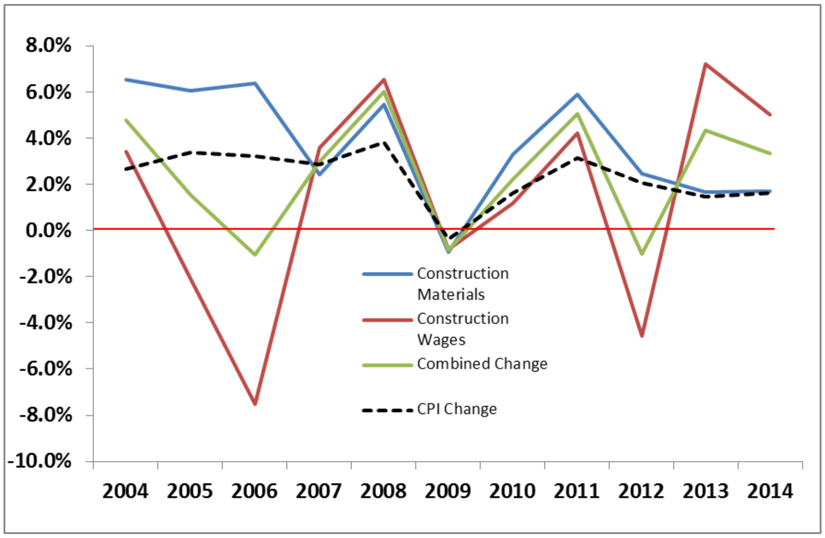
Because the scoring criterion is relatively new, we continue to monitor it closely for unintended consequences by assessing the type, size, nature, location, and scope of developments scoring and not-scoring well on it to make sure that the selected projects meet our overall strategic and funding priorities.

One of the challenges for developers created by the cost-containment criterion is managing fluctuations in construction costs, particularly labor costs. Figure 4 shows changes in multifamily construction costs. The blue line shows changes in the Produce Price Index (PPI) for multifamily construction materials, and the maroon line shows changes in wages for multifamily construction workers in Minnesota.[9] Wages in particular can vary dramatically from year to year. Developers may plan for a modest 2 percent increase

[9] Construction cost data is from the Bureau of Labor Statistics, and the wage data is from the Minnesota Department of Employment and Economic Development's *Quarterly Census Employment and Wages*.

in wages in their funding application, only to find they have increased by 6 percent or 7 percent when construction starts. By taking the cost containment points in the selection process, developers are held accountable for keeping their costs down when construction occurs, even when costs spike. If final costs come in too high, developers will be awarded negative four points for their next tax credit application.

Figure 4: Measures of Cost Changes, 2004 to 2014



The green line in Figure 4 combines the material and wage cost changes from the blue and maroon lines. This is the combined inflation data that we use to bring historical construction costs into 2015 dollars. The dashed black line is the Consumer Price Index (CPI), which is the standard measure of inflation faced by consumers. While overall construction inflation (green line) is more volatile than the CPI, they are quite similar in the long run. Between 2004 and 2014, the CPI increased on average by 2.3 percent annually, while construction inflation increased by 2.5 percent. The large decreases in construction wages in some years offset the large increases in other years.

Strategy 3: MN Challenge to Lower the Cost of Affordable Housing

The first two tactics address costs that are specific to individual developments. However, as we used the predictive cost model over the last several years and used the new cost selection criterion for tax credits for the first time in the fall of 2013, it became clearer that systemic cost drivers outside the control of developers are also a critical issue that needs to be addressed. These cost drivers ranged from local policies and regulations that increased the cost of housing (such as maximum densities), to the large cash reserves that funders and investors may require for affordable housing developments, to the complexity of assembling the multiple sources of funding that make an affordable housing deal work.

Fortunately, at that time, Enterprise Community Partners and the Urban Land Institute's (ULI's) Terwilliger Center for Housing were finishing a report on best practices from across the country to address these systemic cost drivers. Overall, the report finds that containing and reducing costs in a prudent and effective way does not involve a single magic bullet. Rather, affordable housing costs are driven by hundreds of small inefficiencies. As one of the lead authors described it, "death by a thousand cuts."[10]

To take on these cost drivers, we partnered with the McKnight Foundation, Enterprise, and ULI/Regional Conference of Mayors to create an initiative for Minnesota to implement these types of practices, which became the MN Challenge to Lower the Cost of Affordable Housing.

It began in the winter of 2014 as an idea competition. To avoid becoming overwhelmed by the complexity of the issues and wide range of cost drivers, we pursued a tangible and manageable effort that would generate concrete ideas with implementable strategies. Specifically, we:

- Asked the development community to create cross-discipline teams (developers, funders, attorneys, local officials, housing advocates, etc.) and develop an idea to address a systemic cost driver that could be implemented in the near future;
- Received concept papers from 12 teams;
- Selected three finalists and provided each $10,000 to develop an implementation plan for their idea; and
- Selected the winning idea and team, which received $70,000 to implement their plan.[11]

The winning idea was submitted by the Center for Urban and Region Affairs at the University of Minnesota, the Housing Justice Center (formerly Housing Preservation Project), and Becker Consulting. Their proposal addressed the issue of local practices and policies that add to the cost of affordable housing, including fees, land-use and zoning policies, approval processes, and others. The team's implementation plan had five key steps:

1. Identify best practices for addressing these local cost drivers;
2. Identify communities in the Twin Cities region who have effectively implemented them and assess lessons learned;
3. Identify opportunities for increasing the use of the practices in communities across the region;
4. Provide implementation recommendations and technical assistance for communities to pursue the practices; and
5. Encourage regional organizations to incorporate the best practices and implementation strategies into their policies and guidelines, including the Metropolitan Council's Planning Handbook and Housing Performance Scores and ULI's Tool Box for local communities.

[10] Michael Spotts, Enterprise Community Partner, presentation to the Affordable Housing Investors Council (AHIC), Portland Oregon, October 9, 2014.
[11] The initiative was jointly funded by the McKnight Foundation ($75,000) and Minnesota Housing ($25,000).

The team's implementation plan as funded by the MN Cost Challenge was completed in August of 2015. However, this effort just got the ball rolling and ongoing work is needed to ensure that these practices are implemented as widely as possible. It is too early to predict the final impact, but the potential is significant. In its research, the team found that broad implementation of a range of best practices across the region and state could reduce the cost of affordable housing by tens of thousands of dollars per unit.

While the proposal addressing local practices and policies won the idea completion, other concepts and strategies identified in the MN Cost Challenge have been investigated further and/or pursued.

- **Minnesota Housing's Multifamily Remodel Project.** While the MN Cost Challenge was kicking off, we were also initiating a remodel project for our Multifamily Division to redesign and streamline our application and funding processes - everything from proposal inception through application, selection, underwriting, closing, construction management, and lease up. The remodel will reduce the time it takes a development to move from concept to occupancy. A key finding from the Enterprise/ULI report identified complexity, uncertainty, and delays in the funding process as cost drivers. Several issues identified in the MN Cost Challenge's original 12 concept papers addressed complexity, uncertainty, and delays in our application and funding processes. These issues and ideas were passed on to the Agency's team leading the remodel project. As currently planned, we should have most of the process changes in place by the end of 2017, but incorporating all the technology supports may take more time.

- **MinnDocs – Consolidated Legal Documents**. Most affordable housing projects have several funding sources, each with their own set of legal documents and attorneys, which adds unnecessary costs. The Enterprise/ULI report highlighted Massachusetts' practice that consolidates legal documents for all subordinate debt into a single set. While none of the 12 concept papers form the MN Cost Challenge proposed this concept for Minnesota, the idea had a lot of interest in the development community, and we decided to pursue it. In the spring of 2015, we received a $70,000 grant from the McKnight foundation to hire a project manager and a third party attorney to implement the practice. Massachusetts estimates that the consolidated legal documents have reduced their costs by about $10,000 per subordinate loan for each development; however, the context is different in Minnesota, and we may not achieve that level of savings. If we did, MinnDocs would save $1,000 per unit for a 40-unit development with four subordinate loans. While this reduces total development costs by less than one percent, it is a very tangible way of chipping away at costs and addressing one of the many inefficiencies. Furthermore, these unnecessary legal costs add up when Minnesota Housing typically finances 2,000 to 3,000 units each year. As currently planned, the initiative should be largely in place by June 2016.

- **Pooled, Guaranteed or Insured Reserves.** In a concept paper that was selected as one of the three finalists under the MN Cost Challenge, Project for Pride in Living proposed the idea of pooling, guaranteeing or insuring reserves. According to their analysis, operating and deficit reserves can account for four percent to five percent of a development's total development costs, and in most cases, most or all of the reserves are never needed. Rather than carrying the full cash reserves, they proposed that a portion be pooled, insured, or guaranteed, which would more efficiently manage the reserves and reduce the cash requirements and total development costs. We found the concept very intriguing. While the proposal did not win the idea competition, we organized a brainstorming session with a cross-section of industry experts in November of 2014 to see if it is viable in Minnesota. In the end, we decided that the complications and costs of setting up the guarantee or insurance were large enough that pursuing other cost-reduction strategies would be more productive at this time.

While the MN Cost Challenge started out as an idea competition, it has turned into an ongoing effort to continually identify and eliminate inefficiencies and unnecessary requirements in the development process. As a leading partner in this initiative, we must start with our own requirements and processes. The remodel project is a first step. By next spring, we will also review our:

- Design/construction standards, as part of our annual document revision process in preparation for the consolidated RFP. However, this time, we will review them with an emphasis on cost containment. We will focus on reducing life-cycle costs, not just upfront costs but also ongoing maintenance, repair, and utility costs. The review will be based on past experience and consultation with architects, general contractors, and developers.

- Green/sustainability standards in light of recent changes to the state building code and Enterprise Green Communities' national standards. Our standards are a Minnesota-specific outlay to Enterprise's national standards, making them more applicable and appropriate for Minnesota. Whenever the underlying standards change, we update the Minnesota overlay, which involves consulting with Enterprise, the University of Minnesota's Center for Sustainable Building Research, our funding partners, energy raters, mechanical engineers, architects, general contractors, and developers.

SINGLE FAMILY COSTS

While we typically distribute a little less than $100 million annually for multifamily development, we only distribute $6 million to $8 million for single family development through our Community Homeownership Impact Fund. Consequently, we have focused our cost containment efforts more heavily on multifamily projects. In addition, while we directly administer multifamily funding to developers, we rely on local administrators to identify and fund the single-family projects. As a result, the level of cost data that we collect at the Agency for single-family projects is less detailed.

Nevertheless, single-family cost containment is also critical, and we are in the process of enhancing our strategies.

Overview of Single-Family Costs

The total development costs for the single-family projects that we have financed are reasonable and consistent with industry benchmarks. Table 4 shows the median cost per home by location and project type for developments that we have financed over the last two and half years.

Table 4: Impact Fund – Median TDC by Location and Project Type
Loans closed October 1, 2012 through March 31, 2015

Location	New Construction	Acquisition/Rehab/Resale	Owner-Occupied Rehab
Rural Greater MN	$149,597	$126,267	$12,014
Greater MN Large City	*	$154,700	*
Minneapolis/Saint Paul	$289,903	$205,692	$17,020
Suburban Twin Cities	$245,124	$208,450	*
Total	**$218,628**	**$174,901**	**$13,582**

*Fewer than 10 loans.

These costs are consistent with industry standards. Table 5 shows the RSMeans industry-wide construction costs (excluding acquisition and some soft costs) in Minneapolis/Saint Paul for different sized homes and designs. Our costs are in line with these benchmarks.

- The industry-wide construction costs for a 1,400 square-foot 1½ story home with an unfinished basement and average class design is $196,558, which is in the middle of the cost range shown in the Table 5.

- Assuming that these costs account for 65 percent of the predicted TDC and that acquisition and additional soft costs account for the remaining 35 percent, TDC is $302,397.

- The TDC for the same home in the economy class, rather than the average class, is $256,846. (This economy class figure is not derived from the average class data shown Table 5 but from other RSMeans data.)

- The $289,903 median TDC for new construction financed by Minnesota Housing in Minneapolis/ Saint Paul (see Table 4) falls in the middle of the industry-wide range of $256,846 to $302,397 for economy and average class construction.

Table 5: RSMeans Estimated Construction Costs, 2015 (Excluding Acquisition and Some Soft Costs) In Minneapolis/Saint Paul, Average Class, Wood Siding

	1,000 Sqft	1,400 Sqft	1,600 Sqft	2,000 Sqft
One Story				
No basement	$143,001	$174,934	$191,243	$226,432
With unfinished basement	$158,059	$193,225	$211,174	$249,795
With finished basement	$183,028	$226,398	$248,554	$295,413
1 ½ Story				
No basement	$143,776	$182,219	$194,698	$226,432
With unfinished basement	$155,125	$196,558	$209,934	$244,148
With finished basement	$173,229	$221,128	$237,393	$277,476
Two Story				
No basement	$151,471	$182,839	$201,607	$232,411
With unfinished basement	$161,270	$195,008	$214,983	$247,801
With finished basement	$176,384	$216,012	$238,722	$276,811

Source: RSMeans, *Residential Cost Data, 2015*

Strategies for Containing and Reducing Single-Family Costs

Until this year, we have relied solely on the professional expertise and judgement of our staff to assess the cost reasonableness of single-family projects. We are now becoming more systematic and objective in that assessment. Table 6 shows the range of costs per home that we have financed for new construction over the last two and half years. The benchmark for the 80th percentile will be a test case for flagging developments with a high cost per home. For example, if a new construction project in Minneapolis/Saint Paul proposes a TDC per home that exceeds $313,625, it will be flagged for additional scrutiny. This is similar to using the threshold of 25 percent above the predictive model for multifamily projects.

As we collect better single-family cost data over a longer period of time, we will start reporting trend data and potentially develop a predictive cost model. This will allow us to create an accurate and formal process for reporting cost outliers to the Board when making selection and funding recommendations. While the current test case proved valuable for initial discussion, it has deficiencies. It does not account for cost difference resulting from home sizes, garages, number of bathrooms, and other factors.

Table 6: Impact Fund – TDC Benchmarks for New Construction, by Location

	TDC
Rural Greater MN	
Mean	$152,335
Median	$149,597
20th percentile	$124,130
80th percentile	$178,686
Greater MN Large City	
Mean	*
Median	*
20th percentile	*
80th percentile	*
Minneapolis/Saint Paul	
Mean	$280,761
Median	$289,903
20th percentile	$234,698
80th percentile	$313,625
Suburban Twin Cities	
Mean	$237,378
Median	$245,124
20th percentile	$216,761
80th percentile	$247,910
Total	
Mean	$221,253
Median	$218,628
20th percentile	$146,197
80th percentile	$297,102

*Fewer than 10 loans.

CONCLUSION

Over the last decade, we have successfully contained development costs while adding new policy initiatives that tend to increase costs. However, given the growing need for affordable housing, limited resources, and the increasing pressure to do more with less, cost containment remains a critical issue. As this report highlights, there is no magic bullet. Rather, we must pursue multiple efforts to address the dozens of inefficiencies in the affordable housing development process. Minnesota Housing cannot do it alone. It will take an industry-wide partnership, which was initiated under the MN Cost Challenge.

This page intentionally blank.

Board Agenda Item: 9.A
Date: 9/24/2015

Item: Report of Action Under Delegated Authority, Changes to the Affordable Housing Plan

Staff Contact(s):
Devon Pohlman, 651.296.8255, devon.pohlman@state.mn.us
Nicola Viana, 651.297.9510, nicola.viana@state.mn.us

Request Type:

☐ Approval
- ☐ Motion
- ☐ Resolution

☒ No Action Needed
- ☐ Discussion
- ☒ Information

Summary of Request:
On October 24, 2013, the board approved several delegations of authority to the Commissioner, including delegation number 012, authorizing the increase of funding for programs funded with Mortgage Revenue Bonds or Pool 2 by no more than 10% of the budgeted amount, if there are sufficient resources to do so.

We are informing the Board of a 10% delegated authority increase to the Monthly Payment Loan (MPL) budget which provides sufficient resources to meet projected demand for the remainder of the 2015 Affordable Housing Plan (AHP).

Fiscal Impact:
As shown in Table 1 on the following page, the changes will increase net funding in the AHP by up to $1.13 million of Pool 2 resources.

Meeting Agency Priorities:
☐ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☒ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Background

BACKGROUND

Using the forecast projection model, staff project that the additional 10% delegated authority amount of \$1.13 million will provide sufficient resources to cover MPL commitments for the remainder of the 2015 AHP year (through September 2015). Home mortgage loan volume is projected to reach as high as \$675 million in this AHP and the additional Pool 2 funds to support the MPL are an important tool to support the continued overall loan production.

Table 1: Monthly Payment Loan Program Budget Revisions in AHP 2015

Program	Original Budget	Prior Delegated Change	Previous Amendments	Current Delegated Authority	Revised Budget
Monthly Payment Loan	\$7.5 million • Pool 2	\$201,400 • 2015 cancellations of 2014 commitments	\$3.6 million • \$1 million (April) • \$2.6 million (June)	\$1.13 million	\$12,431,400