MINNESOTA HOUSING

MEETINGS SCHEDULED FOR SEPTEMBER

Minnesota Housing
400 Wabasha Street N. Suite 400
St. Paul, MN 55102

THURSDAY, SEPTEMBER 27, 2018

Finance and Audit Committee Meeting
Lake Superior Conference Room – Fourth Floor
11:30 a.m.

Regular Board Meeting
Lake Superior Conference Room- Fourth 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 27, 2018.

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

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

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MINNESOTA HOUSING

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AGENDA
Minnesota Housing Board Meeting
Thursday September 27, 2018
1:00 p.m.

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. (page 5) Regular Meeting of August 30, 2018
5. **Reports**
   A. **Chair**
   B. **Commissioner**
   C. **Committee**
6. **Consent Agenda**
   A. (page 9) Ratification of the Finance and Audit Committee recommendation to approve the fiscal 2018 interfund transfers
   B. (page 11) Commitment Modification, Preservation Affordable Rental Investment Fund (PARIF)
   – Dundry-Hope Block Stabilization II, D7934, Minneapolis;
7. **Action Items**
   A. (page 15) Approval Selection and Commitment, Low and Moderate Income Rental Loan (LMIR)
   – Northstar Ridge, D3079, Coon Rapids;
   B. (page 27) Approval, Selection and Commitment, Low and Moderate Income Rental Loan (LMIR)
   – Maple Lakes Townhomes, D3627, Maple Grove;
   C. (page 39) Analysis of Impediments of Fair Housing Choice
   D. (page 81) 2019 Affordable Housing Plan
8. **Discussion Items**
   A. (page 153) 4th Quarter FY 2018 Financial Reporting Package
   B. (page 163) 2018 Cost Containment Report
   C. (page 187) Report of The Governor's Task Force on Housing
9. **Information Items**
   A. (page 189) Post-sale report – Homeownership Finance Bonds (HFB) 2018 EF
10. **Other Business**
   None.
11. **Adjournment**

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DRAFT Minutes
Minnesota Housing Board Meeting
Thursday August 30, 2018
1:00 p.m.

1. **Call to Order.**
   Chair John DeCramer called to order the regular meeting of the Board of Minnesota Housing Finance agency at 1:03 p.m.
2. **Roll Call.**
   Members Present: John DeCramer, Damaris Hollingsworth, Craig Klausing, Stephanie Klinzing, Rebecca Otto, and Terri Thao

   Minnesota Housing Staff present: Tal Anderson, Ryan Baumtrog, Laura Bolstad, Wes Butler, Kevin Carpenter, Ruth DuBose, Allison Ehlert, Lori Gooden, Denise Gulner, Anne Heitlinger, Darryl Henchen, Krissi Hoffmann, Summer Jefferson, Karen Johnson, Kasey Kier, Tresa Larkin, Debbi Larson, Paul Marzynski, Eric Mattson, Katie Moore, Ashley Oliver, Kelli Otis, John Patterson, Tony Peleska, Devon Pohlman, Caryn Polito, William Price, Paula Rindels, Irene Ruiz-Briseno, Danielle Salus, Megan Sanders, Terry Schwartz, Anne Smetak, Barb Sporlein, Kim Stuart, Susan Thompson, Mike Thone, Mary Tingerthal, Leanne Tomera, Que Vang, Elaine Vollbrecht, Jennifer Wille
   Others present: Ramona Advani, Office of the State Auditor; Christie Eller, Attorney General's Office; Cory Hoeppner, RBC; Mark Lambing, Dominium; Melanie Lien, Piper Jaffray; Anne Mavity, Minnesota Housing Partnership; Tom Noldy, Winthrop & Weinstine; Larry Peterson, DNR; Rhonda Skoby, Dorsey; James Smith, Dorsey; Terry Sween, Dominium; Paul Sween, Dominium

   Agenda Review
   Chair DeCramer indicated there were no changes to the agenda.
3. **Approval of Minutes**
   A. **Regular Meeting of July 27, 2018**
   Motion: Rebecca Otto moved to approve the minutes. Seconded by Terri Thao. Motion carries 6-0
4. **Reports**
   A. **Chair**
   None.
   B. **Commissioner**
   Commissioner Tingerthal shared the following with the board:
   - Housing Task Force Final Report "More Places to Call Home" and asked the board if they would like to hear an overview of the findings at the next board meeting.
   - Thanked Terri Thao for her many hours of service representing the board on the Housing Task Force committee
   - There will be a Finance and Audit Committee meeting prior to the September 27 board meeting at 11:30 a.m.
   - The Program Committee will meet on September 11 at 2:00 pm to review the AHP public comments. This meeting is open to the public. We hosted an AHP webinar on August 29 and over 150 participated.
   - At a Finance and Audit committee meeting prior to the November 15 board meeting an overview of the different risk management tools the Agency uses in the overall Risk Management Plan will be presented by Mike Thone, our new Chief Risk Officer. Kevin Carpenter will discuss possible changes to the Agency Investment Policy.

- There is one change to the resolution for Garfield Square on page 50 of the board packet

New Employee Introductions:

- Tony Peleska introduced Kelli Otis, Executive Assistant, Business Technology Support Division

C. **Committee**
None

5. Consent Agenda

A. Commitment, Low and Moderate Income Rental Loan (LMIR), LMIR Bridge Loan and FFCC loan – Apex Townhomes, D7943, Detroit Lakes
B. Commitment, Low and Moderate Income Rental Loan (LMIR) – Warroad Townhomes, D1717, Warroad
C. Selection/Commitment, Housing Opportunities for Persons with AIDS (HOPWA) Renewal D3621 JustUs Health
D. Approval, Resolution Authorizing Extension of Grant Contract – Dakota County CDA D3739
E. Commitment Modification, Flexible Financing for Capital Costs (FFCC); and Waiver of QAP Private Activity Bond Limitation – Garfield Square Apartments, Duluth D7940
F. Ratification of recommended approval by Finance and Audit Committee of Fiscal 2018 Interfund Transfers

Motion: Stephanie Klinzing moved to approve all items on the Consent Agenda with a minor amendment ot the Garfield Square Apartments resolution. Seconded by Damaris Hollingsworth. Motion carries 6-0

6. Action Items

A. **Request for Waivers to Minnesota Housing's 2019 Qualified Allocaiton Plan, Fort Snelling**
Wes Butler presented a request for two waivers from the requirements of the Agency's 2019 Qualified Allocation Plan for the Fort Snelling Upper Post Flats development. First, a waiver of the predictive cost model threshold. Second, a waiver to allow the developer to submit an application for a preliminary determination related to 4% Low-Income Housing Tax Credits prior to an allocation of bonding authority to an issuer of bonds to finance the development.

Chair DeCramer opened up the discussion. Chair DeCramer indicated that request is a different request from the August 2017 request pertaining to this development. Rebecca Otto requested that someone provide a review of the resolution. Tom O'Hern, General Counsel, reviewed the resolution with board members.

Chair DeCramer polled the board members on whether they had any questions regarding elements in the resolution. Rebecca Otto, none; Craig Klausing, none; Damaris Hollingsworth, none; Terri Thao, none; Stephanie Klinzing, had one clarifying question about the allocation.
Motion: Craig Klausing moved to approve Request for Waivers to Minnesota Housing's 2019 Qualified Allocation Plan, Fort Snelling. Seconded by Terri Thao. Motion carries 6-0

B. **Selections, Homeownership Education, Counseling and Training (HECAT) Fund**
Que Vang presented a request for the Homeownership Education, Counseling and Training (HECAT) Fund which provides yearly financial support for comprehensive homeownership training. This may include education and counseling in a variety of areas, including in-person homeownership education and counseling (pre-purchase and financial wellness), home equity conversion counseling, and foreclosure prevention counseling.

Chair DeCramer opened up the discussion. Board members asked a series of questions and staff provided answers. **Motion:** Rebecca Otto moved to approve Selections, Homeownership Education, Counseling and Training (HECAT) Fund. Seconded by Terri Thao. Motion carries 6-0

C. **Affordable Housing Plan (AHP) Amendment, Deferred Payment Loan (DPL) Program**
Laura Bolstad and Krissi Hoffman requested board approval for additional funding for the Deferred Payment Loan (DPL) Program due to strong production.

Chair DeCramer opened up the discussion. There were no questions from the board. **Motion:** Stephanie Klinzing moved to approve Affordable Housing Plan (AHP) Amendment, Deferred Payment Loan (DPL) Program. Seconded by Craig Klausing Motion carries 6-0

D. **Selection and Commitment, Low and Moderate Income Rental Loan (LMIR) – Morningside Townhomes, D3887, Saint Joseph**
Caryn Polito presented a recommendation for selection and funding of Morningside Townhomes, D3887, Saint Joseph. Agency staff also recommends adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in an amount not to exceed $818,000, subject to the review and approval of the mortgagor and the terms and conditions of Minnesota Housing's term letter.

Chair DeCramer opened up the discussion. Craig Klausing inquired on the interest rate expiration in the term letter. Ms. Polito indicated that an extension granted an additional three weeks for closing. **Motion:** Terri Thao moved to approve Selection and Commitment, Low and Moderate Income Rental Loan (LMIR) – Morningside Townhomes, D3887, Saint Joseph. Seconded by Damaris Hollingsworth. Motion carries 6-0

E. **Selection and Commitment, Low and Moderate Income Rental Loan (LMIR) – Cedarview Commons, D3589, North Saint Paul**
Caryn Polito presented to the board a request for selection and funding Cedarview Commons, D3589, North Saint Paul. Agency staff also recommends adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in an amount not to exceed $11,108,000, subject to the review and approval of the mortgagor and the terms and conditions of Minnesota Housing's term letter.

Chair DeCramer opened up the discussion. Board members asked a series of questions and staff provided answers. Commissioner Tingerthal shared that if we are successful, the board will start seeing more loans of this type. Staff are reaching out to properties that are already in our portfolio, and rather than recapitalizing the entire project, they do refinances along with a small amount of rehabilitation that needs to be done on the properties. **Motion:** Craig Klausing moved to approve Selection and Commitment, Low and Moderate Income Rental Loan (LMIR) – Cedarview Commons, D3589, North Saint Paul. Seconded by Rebecca Otto. Motion carries 6-0.

F. **Resolution authorizing the issuance and sale of Rental Housing Bonds, 2018 Series B, for a multi-family housing development in Detroit Lakes, Minnesota (Apex Townhomes)**
Kevin Carpenter presented to the board a request for approval and authorization to issue short-term fixed rate tax-exempt bonds under the existing Rental Housing bond resolution. The bonds

will be issued in an amount not to exceed $3,520,000, and will be used to acquire and finance the construction of a 30-unit rental housing development located in Detroit Lakes, Minnesota. Michelle Adams from Kutak Rock joined the meeting via conference call and presented key provisions of the resolution.

Chair DeCramer opened up the discussion. Rebecca Otto inquired on the audited financial statements and the placeholder in the board packet. Kevin Carpenter indicated that depending on the timing of the bond issuance, either the existing 2017 or 2018 financial statements will be included.

Motion: Rebecca Otto moved to approve Resolution authorizing the issuance and sale of Rental Housing Bonds, 2018 Series B, for a multi-family housing development in Detroit Lakes, Minnesota (Apex Townhomes). Seconded by Stephanie Klinzing. Motion carries 6-0

G. **Approval, resolution authorizing the issuance and sale of State Appropriation Bonds (Housing Infrastructure), and approving the execution and delivery of related documents.**

Kevin Carpenter presented to the board a request for adoption of a resolution authorizing the issuance of State Appropriation Bonds (Housing Infrastructure), the proceeds of which will be used to finance loans for eligible housing infrastructure projects. The attached resolution outlines the parameters under which the Agency can proceed to issue additional Series of Housing Infrastructure Bonds, and contemplates the full use of the legislative authority granted for Housing Infrastructure Bonds up to and through those approved by the 2017 legislative session. Any utilization of the legislative authority for the issuance of Housing Infrastructure Bonds provided in the 2018 legislative session will be subject to a new authorizing bond resolution. It is currently anticipated that the Agency will issue approximately $25 million of Housing Infrastructure Bonds in September of 2018. Michelle Adams from Kutak Rock presented key provisions of the resolution.

Chair DeCramer opened up the discussion. There were no questions from the board.
Motion: Stephanie Klinzing moved to approve Approval, resolution authorizing the issuance and sale of State Appropriation Bonds (Housing Infrastructure), and approving the execution and delivery of related documents. Seconded by Damaris Hollingsworth. Motion carries 6-0

7. Discussion Items

A. Draft 2019 Affordable Housing Plan

John Patterson provided the board with an overview of the draft of the 2019 Affordable Housing Plan.

8. Information Items

A. 2018 Affordable Housing Plan and 2016-2019 Strategic Plan: Third Quarter Progress Report
B. Semi-Annual Variable Rate Debt and Swap Report

9. Other Business

Next month, the board will review the Governor's Task Force on Housing Report .

10. Adjournment

The meeting was adjourned at 2:36 p.m.

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John DeCramer, Chair

MINNESOTA HOUSING

Board Agenda Item: 6.A
Date: 9/27/2018

Item: Ratification of Finance and Audit Committee recommendation to approve fiscal 2018 interfund transfers

Staff Contact(s):
Terry Schwartz, 651.296.2404, terry.schwartz@state.mn.us

Request Type:

☒ Approval
- ☐ Motion
- ☐ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
Recommending approval of fiscal 2018 interfund transfers as reviewed and forwarded by Finance and Audit Committee.

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):

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MINNESOTA HOUSING

Board Agenda Item: 6.B
Date: 9/27/2018

Item: Commitment Modification, Preservation Affordable Rental Investment Fund (PARIF) – Dundry-Hope Block Stabilization II, Minneapolis D7934

Staff Contact(s):
Ted Tulashie, 651.297.3119, ted.tulashie@state.mn.us
Susan Thompson, 651.296.9838, susan.thompson@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
Agency staff requests the adoption of a resolution authorizing a modification to increase the Preservation Affordable Rental Investment Fund (PARIF) loan commitment by an amount up to $162,000.

Fiscal Impact:
The Agency will not earn any interest revenue as the loan doesn't carry an interest rate. The Agency will earn an inspection fee.

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 19, 2017 meeting, the Minnesota Housing board approved a loan commitment for Dundry-Hope Block Stabilization II under the PARIF program in the amount of $962,000. The following summarizes the changes in the proposal since that time:

DESCRIPTION:	**SELECTION**	**COMMITMENT**	**VARIANCE**
Total Development Cost	$ 1,885,601	$ 2,128,028	$ 242,427
Gross Construction Cost	$ 1,369,416	$ 1,600,055	$ 230,639
Agency Sources:			
PARIF	$ 962,000	$ 1,124,000	$ 162,000
Total Agency Sources	$ 962,000	$ 1,124,000	$ 162,000
Other Non-Agency Sources:			
City of Minneapolis AHTF	$ 408,679	$ 408,679	$ 0
Met Council LHIA Grant	$ 400,000	$ 400,000	$ 0
Dundry House Reserves	$ 60,000	$ 60,000	$ 0
Hope Community Owner Contribution	$ 20,000	$ 67,677	$ 47,677
Hennepin County	$ 33,922	$ 33,922	$ 0
Energy Rebate	$ 0	$ 3,750	$ 3,750
Sales Tax Rebate	$ 0	$ 30,000	$ 30,000

The increase in the PARIF loan is due to development costs higher than estimated. The increase is primarily due to construction bids including construction contingency and other minor costs that are higher than originally estimated.

The increase is offset by Hope Community's contribution; sales and energy rebates. The increased PARIF request of up to $162,000 will help fill the remaining gap.

Staff requests the board approve an increase in the PARIF loan commitment by an amount up to $162,000. Staff is seeking board approval due to the increased amount that exceeds the maximum amount specified in delegated authority No. 005.

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102

RESOLUTION NO. MHFA 18-
Modifying Resolution No. MHFA 17-033

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT MODIFICATION
Preservation Affordable Rental Investment Fund (PARIF) PROGRAM

WHEREAS, the Board has previously authorized the loan commitment for the Dundry-Hope Block Stabilization II, (D7934) by MHFA Resolution No. 17-033; and

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

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

NOW THEREFORE, BE IT RESOLVED:

THAT, the Minnesota Housing Board hereby increases the funding commitment under the PARIF Program for the indicated development, upon the following terms and conditions:

1. The amount of the Preservation Affordable Rental Investment Fund funding commitment for the development shall be increased from $ 962,000 up to $ 1,124,000;

2. All other terms and conditions of MHFA Resolution No. 17-033 remain in effect.

Adopted this 27th day of September 2018

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CHAIRMAN

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MINNESOTA HOUSING

Board Agenda Item: 7.A
Date: 9/27/2018

Item: Approval, Selection and Commitment, Low and Moderate Income Rental Loan (LMIR)
- Northstar Ridge, D3079, Coon Rapids

Staff Contact:
Tresa Larkin 651.284.3177, tresa.larkin@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:
Agency staff completed the underwriting and technical review of the proposed development and recommends the development for selection and funding. The Agency also recommends adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in an amount not to exceed $1,335,000, subject to the review and approval of the Mortgagor, and the terms and conditions of Minnesota Housing's term letter.

Fiscal Impact:
LMIR loans are funded from Housing Investment Fund Pool 2 resources, and as such, Minnesota Housing will earn interest income on the loan without incurring financing expenses. Additionally, this loan will generate fee income.

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

Attachments(s):
- Background
- Development Summary
- Resolution
- Resolution Attachment

Background:
Northstar Ridge is an existing, affordable housing development located in Coon Rapids. The property has 56 one, two, and three-bedroom units in three two-story buildings. The property was built in 2002-2003.

This transaction is the refinance of the Agency's existing LMIR HUD Risk Share loan with a new LMIR loan (not utilizing HUD Risk Share). The new LMIR loan will pay off the old loan, lower the interest rate from 6.5 percent to 4.25 percent, and shorten the term by approximately 5 years.

Existing Agency Minnesota Families Affordable Rental Investment Fund (MARIF) and Economic Development and Housing (EDHC) Challenge deferred loans will remain with the project and will be subordinated to the new first mortgage. All other deferred loans will remain and be subordinated as well.

The refinance will reposition the property while maintaining the debt service payment. The capital needs will be met over the life of the loan and the debt coverage ratio is high and will increase over time.

DEVELOPMENT SUMMARY:

				D#:	3079
Name:	Northstar Ridge			App#:	M20159
Address:	10020 Dogwood Street				
City:	Coon Rapids	County:	Anoka	Region:	Metro

MORTGAGOR:

Ownership Entity:	Northstar Ridge of Coon Rapids Limited Partnership
General Partner/Principals:	DDC Northstar Ridge, LLC; John Duffy

DEVELOPMENT TEAM:

Attorney:	Faegre Baker Daniels
Management Company:	Northstar Residential LLC

CURRENT FUNDING REQUEST/PROGRAM and TERMS:

1,335,000	LMIR First Mortgage	
	Funding Source:	Housing Investment Fund (Pool 2)
	Interest Rate:	4.25%
	MIP Rate:	Not Applicable
	Term (Years):	10
	Amortization (Years):	10

RENT GRID:

Unit Type	Number of Units	Unit Size (Sq. Ft)	Restrictions	Current Rent
1BR	1	813	HOME	762
1BR	5	813	TC	919
1BR	3	865	MKT	1,040
2BR	1	944	HOME	956
2BR	5	1,019	PB8	984
2BR	6	1,019	MARIF	436
2BR	7	1,019	TC	1,115
2BR	6	1,019	MKT	1,195
3BR	7	1,350	PB8	1,283
3BR	6	1,350	MARIF	483
3BR	2	1,350	TC	1,283
3BR	7	1,350	MKT	1,450
Total	**56**			

Rent and Income Limits:

Under the LMIR loan, 23 units subject to income and rent restrictions at the 60% Multifamily Tax Subsidy Project limits. These limits shall follow the hold harmless policy established in Section 3009 of the Housing and Economic Recovery Act of 2008 based on the income limits in effect on the date of the Development's application for LMIR funding from Minnesota Housing. Additionally, 33 units subject to income restrictions at 100% of the greater of State or Area Median Income (not adjusted for household size). Rents for these units are at market (as determined by Minnesota Housing).

The Project must also remain in compliance with the rent and income restrictions of all other programs for which it received financing.

Purpose:

This transaction is the refinance of the Agency's existing LMIR HUD Risk Share loan with a new LMIR loan (not utilizing HUD Risk Share). The new LMIR loan will pay off the old loan, lower the interest rate from 6.5 percent to 4.25 percent, and shorten the term by approximately 5 years. The loan will fully amortize over the 10 year term.

The refinance will reposition the property while maintaining the debt service payment. The capital needs will be met over the life of the loan and the debt coverage ratio is high and will increase over time. The Loan-to-Value is approximately 21%. Existing Agency MARIF and EDHC Challenge deferred loans will remain with the project and will be subordinated to the new first mortgage. All other deferred loans will remain and be subordinated as well.

Population Served:
This project is a true mixed income development located in Coon Rapids. The project houses tenants with incomes at or below 30% metro median income through the MARIF restrictions along with tenants at 60% rent and income restrictions; the project has Project Based Section 8 units and also includes market rate tenants.

Project Feasibility:
Development financing includes the $1,335,000 LMIR loan. The existing MARIF and EDHC Challenge deferred loans will remain on the property and be subordinated to the new first mortgage. The owner will contribute the existing Development Cost Escrow (DCE) of $68,449 and bring cash to close in the amount of $228,187. The development also has existing Anoka County and Community Housing Coalition loans that will be subordinated to the new first mortgage. The project has strong debt coverage and cashflow and a low loan to value ratio. The project is financially feasible as structured.

Development Team Capacity:
There is no change in ownership or management company with this transaction. The sponsor is Duffy Development and the management company is Northstar Residential, LLC. Duffy has extensive experience developing and owning affordable housing units. Northstar Residential is affiliated with Duffy Development and provides third party management services as well.

The property has been in the Agency's first mortgage portfolio since it was constructed in 2002-2003 and has performed well financially. Duffy and Northstar have the capacity to continue successful ownership and management of the property.

Physical and Technical Review:
The project is in good repair and the capital needs assessment provided by Cermak Rhoades Architects did not find any critical needs at the site. The current balance of the existing replacement reserve account will be transferred at the time of the loan closing and monthly deposits will be made to the reserve account to fully cover required capital repairs over the full 10 year term of the new loan.

Market Feasibility:
The property is conveniently located in Coon Rapids, just twenty-five miles from downtown Saint Paul and fifteen miles from downtown Minneapolis. The surrounding neighborhood is a mix of residential and commercial properties. Northstar Ridge will continue to provide quality affordable rental housing, including some larger size units suitable for families. The historical vacancy of the property has been averaging 1.9 percent over the past 5 years. The loan is underwritten with a 3 percent vacancy rate.

DEVELOPMENT COST SUMMARY (estimated):

	Total	Per Unit
Total Development Cost	**$1,647,217**	**$29,415**
Acquisition or Refinance Cost	1,597,267	28,523
Soft Costs	49,950	892
Agency Loan Sources		
LMIR	$1,335,000	$23,839
Total Agency Sources	**$1,335,000**	**$23,839**
Non-Agency Sources		
DCE	$ 84,030	$ 1,501
Owner Cash	$ 228,187	$ 4,075
Total Non-Agency Sources	**$ 312,217**	**$ 5,575**

Board Agenda Item: 7.A
Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102

RESOLUTION NO. MHFA 18-XXX

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

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

Name of Development:	Northstar Ridge
Sponsors:	Northstar Ridge of Coon Rapids Limited Partnership
Guarantors:	John Duffy
Location of Development:	Coon Rapids
Number of Units:	56
Amount of Refinance:	$1,335,000
Amount of LMIR Mortgage: (not to exceed):	$1,335,000

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

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

NOW THEREFORE, BE IT RESOLVED:

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

1. The amount of the LMIR amortizing loan shall not exceed $1,335,000; and
2. The interest rate on the permanent LMIR loan shall be 4.25 percent per annum (subject to change as set forth in the attached Agency term letter dated September 12, 2018), with monthly payments based on a 10-year amortization; and
3. The term of the permanent LMIR loan shall be 10 years; and
4. The LMIR loan closing shall occur on or before December 28, 2018; and
5. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The Commissioner is authorized to approve non-material modifications to those terms; and

6. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and
7. John Duffy shall guarantee the Mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and
8. The sponsor, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary, shall execute all such documents relating to said loan, to the security therefore, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 27th day of September 2018

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CHAIRMAN

MINNESOTA HOUSING

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September 12, 2018

Mr. John Duffy
Northstar Ridge of Coon Rapids Limited Partnership
12708 Wayzata Boulevard, Suite 400
Minnetonka, MN 5305

RE: Term Letter
Northstar Ridge, Coon Rapids
MHFA Development #3079, Project # 20159

Dear John:

Minnesota Housing Finance Agency ("Minnesota Housing") staff has approved your request for a loan or loans subject to the terms and conditions contained in this letter (the "Terms"). The Terms are subject to Minnesota Housing's Board of Directors' approval and meeting all underwriting standards, delivery of required due diligence items, satisfactory loan documentation and other loan closing requirements. The Terms do not constitute a commitment to lend on the part of Minnesota Housing and relate only to the specific financing referenced in this letter.

Borrower: A single asset entity: Northstar Ridge of Coon Rapids Limited Partnership

General Partner; Managing Member: DDC Northstar Ridge, LLC; John Duffy

Development Description/Purpose: Refinance of a 56-unit affordable housing development located in Coon Rapids, Minnesota

Minnesota Housing Loan Type/Terms

Program	Low and Moderate Income Rental Program (LMIR)
Loan Amount	$1,335,000
Interest Rate	* 4.25 %
Mortgage Insurance Premium (%)	Not applicable
Term	10 years
Amortization/Repayment	10 years
Prepayment Provision	May be prepaid in whole or in part at any time
Nonrecourse or Recourse	Nonrecourse; guaranty of operations for life of loan
Construction/Permanent Loan or Construction Bridge Loan or End Loan	Permanent/End loan
Lien Priority	First

*Subject to change. Loan closing must occur by December 28, 2018 for the quoted interest rate to be valid; interest rate may be subject to adjustment after this date at Minnesota Housing's sole discretion.

Origination Fee: LMIR Loan: $26,700

payable at the earlier of loan commitment or loan closing

Inspection Fee: Not Applicable

Guaranty/Guarantor(s): Operations Guaranty to be provided by John Duffy

Operating Deficit Reserve Account: Not Applicable

Operating Cost Reserve Account: Not Applicable

Replacement Reserve Account: A capitalized replacement reserve will be funded at loan closing; the amount will be the full balance of the existing replacement reserve account. In addition, ongoing deposits will be required in the amount of $450/unit/annum. The monthly replacement reserve will be $2,100. The replacement reserve will be held by Minnesota Housing.

Escrows: Real estate tax escrow and property insurance escrow to be established at the time of permanent loan closing and held by Minnesota Housing.

Collateral/Security: Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment.

HAP or other Subsidy Agreement: Not Applicable

Rent and Income Requirements:

LMIR Rent and Income Limits

23 units subject to income and rent restrictions at the 60% Multifamily Tax Subsidy Project limits. These limits shall follow the hold harmless policy established in Section 3009 of the Housing and Economic Recovery Act of 2008 based on the income limits in effect on the date of the Development's application for LMIR funding from Minnesota Housing.

19 units subject to income restrictions at 100% of the greater of State or Area Median Income (not adjusted for household size). Rents for these units at market (as determined by Minnesota Housing).

14 of the units may have unrestricted incomes; rents for these units at market (as determined by Minnesota Housing).

The Project must also remain in compliance with the rent and income restrictions of all other programs for which it received financing.

Other Occupancy Requirements:	Not Applicable
Closing Costs:	Borrower agrees to pay all closing costs related to the specific financing referenced in this letter.
Expiration Date:	This term letter will expire on the earlier of (i) six months from the date of this letter or (ii) Minnesota Housing board approval of a loan commitment.
Additional Terms:	Not Applicable
Other Conditions:	Not Applicable
Board Approval:	Commitment of all loans under the LMIR program is subject to Minnesota Housing's board approval and adoption of a resolution authorizing the commitment of the loan.
Not a Binding Contract:	This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower's ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter.

Please sign this letter and return it to Allison Ehlert via email at allison.ehlert@state.mn.us on or before September 26, 2018.

If you have any questions related to this letter, please contact Tresa Larkin at 651.284.3177 or by e-mail at tresa.larkin@state.mn.us.

We appreciate the opportunity to work with you on your affordable housing development.

Sincerely,

Wesley J. Butler
Assistant Commissioner, Multifamily

AGREED AND ACCEPTED BY:

NORTHSTAR RIDGE OF COON RAPIDS LIMITED
PARTNERSHIP

By: DDC Northstar Ridge, LLC
Its: General Partner

By: ____
John Duffy, Managing Member

Date Accepted: ___________________________

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MINNESOTA HOUSING

Board Agenda Item: 7.B
Date: 9/27/2018

Item: Approval, Selection and Commitment, Low and Moderate Income Rental Loan (LMIR)
- Maple Lakes Townhomes, D3627, Maple Grove

Staff Contact:
Tresa Larkin 651.284.3177, tresa.larkin@state.mn.us

Request Type:

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

Summary of Request:
Agency staff completed the underwriting and technical review of the proposed development and recommends the development for selection and funding. The Agency also recommends adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in an amount not to exceed $1,020,000, subject to the review and approval of the Mortgagor, and the terms and conditions of Minnesota Housing's term letter.

Fiscal Impact:
LMIR loans are funded from Housing Investment Fund Pool 2 resources, and as such, Minnesota Housing will earn interest income on the loan without incurring financing expenses. Additionally, this loan will generate fee income.

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

Attachments(s):
- Background
- Development Summary
- Resolution
- Resolution Attachment

Background:
Maple Lakes Townhomes is an existing, affordable housing development located in Maple Grove. The property has 40 two, three and four-bedroom units in three two-story buildings. The property was built in 2003-2004.

This transaction is the refinance of the Agency's existing LMIR loan with a new LMIR loan (not utilizing HUD Risk Share). The new LMIR loan will pay off the old loan, lower the interest rate from 5.89 percent to 4.25 percent, and shorten the term by approximately 8 years.

Existing Agency EDHC Challenge deferred loan will remain with the project and will be subordinated to the new first mortgage. All other deferred loans will remain and be subordinated as well.

The refinance will reposition the property while maintaining the debt service payment. The capital needs will be met over the life of the loan and the debt coverage ratio is high and will increase over time.

DEVELOPMENT SUMMARY:

				D#:	3627
Name:	Maple Lakes Townhomes			App#:	M20158
Address:	8510-8534 Forestview Lane North				
City:	Maple Grove	County:	Hennepin	Region:	Metro

MORTGAGOR:

Ownership Entity:	Maple Lakes of Maple Grove Limited Partnership
General Partner/Principals:	DDC Maple Lakes, LLC; John Duffy

DEVELOPMENT TEAM:

Attorney:	Faegre Baker Daniels
Management Company:	Northstar Residential LLC

CURRENT FUNDING REQUEST/PROGRAM and TERMS:

1,020,000	LMIR First Mortgage	
	Funding Source:	Housing Investment Fund (Pool 2)
	Interest Rate:	4.25%
	MIP Rate:	Not Applicable
	Term (Years):	10
	Amortization (Years):	10

RENT GRID:

Unit Type	Number of Units	Unit Size (Sq. Ft)	Restrictions	Current Rent
2BR	19	1,400	Tax Credit	1,064
3BR	14	1,477	Tax Credit	1,224
4BR	2	1,876	Tax Credit	1,340
2BR	3	1,400	Market	1,275
3BR	2	1,447	Market	1,550
TOTAL	**40**			

Rent and Income Limits:
16 units subject to income and rent restrictions at the 60% Multifamily Tax Subsidy Project limits. These limits shall follow the hold harmless policy established in Section 3009 of the Housing and Economic Recovery Act of 2008 based on the income limits in effect on the date of the Development's application for LMIR funding from Minnesota Housing.

14 units subject to income restrictions at 100% of the greater of State or Area Median Income (not adjusted for household size). Rents for these units are at market (as determined by Minnesota Housing).

10 of the units may have unrestricted incomes; rents for these units are at market (as determined by Minnesota Housing).

The Project must also remain in compliance with the rent and income restrictions of all other programs for which it received financing.

Purpose:
This transaction is the refinance of the Agency's existing LMIR HUD Risk Share loan with a new LMIR loan (not utilizing HUD Risk Share). The new LMIR loan will pay off the old loan, lower the interest rate from 5.89 percent to 4.25 percent, and shorten the term by approximately 8 years. The loan will fully amortize over the 10 year term.

The refinance will reposition the property while maintaining the debt service payment. The capital needs will be met over the life of the loan and the debt coverage ratio is high and will increase over time. The Loan-to-Value is less than 20%. Existing Agency Economic Development and Housing (EDHC) Challenge deferred loan will remain with the project and will be subordinated to the new first mortgage. All other deferred loans will remain and be subordinated as well.

Population Served:
This project is a mixed income development located in Maple Grove. The project houses tenants with incomes at or below 60% rent and income restrictions; and also includes market rate tenants. The large bedrooms and townhouse style development are well suited for large family tenants.

Project Feasibility:
Development financing includes the $1,020,000 LMIR loan. The existing EDHC Challenge deferred loan will remain on the property and be subordinated to the new first mortgage. The owner will contribute the existing Development Cost Escrow(DCE) of $68,449 and bring cash to close in the amount of $397,245. The development also has existing Hennepin County and City of Maple Grove loans that will be subordinated to the new first mortgage. The project has strong debt coverage and cashflow and a low loan to value ratio. The project is financially feasible as structured.

Development Team Capacity:
There is no change in ownership or management company with this transaction. The sponsor is Duffy Development and the management company is Northstar Residential, LLC. Duffy has extensive experience developing and owning affordable housing units. Northstar Residential is affiliated with Duffy Development and provides third party management services as well.

The property has been in the Agency's first mortgage portfolio since it was constructed in 2003-2004 and has performed well financially. Duffy and Northstar have the capacity to continue successful ownership and management of the property.

Physical and Technical Review:
The project is in good repair and the capital needs assessment provided by Cermak Rhoades Architects did not find any critical needs at the site. The developer will contribute $50,000 as a capitalized deposit to the replacement reserve account, the current balance of the existing replacement reserve account will be transferred at the time of the loan closing and monthly deposits will be made to the reserve account to fully cover required capital repairs over the full 10 year term of the new loan.

Market Feasibility:
The property is conveniently located in Maple Grove, just twenty-five miles from downtown Saint Paul and fifteen miles from downtown Minneapolis. The surrounding neighborhood is a mix of residential and commercial properties. Maple Lakes Townhomes will continue to provide quality affordable rental housing, including large units suitable for families. The historical vacancy of the property has been averaged 1.5 percent over the past 5 years. The loan is underwritten with a 3 percent vacancy rate.

DEVELOPMENT COST SUMMARY (estimated):

	Total	**Per Unit**
Total Development Cost	**$1,485,694**	**$37,142**
Acquisition or Refinance Cost	1,387,444	34,686
Soft Costs	48,250	1,206
Agency Loan Sources		
LMIR	$1,020,000	$25,500
Total Agency Sources	**$1,020,000**	**$25,500**
Non-Agency Sources		
DCE	$ 68,449	$ 1,711
Owner Cash	$ 397,245	$ 9,931
Total Non-Agency Sources	**$ 465,694**	**$ 11,642**

Board Agenda Item: 7.B
Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102

RESOLUTION NO. MHFA 18-XXX

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

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

Name of Development:	Maple Lakes Townhomes
Sponsors:	Maple Lakes of Maple Grove Limited Partnership
Guarantors:	John Duffy
Location of Development:	Maple Grove
Number of Units:	40
Amount of Refinance:	$1,020,000
Amount of LMIR Mortgage: (not to exceed):	$1,020,000

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

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

NOW THEREFORE, BE IT RESOLVED:

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

1. The amount of the LMIR amortizing loan shall not exceed $1,020,000; and
2. The interest rate on the permanent LMIR loan shall be 4.25 percent per annum (subject to change as set forth in the attached Agency term letter dated September 12, 2018), with monthly payments based on a 10-year amortization; and
3. The term of the permanent LMIR loan shall be 10 years; and
4. The LMIR loan closing shall occur on or before December 28, 2018; and
5. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The Commissioner is authorized to approve non-material modifications to those terms; and

6. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and
7. John Duffy shall guarantee the Mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and
8. The sponsor, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary, shall execute all such documents relating to said loan, to the security therefore, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 27th day of September 2018

____

CHAIRMAN

MINNESOTA HOUSING

400 Wabasha Street North, Suite 400
St. Paul, MN 55102
P: 800.657.3769
F: 651.296.8139 | **TTY:** 651.297.2361
www.mnhousing.gov

September 12, 2018

Mr. John Duffy
Maple Lakes of Maple Grove Limited Partnership
12708 Wayzata Boulevard, Suite 400
Minnetonka, MN 5305

RE: Term Letter
Maple Lakes Townhomes, Maple Grove
MHFA Development #3627, Project # 20158

Dear John:

Minnesota Housing Finance Agency ("Minnesota Housing") staff has approved your request for a loan or loans subject to the terms and conditions contained in this letter (the "Terms"). The Terms are subject to Minnesota Housing's Board of Directors' approval and meeting all underwriting standards, delivery of required due diligence items, satisfactory loan documentation and other loan closing requirements. The Terms do not constitute a commitment to lend on the part of Minnesota Housing and relate only to the specific financing referenced in this letter.

Borrower: A single asset entity: Maple Lakes of Maple Grove Limited Partnership

General Partner; Managing Member: DDC Maple Lakes, LLC; John Duffy

Development Description/Purpose: Refinance of a 40-unit affordable housing development located in Maple Grove, Minnesota

Minnesota Housing Loan Type/Terms

Program	Low and Moderate Income Rental Program (LMIR)
Loan Amount	$1,020,000
Interest Rate	* 4.25 %
Mortgage Insurance Premium (%)	Not applicable
Term	10 years
Amortization/Repayment	10 years
Prepayment Provision	May be prepaid in whole or in part at any time
Nonrecourse or Recourse	Nonrecourse; guaranty of operations for life of loan
Construction/Permanent Loan or Construction Bridge Loan or End Loan	Permanent/End loan
Lien Priority	First

*Subject to change. Loan closing must occur by December 28, 2018 for the quoted interest rate to be valid; interest rate may be subject to adjustment after this date at Minnesota Housing's sole discretion.

Origination Fee:	LMIR Loan: $25,000 payable at the earlier of loan commitment or loan closing
Inspection Fee:	Not Applicable
Guaranty/Guarantor(s):	Operations Guaranty to be provided by John Duffy
Operating Deficit Reserve Account:	Not Applicable
Operating Cost Reserve Account:	Not Applicable
Replacement Reserve Account:	A capitalized replacement reserve in the amount of $50,000 will be funded at loan closing. The full balance of the existing replacement reserve account will be transferred to the new loan at loan closing. In addition, ongoing deposits will be required in the amount of $600/unit/annum. The monthly replacement reserve will be $2,000. The replacement reserve will be held by Minnesota Housing.
Escrows:	Real estate tax escrow and property insurance escrow to be established at the time of permanent loan closing and held by Minnesota Housing.
Collateral/Security:	Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment.
HAP or other Subsidy Agreement:	Not Applicable
Rent and Income Requirements:	**LMIR Rent and Income Limits** 16 units subject to income and rent restrictions at the 60% Multifamily Tax Subsidy Project limits. These limits shall follow the hold harmless policy established in Section 3009 of the Housing and Economic Recovery Act of 2008 based on the income limits in effect on the date of the Development's application for LMIR funding from Minnesota Housing. 14 units subject to income restrictions at 100% of the greater of State or Area Median Income (not adjusted for household size). Rents for these units at market (as determined by Minnesota Housing). 10 of the units may have unrestricted incomes; rents for these units at market (as determined by Minnesota Housing). The Project must also remain in compliance with the rent and income restrictions of all other programs for which it received financing.

Other Occupancy Requirements:	Not Applicable
Closing Costs:	Borrower agrees to pay all closing costs related to the specific financing referenced in this letter.
Expiration Date:	This term letter will expire on the earlier of (i) six months from the date of this letter or (ii) Minnesota Housing board approval of a loan commitment.
Additional Terms:	Not Applicable
Other Conditions:	Not Applicable
Board Approval:	Commitment of all loans under the LMIR program is subject to Minnesota Housing's board approval and adoption of a resolution authorizing the commitment of the loan.
Not a Binding Contract:	This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower's ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter.

Please sign this letter and return it to Allison Ehlert via email at allison.ehlert@state.mn.us on or before September 26, 2018.

If you have any questions related to this letter, please contact Tresa Larkin at 651.284.3177 or by e-mail at tresa.larkin@state.mn.us.

We appreciate the opportunity to work with you on your affordable housing development.

Sincerely,

Wesley J. Butler
Assistant Commissioner, Multifamily

AGREED AND ACCEPTED BY:

MAPLE LAKES OF MAPLE GROVE LIMITED PARTNERSHIP

By: DDC Maple Lakes, LLC
Its: General Partner

By: ______________________________________
John Duffy, Managing Member

Date Accepted: __________________________

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MINNESOTA HOUSING

Board Agenda Item: 7.C
Date: 9/27/2018

Item: Analysis of Impediments to Fair Housing Choice

Staff Contact(s):
Jessica Deegan, 651.297.3120, jessica.deegan@state.mn.us

Request Type:

☒ Approval
  ☒ Motion
  ☐ Resolution

☐ No Action Needed
  ☐ Discussion
  ☐ Information

Summary of Request:
Staff seeks approval of the 2018 State of Minnesota's Analysis of Impediments to Fair Housing Choice.

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
- Executive Summary and Action Items (redlined revisions from draft)
- Public Comment Summary and Response
- Full Public Comments

Background
Minnesota Housing, along with the Department of Employment and Economic Development and Department of Human Services, together conducted an Analysis of Impediments to Fair Housing Choice (AI). The AI is required to demonstrate that the agency is affirmatively furthering fair housing, as we annually certify to through the Consolidated Planning process for US Department of Housing and Urban Development (HUD). While the Consolidated Planning and AI requirements are triggered by the agency's receipt of HOME Investment Partnerships, Housing Opportunities for Persons with AIDS, and the National Housing Trust Fund, the certification to affirmatively further fair housing span the full activities of the agency.

The State last conducted an AI in 2011 to correspond with the 2012-2016 5 Year Consolidated Plan. Each year, we have reported on action items associated with that AI in annual reporting to HUD. The 2011 AI was extended to the first years of the 2017-2021 Consolidated Plan to coordinate with the new Affirmatively Further Fair Housing rule promulgated in 2015, which changed the format of fair housing planning from the AI to a new Assessment of Fair Housing (AFH).

While the state is not required to conduct an AFH under the new rule until 2021 to correspond with our 2022-2026 Consolidated Plan, we felt that developing an AI with AFH components would both better prepare the state for developing the new plan in 2021 and develop an interim plan that is more consistent with fair housing law and regulatory intentions.

The draft AI was brought before board in February 2018. At the conclusion of the public comment period in March, staff determined to hold on finalizing the AI until the conclusion of the Governor's Task Force on Housing to better align action items with findings in that report.

The attached executive summary and action items show the changes made to the action items as a result of public comment and the work of the Governor's Task Force on Housing. Additional technical changes were made to Appendix A, Regulatory Review, and to Section II Housing Choice (adding data table to describe cost burden by income by race). Both technical changes are as a result of public comments seeking clarity and correction.

The most significant change from the draft action items is creating a new goal area entitled "decrease the loss of housing through displacement and eviction". This goal area includes action items pertaining to redevelopment displacing current renters of Naturally Occurring Affordable Housing (NOAH) and eviction filings negatively impacting renters. This topic area was widely discussed in public comment and in the work of the Governor's Task Force on Housing.

Full public written comments are also attached.

The full final AI report may be found at Minnesota Housing's website at www.mnhousing.gov > Fair Housing.

Analysis of Impediments to Fair Housing Choice

Minnesota Housing, Department of Employment and Economic Development, Department of Human Services

Executive Summary and Action Items
September 2018

Executive Summary

This document is the 2018 State of Minnesota Analysis of Impediments to Fair Housing Choice (AI). The State of Minnesota is required to assess barriers to housing choice with development of its five-year Consolidated Plan for federal block grants funding for housing and community development. The state agencies that are direct recipients of these funds are the Minnesota Housing Finance Agency (Minnesota Housing), the Minnesota Department of Employment and Economic Development (DEED) and the Department of Human Services (DHS).

An Economic Opportunity Approach

This study approaches the analysis of fair housing issues through an “opportunity lens.” This was done to:

- Incorporate recent research that links long-term economic gains of cities and states to advancing economic growth of residents,
- Incorporate the latest legal developments around fair housing, and
- Most importantly, identify where the Grantees can best intervene to improve the economic opportunities of residents and, ultimately the fiscal health, across the state.

How does economic opportunity relate to fair housing? The Federal Fair Housing Act requires that HUD programs and activities be administrated in a manner that affirmatively furthers (AFFH) the policies of the Fair Housing Act. Federal courts have interpreted this to mean doing more than simply not discriminating: The AFFH obligation also requires recipients of federal housing funds to take meaningful actions to overcome historic and current barriers to accessing housing and economically stable communities.

It is important to recognize that fair housing planning has benefits beyond complying with federal funding. This has been articulated by HUD as: “the obligations and principles embodied in the concept of fair housing are fundamental to healthy communities…and…actions in the overall community planning and development process lead to substantial positive change.”

HUD is not prescriptive in its approach to fair housing planning, although the agency does place high importance on fair housing strategies that facilitate positive economic environments in all communities—whether these be bustling urban areas, quaint and stable suburbs, or pastoral rural towns.

In sum, this new approach to fair housing provides a more comprehensive evaluation of the circumstances within the state’s geographic focus and authority that affect fair housing choice and economic prosperity.

This document is modeled after the structure of the HUD-proposed Assessment of Fair Housing for States and Insular Areas. It includes a:

- Demographic Summary (Section I)—review of demographic indicators, which may be linked to fair housing issues;
- Housing Choice Analysis (Section II)—examination of barriers to housing choice and the effects on protected classes;
- Access to Opportunity (Section III)—exploration of how relevant State of Minnesota policies and practices support access to economic opportunity;
- Disability and Access Analysis (Section IV)— examination of the housing experience and access to opportunity for Minnesota residents with disabilities;
- Complaint and Regulatory Review (Section V)— review of the fair housing enforcement and regulatory environment; and
- Contributing Factors, Priorities, and Goals (Section VI)—identifies fair housing issues found in the analysis conducted for the State of Minnesota AI and also includes actions the State will take in response to these issues.

Community Engagement Process

In addition to analysis of publicly available demographic and socioeconomic data, HUD-provided data, and review of state, regional and local studies, the Minnesota AI provided opportunities for residents and stakeholders to share their experience with housing choice and access to opportunity. The engagement process included:

- Community conversations held in Worthington, Marshall, Willmar and Bemidji with Anuak, Eritrean, Hispanic, Karen, Oromo, Vietnamese, and Somali residents, residents with disabilities and members of the Red Lake, Leech Lake and White Earth bands of Chippewa Indians—69 residents participated;
- In-depth interviews focused on organizations providing services to or advocacy on behalf of: African immigrants and refugees, Asian Pacific residents, residents with disabilities, Karen refugees and immigrants, low income residents, Minnesota's tribal nations, and interviews with organizations serving residents of racially or ethnically concentrated areas of poverty in the Twin Cities—17 organizations and agencies participated;
- A survey of public housing authorities operating in greater Minnesota—27 participated;
- A comprehensive stakeholder survey—467 stakeholders participated;
- A thorough review of community engagement results from the Twin Cities Regional AI Addendum process conducted in early 2017 and additional discussions with the organizations that led community engagement for the Addendum to identify common fair housing issues with the State AI.

- A public comment period including wide distribution of draft materials and a public hearing.

Summary of Findings

Key findings from the AI as are described fully in the following chapters are below.

Demographic analysis findings:

- Minnesota's racial and ethnic diversity has increased since 2000, due to strong growth in Black/African American, Asian, Hispanic, and multi-race residents. Yet these groups still comprise a very small portion of the State's residents: About 80 percent of residents report their race and ethnicity as white, non-Hispanic.

- Except for Native Americans, the state's racial and ethnic diversity is predominantly in the Twin Cities. Nearly two-thirds of the state's Black/African American residents live in Hennepin and Ramsey Counties.

- The state's non-white residents—especially Black/African American and Native American residents—are more likely to experience poverty than white, non-Hispanic residents. The gap is most pronounced for children: More than four in 10 Black/African American and Native American children in Minnesota lived in poverty in 2014, as well as three in 10 Hispanic children. This compares to just 7 percent of white, non-Hispanic children.

- As defined through the HUD framework, areas of concentrated poverty are most commonly located in the Twin Cities and on Native American reservations. Residents of these areas are employed (very few receive public assistance as their primary source of income), yet they earn low wages and cannot afford the costs of housing: 75 percent of residents in areas of concentrated poverty are cost burdened.

- Segregation by race and ethnicity is not exclusively an urban problem. In fact, segregation in the Twin Cities is declining as a result of migration of Black/African American residents into suburban communities, overall growth in Hispanic residents, and an increase of white households in inner-city neighborhoods. The highest levels of segregation in the state, as measured by the Dissimilarity Index (DI), are found in Becker, Beltrami, Cass, Kandiyohi, Nobles, and Todd Counties in Greater Minnesota, and in Hennepin and Ramsey Counties in the Twin Cities Metro.

Housing choice findings:

- Housing needs in the state have grown significantly in the past 15 years, particularly for renters, due to rising rental costs and stagnant incomes. Large families, immigrant families, and many racial and ethnic minorities are disproportionately affected by market changes like lower vacancy rates that result from this dichotomy

- Between 2010 and 2015, the total number of mortgage loan applications declined by 19 percent, following trends identified in the past State Analysis of Impediments fair housing study: Between 2004 and 2009, applications declined 34 percent.

- The proportion of mortgage loans that were denied has changed little over time and gaps in approvals among different races and ethnicities persist. Denials remain consistently highest for American Indian/Alaskan Native, Black/African American, and Hispanic applicants, and lowest for White and Asian applicants. The highest percentage point difference in denials in 2015 is a 12 percentage point disparity for American Indian/Alaskan Native and White borrowers.

- Since 2008, there has been a divide in urban and rural mortgage loan applicants' approval rates. The gap is more significant in Minnesota than in the U.S. overall. Research by the Minneapolis Federal Reserve bank attributes the gap to a larger share of applicants in rural areas, suggesting an unmet demand for residential capital in rural Minnesota. A recent study by the NBER suggests that lack of access to capital (due to physical proximity or the digital divide) is another factor explaining lending differences.

- Several counties in Minnesota stand out for their large gaps in residential mortgage loan denials between minority and non-minority applicants. These counties are all located in rural areas; most have moderate levels of segregation; and some are home to Indian Reservations.

- To respond to these needs, Minnesota Housing has established strategic priorities that focus on closing the homeownership gap for minority residents; supporting renters through creation of new units and preserving existing affordable housing; prioritizing creation of family rental units; while offering flexibility to respond to individual communities' needs.

Access to opportunity findings:

- There are disparities in access to proficient schools, particularly in the Twin Cities.

- Residents and stakeholders have described a lack of capacity for in-person language interpretation at schools, especially in communities that have seen high growth in immigrants and refugees from non-Spanish-speaking countries.

- Resources for local provision of adult basic education, especially English as a Second Language and adult literacy are perceived to be lacking.

- From community conversations, it's clear that residents, and many landlords, are not aware of their rights and responsibilities under the Fair Housing Act. Education and outreach is needed.

Disability and access findings:

- A lack of affordable, integrated housing for individuals who need supportive services is a significant barrier to fair housing choice for residents with disabilities statewide and was identified as a serious issue in each region of the state.

- Similarly, a lack of housing available for persons with disabilities transitioning out of institutions and nursing homes was the 12th most serious contributing factor to fair housing issues statewide and is a more pressing issue outside of the Twin Cities.

- Lack of public transportation limits housing choice and access to opportunity for residents with disabilities living in communities with no, infrequent or solely regional transportation services.

- Affordable and accessible housing for residents with disabilities should have greater visibility within Minnesota Housing.

- Requiring residents with disabilities to begin the application process for the Developmental Disability Waiver and other services onsite at county offices places a significant burden on residents with disabilities, particularly those living in greater Minnesota. There may be a need for county staff who administer programs benefitting residents with disabilities to receive training on best practices for successful interactions with residents with intellectual disabilities and mental illness.

Regulatory review findings:

- Annually, about 100 Minnesotans file fair housing complaints. Forty-percent of the complaints allege discrimination on the basis of disability; about one-quarter allege race-based discrimination. Hennepin County had the most complaints filed, followed by Ramsey, Dakota, and Anoka counties. Nearly 75 percent (72-74%) of all complaints were filed in these four counties.

- In 2015, there were 109 hate crimes reported in the state of Minnesota, or 5.95 hate crimes per 100,000 residents—slightly more than the national average of 5.29. About half of hate crimes reported were committed on the basis of race, ethnicity, or ancestry.

- A thorough review of state-level statute regulations and programs related to fair housing (appearing in Appendix A) concluded that that state has a multi-faceted regulatory framework in place that does not appear to create barriers to housing choice. Modest improvements could be made to strengthen state laws.

- The Twin Cities AI Addendum included a comprehensive review of local barriers in the Metro region. The review found that some communities have regulations and practices that could create barriers to housing choice through restrictive definitions of family and housing types, exclusionary zoning practices, and design and construction barriers.

Fair Housing Issues and Contributing Factors

The following fair housing issues were identified through the quantitative analysis in Sections I through V.

Primary fair housing issues. This section presents the fair housing issues identified by stakeholders, residents, and through the analysis of demographic and housing data.

The top issues, according to **stakeholders** who participated in the study, are summarized below. When asked which resident groups these issues mostly affect, stakeholders said: low income families, persons with disabilities, and immigrants/refugees. Many of the fair housing issues are prevalent statewide. Issues that are specific to only some geographic areas are noted as such.

Housing issues

- **Poor condition of housing.** This is a top barrier identified throughout Minnesota, especially in areas with growing employment and housing shortages. Stakeholders in the CDBG non-entitlement cities identified poor condition of affordable housing as the most significant barrier affecting their constituencies.
- **Lack of larger rental units for families.** This issue is perceived as disproportionately affecting large and often immigrant families. This is one of the top ranked barriers by stakeholders in addition to units in poor condition. A related concern is that new developments created through incentive programs fail to increase the stock of family units in the Twin Cities (the perception is that these new developments are mostly studio and 1-bedroom units). Another related concern is that onerous parking restrictions that do not permit visitors and/or do not allow street parking, create challenges for larger families.
- **High barriers to entry for homeownership (downpayment assistance, credit requirements) for lower income and non-white and Hispanic residents.** General lack of knowledge of how to achieve homeownership and manage ownership in poor economic environments (e.g., foreclosure counseling). For some cultural groups, lack of culturally competent lending products. Statewide issues that disproportionately affect households with credit histories and Black/African American, Hispanic, and Native American households, who are more likely to be denied mortgage loan credit.
- **Tenant screening can include onerous "look back" periods for criminal charges or evictions of rental applicants.** Considered to be prevalent statewide.). Expungement of eviction difficult to achieve (state barrier).
- **Landlords requiring incomes that are three times the required rent payment and charging high security deposits and first and last months' rent.** Strict standards for rental applicants in tight markets. Lack of landlords that will accept Section 8. This is most prevalent in areas with very low rental vacancy rates, high growth, and strong employment (Twin Cities and high-growth markets in Southern Minnesota).
- **Redevelopment of naturally occurring affordable housing (NOAH),** is most likely to affect residents who are disproportionately likely to have criminal histories, including Black/African American residents and, to a lesser extent, Native Americans.
- **Perception that affordable housing is located in high poverty, low opportunity areas and that there are concentrations of units that accept Section 8.** Lack of landlords that accept Section 8 in high opportunity communities. This concern is identified mostly for the Twin Cities.
- **Not in my back yard - NIMBYism/neighborhood opposition to housing development in general.**

Housing barriers specific to persons with disabilities

- **Shortage of accessible and available housing options.** For people with disabilities, simply acquiring housing and remaining housed are significant challenges. Wait lists for affordable, accessible housing are "years long" in many rural areas.

- **Shortage of resources to make accessibility improvements.** If a Housing Choice Voucher holder requires a reasonable accommodation, they will often look to the local PHA to help with those improvements. Most local PHAs do not have the resources to assist with the accommodation. There are also not resources to assist non voucher holders in accessibility improvements more broadly.
- **Shortage of workers to help transition into independent living and lack of case managers and home care aids to support independent living, particularly in very rural areas and areas with strong employment growth and housing pressures.** In-person intake for services at County departments can be intimidating to persons with intellectual disabilities or severe mental illness, resulting in otherwise qualified individuals not receiving services. Processes to apply for home health care and other supports are complex and stakeholders believe there are insufficient resources to assist residents with applications. Stakeholders note that there has been progress in adopting processes that respect a person's preferences, but there are insufficient resources to accommodate preferences.

Conversations with a **diverse set of residents** living throughout the state (Worthington, Marshall, Willmar and Bemidji with Anuak, Eritrean, Hispanic, Karen, Oromo, Vietnamese, and Somali residents, residents with disabilities and members of the Red Lake, Leech Lake and White Earth bands of Chippewa Indians) identified the following top concerns. These concerns are particular to areas outside of the Twin Cities, where the engagement occurred.

- **Poor housing condition**, particularly homes that are owned by outside investors and rented to vulnerable populations (undocumented, new immigrants). This was also raised as a top issue in the Twin Cities in the AI Addendum.

- **Limited knowledge and/or access to resources to help communities quickly respond to housing shortages and needs** (e.g., rapid employment growth, limited housing for special needs populations who may be moving from institutional settings, face a critical housing need). This was primarily identified as an issue for growing areas outside of the Twin Cities.

- **Lack of understanding by local officials about how land use and zoning decisions can create barriers to housing choice**; prevalence of a "charity" model of delivering housing and services. Primarily an issue for areas outside of the Twin Cities, including exurbs of the Twin Cities.

- **General ignorance of fair housing laws in rural and semirural areas and the need to increase understanding of such laws and capacity for education and outreach.** This is mostly identified as an issue in rural areas and small town in the state.

The **quantitative analyses** conducted for the AI—which examined segregation and integration, areas of concentrated poverty, equal access to quality educational environments, employment opportunities, transportation, and healthy communities—found the following fair housing concerns:

- **Lack of economic opportunity in high poverty areas that are also racially and ethnicity diverse areas.** The vast majority of these areas are in the Twin Cities region; others are on Native American reservations. Residents living in these areas face challenges in accessing economic opportunity because of many factors including isolation (very rural areas), drug and alcohol addiction (particularly in the Headwaters Region) and language barriers (both in spoken and written languages). Adult illiteracy among the refugee population in greater Minnesota poses a significant barrier to accessing opportunity, from being unable to pass a driver's license exam to promotional opportunities in the workplace.

- **High and moderate segregation, as measured by the Dissimilarity Index (DI).** The DI is moderate to high in Cass (high), Becker, Beltrami, Hennepin, Kandiyohi, Nobles, Ramsey, and Todd Counties (moderate). Becker, Kandiyohi, and Nobles County are also areas with the largest rates of denials for minority loan applicants seeking home loans, which may exacerbate segregation.

- **Large differences in homeownership among White residents and households of color or Hispanic Ethnicity.** The Twin Cities, in particular, has one of the largest gaps in the country.

- **Gap in mortgage loan applications and approvals for minority applicants** and challenges with lending on Tribal land due to lack of fee (v. trust) land. Statewide, non-white, Hispanic applicants face denial disparities when compared to white applicants: 17 percentage points (African Americans), 16 percentage points (American Indian), and 7 percentage points (Hispanic) and these gaps persist even after adjusting for income. The gap is largest for home improvement loans and refinances, suggesting that minority borrowers have less equity (and, consequently, less wealth building potential) in their homes and/or carry higher debt. This makes them more vulnerable to the economic effects of market downturns. Geographically, the largest differences in denials between minority and White, non-Hispanic applicants exist in Becker, Carlton, Kandiyohi, Nobles, and Polk Counties. Carlton and Nobles Counties have some of the highest denial rates in the state overall, for both minority and non-minority applicants.

Goals and Action Steps

This AI does not exist in a vacuum. The State of Minnesota AI intersects the AI plans developed by other participating jurisdictions in the State, including the Twin Cities Regional AI and recently adopted Addendum. The AI also intersects with many other state and local initiatives related to housing and equity. At the time of writing this plan, work on the Governor's Housing Task Force has only recently begun and results and recommendations are expected in later 2018. Minnesota's Olmstead Plan has work plan items to increase housing opportunities of choice for persons with disabilities. The Heading Home Minnesota Plan to Prevent and End Homelessness includes several elements that also intersect with this fair housing plan. In addition, the State of Minnesota has several councils pertaining to racial and ethnic groups, including the Council on Asian Pacific Minnesotans, the Council for Minnesotans of African Heritage, Minnesota Council on Latino Affairs, and the Minnesota Indian Affairs Council. The goals and action items proposed in this plan are considered in the context of these other initiatives and a primary overarching goal is to commit to a joint effort with these initiatives to address opportunity gaps.

The fair housing goals described in the Section VI are designed to overcome one or more contributing factors and related fair housing issues from the perspective of the state of Minnesota, in particular for Minnesota Housing, DEED, and DHS. The fair housing issues are grouped within five goal areas:

Goal 1. Address disproportionate housing needs.

Goal 2. Address housing segregation and improve opportunities for mobility.

Goal 3. Expand access to housing for persons with disabilities.

Goal 4. Address limited knowledge of fair housing laws through education, outreach, and developing tools and resources.

Goal 5. Decrease the loss of housing through displacement and eviction.

Specific action items identified to address fair housing challenges are in Section VI, beginning page 8.

Fair Housing Challenge	*Draft Action Items*	*Time Frame*	*Responsible Parties*
Goal 1. **Address disproportionate housing needs.** For the following fair housing challenges identified through this AI, identify programmatic funding or collaborative responses that can support efforts to increase housing opportunities through expanded or streamlined existing funding resources and through collaboration with a variety of partners to provide services and information and identify other resources.			
a. Rental housing in poor condition	• Continue and consider expanding programs to support small rental developments (5-50 units): o Continue Publicly Owned Housing Program (POHP), evaluate and consider ways to support smaller PHAs through technical assistance to build capacity. o Continue to utilize CDBG funding to support small rental rehabilitation in nonentitlement communities. o Evaluate potential increase in Rental Rehabilitation Deferred Loan (RRDL) Program and consider expanding to support developments in urban/suburban areas.	2018-2021 (eval. 19-20)	Minnesota Housing DEED (CDBG)
	• Investigate resources for quick response fund for life/safety concerns. o Continue and consider expansion of resources for developments currently in Minnesota Housing's portfolio. o Evaluate feasibility for establishing a receivership revolving loan fund under state statute 504B.451.	2019-2021	Minnesota Housing
	• Continue support for HOME Line as a hotline for tenants' rights.	2018-2021	Minnesota Housing
	• Continue to track and evaluate results of rental inspections on Minnesota Housing financed rental properties, consider ways to standardize evaluating different inspection types across programs.	2018-2021 (eval. 20-21)	Minnesota Housing
b. Insufficient housing for large families	• For rental development resources: o Continue to provide points for large family housing in selection criteria of Minnesota Housing funding resources, including through the Low Income Housing Tax Credit Qualified Allocation Plan.	2018-2021	Minnesota Housing
	• For homeownership activities: o Continue to support the enhanced financial capacity program in reaching large immigrant families. o Continue the priority for large family housing in the Impact Fund. o Continue to provide priorities for down payment assistance to large families. o For these programs, evaluate how the priority reaches large families.	2018-2021 (eval. 20-21)	Minnesota Housing
	• Explore with our partners the feasibility of creating a capital program for small scale rental housing development in rural communities with significant rental housing needs that are currently unable to access development resources.	2019-2020	Minnesota Housing

	Fair Housing Challenge	Draft Action Items	Time Frame	Responsible Parties
c.	MOVE TO GOAL 5 ~~Redevelopment displacing current renters of Naturally Occurring Affordable Housing (NOAH)~~	• ~~Continue support of the NOAH Impact Fund and partner with the Greater Minnesota Housing Fund to evaluate the effectiveness of the fund. evaluate the effectiveness of the fund.~~	~~2018-2021 (eval. 18-20)~~	~~Minnesota Housing~~
		• ~~Collaborate with Fannie Mae and Freddie Mac (the GSEs) in considering products and solutions to support NOAH as identified in the GSE's Duty to Serve plans.~~	~~2018-2020~~	~~Minnesota Housing & Partners~~
		• ~~Monitor state legislation regarding right of first refusal and opportunity to purchase measures for manufactured home parks (tenant purchase rights) and consider the next steps for Minnesota Housing related to the preservation of manufactured home parks to address critical infrastructure issues that limit preservation opportunities, or offset/replace opportunities that are no longer available.~~	~~2018-2021 (next steps 20-21)~~	~~Minnesota Housing~~
		• ~~Create informational materials to provide to communities and other stakeholders regarding the Low Income Rental Classification (LIRC) program.~~	~~2019-2020~~	~~Minnesota Housing~~
		• ~~*(as in 1a)* Evaluate potential increase in RRDL and consider expanding to support developments in urban/suburban areas.~~	~~2019-2020~~	~~Minnesota Housing~~
d.	Homeownership and mortgage lending gaps	• Enhance and continue partnerships to remove barriers to homeownership and reduce the lending gaps between households of color or Hispanic Ethnicity and white non-Hispanic households. o Continue supporting and strengthening the Homeownership Opportunity Alliance.	2018-2021	Minnesota Housing /Homeownership Opportunity Alliance
		• Identify homeownership education activities occurring in the market and evaluate program activities: o Expand and enhance the Homebuyer Education, Counseling, and Training (HECAT) program at Minnesota Housing, including adding financial wellness to the services under the program. o Continue Minnesota Housing's homeownership capacity program. o Through capacity building and technical assistance, support partners in working on initiatives to help households save for down payments using tools such as individual development accounts (IDAs). o Explore ways to deploy resources such as down payment assistance (DPA) through the Impact Fund to serve lending products for interest adverse populations.	2018-2021 2020-2021	Minnesota Housing Minnesota Housing with partners
		• Identify and address gaps in lending market: o Conduct gaps analysis on homeownership counseling in Greater Minnesota and provide technical assistance resources to increase access to homeownership counseling for renters of color or Hispanic ethnicity. o Continue, through intentional program design and business development activities of Minnesota Housing mortgage programs, to ensure households of color and Hispanic ethnicity have meaningful access to homeownership opportunities.	2018-2019 2018-2021	Minnesota Housing with partners

Fair Housing Challenge	*Draft Action Items*	*Time Frame*	*Responsible Parties*
d. Homeownership and mortgage lending gaps *(continued)*	o Develop or identify resources to connect potential homebuyers with barriers to homeownership opportunities.	2019-2021	
	• Partner with Tribal Nations to consider strategies to increase homeownership for American Indian households both on and off tribal lands. o Work with tribes on the feasibility of eventual tenant ownership for the eligible tax credit properties. o Conduct mortgage lending session at bi-annual Indian Housing conference. o Evaluate any loan products developed by the GSEs (Fannie Mae and Freddie Mac) for tribal lending as a result of their Duty to Serve Underserved Markets Plans.	 2019-2021 2019-2021 2018-2020	Minnesota Housing with partners, including Tribal Nations and the GSEs
e. Very high standards for rentals (3x income, high security deposits, no past record of credit problems or criminal activity)	• If found effective, seek additional resources to expandthe Landlord Risk Mitigation Fund program to help address housing needs of persons with criminal records, substance abuse challenges and other barriers.	Evaluation 2019-2020	Minnesota Housing
	• Monitor any proposed regulatory changes that would remove evictions and unlawful detainers from a renters' court record with a favorable court ruling, identify implications for projects financed by Minnesota Housing.	2018-2021	Minnesota Housing
	• Monitor local ordinances such as nuisance laws, "crime free" housing ordinances, and source of income protections.	2019-2020	Minnesota Housing with local partners
	• Regularly provide informational materials on best practices related to tenant selection plans to owners and manager of properties of Minnesota Housing financed rental developments.	2018-2021	Minnesota Housing
f. Affordable housing and landlords accepting housing choice vouchers only located in higher poverty areas	• Continue to prohibit properties with funding through Minnesota Housing from refusing to lease to a tenant based on the status of the tenant as a voucher-holder or recipient of similar rental assistance.	2018-2020	Minnesota Housing
	• Work with Local Housing Authorities to identify and address barriers to project basing Section 8 housing choice vouchers and utilizing housing choice vouchers in lower poverty areas.	2019-2021	Minnesota Housing with Housing Authorities
	• ~~Continue incentives in the state of Minnesota's Low Income Housing Tax Credit Qualified Allocation Plan to develop in high opportunity areas including access to quality schools, transportation, and higher income communities.~~ (moved to next section)	~~2018-2021~~	~~Minnesota Housing~~

Fair Housing Challenge	*Draft Action Items*	*Time Frame*	*Responsible Parties*
Goal 2. ~~**Address housing segregation and increase access to opportunity.**~~ **Address housing discrimination and improve opportunities for mobility.** For the following fair housing challenges, identify strategic and collaborative approaches to consider both place based solutions and mobility solutions to provide households access to opportunity.			
a. Non-white and Hispanic residents are disproportionately segregated into some, often high poverty neighborhoods	• Support efforts to review where investments in creation, preservation, and rehabilitation of affordable housing is occurring relative to areas of concentrated poverty and economic opportunity to encourage a full range of housing choices. (For example, helping to keep HousingLink's Low Income Housing Tax Credit development database current to report distributions).	2018-2021	Minnesota Housing with partners including Housing Link
	• ~~*(as in 1f.)*~~ Continue incentives in the state of Minnesota's Low Income Housing Tax Credit Qualified Allocation Plan to develop in high opportunity area areas including access to quality schools, employment, transportation, and higher income communities.	2018-2021	Minnesota Housing
b. Challenges in accessing housing in concentrated areas of wealth or other opportunities	• Evaluate and continue solutions that mitigate barriers to developing housing in areas of wealth or other opportunities. (For example, address barrier of NIMBYism). o Evaluate institutional barriers to funding housing in high opportunity areas by conducting focus groups with local partners. o Provide financial support to efforts to educate communities about the importance of affordable housing. o Support efforts to continue implementation of recommendations by the Minnesota Challenge to Lower the Cost of Affordable Housing to address the state and local regulatory drivers.	2019-2020 2018-2021 2018-2021	Minnesota Housing with partners
	• Monitor any proposed regulatory changes regarding source of income protections~~; track results of current efforts by the city of Minneapolis~~.	2018-2021	Minnesota Housing with local partners
	• Support development of Housing Hub wait list management tool to streamline tenant access to project based Section 8 wait lists in communities of their choice.	2018-2021	Minnesota Housing with Housing Link
c. Challenges accessing economic and other opportunities	• Review and update state language access plans to promote access to state programs for persons with Limited English Proficiency (LEP).	2019-2020	Minnesota Housing DEED, DHS
	• Collaborate with partners at the state and regional level to evaluate ways to address community disinvestment and economic isolation.	2018-2021	Minnesota Housing with partners
	• Promote contracting opportunities for women and minority business entities in all programs.	2018-2021	Minnesota Housing DEED, DHS
	• Continue to support the preservation of affordable housing opportunities as a strategy for community investment.	2018-2021	Minnesota Housing

Fair Housing Challenge	*Draft Action Items*	*Time Frame*	*Responsible Parties*
Goal 3. **Expand access to housing for persons with disabilities.** For the following fair housing challenges, identify collaborative and programmatic funding responses to rehabilitate and create new accessible affordable housing options, support accessibility improvements in single units, and help people with disabilities transition into independent living settings.			
a. Shortage of affordable, accessible housing	• Conduct gaps analysis of accessible housing opportunities for persons with disabilities in Minnesota, through surveys and data evaluation, leveraging HousingLink's work. Utilize data collected by DHS Aging and Disabilities Divisions though the long term services and supports biennial gaps analysis. Identify how Minnesota Housing and other state housing resources are serving persons with disabilities.	2020-2021	Minnesota Housing DHS
	• Evaluate and enhance existing funding resources to provide preference in housing developments for persons with disabilities: o Continue to provide preference points in the Low Income Housing Tax Credit Qualified Allocation Plan and other competitive capital funding resources for developments with units set aside for persons with disabilities. Evaluate how scoring for this preference influences developments being selected. Ensure that selected developers have knowledge of the Home and Community Based Settings Rule and work to ensure that people in properties will be able to access these services. o When appropriate, ensure that all CDBG rental rehabilitation include accessibility improvements. o Promote accessibility improvements through Rental Rehabilitation Deferred Loan Program and continue to provide preference for accessibility improvements as part of the Publicly Owned Housing Program. o Continue strong rental housing design and constructions standards pertaining to accessibility for all Minnesota Housing financed developments.	2018-2021	Minnesota Housing DEED
	• *(As in 1e).* If found effective, seek additional resources to expand the Landlord Risk Mitigation Fund program.	Evaluation 2019-2020	Minnesota Housing
b. Shortage of resources to make accessibility improvements	• Provide education and outreach of existing homeownership programs to make accessibility improvements: o Streamline Minnesota Housing's Rehab Loan Program to make program more accessible to lenders, and promote to seniors and persons with disabilities. o Evaluate Impact Fund projects specifically related to accessibility improvements (such as the ramps program). Continue to offer priority points for household targeting of underserved populations (including persons with disabilities), and priority points for universal design and accessibility features.	2018-2019 2020-2021	Minnesota Housing

Fair Housing Challenge	*Draft Action Items*	*Time Frame*	*Responsible Parties*
b. Shortage of resources to make accessibility improvements *(continued)*	o Continue to promote Minnesota Housing's Home Improvement Fix up Fund for persons with disabilities which offer more flexibility in program requirements. o Continue to provide priorities for down payment assistance to households that include a person with disabilities.	2018-2021	
	• Evaluate resources to make accessibility improvements on a single rental unit: o For developments not covered by Section 504, evaluate use of existing Minnesota Housing asset management funds to help projects in the agency's portfolio address needs related to accessibility, and identify gaps. o Investigate strategies to find or develop other resources to make accessibility improvements on individual units.	2019-2020 2020-2021	Minnesota Housing
c. Shortage of resources to transition into independent living settings	• Collaborate with housing and supports activities in the state's Olmstead Plan and initiatives that increase the number of people with disabilities who live in the most integrated housing of their choice.	2018-2021	Minnesota Housing with Olmstead Implementation Office
	• Minnesota Housing will continue to provide rental assistance to persons with serious mental illness, and evaluate program effectiveness.	2018-2021	Minnesota Housing
	• Minnesota Housing and DHS will continue implementation of the Section 811 rental assistance pilot, partner with HUD in program evaluation, and if found effective, consider other funding sources available for similar program should no further federal assistance become available.	2018-2021	Minnesota Housing, DHS
	• Leverage Minnesota Housing and DHS relationship to explore more streamlined connections between housing and support services. o Promote efforts of Minnesota's Medical Assistance (MA) Waiver program to allow housing supports to be billed to Medicaid (DHS) and ensure Medicaid Waivered services remain available to individuals living in developments financed by Minnesota Housing. o Support HousingLink's efforts to educate owners and tenants on fair housing issues, including reasonable accommodation. • Develop housing planning tools on HB101.org to help persons with disabilities make informed choices about their housing options.	2018-2021	Minnesota Housing, DHS

Fair Housing Challenge	*Draft Action Items*	*Time Frame*	*Responsible Parties*
Goal 4. **Address limited knowledge of fair housing laws through education, outreach, and developing tools and resources.**			
• Limited knowledge of fair housing laws and resources	• Support ~~Housing Link's~~ efforts to maintain and promote the FairHousingMN.org website and online tool to develop Affirmative Fair Housing Marketing Plans.	2018-2021	Minnesota Housing
	• Provide education to landlords, tenants, prospective tenants and service providers (government and nonprofit) about housing discrimination laws in MN.	2018-2021	DHR
	• Develop a Reasonable Accommodation resource on Housing Benefits 101 (HB101.org) to educate persons with disabilities and support professionals about Reasonable Accommodations.	2018-2021	DHS
	• Expand education and oversight of Minnesota Housing financed and federally assisted rental developments with regards to Affirmative Fair Housing Marketing Plans.	2018-2019	Minnesota Housing , DHR
	• Expand educational efforts to local government officials in rural areas about housing condition challenges and the important of enforcing housing condition standards.	2020-2021	Minnesota Housing with partners
	• Work with Minnesota Department of Human Rights, Minnesota NAHRO, Minnesota Multi Housing Association and similar organizations to provide education regarding housing discrimination laws through their annual conferences.	2018-2021	Minnesota Housing with partners
	• Continue to support educational opportunities and outreach efforts with suburban community elected and appointed officials to understand the important and effectively plan for a full range of housing choices.	2018-2021	Minnesota Housing with partners
	• Distribute fair housing educational materials at annual conferences, public venues, and other opportunities.	2018-2021	Minnesota Housing DEED, DHS
	• Each State CDBG Grantee must complete at least one fair housing activity each year.	2018-2021	DEED

Fair Housing Challenge	*Draft Action Items*	*Time Frame*	*Responsible Parties*
Goal 5. Decrease the loss of housing through displacement and eviction.			
a. Redevelopment displacing current renters of Naturally Occurring Affordable Housing (NOAH)	• Continue support of the NOAH Impact Fund and partner with the Greater Minnesota Housing Fund to evaluate the effectiveness of the fund.	2018-2021 (eval. 18-20)	Minnesota Housing
	• Collaborate with Fannie Mae and Freddie Mac (the GSEs) in considering products and solutions to support NOAH as identified in the GSE's Duty to Serve plans.	2018-2020	Minnesota Housing & Partners
	• Monitor state legislation regarding right of first refusal and opportunity to purchase measures for manufactured home parks (tenant purchase rights) and consider the next steps for Minnesota Housing related to the preservation of manufactured home parks to address critical infrastructure issues that limit preservation opportunities, or offset/replace opportunities that are no longer available.	2018-2021 (next steps 20-21)	Minnesota Housing
	• Monitor state legislative efforts that require communication between property owners and tenants regarding ownership/tenancy changes at a minimum of 60 days prior to sale of the building.	2019-2021	Minnesota Housing
	• Evaluate resources that could provide short term assistance to tenants displaced by a building sale or renovation.	2019-2021	Minnesota Housing
	• Create informational materials to provide to communities and other stakeholders regarding the Low Income Rental Classification (LIRC) program.	2019-2020	Minnesota Housing
	• *(as in 1a)* Evaluate potential increase in RRDL and consider expanding to support developments in urban/suburban areas.	2019-2020	Minnesota Housing
• Eviction filings negatively impact renters regardless of outcome	• Monitor work to define and limit predatory rental practices, including questionable eviction practices and poor conditions of rental units.	*2018-2021*	*Minnesota Housing*
	• Monitor state legislative efforts to limit evictions to only appear on a tenant's record following court judgement.	2019-2021	Minnesota Housing
	• Research just cause eviction ordinances and tenant protection ordinances.	2019-2021	Minnesota Housing

State of Minnesota 2018 Analysis of Impediments- Public Comment Summary & Response

Commenters

- Housing Justice Center (HJC)
- Metropolitan Interfaith Council on Affordable Housing (MICAH)
- Minnesota Housing Partnership (MHP)
- Three Rivers Community Action (Three Rivers)

Comments and Response Organized by Themes

Affirmatively Furthering Fair Housing - Rules and Regulations

- The state's decision to utilize the new rule is noteworthy and significant in furthering fair housing in Minnesota, benefiting our state and residents. - MHP
- The AI has no data on the most serious housing problems, fails to present data that demonstrates the disproportionate needs of racial and ethnic minorities. Suggests using HUD data that breaks down housing problems by income category (AMI) and race. - HJC
- Suggests the plan should more prominent focus on needs of Extremely Low Income households (<30% Area Median Income). – HJC, MHP
    - Document does not acknowledge that affordable housing production falls behind the need for new affordable housing. - HJC
    - Suggests strengthening statute (M.S. §473.859 Subd 4) that requires comprehensive plans to provide sufficient affordable housing. - HJC
    - Suggests strengthening QAP in section on "Serves Lowest Income Tenants/Rent Reduction". – HJC
    - Affordable housing is a fair housing issue. The AI should address broader set of current state regulations that create fair housing barriers such as rent control and the state court's interpretation of status with regard to public assistance. - HJC

Response: *The final AI is updated to include additional data on extremely low income households and housing problems broken down by income category and race. While this report doesn't focus on housing production needs specifically, resource and housing shortages are discussed in many actions.*

M.S. §473.859 Subd 4 does provide that the housing element of the land use plan will "provide sufficient existing and new housing to meet the local unit's share of the metropolitan area need for low and moderate income housing".

The "Serves Lowest Income Tenants/Rent Reduction" section in the QAP reaches tenants at 30% AMI through priority for rent assistance and is an important mechanism of the state to ensure the low income housing tax credit program is serving extremely low income tenants.

The AI includes two actions pertaining to source of income protections, both to monitoring state regulatory changes and local ordinances regarding source of income protections.

Community Engagement

- The community engagement process was not adequate to make conclusions on fair housing barriers being faced by communities across the state. – HJC, MICAH
    - This is not the robust community engagement required by federal AFFH regulations – HJC
- MHP recommends that the Twin Cities approach to community engagement be used as a model for effective participation in fair housing planning.- MHP

- Communities without broadband may not have been able to participate in the survey and it may have impacted survey results. - MICAH

Response: *The State increased community engagement for the AI that focused on Greater Minnesota directly and leveraged community engagement conducted for the development of the recently released Regional AI. The State of Minnesota held community conversations 69 residents in Worthington, Marshall, Wilmar and Bemidji. The process also included in-depth interviews with 17 stakeholder organizations and agencies. Survey responses were substantial throughout the state, including those submitted through PHAs, and printed copies of the survey were available on request. In total, we received 467 survey responses from individuals and 27 PHA responses. For the Regional AI, we conducted a thorough review of the engagement results and followed up with four additional stakeholder groups who organized that process.*

Displacement, Evictions and Gentrification

- A major theme heard throughout the regional community discussions was displacement of residents due to rising rent costs in the metro area [..] often hand in hand with gentrification. The issue of displacement was one of ten goals listed in the regional AI recommendation but the theme is not in the state AI. – HJC
- Add Goal 5. Reduce Resident Displacement - HJC
  - Add 5.a. Research state law regarding just cause eviction ordinances. - HJC
  - Add 5.b. Monitor state legislation regarding right of first refusal statutes and develop programs to implement.
  - Add 5.c. Research and create tax abatement programs and market them to homeowners in areas of increasing displacement.
  - Add 5.d. Promote policies that provide for rehabilitation and preservation of existing affordable housing in areas where displacement is known to be occurring.
- People of color, people with disabilities, elderly are being displaced from urban areas due to gentrification, conversion of NOAH units, rent increases, and more restrictive tenant selection criteria. – MICAH
- State should take greater leadership on evictions and add additional action steps, including research to better understand the extent and impact of evictions and UD actions, examining barriers to expungement of UDs and convening stakeholders to develop solutions. – MHP
- Add goal that 165,000 of the current 170,000 NOAH units in metro will continue to be affordable in 2021. - MICAH

Response: *The State of Minnesota recognizes the growing issues and concerns with displacement particularly through NOAH and evictions. The AI was revised to include a new goal area, entitled "Decrease the loss of housing through displacement and eviction". New actions added to this goal include:*

  - *Monitoring state legislative efforts that require communication between property owners and tenants regarding ownership/tenancy changes at a minimum of 60 days prior to sale of the building.*
  - *Evaluating resources to provide short term assistance to tenants displaced in these cases.*
  - *Monitoring work to define and limit predatory rental practices, including questionable eviction practices and poor conditions of rental units.*
  - *Monitoring state legislative efforts to limit evictions to only appear on a tenant's record following court judgement.*
  - *Research just cause eviction ordinances and tenant protection ordinances.*

Fair Housing Education and Testing

- HUD and MDHR files are not an accurate picture of fair housing enforcement. Annually, metro legal services offices receive over 500 fair housing complaints. This information should be included in the State AI as it is in the metro AI Addendum. – HJC
- State should establish fair housing testing. – MHP, HJC
- 4.a. – Strengthen action items to employ stronger language than "monitor" and "provide educational materials" to meet goal – Three Rivers

- Add 4.b. Fair Housing Training for Government – HJC
- Conduct research first before developing best practices about tenant screening procedures – HJC

Response: *Minnesota Housing will partner with Minnesota Department of Human Rights (DHR) to evaluate additional data sources on complaints testing and create new or improve existing fair housing educational materials. In a newly added action item to this final AI, DHR will provide education to landlords, tenants, prospective tenants and service providers about housing discrimination laws in MN. We recognize the benefits of fair housing testing and will continue to explore funding and partnerships across the state.*

Greater Minnesota/Twin Cities Strategies

- The AI should identify and consider issues that are similar across the state but also identify differences between regions, e.g. Greater Minnesota and Metro. – HJC, MHP, Three Rivers
- State should establish strategies for Metro/Greater Minnesota separately – HJC, MHP, Three Rivers

Response: *We recognize and appreciate that there are regional differences across the state. The primary purpose of the state of Minnesota AI is to evaluate issues statewide and establish appropriate responses. The goals within the AI are broad enough to establish specific strategies tailored to local housing needs that are described in the quantitative and qualitative analysis conducted for the full report.*

Homeownership

- Homeownership and mortgage lending gaps should include actions to address mortgage loan denials among difference races - MICAH
- Homeownership of people of color will be at least 50% by 2021. – MICAH

Response: *Generally, the actions in the AI to support homeownership for households of color do not split out specific races, although we recognize there may be different strategies to increase access to homeownership by race or other protected classes, which may face differing barriers. To address gaps in homeownership in Tribal areas, for example, we do have an action to work with tribal nations to specifically increase homeownership for American Indian households both on and off tribal lands. Minnesota Housing has a goal to reduce Minnesota's racial and Ethnic homeownership disparity, and seek to maintain 35% of our first-time homebuyer mortgages going to households of color, continuing to lead the Homeownership Opportunity Alliance, and continue Homeownership Capacity as a permanent program.*

Increased Access to Opportunity

- Change title of goal 2 to "Address housing discrimination and improve opportunities for mobility within the region" – HJC
- Add item as in Regional AI Addendum to "collect and present local data to elected officials illustrating the need for source of income protection. Advocate for source of income protection legislation across the region". – HJC
- Add action to invest in place-based community improvements – HJC
- Add additional actions on addressing barriers to using housing choice vouchers. – MHP
- Inclusionary Zoning is legal in Minnesota and should be reflected in the analysis – HJC

Response: *With regards to addressing a broader set of regulations that create fair housing barriers, the revised AI includes monitoring legislative efforts that require communication between property owners and tenants regarding ownership and tenancy changes, as well as efforts to limit evictions to only appear on a tenant's record following court judgement and just cause and tenant protection ordinances.*

The AI includes an action to continue to support the preservation of affordable housing opportunities as a strategy for community investment, one strategy to approach place-based community improvements. Another action is to collaborate with our partners to evaluate additional ways to address community disinvestment and economic *isolation. Through the latter action, more specific strategies for place-based community improvements should be recognized.*

Barriers to using housing choice vouchers are addressed in the AI through Minnesota Housing working with local housing authorities to identify and address the barriers. One method to identify barriers is to monitor and evaluate the new Landlord Risk Mitigation Fund to determine the effectiveness of that tool in breaking down barriers for tenants by encouraging landlords to accept hard to house individuals. In addition, the state will monitor and evaluate materials from HUD through the newly developed federal taskforce to determine barriers that discourage landlords from accepting vouchers.

The regulatory review in Appendix A of the report was modified to reflect the legality of inclusionary zoning.

Other/Miscellaneous Topics Areas

- Add details of Lead Safe Homes into Section III (Access to Opportunity, regarding environmentally healthy neighborhoods). Add action that all Minnesota apartments/homes will be lead safe by 2020. – MICAH

Response: *Strategies and action items that seek to address poor rental housing conditions would include the issue of lead-based paint in rental housing, in any rehabilitation strategies. The state of Minnesota, through the Environmental Health Division of MDH oversees a comprehensive lead program, and it is the policy of Minnesota Housing to comply with statutory requirements for identifying and correcting lead-based hazards.*

- Provide more historical context on actions and inactions by federal state and local government, as well as private actors in prohibiting communities of color, Jewish community members, and other protected classes from fair opportunities to purchase and rent homes in Minnesota. – MHP

Response: *Minnesota's AI does not include a historical review, although the regulatory review does seek to find existing regulations that are no longer relevant from that perspective.*

- Data used in AI undercounts LEP populations. – MICAH

Response: *The data used in the AI for Limited English Proficiency (LEP) populations is the best available from the US Census Bureau.*

- Set a goal to allow applications by mail, internet, and through other community providers (regarding barrier for requiring people with disabilities to apply onsite at county office). – MICAH

Response: *The state of Minnesota will partner with DHS in developing further resources on Housing Benefits 101 website and develop tools to help persons with disabilities make informed choices about housing options.*

March 2, 2018

HOUSING JUSTICE CENTER COMMENTS ON
MINNESOTA 2018 ANALYSIS OF IMPEDIMENTS TO FAIR HOUSING

The Housing Justice Center (HJC) submits the following comments to the State's 2018 Analysis of Impediments to Fair Housing. In summary, the State's Analysis of Impediments failed to address the most pressing housing need in the state; failed to adequately engage the community; needs to examine barriers to affordable housing as a barrier to fair housing; and needs to identify stronger and more specific action steps to address the State's fair housing impediments.

Failure to Address Most Prevalent Disproportionate Housing Needs

HUD's regulations repeatedly define Affirmatively Furthering Fair Housing as "taking meaningful actions that, taken together, address significant disparities in housing needs and in access to opportunity." 24 C.F.R. § 5.152. The regulations stress that in developing a successful affirmatively furthering fair housing strategy "it is central to assess the elements and factors that cause, increase, contribute to, maintain…disproportionate housing needs." 24 C.F.R. § 5.154(a). Section II of the State's Analysis of Impediments (AI) purports to meet these requirements. Pg. II-1. In fact, the AI fails to meet this regulatory standard - the section has no data on the most serious housing problems, fails to present readily available data demonstrating the disproportionate needs of racial and ethnic minorities, fails to identify elements causing or contributing to these disproportionate needs, and fails to describe changes in public strategies and programs necessary to address the most serious disproportionate needs.

The HUD CHAS data for 2010-2014 clearly demonstrate that far and away the largest group of households with the most serious housing problems, including serious cost burdens (housing costs greater than 50% of income) are renters with incomes at or below 30% of AMI (extremely low-income renters):

Minnesota Households with Severe Cost Burden[1]						
Income	**Renters**	**% with Severe Burden**	**Owners**	**% With Severe Burden**	**All**	**% With Severe Burden**
<=30%AMI	104160	78.2%	51075	42.1%	155235	61.0%
>30%<=50%AMI	23070	17.3%	36165	29.8%	59235	23.3%
>50%<=80%AMI	4845	3.6%	22390	18.5%	27235	10.7%
>80%<=100%AMI	765	0.6%	5645	4.7%	6410	2.5%
>100%AMI	355	0.3%	6060	5.0%	6415	2.5%
Total	133195		121335		254530	

Of the quarter million state households paying more than 50% of income for housing costs, 40.9% are extremely low-income renters and 20.1% are extremely low-income homeowners. 78.2% of seriously cost burdened renters are extremely low income. No other income groups are even close.

[1] https://www.huduser.gov/portal/datasets/cp.html; CHAS Query tool

March 2, 2018

The same pattern exists with the CHAS data for households with serious housing problems, including paying more than 50% income for housing, more than 1.5 persons/room, or incomplete kitchen or plumbing facilities. Extremely low-income renters are 69% of renters with severe problems and 36.6% of all households with severe problems.

2010-2014 CHAS, Table 2 Households with Severe Housing Problems by Income and Tenure, State of Minnesota[2]

	Renters	% of Renters with Severe Problems	Owners	% of Owners with Severe Problems	All	% of All with Severe Problems
<=30%AMI	109825	69.0%	52720	37.4%	162545	54.1%
>30%AMI<=50%AMI	31335	19.7%	39515	28.0%	70850	23.6%
>50%AMI<=80%AMI	11225	7.0%	27295	19.4%	38520	12.8%
>80%AMI	6855	4.3%	21455	15.2%	28310	9.4%
Total	159240		140985		300225	

This is clearly a fair housing issue. Statewide, minority households are more than four times as likely as white non-Hispanic households to be low income renters with serious housing problems.

Percent of Households which are Extremely Low Income Renters with Serious Problems, by Minority Status, State of Minnesota[3]

Tenure and Severe Housing Problems			
	All Households *	Total Renters, <=30%AMI with Serious Problems	% with Serious Problems
White, non-Hispanic	1,848,965	68,560	3.71%
Minority	266,370	41,265	15.49%
Ratio			4.18
*with cost burden computed			

What is critical to know about this disparity in severe housing problems is that providing affordable housing to seriously cost burdened, extremely low-income renters requires rent (tenant-based) or operating (project based) subsidies. Rental operating costs alone are not affordable to this group. The supply of such subsidies in the state, largely tenant- and project-based Section 8, is virtually static.

[2] Derived from2010-2014 CHAS Table 2, https://www.huduser.gov/portal/datasets/cp.html, select Data Download Page.
[3] Derived from2010-2014 CHAS Table 2, https://www.huduser.gov/portal/datasets/cp.html, select Data Download Page.

There have been no new project-based Section 8 projects since the 1980s and the state supply of tenant-based Section 8 vouchers is growing only very slowly. Between July 2010 and July 2017, the number of vouchers in use in the state grew from 29,940 to 30,922, or only by 140 vouchers per year.[4]

The largest federal affordable housing production program, the Low Income Housing Tax Credit (LIHTC) program, largely targets households with incomes around 50% of AMI. To the extent that extremely low-income households occupy LIHTC projects, it is households with Section 8 vouchers, or living in project-based Section 8 housing. But use of Section 8 in LIHTC housing isn't increasing the supply of extremely low income housing, it is simply moving around the location of the Section 8 subsidies.

Actually addressing this huge fair housing issue requires a recognition by state and local agencies that housing for extremely low income households is the state's most serious housing problem, that minorities are dramatically disproportionately affected, and that funding operating or rent subsidies is as critical as funding capital subsidies in addressing the issue.

The State AI, because it ignores the problem, provides no action items to address the problem. There are models nationally for addressing, with rent and operating subsidies, the needs of extremely low-income households[5] and they should be discussed and recommended.

The State AI fails to notice that affordable housing production falls far behind the need for new affordable housing. In the metro area, for instance, the Metropolitan Council has concluded that about 5,000 new units affordable at or below 60% of AMI are needed each year of the current decade. In 2016, production reached a high point of only 1,724 units produced, less than half of what was needed. Worse, half of those were restricted to households 55 and older and virtually all were affordable only to households with incomes between 50% and 60% of AMI.

What is required is a state law that puts teeth into Minn. Stat. § 473.859 Subd. 4, which requires comprehensive plans which "will" provide sufficient affordable housing to meet state and local needs. To make this a reality, the statute needs to be amended to provide the Metropolitan Council with the tools necessary to enforce the requirement, such as the fair share laws in New Jersey. Additionally, the State (and the State AI) needs to commit to help fund the operating or rental subsidies needed.

Figure II-4 does not examine use of state resources to address the state's biggest housing need, for extremely low-income households. The AI does not examine the state Housing Finance Agency's Qualified Allocation Plan with respect to the need for extremely low-income housing. In fact, the proposed 2020 QAP Self Scoring Worksheet, Section 2.A. "Serves Lowest Income Tenants/Rent Reduction" is worth 8-13 competitive points. But getting these points does not require income restrictions, but only rents at 50% of AMI, and only for 10 years. The QAP fall far short of what is necessary, given the magnitude of the need for extremely low-income housing.

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[4] And a portion of this increase in housing choice vouchers is simply a replacement of project based vouchers with tenant based.

[5] See, for instance, "Model Approaches to Providing Homes for Extremely Low Income Households," Center for Community Change, 2011 at: http://housingtrustfundproject.org/wp-content/uploads/2011/10/Models-for-Providing-ELI-Housing-HTFProject1.pdf Describes programs from Washington State, Louisiana, New Jersey, North Carolina, Seattle, Chicago, and Washington, D.C.

Inclusionary Zoning is Legal in Minnesota

The AI at page 47 is wrong about the legality of inclusionary zoning in Minnesota. Item J on page 47 states that inclusionary zoning is illegal in Minnesota due to the anti-rent control statute at Sec. 471.9996. But in fact, IZ is explicitly permitted by Minn. Stat. Sec. 462.358 Subd. 11. See the Minnesota Attorney General's Opinion dated October 25, 2007. Several Metro area cities, including Edina, Brooklyn Park, and Golden Valley have active inclusionary zoning policies.

Analysis of Impediments Did Not Adequately Engage the Community

The community engagement process was not adequate to be able to make conclusions on fair housing barriers being faced by communities across the state. According to the executive summary, 69 residents were part of community conversations that were to represent the voices throughout the state of Minnesota. In contrast, the regional analysis of impediments engaged 824 participants in direct community conversations on fair housing barriers. It appears that most of the information for the State analysis was collected via survey response, which seemed to limit participants' choices of barriers to an enumerated, prepared list of issues that they were then to respond to rather than allowing them to highlight or bring to the surface their own issues. This is not the robust community engagement required by the federal AFFH regulations.

The executive summary also states that the community engagement process also included a thorough analysis of the community engagement responses to the regional addendum to the AI. However, major issues raised in that process were either not mentioned or glossed over in the State's AI. For example – a major theme heard throughout the regional community discussions was displacement of residents due to rising rent costs in the metro area. This displacement often went hand in hand with gentrification. This issue of displacement was one of ten goals listed in the regional AI's recommendation ("Goal 2: Reduce Resident Displacement.") However, this theme is not seen in the State's AI.

In the section of federal and state fair housing laws and enforcement, stakeholder input, particularly local legal services that handles the most fair housing complaints in the state, was not adequately integrated into the report. In Section 5, page 1, the report finds that annually, about 100 Minnesotans filed fair housing complaints. While this may be true when examining HUD and MDHR files, it is not an accurate picture of fair housing enforcement. Annually, metro legal services offices receive over 600 fair housing complaints, and these represent only a fraction of fair housing violations since the legal services offices have income limits applicable to those they serve. While the regional addendum to the AI did capture this information, it is not reflected in the State's AI, and thus not identified as an issue. This section needs to reflect accurately the number of complaints, both to government agencies and nonprofits, that were based on fair housing concerns.

Affordable Housing *is* a Fair Housing Issue

In its analysis of state regulations, the AI draws a line between affordable housing and fair housing, stating that the consultants "did not specifically review impacts of state regulations on housing affordability. However, where there is a probable overlap between the FHAA protected classes (such as persons with disabilities) and lower income populations, this review sometimes mentions potential impacts of decreased affordability on the supply of housing for FHAA-protected citizens." In a state like Minnesota, which leads the country in racial disparities for homeownership, where black families are 2.5 times more likely than white families to be extremely cost burdened, regulations that restrict affordable housing is a fair housing issue and should be treated as such. Examples of current state regulations that create fair housing barriers include:

- Minnesota's statute prohibiting cities from passing rent control ordinances without an initiative on the ballot at a general election;
- The state court's interpretation of "status with regard to public assistance" in the context of Housing Choice Voucher acceptance;
- The Land Use Planning Act, which requires cities to account for their fair share of affordable housing need, is effectuated by cities simply guiding land at an appropriate density level to account for the need, regardless of whether the land is appropriately buildable for such housing.

Accordingly, the review of state regulations should be much more thorough, identifying impacts on decreased affordability as a fair housing issue and requiring the State to address it in specific action steps.

Consideration of Metro and Greater Minnesota Issues Separately

The AI discusses most issues as generally applicable throughout the state. However, we know that issues that are of greatest urgency in Greater Minnesota (i.e., workforce housing, loss of Rural Development units) are very different from the urgent issues in the metro and other metropolitan cities (rising rents, displacement). While the addendum to the regional analysis took a deep dive into the metro needs, it was not with an eye to the State's obligations, but instead the local entitlement jurisdictions. Therefore, the final draft of the State's analysis should identify the issues that are similar across the state, but also identify the major, urgent barriers to fair housing that are distinct in different parts of the state.

Suggested Recommendations and Action Steps

The following action steps should either be amended or added to the recommendation section:

Goal 1a. We support serious consideration to expanding the RRDL program to the Metro area. This would particularly be the case if we can combine RRDL with 4d benefits in order to accomplish two goals: upgrading of the physical condition of NOAH properties, and commitments to meaningful longer-term affordability commitments. It is worth thinking through how a program of this kind could both meet the needs of "problem properties" as well as those where we want owners to commit long term affordability rather than maximizing rent opportunities. Those two sets of buildings probably overlap but are not the same, and so the question is whether a Metro RRDL program could meet both objectives. The RRDL program should also be considered in the context of or in conjunction with financing for energy efficiency improvements.

Additionally, we support establishing a receivership revolving loan fund; however, the recommendations should not be "evaluate feasibility"; the statute allows for this and the need for it is urgent. Recently, in Hennepin County, a landlord was stripped of 42 rental licenses because of failing to make necessary habitability repairs. These properties are currently in receivership; however, the administrator is having difficulty accessing money to making the necessary repairs. The City of Minneapolis also recently revoked 60 licenses of another landlord, representing hundreds of units. Many of these buildings are also under receivership, also with limited funds to make the necessary repairs. We urge the State to commit to adding money to the receivership fund, as well as commit to ongoing annual funding.

Goal 1e. One action step suggested is providing informational materials on best practices related to tenant screening criteria. Based on our research to date, there does not seem to be a recognized set of best practices in this area. We believe working toward a set of best practices in tenant screening is essential. However, an important first step is to support the necessary research and analysis work to determine what are best practices in this area, so as to treat tenants fairly and also serve landlord needs to identify applicants who will be successful tenants.

Add Goal 1g - Increase Resources for Households at <30% AMI. The recommendations should include a state-funded, dedicated source of money for rental or operating subsidies for the most prevalent, disproportionate housing needs, namely those households at less than 30% AMI.

Goal 2. The title of goal 2, "address housing segregation and increase access to opportunity," does not adequately name the issues raised by community and stakeholders. Segregation is a result of discrimination, current and historical, intentional and disparate impact. Additionally, the language of "high opportunity" areas suggests that there are no opportunities within communities that have been historically disinvested in. Rather, the focus should not be on moving people from an area of "low opportunity" to one of "high opportunity", but instead providing more options through increased mobility while at the same time investing in place-based community investments. A suggested title for this section would be "Address housing discrimination and improve opportunities for mobility within the region."

Goal 2b. We support the State focusing attention on regulatory changes regarding source of income protections. However, because of the affordable housing crisis and, specifically, the very low percentage of landlords with units within FMR limits who currently accept Housing Choice Vouchers[6], we believe the State needs to take a more proactive part in seeing that these regulatory changes happen. The regional AI recommends that entitlement jurisdictions "collect and present local data to elected officials illustrating the need for source of income protection. Advocate for source of income protection legislation across the region." (Recommendation 1B.) We urge the State to use the same language in their recommendation, but on a statewide basis.

[6] HOME Line's 2015 survey of Minneapolis landlords showed that only 23% of units that were affordable to voucher holders actually accepted the voucher; a more recent survey of St. Paul showed an even smaller percentage (17.3%). The surveys can be found at https://homelinemn.org/5646/minneapolis-st-paul-section-8-reports/.

Add Goal 2d – Explore a Fair Housing Testing Program. Fair housing testing is a major source of evidence of fair housing violations. Right now, the only consistent fair housing testing in the state is done by Mid Minnesota Legal Assistance, an organization that primarily does complaint based testing. This does not allow for wider, survey tests, tests of the real estate market, or the lending market. The State agencies should invest in fair housing testing that would allow a broader view of fair housing discrimination in the rental, homeownership and lending fields. Minnesota Housing should consult with the Metropolitan Council on its recent efforts to fund fair housing testing.

Add Goal 2e - **Invest in place-based community improvements**. The answer to addressing concentrated areas of poverty is not simply moving low-wealth households to regions with a higher median income. Instead, while providing options to move to high-wealth communities, there must be investment in the communities and people of those communities, place based strategies that cater to the communities currently there.

Add Goal 4b - **Fair Housing Training for Government**. We support fair housing outreach and education across all communities. Additionally, we recommend that the State commit to funding fair housing training and education for government officials, both local and state level, on fair housing implications in their work. Zoning, planning, funding, and programming all have the potential for disparately impacting protected class communities. All government staff and elected officials should be looking at their jobs, and the decisions they are considering, through a fair housing lens.

Add Goal 5 - Reduce Resident Displacement. While primarily a metro and larger metropolitan area problem, it is one of the issues most voiced by tenants and which has increased the loss of affordable housing exponentially. We would recommend that the State adopt the recommendations seen in the regional AI, listed below, revising them to leverage the State's resources and abilities to address the issue.

- Goal 5a – Research state law regarding just cause eviction ordinances. As possible, work toward and advocate state adoption of just cause eviction ordinances.
- Goal 5b – Monitor state legislation regarding right of first refusal statutes and develop programs to implement. Consider implementation for multi-unit rental properties.
- Goal 5c – Research and create tax abate programs and market them to homeowners in areas of increasing displacement.
- Goal 5D – Promote policies that provide for rehabilitation and preservation of existing affordable housing in areas where displacement is known to be occurring.

Thank you for your consideration and attention to these comments.

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March 2, 2018

Minnesota Housing
Attn: Action Plan/AI
400 Wabasha Street N, Ste 400
St Paul, MN 55102
Mn.housing@state.mn.us

Re: Action Plan/AI

To whom it may concern:

Thank you for this opportunity to comment on the State of Minnesota's draft Analysis of Impediments to Fair Housing Choice.

Minnesota Housing Partnership.
Minnesota Housing Partnership (MHP) convenes, guides, and supports a diversity of partners working to improve conditions of home and community. Building on decades of experience, we strengthen development capacity and promote policies that expand opportunity, especially for people at the lowest income levels. MHP's mission is to promote homes for all Minnesotans and assist Minnesota communities in the creation and preservation of housing affordable to low- and moderate-income people.

Addendum to Twin Cities Regional Analysis of Impediments (AI).
Beginning in 2016, HUD contracted with MHP to support the engagement activities for the addendum to the Twin Cities region's 2014 Fair Housing Analysis of Impediments (AI). MHP facilitated a fair housing community advisory committee and a community engagement micro-grant program. The advisory committee was responsible for assisting the development of the AI addendum, with membership representing the major fair housing stakeholders in the Twin Cities. The micro-grants went to organizations closely connected to low-income populations and communities of color to gain community expertise on fair housing issues.

MHP documented its involvement in the AI addendum engagement process, and the perspective of community member participants, with a July 2017 report titled "A New Approach to Fair Housing Community Engagement." MHP recommends that the Twin Cities approach to community engagement in the Twin Cities Regional AI, with a staff/consultant-supported committee of stakeholders and funded community-led outreach and interviews, be used as a model for effective participation in fair housing planning by people most impacted by that planning, particularly communities of color.

Comments on State of Minnesota's draft Analysis of Impediments to Fair Housing Choice:

- MHP commends the State for utilizing the new Affirmatively Furthering Fair Housing rule promulgated by HUD in 2015, including the Assessment of Fair Housing planning tool, even though the state is not required by HUD to use the new rule until 2021. MHP agrees with the state's reasons for utilizing the new rule in 2018: using the AFH tool now will better prepare the state for its developing a new plan in 2021 and will result in an AI with a more developed and holistic set of recommendations. The state's decision to utilize the new rule is noteworthy and significant in furthering fair housing in Minnesota, benefitting our state and residents.

- **Community engagement critical to the draft AI.** MHP appreciates the state's efforts to incorporate community engagement into its plan development process, including its review of the community engagement results from the Twin Cities Regional AI Addendum process that MHP helped to facilitate. As only 69 residents participated in community conversations conducted state-wide as part of the draft AI's community engagement process, this is a concerningly small number and MHP recommends that more must be done by the state to adequately engage the community. MHP notes, as well, that community members expended substantial effort, expertise, and time in the year-long process to develop the Twin Cities Regional AI Addendum, and it is important that this work is acknowledged and incorporated into the broader state plan. MHP encourages Minnesota Housing to incorporate more of the action steps from the Twin Cities Regional AI Addendum into the State's draft AI, honoring the solutions surfaced by low income and communities of color during the Twin Cities Regional AI community engagement process.

- **Commit to Fair Housing Testing**. The Draft AI's Executive Summary, on page 360 of 405, notes that "Regulatory review findings [show that] [a]nnually about 100 Minnesotans file fair housing complaints." This small number of complaints should be notable to the state and raise questions about potential underreporting of fair housing complaints, especially in light of the significance of disability and race-based disparities noted in other areas of the Draft AI. MHP recommends that Minnesota Housing examine, in partnership with agencies and organizations with civil rights and housing complaint experience, the barriers to filing complaints and ensure complaints to non-state agencies and to non-profits providing legal services have also been captured. MHP further recommends that the State include fair housing testing as an action item, to ensure the state more fully examines the extent of discrimination in the marketplace and its impact on opportunities for fair housing. The Twin Cities Regional AI Addendum recommends fair housing testing as goal 10D.

- **State Leadership Needed on Evictions**. In 2016 alone, 8,976 evictions were filed in Hennepin and Ramsey counties, according MN State Court records. A City of Minneapolis report by its Innovation Team found that more than 90% of evictions are for non-payment of rent, including situations where tenants withhold payments due to substandard conditions. The significant impact of evictions is mentioned in the draft AI's summary of housing issues on page 361 of 405 ("Tenant screening can include ... evictions of rental applicants. ... Expungement of eviction difficult to achieve (state barrier)." While the state does recommended the action step of "monitor[ing]" regulatory changes on evictions and identify implications for projects financed by Minnesota Housing," MHP recommends urges greater state leadership on evictions and additional action steps, including research to better understand the extent and impact of evictions and unlawful detainer (UD) actions, examining barriers to expungement of UD's, and convening stakeholders to develop solutions.

- **Section 8 – Housing Choice Vouchers.** The state's draft AI describes many challenges for Section 8 Housing Choice Voucher recipients, who are some of the most vulnerable residents in our state. The challenges listed include a lack of landlords that will accept Section 8, particularly in high opportunity communities. MHP supports the draft AI's proposed action of working with Local Housing Authorities to address barriers to utilizing housing choice vouchers and encourages even stronger action steps by the state in this critical area. MHP also notes that the Twin Cities Regional AI has several recommended action steps to address fair housing concerns relating to Section 8 Housing Choice Vouchers.

- **Displacement and Loss of Affordable Units as a Fair Housing Issue.** The Summary of Findings notes, on page 358 of 405, that "segregation in the Twin cities is declining as a result of migration of Black/African American residents into suburban communities, overall growth in Hispanic residents, and an increase of white households in inner-city neighborhoods." Yet, this finding is not connected to fair housing concerns, particularly in the Twin Cities region, of displacement of communities of color and gentrification, compounded by increasing prices of real estate and rental units. This point is made more clearly in the Twin Cities Regional AI Addendum, pages 166-179, and in the recommendations - Goal 2. This may also be one way that issues of segregation and displacement are experienced differently in the Twin Cities than in greater Minnesota communities. MHP recommends that the state review the Twin cities Regional AI Addendum's section on Gentrification, Displacement, and Loss of Affordable Units and incorporate this issue as a fair housing concern.

- **Historical context.** MHP recommends that the state add historic context to its draft AI, describing in more detail the actions and inactions by federal, state and local government, as well as private actors, in prohibiting communities of color, Jewish community members, and other protected classes from fair opportunities to purchase and rent homes in Minnesota. Better understanding of this recent history is important context to the report findings and recommendations of the draft AI.

- **Develop Intentional Strategies to Address Fair Housing Issues in Greater Minnesota and the Twin Cities Metropolitan Region**. While impediments to fair housing are state-wide issues, the presentation of these issues are different in greater Minnesota than in the Twin Cities metropolitan area. The impact of transportation needs, issues of segregation and displacement, and workforce housing are just a few issues that have different fair housing impact for residents and call for different solutions in different parts of the state. MHP recommends that the state develop more actions that are specific to the particular needs of different areas of our state, to more effectively address fair housing needs.

- **Further Focus Needed on 30% AMI.** MHP urges the state to develop action steps specific to the great need for more housing serving those residents at 30% of AMI. This statewide need is a fair housing concern, which requires focused and intentional strategies.

Thank you for the opportunity to comment on the state's draft Analysis of Impediments to Fair Housing Choice. MHP is committed to assisting the state in its efforts to further fair housing and offers its expertise and partnership. Please do not hesitate to call on us for information or assistance.

Sincerely,

Elizabeth Glidden
Director of Strategic Initiatives and Policy

METROPOLITAN INTERFAITH COUNCIL ON AFFORDABLE HOUSING

"Do Justice, love mercy, walk humbly with your God." Micah 6:8

MICAH

March 2, 2018

MICAH's Comments on the
Analysis of the Impediments to Fair Housing Choice

Thank you for the opportunity to comment.

General Comments:

1. We appreciate the extensive review of literature, graphs, maps and review of current laws by BBC Research and Consulting. We also appreciate the document being modeled after the structure of HUD's proposed Fair Housing for States and Insular Areas.
2. While there was an attempt to include community engagement through this process by meeting with potentially 69 people impacted by fair housing issues, surveys 467, and interviews with 17 providers and 27 public housing authorities. We are very concerned that it provides an incomplete view and support a more robust community engagement process similar to what occurred in the metro area.
   a. The number of people impacted by the housing crisis involved in the community engagement, would not be considered by most researchers, as statistically significant based on the potential numbers impacted in Minnesota.(69 people from 4 communities(info unclear if it was more than 4) and 467 surveys completed)
   In Minnesota, we have 590,000 renter households, ½ pay over 30% of their income for housing, about 25% pay over 50% of their income for housing. 53% of people of color are cost burdened.
   We have 1.5 million homeowners. Only 40% are people of color. While 76% of whites are homeowners.
   b. There are 119 public housing authorities in greater Minnesota. Only 27 participated in this process. Less than 23% participated.
3. The recommendation for the amended Metro Regional AI did not include recommendations for MN Housing, DEED, and or DHS. If the Metro amended AI is be included, it should include recommendations and/or goals for each of these Departments.

Specific Comments:

1. Executive Summary:
   Demographic Analysis- Segregation- Migration. People of color, people with disabilities elderly are being displaced from urban areas due to gentrification, conversion of NOAH units, rent increases, and more restrictive tenant selection criteria.
   Regulatory Review: The low number of complaints is often related to fear of retaliation and losing their housing, lack of assistance in filing complaint, and length of time to reach a settlement.

Housing Issues: Redevelopment of NOAH units displaces people of color, people with criminal/credit/tenancy issues and people on public assistance, people with disabilities and frail seniors.

2. Section 1:
   Page 5. The population growth rate and concentration in Twin Cities and Central Minnesota. No information provided on the changes in rural areas due to farm foreclosures and loss of jobs in the timber, fishing and mining industries forcing people to move to find work in 1980s and 1990s.

   Maps- It would be helpful to have in addition, one state map which would provide all the data from the individual maps.

   Page 21. Somali move to both the urban core and suburbs where other Somali have already obtained housing for social support.

   Page 23. More than 50,000 Minnesotans have limited English proficiency (LEP). We believe defining LEP as a household where there is no one over age 14 speaks English well, significantly undercounts the number of limited English proficient Minnesotans especially within our refugee populations.

   Page 35. We agree with the conclusion of a balanced approach. There needs to be housing choice opportunities and equity in place in every community. Investments into communities must create and maintain affordable housing and create opportunities and wealth for the residents.

   We suggest a map on the aging of Minnesota's population. The By 2035, our seniors, 65 or older, will be about 20% of population with many seniors living in poverty and with disabilities.
   Page 52. Last paragraph add while experiencing higher levels of unemployment, poverty and significant housing struggles.

3. Section II Housing Choice Analysis:
   Pages 1 ,21, 29 Mortgage loans denied and gaps in approvals among different races and ethnicities. No goals were set to address this finding, we should amend HMDA data factors to be more inclusive. Include USDA's programs.
   Page 2 Voucher Holders- 40% unable to find housing: No goal was set to address this finding.
   Page 3 Landlords requiring 3x income as rent, high security deposits, poor housing condition, as a serious concerns. No goal set to address this finding.
   Lack of private investment as a serious fair housing issue: No goal was set to address this finding.

Page 7.While most stakeholders that participated did not see steering by real estate agents and restrictive covenants as serious issues it is one of the major driving force in disparities in homeownership in Minnesota.
Page 17 Recommendation for a consolidated wait list. No goal was set to address this finding.
Page 18. PHAs may believe there is adequate fair housing training in the community. Most community members have never had a course on landlord tenant law, fair housing, credit/tenancy/criminal records and impact on accessing housing.
Page 32, 34. HUD's guidance on criminal history screening and Fair Housing Act: Only ½ PHAs that participated planned to change their screening process. No goal was set to utilize it to provide Second Chances for residents with criminal records.

4. Section III
   Page 2 We agree with Summary findings and would add: livable incomes- jobs and public assistance, safe, decent, accessible and affordable housing in every community
   Page 23. Please include Lead Safe Homes. Currently according to MDH at least 700 children (disproportionately children of color) are poisoned by lead each year in Minnesota. 359,000 occupied renter households were built before 1978 which have potential lead poisoning hazards. It costs $1500-$2,000/unit every 5 years to make it lead safe. It costs $100,000/child/year who becomes disabled by lead. Goal to make all housing lead safe by 2020. HF 491. SF 350 are bills being heard in 2018 Legislative Session.
   Page 25. Communities least likely to have broadband may have not been able to participate in your survey and it may have impacted your survey results.
   Page 31. Laws and policies pertinent to transportation were not considered a contributing factor to fair housing. We disagree. Policies and lack of funding to provide access to a variety of rural and urban transportation opportunities is a significant impediment to accessing Fair Housing and opportunities.

   Page 33. NOAH units may become less available as an option as conversion moves into South and Southwest Communities.

   Page 34. We agree, Minnesota Somali residents lack Islamic lending products and this creates a significant barrier to homeownership. No specific goal set to address this issue.

   Page 36 Segregation. We encourage the use of language *that groups of people choose to live in close proximity to share language, culture, social capital* and not define that as segregation.

5. Section IV :Disability and Access Analysis
   Page 1 We agree that requiring people with disabilities to apply onsite at a county office is a significant barrier. A goal needs to be set to allow applications by mail, internet and through other community providers.
   Page 12 Reasonable accommodations for service animals. The information we have heard from people with disabilities is different and many landlords do not know the law.

6. Section V Complaint and Regulatory Review
   Page 1 **Regulatory Review**: The low number of fair housing complaints, 109 , is often related to fear of retaliation and losing their housing, lack of assistance in filing complaint, and length of time to reach a settlement
   We disagree with your analysis of state level statues: We believe the law prohibiting rent control and lack of a statwide inclusionary zoning law are critical impediments to fair housing and opportunities.

   Page15. MICAH's complaint was much broader than indicated. It included LIHTC, QAP and all State and Met Council funding and policies. MICAH settled with Minneapolis, MSP Board and St. Paul with VCAs.

   We agree with stakeholder in rural MN that 100 job threshold for a rural community is too high in the QAP.

7. Contributing Factors, Priorities and Goals
   Pages 1-7 We agree with the contributing factors and primary fair housing issues. We would add: lack of creation and preservation of safe, decent, accessible and affordable housing, livable incomes- jobs and public assistance benefits, and other issues identified in previous comments.

   We would like to see a total re-write of the tables and specific action items by Minnesota Housing, DEED and DHS to address the fair housing challenges that were identified on pages 1-7.
   The action steps must be specific and measurable.

   The majority of the current goals are process goals utilizing language such as: continue, consider, investigate, explore, monitor, identify, partner, work with, review, promote, conduct gap analysis, evaluate, provide, leverage, etc. All of these are good process steps toward specific concrete goals.

   Examples of some concrete goals we would recommend. (Process goals including funding and those responsible would be added to get to these results.)
   1. 165,000 of the current 170,000 NOAH units in the metro area will continue to be affordable at rent levels of $500-$1200/month in 2021.
   2. All Minnesota apartments/homes will be lead safe by 2020
   3. Homeownership of people of color will be at least 50% by 2021.

8. **Review of State Level Public Sector Barriers to Fair Housing in Minnesota.**
   We support implementation of items on pages 3-7 and many of your recommendations throughout this section, and we do encourage further work and implementation of your recommendations on pages 53-54.

Thank you again for the opportunity to comment.
Sincerely,
Sue Watlov Phillips, M.A.
Executive Director, MICAH

From: Jennifer Prins [mailto:jprins@threeriverscap.org]
Sent: Friday, March 02, 2018 4:16 PM
To: MN_MHFA MN Housing, . (MHFA) <MN.Housing@state.mn.us>
Subject: AI/AAP

Hello –

Thank you for the opportunity to submit comments on the Draft Analysis of Impediments to Fair Housing and the 2018 Draft Annual Action Plan. I am submitting these comments on behalf of the River Valleys Continuum of Care (Rochester/Southeast Minnesota CoC , MN -502). The CoC greatly appreciates being advised of the drafts and has compiled a couple key comments regarding the AI and Action Plan.

Analysis of Impediments:

Regarding the Demographic Analysis, we are concerned that the characterization of the state's racial and ethnic diversity being "predominantly in the Twin Cities" may result in disinvestment in smaller communities where investment and action is needed. For example, many of the greater Minnesota counties identified as areas of concern for gaps in mortgage lending are those where rapid racial and ethnic change has occurred. Proportionally, these communities may be at least as diverse as the Twin Cities, even though total numbers are lower.

Regarding the goals of the plan, we strongly affirm the need for education, outreach, tools, and resources to address limited knowledge of (and compliance with) fair housing laws. We are concerned, however, that the Action Items derived from these goals are not sufficient to address the challenge. Action Items 1.e. and 4.a., for example, need to employ stronger language than "monitor" and "provide educational materials" to truly meet the goal named and affect change in communities in our CoC region. As providers serving households who are experiencing homelessness or at risk of homelessness, we see firsthand the impact of "crime free" housing ordinances that disrupt lives of non-offenders. We also consistently see tenant selection practices that prevent very vulnerable households with barriers from accessing housing, stabilizing their lives, and becoming the productive and active community member they desire to be. This is not new knowledge. We highly recommend that this section be reconsidered to focus on action as much as on evaluation and education, and our CoC is happy to support tool development, response protocols, and outreach efforts in our region.

Annual Action Plan

Overall, our CoC believes that the balance of needs for housing and community development in the region is reflected well in the Action Plan, and we appreciate the effort to do that.

p.6 Regarding the description of consultation with Continuums of Care: We believe this section does not adequately address the question of consulting with CoCs to determine ESG fund allocation, develop performance standards, or evaluate outcomes. The discussions at the monthly meeting hosted at DHS is cursory at best related to these topics, and specific action is needed to fully implement this requirement. We recommend that this section more accurately and specifically address current practice and that a more detailed action plan be developed to truly meet the spirit of this requirement.

Thank you for the opportunity to provide comment. We see the State as a valuable partner in meeting community needs, especially where it works to prevent and end homelessness through the programs referenced in these draft documents. If there is any way that our CoC membership can be of help to implement the actions proposed, please contact me and I will bring it to our CoC board and/or membership.

Best –

Jennifer

Jennifer Prins, MURP

Planning Director/Continuum of Care Coordinator

Three Rivers Community Action

1414 North Star Drive, Zumbrota, MN 55992

Direct: 507-732-8577 | jprins@threeriverscap.org

Three Rivers Community Action *works with community partners to provide warmth, transportation, food, housing, advocacy, and education to individuals and families. For more information on how you can help, visit our website at www.threeriverscap.org.*

River Valleys Continuum of Care *is a community-based coalition dedicated to preventing and ending homelessness in southeastern and south central Minnesota by coordinating services and maximizing resources. Find more information at www.threeriverscap.org/continuum-of-care.*

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MINNESOTA HOUSING

Board Agenda Item: 7.D
Date: 9/27/2018

Item: 2019 Affordable Housing Plan

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:
Staff are providing the 2019 Affordable Housing Plan (AHP) for your review and approval. We presented and discussed the draft AHP at the August 30 Board meeting and the public comments at the September 17 Program Committee meeting. The attached AHP shows the changes we have made since presenting the previous draft. We are also providing a table showing the funding changes.

Overall, the changes are minor refinements. Most notably:

- We clarified our work regarding energy efficiency and conservation, manufactured homes and parks, public housing, supportive housing for people with behavioral health needs.
- PARIF funding increased by $4.4 million with higher than expected loan repayments.
- Challenge funding increased by $1.2 with higher than expected loan repayments and fund cancellations.

At the Board meeting, we will provide 2019 Affordable Housing Plan with the final formatting.

Fiscal Impact:
The AHP includes a program budget of over $1.3 billion for 2019.

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):
- 2019 AHP: Changes in Funding from Draft to Final
- 2019 Affordable Housing Plan: Final Plan Showing Changes from Public Comment Draft

2019 AHP: Changes in Funding from Draft to Final

		Draft 2019 AHP	Final 2019 AHP	Change
	Homebuyer Financing and Home Refinancing	**$840,000,000**	**$840,000,000**	**$0**
1	Home Mortgage Loans	$800,000,000	$800,000,000	$0
2	Deferred Payment Loans	$22,000,000	$22,000,000	$0
3	Monthly Payment Loans	$18,000,000	$18,000,000	$0
	Homebuyer/Owner Education and Counseling	**$2,777,000**	**$2,777,000**	**$0**
4	Homebuyer Education, Counseling & Training (HECAT)	$1,527,000	$1,527,000	$0
5	Enhanced Homeownership Capacity Initiative	$1,250,000	$1,250,000	$0
	Home Improvement Lending	**$26,494,000**	**$26,494,000**	**$0**
6	Home Improvement Loan Program	$17,000,000	$17,000,000	$0
7	Rehabilitation Loan Program (RLP)	$9,494,000	$9,494,000	$0
	Rental Production- New Construction and Rehabilitation	**$173,912,004**	**$179,920,842**	**$6,008,838**
8	Multifamily First Mortgages	$105,000,000	$105,000,000	$0
9	Flexible Financing for Capital Costs (FFCC)	$0	$0	$0
10	Multifamily Flexible Capital Account	$5,000,000	$5,000,000	$0
11	Low-Income Housing Tax Credits (LIHTC)	$12,413,026	$12,413,026	$0
12	National Housing Trust Fund	$3,445,781	$3,445,781	$0
13	HOME	$11,885,573	$11,885,573	$0
14	Preservation - Affordable Rental Investment Fund (PARIF)	$13,378,145	$17,782,453	$4,404,308
15	Asset Management	$3,500,000	$3,500,000	$0
16	Rental Rehabilitation Deferred Loan Pilot (RRDL)	$8,862,479	$9,735,313	$872,834
17	Publicly Owned Housing Program (POHP) - GO Bonds	$8,500,000	$9,231,696	$731,696
18	Workforce Housing Development	$1,927,000	$1,927,000	$0
	Rental Assistance Contract Administration	**$178,810,000**	**$178,810,000**	**$0**
19	Section 8 - Performance Based Contract Administration	$141,460,000	$141,460,000	$0
20	Section 8 - Traditional Contract Administration	$37,350,000	$37,350,000	$0
	Housing Stability for Vulnerable Populations	**$29,909,723**	**$29,870,556**	**-$39,167**
21	Housing Trust Fund (HTF)	$15,411,667	$15,495,000	$83,333
22	Bridges	$4,692,635	$4,596,635	-$96,000
23	Section 811 Supportive Housing Program	$912,000	$912,000	$0
24	Family Homeless Prevention and Assistance Program (FHPAP)	$8,694,976	$8,668,476	-$26,500
25	Housing Opportunities for Persons with AIDS (HOPWA)	$198,445	$198,445	$0
	Multiple Use Resources	**$83,876,274**	**$85,026,481**	**$1,150,207**
26	Economic Development and Housing/Challenge (EDHC)	$15,451,274	$16,601,481	$1,150,207
27	Single Family Interim Lending	$1,900,000	$1,900,000	$0
28	Housing Infrastructure Bonds (HIB)	$60,000,000	$60,000,0000	$0
29	Community-Owned Manufactured Home Parks	$2,000,000	$2,000,000	$0
30	Technical Assistance and Operating Support	$2,525,000	$2,525,000	$0
31	Strategic Priority Contingency Fund	$2,000,000	$2,000,000	$0
32	Strategic Investments / Loans	TBD	TBD	TBD
	Other	**$2,430,003**	**$2,368,232**	**-$61,771**
33	Manufactured Home Relocation Trust Fund	$604,543	$621,178	$16,635
34	Disaster Relief Contingency Fund	$1,825,460	$1,747,054	-$78,406
	Total	**$1,338,209,004**	**$1,345,267,111**	**$7,058,107**

MINNESOTA
HOUSING

2019 Affordable Housing Plan

Final Plan Showing Changes from

Public Comment Draft

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September 20, 2018

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Table of Contents

Summary – 2019 at a Glance

We are creating a prosperous Minnesota, where people succeed and communities thrive. Housing plays a critical role in this future because ***housing is the foundation for success***. When homes are safe, stable, and affordable, Minnesotans have positive outcomes in employment, school, health and other areas of life. However, we have a lot of work to do because about 550,000 Minnesota households, roughly 1 in 4, are cost burdened, paying more than 30% of their income on housing.[1]

In 2019, we will complete the last year of our 2016-19 Strategic Plan. The four years have been successful. We are currently on track by the end of the 2019 program year to;

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- Serve about 175,000 Minnesota households;
- Increase our annual mortgage lending from 4,089 to 4,324 loans;
- Increase our annual lending to first-time homebuyers of color from 1,141 to 1,286 loans;
- Finance the construction of 4,200 new rental units;
- Rehabilitate 17,488 owner-occupied and rental homes;
- Retain 99% of the state's 37,000 units with federal project-based rent assistance;
- Reduce homelessness by 8% (the reduction in the three most recent years);
- Address several other critical housing issues, including manufactured and senior housing;
- Finance the development of workforce housing in Greater Minnesota;
- Sponsor several broad-based collaborations, including the Governor's Task Force on Housing, the Interagency Council on Homelessness, the Olmstead subcabinet; and
- Make significant internal process improvements in both the single-family and multifamily areas.

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This coming year will be the capstone for our 2016-19 Strategic Plan. We have our largest one-year program investment plan ever, over $1.3 billion, and will serve over 69,000 Minnesota households.

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Table 1: Funding by Activity

Program Category	Original 2018 AHP	2019 AHP
Homebuyer Financing and Home Refinancing	$663,000,000	$840,000,000
Homebuyer/Owner Education and Counseling	$2,802,000	$2,777,000
Home Improvement Lending	$24,794,000	$26,494,000
Rental Production - New Construction and Rehabilitation	$135,654,833	$179,920,842
Rental Assistance Contract Administration	$189,555,000	$178,810,000
Housing Stability for Vulnerable Populations	$32,539,903	$29,870,556
Multiple Use Resources	$76,678,015	$85,026,481
Other	$1,960,314	$2,368,232
Total	**$1,126,984,065**	**$1,345,267,111**

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In 2019, we plan to:

- Operate an $800 million home mortgage program. In 2018, we originally forecasted $630 million of lending activity. However, through program adjustments, effective implementation, and outreach, we significantly increased it to about $800 million. We expect to reach a similar level in 2019 and serve 4,324 borrowers.

- Maintain 35% of our first-time homebuyer mortgages going to households of color. In the overall Minnesota mortgage industry, only 14% of all home-purchase mortgages go to households of color.

- Award over $200 million for rental development and rehabilitation ($180 million from the rental production program and additional funds from the multiple-use-resource programs). We expect to finance the development and rehabilitation of about 4,062 rental units.

- Continue implementing the state's Plan to Prevent and End Homelessness and the Olmstead Plan (an interagency effort to provide people with disabilities the choice and opportunity to live, learn, work, and enjoy life in integrated settings in the community).

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The year will also be a time for transition and planning. We will:

- Have a new Governor,

- Develop our 2020-2023 Strategic Plan, and

- Review and assess the recommendations of the Governor's Task Force on Housing, identifying ones we can incorporate into our work.

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As we complete the 2016-19 Strategic Plan, we will take stock of where we are, look to the future, and plan our next steps.

Chapter 1 – Home and a Prosperous Minnesota

We are building a better Minnesota, where people flourish, children succeed in school, and communities thrive. We are fortunate to already have committed partners, and we call on others – individuals, community groups, faith-based organizations, businesses, and government – to engage on this community-wide effort to build a stronger foundation for success.

Our prosperity and future depend on,

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

With safe, stable homes that are affordable:

- Newly hired workers will find a place to live, allowing economic expansion to continue;
- Day care providers and teachers will live in homes near work, reducing their commute time and making it easier to care for and teach our children;
- Children experiencing housing instability and frequent moves will achieve stability and regularly attend school, making class room instruction more consistent for all our students;
- Family and friends struggling with chemical dependency or a mental illness will have a stable place to call home, allowing them to focus on their treatment;
- Young families will find homes to buy, allowing them to achieve the benefits of homeownership; and
- Seniors will be able to make home modifications and arrange for in-home services, allowing them to age in place and stay near family.

To build a prosperous Minnesota for everyone, we are committed to collaborating with individuals, communities and partners to create, preserve and finance affordable housing.

The Governor's Task Force on Housing recently issued a report with recommendations for creating a prosperous Minnesota. The Task Force was a statewide, multisector planning effort involving representatives from private businesses, non-profit organizations, and government. Minnesota Housing fully supported the Task Force and served as a lead sponsor. In 2019, as we develop our 2020-23 Strategic Plan, we will leverage the work of the Task Force and incorporate applicable recommendations into our work. In the meantime, we will finish the 2016-19 Strategic Plan with a strong 2019 Affordable Housing Plan (AHP), which serves as our annual business plan, allocating existing resources and laying out program and policy initiatives for the year.

Chapter 2 – Our Approach

In our 2016-19 Strategic Plan, we created the "big, audacious goal" of:

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

With 550,000 Minnesota households cost burdened by their housing payments, we still have a lot of work to do. On the positive side, 2019 will be a strong conclusion to a successful strategic plan. We will continue to make significant advancements in each of our core activities and strategic priorities.

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The work of Minnesota Housing and its partners is extensive, reaching all four corners of the state and serving the full continuum of low- and moderate-income housing needs. During the 2016-19 Strategic Plan, we are on track to assist a total of 175,000 Minnesota households, with 2019 being a strong year – serving over 69,000 households.[2]

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The following sections highlight our work under each core activity and strategic priority.

PROMOTE AND SUPPORT SUCCESSFUL HOMEOWNERSHIP

Homeownership increases housing stability and connections to the community and is the primary way most families build wealth. Each year of successful homeownership increases household wealth by an average of $9,500.[3] It also frees up affordable rental housing. Roughly 27,000 of the 110,000 Minnesota's rental units that are affordable to the lowest-income households are occupied by households that can afford homeownership.[4] If these households with more resources successfully transition to homeownership, existing affordable rental housing would become available for Minnesota's lowest-income individuals and families.

Our record level of mortgage lending is a great success, nearly doubling from 2,245 mortgages in 2011 to an expected 4,324 in 2019. This dramatic increase occurred despite the inventory of homes selling for less than $250,000 being cut in half between 2014 and 2017.[5]

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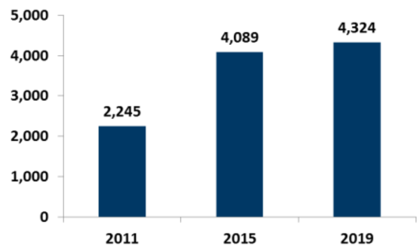
Table 1: Home Mortgages Financed by Minnesota Housing



Achieving Homeownership. A mother of three wanted to become a homeowner; however, she was passed over by several real estate agents because she lacked resources for the downpayment and closing costs. She had resigned herself to paying $1,700 per month to rent a townhome. Fortunately, she was eventually referred to a real estate agent who had the expertise and knowledge to connect her with a lender offering our mortgages and downpayment loans. Despite losing out in several multiple-offer situations, she finally became the owner of a three-bedroom, two-bath townhome in the fall of 2017. The new homeowner and her real estate agent cohosted a well-attended housewarming party.

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Our Commitment to Action in 2019:

- Maintain our record level of home mortgage lending through continuous improvement in program design, business development, and operations.

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REDUCE MINNESOTA'S RACIAL AND ETHNIC HOMEOWNERSHIP DISPARITY

While Minnesota benefits from having the 3rd highest homeownership rate in the country, we also have the 5th highest homeownership disparity between white/non-Hispanic households and households of color.[6] To help all Minnesotans have equitable access to the benefits of homeownership, we and our program partners reach out to households of color to increase their:

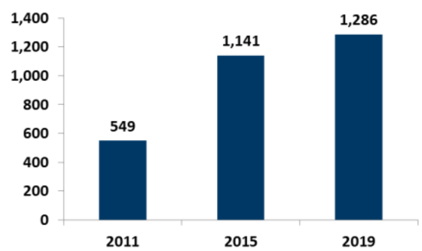
- Knowledge and comfort with the home buying process,
- Savings and credit scores,
- Access to down-payment and closing-cost loans, and
- Access to quality and affordable mortgages.

We have created innovative and effective programs, including the Enhanced Homeownership Capacity Initiative (Homeownership Capacity), a program that provides intensive financial coaching to underserved populations. The program has been very successful.

- 87% of clients are households of color.
- Median credit scores have increased from 611 at program entry to 658 at program completion.
- Clients who completed the program improved their financial picture on average by $3,600 through increased savings and reduced debt collections.
- Nearly 60% of the clients who completed the program with a reported outcome bought a home within a year.

Since 2011, we will more than doubled our lending to households of color who are first-time homebuyers.

Figure 2: Loans to First-Time Homebuyers of Color



Currently, about 35% of our mortgages for first-time homebuyers go to households of color, when only 14% of all home-purchase mortgages in Minnesota do.[7] Since our mortgages only account for about 5% of the industry total in Minnesota, we are supporting a broader, industry-wide effort to substantially reduce the homeownership gap in Minnesota.

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Overcoming Poor Credit and High Debt. A Hispanic father of four had dreamed of being a homeowner and was referred to a Homeownership Capacity administrator by his real estate agent in the spring of 2015. When he and his coach first met, they learned that his credit report was 11 pages long, he had been the victim of identity theft, and his credit score was only 594. By late fall, he cleaned up the identify theft accounts on his report, established a budget, reduced his debt from $18,000 to $6,000, and increased his credit score to 648. He was ready for homeownership and bought a home two months later. He acknowledged that it was a tough process but becoming a homeowner was worth it.

Our Commitment to Action in 2019:

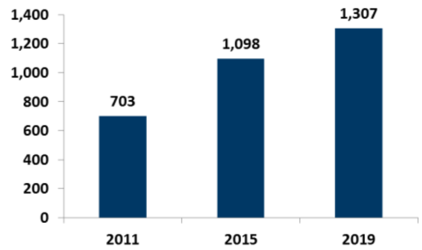
- Maintain 35% of our first-time homebuyer mortgages going to households of color.
- Continue Homeownership Capacity as a permanent program.
- Fund our downpayment and closing-cost loans, which are critical in supporting underserved populations.
- Continue to lead the Homeownership Opportunity Alliance, an industry-wide coalition to expand homeownership for households of color, and implement its new campaign – "Get Ready. Be Ready!"

FINANCE NEW AFFORDABLE RENTAL OPPORTUNITIES

The ideal, balanced rental market has a 5% vacancy rate, allowing renters to have choices when searching for an apartment but filling vacancies relatively quickly for landlords. For the last few years, Minnesota's statewide vacancy rate has been about 4%, and much lower in some markets. To bring the rental vacancy rate up to the ideal 5% in all markets, Minnesota needs to build an additional 3,000 rental units annually for the next five years on top of the 8,000 annual units currently being built.[8] About 70% of the new units need to be affordable to households with an income at or below 80% of the area median income (AMI) to match the incomes of the Minnesota renters who will occupy these units.[9] However, only about 20% of new construction is currently affordable for these lower-income households.[10]

Since 2011, we have significantly increased our annual financing of new rental construction.

Figure 3: New Rental Construction Financed by Minnesota Housing



During the 2016-19 Strategic Plan, we are on pace to finance the construction of 4,200 new rental units.

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Addressing the Shortage of Rental Housing. In the fall 2016, we awarded Low-Income Housing Tax Credits and a deferred loan through the Economic Development and Housing/Challenge program to Valley High Flats, a three-story, 60-unit new development in northwest Rochester with a mix of one to three bedroom units. The development will serve Rochester's growing population and job market. According to a local market analysis, job growth has resulted in a need for over 2,400 units of new affordable housing in the area. Valley High Flats is well located in a higher-income community with qualify schools and access to transit. Four of the two-bedroom units will serve families who have experienced long-term homelessness, with these tenants paying no more than 30% of their income on rent, which will provide them with a foundation for success.

Our Commitment to Action in 2019:

- Award up to $60 million of Housing Infrastructure Bond (HIB) proceeds for housing development. The state's 2018 bonding bill was very supportive of affordable housing needs, adding senior housing as a new use of funds on top of the current uses (supportive housing and preservation) and emphasizing supportive housing for people with behavioral health needs as a funding priority (setting aside up to $30 million). We will award some of the HIB funds this year and, with the new uses, reserve some for next year. The 2019 resources will finance about 500 rental units, with a majority being new construction.

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- Award $12.4 million of Low-Income Housing Tax Credits, which are the primary resource for developing affordable rental housing. This year's allocation is our largest ever (due to an additional allocation from Congress), will generate about $110 million in investor equity, and should finance about 700 rental units, mostly new construction.

- Award about $2 million from the Workforce Housing Development program. Last year, we selected five developments, creating 191 new apartments in Pelican Rapids, Luverne, Duluth, Albert Lea, and Baudette.

- Continue our commitment to energy efficiency and conservation. Reducing energy use is not only good for the environment but also reduces utility costs, making housing more affordable.

We have an Energy Fellow on staff who helps: (1) housing developers connect with people in the health, building materials, energy efficiency, renewable energy, and water sectors; (2) owners and developers leverage the Conservation Improvement Program incentives offered by utility companies (e.g. rebates for energy efficient appliances and systems); and (3) building owners and property managers with whole-building energy monitoring and usage and the impacts they have on owner- and tenant-paid utility bills.

PRESERVE THE EXISTING HOUSING STOCK

It is far more cost effective to maintain and improve an existing home than to build a new one. In Greater Minnesota, the average cost of developing a new affordable rental unit with Low-Income Housing Tax Credits is about $200,000, while the average cost to acquire and rehabilitate an existing unit is only $125,000.[11] Minnesota has an extensive stock of affordable housing. About 290,000 units rent for $875 per month or less (which is affordable to a family earning $35,000) and about 900,000 homes have a value of $200,000 or less (which is affordable to buy for a family earning $60,000).[12] Many of these affordable units are in older properties. As shown in Figures 4 and 5, older homes are generally more affordable, but they can deteriorate to the point that they are no longer decent places to live.

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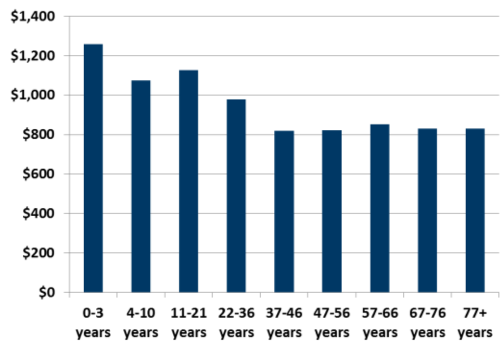
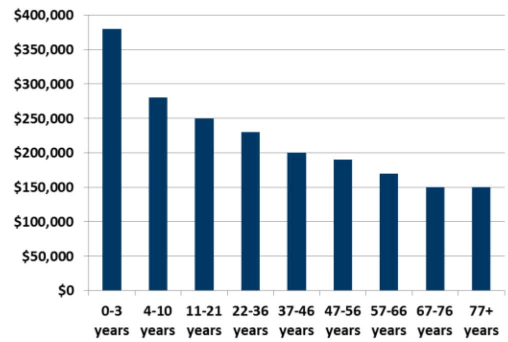
Figure 4: Median Rent by Age of Property



Source: Minnesota Housing analysis of data from the Census Bureau's American Community Survey (2016 1-year sample, microdata, iPums.org)

Figure 5: Median Home Value by Age of Property



Source: Minnesota Housing analysis of data from the Census Bureau's American Community Survey (2016 1-year sample, microdata, iPums.org)

During the 2016-19 Strategic Plan, we are on track to improve or rehabilitate:

- 5,207 owner-occupied homes
- 12,282 rental units

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Stabilizing a Home and a Family. The Community Homeownership Impact Fund (using Economic Development and Housing/Challenge appropriations) recently financed the rehabilitation of a home owned by a retired senior citizen, who has two children and a nephew living with her. Each has a serious medical condition, including traumatic brain injury, stage-3 cancer, and diabetes. While she keeps an immaculate home, it was starting to fall into disrepair, and she could not afford the necessary work with much of her fixed income dedicated to the family's medical bills. Throughout the project, the owner was dumbfounded that she received the help.

Our Commitment to Action in 2019:

- Increase lending under the Home Improvement Loan program by implementing recent improvements that make it easier to administer and more beneficial to borrowers.
- Increase the reach of the Rehabilitation Loan Program, which serves the lowest-income homeowners (including owners of manufactured homes), by implementing recent improvements that make it easier to administer.
- Refine our overall strategy for supporting manufactured homes and parks. For example, infrastructure improvements at manufactured home parks are now an eligible use of proceeds from Housing Infrastructure Bonds (HIBs) and will be included in our next single-family request for proposals (RFP) or in a separate RFP.
- Make available $9.2 million for the preservation of public housing through our Publicly-Owned Housing Program (POHP). Minnesota has just over 20,000 public housing units.
- Redesign the Rental Rehabilitation Deferred Loan (RRDL) program, which focuses on rehabilitating smaller properties. Statewide, about 60% of rental units are in properties with 19 or fewer units, and 42% are in properties with 4 or fewer units.[13]

PRESERVE HOUSING WITH FEDERAL PROJECT-BASED RENT ASSISTANCE

Minnesota has about 138,000 renter households with an income at or below 30% of the area median income (AMI) who spend more than 30% of their income on rent and utilities, leaving limited resources for food, clothing, health care, and other necessities.[14] Rent assistance, which pays the difference between the market rent and what a tenant can afford, is a direct way to guarantee that people are not cost burdened. Through HUD's project-based Section 8 and USDA Rural Development (RD) programs, almost 37,000 Minnesota households receive rent assistance that is tied to a specific apartment; however, the assistance is at risk of being lost as the contracts providing the assistance expire/mature or properties deteriorate.

We and our partners are effectively preserving this assistance. So far, during this current strategic plan, Minnesota has only lost about 1% of these units (30 of the 30,000+ Section 8 units and 350 of the 6,700 Rural Development units) due to contract opt-outs or maturing/pre-paid mortgages. We also successfully manage Minnesota's project-based Section 8 units for HUD through our performance based contract, achieving a near perfect performance assessment from HUD and earning all the possible contract fees and performance incentives. High quality contract administration ensures that the properties are well run, payments are made in a timely fashion, and tenant and owner issues are quickly resolved, which increases the likelihood that the owners will extend their contracts with HUD.

Preserving Critical Rental Housing. Como by the Lake is 99-unit property in St. Paul with of the 57 units having project-based Section 8 rent assistance. The property serves seniors and people with disabilities. In 2015, the owner gave notice to opt out of their Section 8 contract, leaving the residents frightened they could not remain in their homes and the community. They organized and made it clear that they wanted their housing preserved as affordable for the long-term. Fortunately, the non-profit Aeon agreed to purchase the property in 2016. In the fall of 2016, Minnesota Housing awarded $2.6 million of federal HOME funds to support the $14.9 million acquisition and rehabilitation of the property. The financing from Minnesota Housing will ensure that the Section 8 contract will go until 2053.

Our Commitment to Action in 2019:

- Maximize the use of PARIF (Preservation Affordable Rental Investment Fund) and HIB (Housing Infrastructure Bond) funds. These are our two primary resources for rehabilitating and preserving properties with federal project-based rent assistance.

- Retain our Section 8 performance-based contract with HUD. The current contract is due to expire on December 31, 2018.

LEAD, COLLABORATE AND TAKE ACTION ON CRITICAL HOUSING ISSUES

Our mission is clear: **Housing is the foundation for success, so we collaborate with individuals, communities, and partners to create, preserve, and finance affordable housing**. Affordable housing provides individuals, families, and communities with the stability to thrive in all areas of life, including health, education, and employment. To maximize these benefits and create synergies, we lead, collaborate and take action.

Minnesota Housing is home to both the Interagency Council on Homelessness and the Olmstead Subcabinet, with Commissioner Tingerthal serving as a chair for both interagency efforts. The Council is a collaboration of 11 state agencies, the Metropolitan Council, and the Governor's Office with the goal of preventing and ending homelessness. The Olmstead Subcabinet is a similarly structured eight-agency collaboration with the goal of providing people with disabilities the choice and opportunity to live, learn, work, and enjoy life in integrated settings in the community.

At the local level, we have a statewide network of about 400 organizations administering our programs, including lenders, developers, service providers, and community organizations. To ensure that we have a strong capacity in every corner of the state, we fund the Capacity Building Initiative to help communities across Minnesota where a lack of organizational capacity creates the risk that geographic areas and constituencies will be underserved. Through the Initiative, we annually have a competitive process through which we provide local capacity-building projects up to $40,000 in one-time funding.

We will also support and collaborate with communities, cities, and counties, who are more active than ever in identifying potential affordable housing strategies.

Sponsoring the Governor's Task Force on Housing. Last winter, Governor Dayton created a Task Force on Housing to take on Minnesota's growing housing instability, which puts the state's economic competitive advantage at risk. The non-partisan Task Force of housing experts, business leaders and community stakeholders held meetings across the state, explored best practices, policies, gaps, and new strategies, and proposed recommendations. The effort was supported by a collaborative that included Minnesota Housing, the Governor's Office, Itasca Project, Greater Minnesota Housing Fund, Family Housing Fund, Metropolitan Council, McKnight Foundation, Blandin Foundation, Bush Foundation and St. Paul Foundation. Minnesota Housing played a key leadership role by providing funding, about half of the staff support, and office and meeting space.

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Our Commitment to Action in 2019:

- Identify recommendations from the Governor's Task Force on Housing that we can incorporate into our work.
- Continuing implementing the Plan to Prevent and End Homelessness and the Olmstead Plan.

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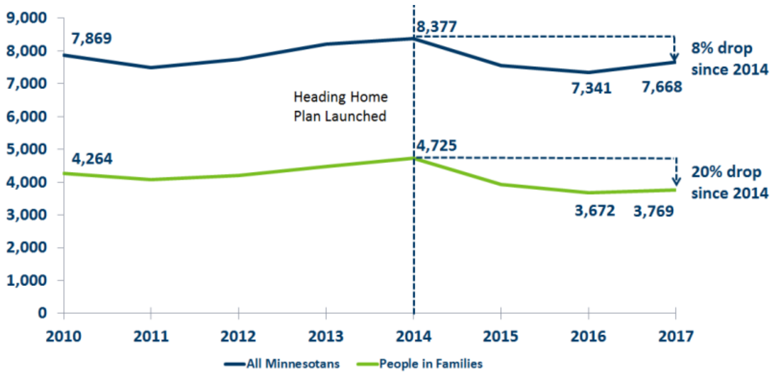
PREVENT AND END HOMELESSNESS

Homelessness is the most severe form of housing instability, causing massive disruption in the lives of single-adults, parents, children, and youth. At least, 7,600 Minnesotans experience homelessness on any given night, and a much larger group is precariously housed and one crisis away from homelessness. Homelessness occurs for many reasons, but a lack of affordable housing is a primary cause. While the lack of affordable housing is critical, the shortage of any rental housing is making the situation worse. Landlords have multiple people applying for single vacancy, allowing them to screen out people with imperfections in their histories, including those with unstable employment, low credit scores, criminal records, or evictions.

In 2014, the Interagency Council on Homelessness released its first Plan to Prevent and End Homelessness, which aligned, coordinated, and leveraged the work of 11 state agencies and the Metropolitan Council. Since the first plan was released in 2014, homelessness in Minnesota has declined by 8%.

Figure 6: Homelessness in Minnesota



Each year, Minnesota Housing supports about 15,000 households through homelessness prevention, rent assistance, and permanent supportive housing activities. In the last few years, we have also carried out several pilots to test and evaluate innovative strategies to address homelessness.

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- **Homework Starts with Home** is a new pilot that was launched in 2018 and will provide rent assistance and other supports for students and their families experiencing homelessness, with the twin goals of stabilizing their housing and improving educational outcomes. The pilot is a cooperative effort of Minnesota Housing, the departments of Education and Human Services, and philanthropy, and the results will be evaluated by a team from the University of Minnesota. It will test and evaluate a "progressive engagement" model that calibrates and adjusts the level of support to the needs of the students and families. The pilot will serve about 237 families through five local administrators in Clay, Beltrami, Hennepin, and Ramsey counties.

- The **Landlord Risk Mitigation Fund** provides financial incentives and other supports to landlords that rent to people struggling to find housing, including people with criminal histories or experiencing homelessness. The fund pays for lost rent or damages not covered by the security deposit. The goal is to serve 180 households through three local administrators in suburban metro, the Brainerd area, and St. Louis County.

- The **Step Down** pilot provides rent assistance and a transition out of services for people currently in supportive housing who no longer require this level of support. The goal is to free up supportive housing for those currently needing it. The pilot annually serves just over 20 households. In 2017, the pilot received an award from the National Council of State Housing Agencies (NCSHA).

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Preventing Homelessness. A couple was recently struggling with homelessness. While both had a history of employment, the woman had struggled with mental health issues and lost her job, and the man had his hours reduced, making rent unaffordable. A local administrator of the Family Homeless Prevention and Assistance (FHPAP) program provided them with 6 months of temporary rental assistance. During that time, she received therapeutic support. Today, both are employed. FHPAP enabled them to overcome their barriers and maintain housing stability. Their case manager stated, "We are given the opportunity to walk with people who have walked a long way alone. It is pretty amazing when they let us join them."

Our Commitment to Action in 2019:

- Carry out the actions we have committed to in the recently adopted *Heading Home Together: Minnesota's 2018-2020 Action Plan to Prevent and End Homelessness*. This plan goes beyond coordinating the work of state agencies and now includes broader multi-sector strategies involving local organizations and philanthropy. The goal is to effectively end homelessness by preventing it whenever possible, and when that is not possible, making the experience rare, brief, and one-time.

- Continue pursuing the goal of creating 5,000 new housing opportunities by 2020 for households experiencing homelessness or at risk.

- Implement the Homework Starts with Home pilot program and measure results for the students and their families.

PROVIDE HOUSING RESOURCES TO SUPPORT COMMUNITY AND ECONOMIC DEVELOPMENT

Safe, stable, and affordable housing is a critical component of a vibrant community. Communities thrive when they have a full array of housing choices that meets the needs of all residents. Communities need:

- Gap financing to develop new affordable rental and ownership housing that will serve the growing workforce,
- Supportive housing for a people with disabilities,
- Rent assistance for single parents who work full time in low-wage jobs and need stable homes for their children,
- Resources to preserve manufactured home parks,
- Downpayment and closing-cost loans paired with affordable mortgages for young families who want to buy their first home, and
- Home improvement and rehabilitation funds for senior homeowners who want to stay in the community and live near their families.

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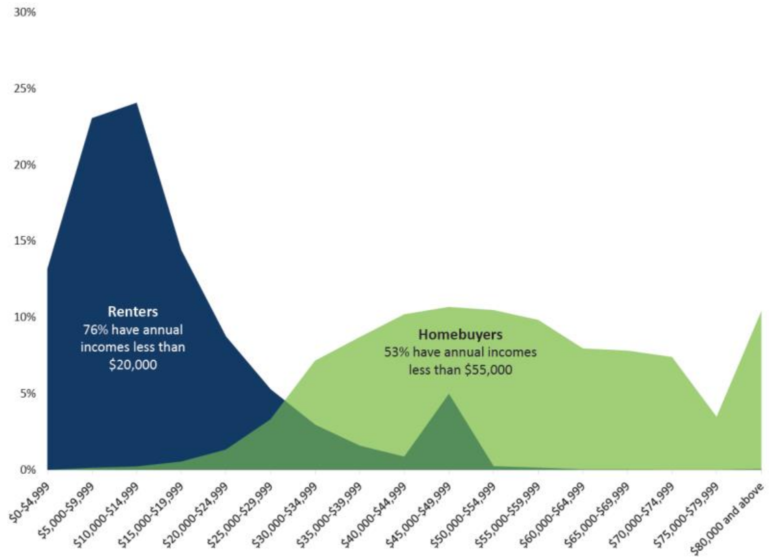
To meet these needs, we offer a suite of programs that serve the full continuum of housing needs for low- and moderate-income Minnesotans.

Figure 7: Income Distribution of Households Served in 2017



Adding Workforce Housing to a Growing Community. In 2018, we awarded $680,000 for the construction of Town Square Apartments (a new three-story building with 27 units in Luverne) under our Workforce Housing Development Program. The award will help bridge the gap between the development costs and the rent revenue the units will generate. The city has an estimated rental vacancy rate of 1.5% and a demand for an additional 72 rental units. In 2017, truShrimp announced plans to build a facility in Luverne, which will add nearly 100 jobs to the local economy, adding demand to an already tight rental market. The project is part of a larger redevelopment plan for Luverne that will include a mix of commercial, retail, housing, and mixed-use buildings.

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Our Commitment to Action in 2019:

- Maintain a suite of programs that serve the full continuum of housing needs for low- and moderate-income households in communities across Minnesota.
- Continue engaging, listening to, and supporting communities looking for ways meet their housing needs.

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FINANCE HOUSING RESPONSIVE TO MINNESOTA'S CHANGING DEMOGRAPHICS

Minnesota's demographics are changing rapidly. By 2035, Minnesota's population of color is projected to increase by 50%, while the white/non-Hispanic population will increase by only 4%. We are also becoming older. By 2036, the State Demographer expects Minnesota to have almost 485,000 more seniors than the current 840,000.

Figure 8: Minnesota Population Growth (2015-2035) by Race

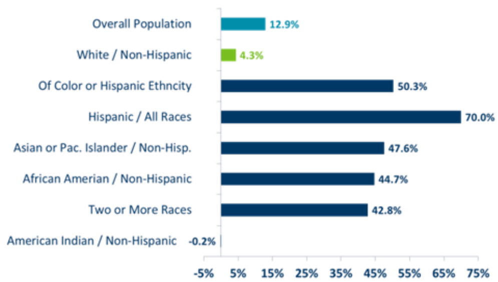
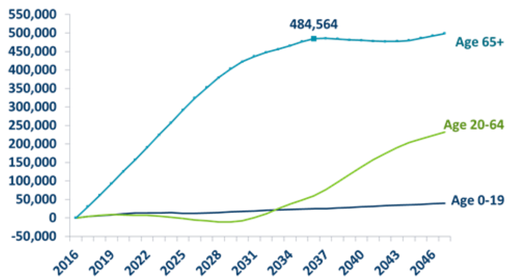


Figure 9: Additional Minnesotans by Age Above 2016 Levels



As described earlier, we have more than doubled our mortgage lending to households of color in the last eight years. In 2016, we also carried out a pilot that funded the development of two senior rental projects – Mysa House in Mora and The Glen at Valley Creek in Woodbury. The financing of these developments prepared us for using Housing Infrastructure Bond (HIB) proceeds to finance senior housing, which the Legislature added as an eligible use in 2018 and will be available under the 2019 Consolidated Request for Proposals.

Building Senior Housing. Mysa House is a 24-unit senior development in Mora, Minnesota, owned by the Housing and Redevelopment Authority (HRA). The development serves an important policy goal of providing senior housing with services. St. Clare Living Community will offer a-la-carte service options that can be purchased individually either by private pay or through Kanabec-Pine Community Health programs for qualified households. The development is part of a larger senior campus that is also owned by the Mora HRA that includes a senior activity center, assisted living, and memory care. Mysa House will serve lower income households, with twelve households also benefitting from project-based Housing Choice Vouchers (most serving extremely-low income seniors).

Our Commitment to Action in 2019:

- Start using HIB proceeds to develop senior housing.
- Identify additional and more-effective ways to link housing and services for seniors and others.
- Continue financing rental housing for large families.

ADDRESS SPECIFIC AND CRITICAL LOCAL HOUSING NEEDS

While more affordable housing is needed across Minnesota, each community has its own priorities. One community may need to focus on the shortage of workforce housing, while another may need larger rental units for its growing population of large immigrant families. We partner with communities across the state to assess needs, identify solutions, and access resources.

- Each year, we co-host housing dialogues in communities across Minnesota to identify needs and discuss solutions. In 2018, we rolled these into the eight Regional Housing Forums sponsored by the Governor's Task Force on Housing, with about 500 Minnesotans attending in total.

- On our website, we have an interactive Community Profiles tool that provides housing data and maps for every community in Minnesota, helping them plan and apply for housing resources.

- As outlined throughout this plan, we offer a full range of financing tools to serve low- and moderate-income Minnesotans. We want our programs to be broad and flexible enough to meet each community's needs.

- We also provide technical assistance before applications for funding are submitted. Developing affordable housing is complicated, and our applications can be demanding as we collect the information we need to ensure that our programs are well run and the housing developments will succeed. We offer technical assistance to all applicants so that each has the opportunity to submit a strong application.

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Building Housing Driven by Community Need. Park Place of Bemidji is a two-story, 60-unit building, serving people suffering from chronic alcoholism and addiction, including many American Indians, through a "Housing First" approach with culturally-appropriate services and a uniquely-designed property that creates a home-like atmosphere. The creation of Park Place was community driven, involving an expansive private-public partnership that included Center City Housing, Sanford Health, Minnesota Department of Human Services via the Mahube Collaborative, the Tribal Collaborative and the Housing Support program, the City of Bemidji, Beltrami County HRA, Beltrami County Sherriff's Department, Beltrami County Health & Human Services, City of Bemidji Police Department, Bemidji HRA, Headwaters Regional Development Corporation, Red Lake Nation, Leech Lake Band of Ojibwe, Minnesota Housing, Minnesota Equity Fund, Federal Home Loan Bank, Greater Minnesota Housing Fund, Enterprise, and Ottertail Power Company. The project was primarily financed with Housing Infrastructure Bond proceeds and Low-Income Housing Tax Credits from Minnesota Housing. It was the 2018 winner of the State Government Innovation Award.

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Our Commitment to Action in 2019:

- Host a series of Housing and Community Dialogues around the state, which will focus on how our work can best address local needs, as well as receiving input for the development of our 2020-23 Strategic Plan.

STRENGTHEN OUR FINANCIAL AND ORGANIZATIONAL CAPACITY

We depend on our staff, systems, and financial strength to fulfill our mission. These backroom operations allow our programs to improve the lives of Minnesotans in every corner of the state. Over the last few years, we have carried out two major process improvements. On the multifamily side, the Remodel project is a comprehensive, multiyear initiative to streamline all the processes in the division, starting with the selection and funding processes for housing developments, everything from project concept and application through construction and lease-up. For example, we created a customized online portal to receive funding applications for the multifamily consolidated RFP. On the single family side, we are putting in place a new loan origination system, which we and our lending partners will use to commit and purchase loans. These projects will improve both internal efficiencies and the experience of our external partners.

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Our strong financial position allows us to not only access capital on favorable terms to finance our programs but also make strategic investments and loans. For example, in June 2017, we committed $5 million for an investment to preserve naturally occurring affordable rental housing through the Greater Minnesota Housing Fund. Minnesota has well over 200,000 rental units that are affordable without government subsidies, and these units are typically in older properties that lack modern amenities. We estimate that Minnesota is annually losing about 2,000 of these affordable units when their rents increase after properties are sold and rehabilitated.[15] In 2018, we also provided Habitat for Humanity Twin Cities with a $25 million line of credit to expand their business model.

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Improving Internal Processes. We recently purchased and started installing a new system from Mortgage Cadence that we and our lending partners will use to commit and purchase home mortgages. The system is very “configurable” and will support first mortgage products that are standard for the industry, as well as our unique products, such as deferred, zero-interest loans. As part of the project, we are also developing supporting applications that will:

- Track and manage the details of each loan with accounting and reporting functions, and
- Reconcile loan payments.

The implementation of these data and process integrations is critical to supporting viable home mortgage programs across the state.

Our Commitment to Action in 2019:

- Go live with our new loan origination system for our single-family activities early in calendar year 2019.
- Continue implementing the multifamily Remodel project.
- Find opportunities to make other strategic investments and loans that provide a strong risk-adjusted rate of return and align with our mission.

Chapter 3 – Resources for Our Work

For 2019, we have a $1.3 billion program investment plan, our largest ever. Eight years ago, the plan was only $700 million. We have built this investment plan by improving the lives of Minnesotans with successful programs that have bi-partisan support in the state Legislature and Congress and by effectively managing our financial assets, which allows us to efficiently access the capital markets and earn returns that we can reinvest in housing across Minnesota.

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Overview of Our Program Investment Plan

We provide a wide continuum of tools for financing affordable housing, ranging from grants for homelessness prevention and rent assistance to mortgages for home purchase and improvements. As shown in Table 2, three programs account for a majority of the 2019 program investment plan.

- **Home Mortgage Loans** (line 1) will provide about $800 million in mortgage loans and support an estimated 4,324 homebuyers in 2019.

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- **Rental Assistance Contract Administration** (line 21 and 22) will provide nearly $180 million of federal project-based rent assistance for 28,000 of the state's lowest income households. With this assistance, households generally spend no more than 30 percent of their income on rent and utilities.

- **Low-Income Housing Tax Credits** (line 13) is our primary program for developing and rehabilitating affordable rental housing. The $12.4 million of 9% credits that we receive from the federal government will generate an estimated $110 million in private equity and leverage other financial resources to construct or rehabilitate about 700 units of affordable rental housing.

  We will also reserve portions fo our tax-exempt private activity bond allocation for additional multifamily projects, which will also generate private equity from the sale of 4% tax credits. These projects typically also utilize our deferred loan resources, so the units produced by these projects are already included in our overall unit count for 2019.

> **4% Tax Credits.** While not in our program investment plan, we award 4% credits to rental housing developments that are financed with tax-exempt private activity bonds. Unlike 9% credits, awards of 4% credits are not directly capped, but there are statewide volume limitations on the use of tax-exempt private activity bonds for housing. On a yearly basis, the use of 4% credits can generate a significant amount of private equity for affordable housing.

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Table 2 also shows, by program, the median incomes of the low- and moderate-income households that we served in 2017, which ranged from $8,000 to $70,000. The statewide median family income in 2017 was $80,400.

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Program	Median Income
• Rent assistance programs (lines 23 to 25 and 35 to 36)	$8,070 to $12,603
• Rehabilitation Loan Program (line 9)	$14,826
• Low-Income Housing Tax Credits (line 13)	$22,682
• Habitat for Humanity Initiative (line 5)	$34,909
• Home Mortgage Loans (line 1)	$54,349
• Home Improvement Loan Program (line 8)	$69,732

Table 2: Overview of the 2017 and 2018 Program Investment Plans

		2018 Original Funding Level	2019 Funding Level	Activity	Median Income Served (2017)	Percentage Served from Communities of Color (2017)
	Homebuyer Financing and Home Refinancing	**$663,000,000**	**$840,000,000**			
1	Home Mortgage Loans	$630,000,000	$800,000,000	First Mortgage	$54,349	31.8%
2	Mortgage Credit Certificates (MCC)	$1,000,000	$0	Tax Credit on Home Mortgage Interest	$66,810	19.1%
3	Deferred Payment Loans	$18,500,000	$22,000,000	Downpayment and Closing Cost Loans	$47,708	34.8%
4	Monthly Payment Loans	$11,000,000	$18,000,000	Downpayment and Closing Cost Loans	$70,034	28.3%
5	Habitat for Humanity	$2,500,000	Rolled into Strategic Investments/Loans	Homebuyer Financing	$34,909	30.8%
	Homebuyer/Owner Education and Counseling	**$2,802,000**	**$2,777,000**			
6	Homebuyer Education, Counseling & Training (HECAT)	$1,552,000	$1,527,000	Education & Counseling	$36,000	46.5%
7	Enhanced Homeownership Capacity Initiative	$1,250,000	$1,250,000	Education & Counseling	$34,158	83.6%
	Home Improvement Lending	**$24,794,000**	**$26,494,000**			
8	Home Improvement Loan Program	$15,300,000	$17,000,000	Home Improvement Loan	$69,732	12.0%
9	Rehabilitation Loan Program (RLP)	$9,494,000	$9,494,000	Home Improvement Loan	$14,286	9.6%
	Rental Production- New Construction and Rehabilitation	**$135,654,833**	**$179,920,842**			
10	Multifamily First Mortgages	$70,000,000	$105,000,000	Amortizing Loan	$25,129	52.9%
11	Flexible Financing for Capital Costs (FFCC)	$0	$0	Deferred Loan	N/A	N/A
12	Multifamily Flexible Capital Account	$8,500,000	$5,000,000	Deferred Loan	N/A	N/A
13	Low-Income Housing Tax Credits (LIHTC)	$9,598,835	$12,413,026	Investment Tax Credit	$22,682	44.1%
14	National Housing Trust Fund	$3,118,428	$3,445,781	Deferred Loans and Operating Grants	N/A	N/A
15	HOME	$1,700,000	$11,885,573	Deferred Loan	$19,083	42
16	Preservation - Affordable Rental Investment Fund (PARIF)	$16,623,916	$17,782,453	Primarily Deferred Loan	$17,826	44.3%
17	Asset Management	$2,482,043	$3,500,000	Loans & Grants	N/A	N/A
18	Rental Rehabilitation Deferred Loan Pilot (RRDL)	$9,601,587	$9,735,313	Deferred Loan	$19,028	20.0%
19	Publicly Owned Housing Program (POHP) - GO Bonds	$12,030,024	$9,231,696	Deferred Loan	$13,700	21.3%
20	Workforce Housing Development	$2,000,000	$1,927,000	Deferred Loans and Grants	N/A	N/A
	Rental Assistance Contract Administration	**$189,555,000**	**$178,810,000**			
21	Section 8 - Performance Based Contract Administration	$138,500,000	$141,460,000	Rent Assistance	$12,000	38.8%
22	Section 8 - Traditional Contract Administration	$51,055,000	$37,350,000	Rent Assistance	$12,603	28.9%

		2018 Original Funding Level	2019 Funding Level	Activity	Median Income Served (2017)	Percentage Served from Communities of Color (2017)
	Housing Stability for Vulnerable Populations	**$32,539,903**	**$29,870,556**			
23	Housing Trust Fund (HTF) - Net Activity	$17,671,234	$15,495,000	Rent Assistance and Operating Support	RA=$9,186 OS=$9,468	RA=65.2% OS=60.8%
23a	Funding for new contracts	$6,889,986	$27,390,000			
23b	Adj. to spread contracts over two years	$10,781,248	-$11,895,000			
24	Bridges - Net Activity	$5,140,000	$4,596,635	Rent Assistance	$9,644	31.0%
24a	Funding for new contracts	$0	$9,193,270			
24b	Adj. to spread contracts over two years	$5,140,000	-$4,596,635			
25	Section 811 Supportive Housing Program	$660,000	$912,000	Rent Assistance	$8,070	54.5%
26	Family Homeless Prevention and Assistance Program (FHPAP) - Net Activity	$8,893,486	$8,668,476	Grants	$12,000	58.5%
26a	Funding for new contracts	$250,000	$17,070,286			
26b	Adj. to spread contracts over two years	$8,643,486	-$8,401,810			
27	Housing Opportunities for Persons with AIDS (HOPWA)	$175,184	$198,445	Grants	$17,344	46.3%
	Multiple Use Resources	**$76,678,015**	**$85,026,481**			
28	Economic Development and Housing/Challenge (EDHC)	$20,653,959	$16,601,481	Loans and Grants	MF=$21,413 SF=$40,265	MF=69.8% SF=45.3%
29	Single Family Interim Lending	$4,400,000	$1,900,000	Construction Loan	$45,181	54.5%
30	Housing Infrastructure Bonds (HIB)	$45,349,056	$60,000,000	Primarily Deferred Loans	SH=$9,688 Pres=$15,211	SH=50.0% Pres=28.6%
31	Community-Owned Manufactured Home Parks	$2,250,000	$2,000,000	Amortizing Loans	N/A	N/A
32	Technical Assistance and Operating Support	$2,525,000	$2,525,000	Grants	N/A	N/A
33	Strategic Priority Contingency Fund	$1,500,000	$2,000,000	Loans & Grants	N/A	N/A
34	Strategic Investments / Loans	TBD	TBD	Investments / Loans	N/A	N/A
	Other	**$1,960,314**	**$2,368,232**			
35	Manufactured Home Relocation Trust Fund	$459,837	$621,178	Grants	N/A	N/A
36	Disaster Relief Contingency Fund	$1,500,477	$1,747,054	Loans & Grants	$18,534	6.7%
	Total	**$1,126,984,065**	**$1,345,267,111**			

NOTE: The section of the table addressing "Housing Stability for Vulnerable Populations" has adjustments to reflect the two-year contracts for some of these programs. (See lines 23, 24, and 26.) All funds are committed in the first year of the contract, but activities are carried out over the two years of the contract. The "a" part of the program line shows all the funds that will be committed to execute the contract, while the "b" part is an adjustment to spread out the activities over the two years of the contract. The "Net Activity" line (the part without a letter) shows the net level of activity in a year after the adjustment. The Bridges (line 24) is the simplest example. In 2019, we expect to commit $9,193,270 for the two-year contracts (line 24a). To reflect program activity, half of those funds ($4,596,635) will shift out of 2019 (the negative number in line 24b) and into 2020. The net effect is the $4,596.635 million of program activity in 2019 (top part of line 24). While displaying both funding and program activity adds a level of complexity, it is necessary. The "a" line is needed from a budgeting perspective to show the funds that are needed to enter into a contract, while the "Net Activity" line more accurately reflects annual program activity.

Our 2019 program investment plan is $218 million higher than 2018. Three programs account for the increase.

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- **In 2019, we expect home mortgage lending to be $170 million higher than originally forecasted in 2018 (line 1).** In 2018, we originally estimated $630 million of lending activity, which was $50 million less than the $680 million we reached in 2017. With rising home prices, a declining inventory of homes for sale that are affordable to our borrowers, and the prospect of rising interest rates, we expected lending to decline in 2018. However, through program adjustments, effective implementation and outreach, and continued low interest rates, we not only maintained our lending in 2018, we significantly increased it to roughly $800 million. We expect to reach a similar level in 2019.

- **We are projecting up to $15 million more from Housing Infrastructure Bond (HIB) proceeds (line 30).** The Legislature increased HIB funding from $55 million in the 2017 bonding bill to $80 million in the 2018 bill. We committed most of the 2017 funds in program years 2017 and 2018, but some funds will carry forward to 2019. We expect to commit the 2018 funds in program years 2019 and

2020. Over the two years, we are setting aside up to $30 million of the new HIB resources for supportive housing for people with behavioral health needs.

- **We expect multifamily first mortgage lending to increase by $35 million (line 10).** Through our business development activities, we have better aligned this program with the needs of our borrowers.

The funding levels shown in Table 2 for amortizing loans (including Home Mortgages, Monthly Payment Loans, Home Improvement Loans, Multifamily First Mortgages, and Strategic Investments / Loans) should be viewed as forecasts of expected lending volumes, rather than a fixed budget. Demand and need for these loans will largely determine the amount of funds used.

Table 2 also includes a few other notable funding changes.

- **With the scarcity of tax-exempt bonding authority, we ended the Mortgage Credit Certificate (MCC) program (line 2).** The program used tax-exempt bonding authority that would have otherwise expired to provide eligible first-time homebuyers a special tax credit on a portion of their mortgage interest payments.
- **We increased funding for down-payment and closing-cost loans by $10 million (lines 3 and 4).** This will support the home mortgage lending that we expect in 2019.
- **HOME funding is $10 million higher than last year (line 15)**. Because of uncertainty in federal HOME funding in 2018, we only budgeted funds from loan repayments and uncommitted funds from previous years and did not budget any new appropriations. In 2019, we will budget the 2018 appropriations that have been finalized.
- **Funding for the Publicly Owned Housing Program is nearly $3 million lower than last year (line 19).** In the most recent bonding bill, the Legislature provided $10 million of general obligation bond proceeds for public housing. However, demand for funds from the previous bonding bill was so strong during the funding process that ended in April 2018 that we used a share of the new bonding resources, leaving about $9.2 million for the 2019 AHP.
- **Funding for Section 8 contract administration is $10 million lower in 2019 (Lines 21 and 22).** For budget reasons, HUD is taking over the administration of 24 Section 8 properties that were previously administered by Minnesota Housing. The units in these properties will continue to receive rent assistance, which will not be administered by us.
- **Funding for vulnerable populations appears to decline by $2.7 million (Lines 23-27).** Annual funding for these programs has not gone down. The apparent decline reflects a timing issue of when funds are committed and the Minnesota Department of Human Services now administering operating subsidies for supportive housing that we had previously administered for them.

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- **We are projecting $4 million less under the Economic Development and Housing/Challenge program (line 28).** In 2018, we committed a sizable balance of funds that carried forward from previous years. There is a smaller 2019 balance.

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Household and Unit Projections

As show in Table 3, we expect to assist over 69,000 households in 2019.

Table 3: 2019 Forecast of Assisted Households or Housing Units, by Program

	Program	House-holds or Units
Homebuyer Financing and Home Refinancing		**4,324**
1	Home Mortgage Loans	4,324
2	Deferred Payment Loans	Included in First Mortgage Count
3	Monthly Payment Loans	
Homebuyer/Owner Education & Counseling		**20,224**
4	Homebuyer Education, Counseling & Training (HECAT)	19,088
5	Enhanced Homeownership Capacity Initiative	1,136
Home Improvement Lending		**1,246**
6	Home Improvement Loan Program	895
7	Rehabilitation Loan Program (RLP)	352
Rental Production- New Construction and Rehabilitation		**4,062**
8	Multifamily RFP/HTC/Pipeline Production	1,995
9	First Mortgage - Low and Moderate Income Rental (LMIR)	Part of RFP/ HTC/ Pipeline Total
10	First-Mortgage - MAP Lending (Multifamily Accelerated Processing)	
11	Flexible Financing for Capital Costs (FFCC)	
12	Multifamily Flexible Capital Account	
13	Low-Income Housing Tax Credits (LIHTC)	
14	National Housing Trust Fund	
15	Housing Infrastructure Bonds (HIB) - Multifamily RFP	
16	Economic Development and Housing/Challenge (EDHC)	
17	HOME	
18	Preservation - Affordable Rental Investment Fund (PARIF)	
19	Asset Management	183
20	Rental Rehabilitation Deferred Loan (RRDL)	649
21	Publicly Owned Housing Program (POHP)	1,154
22	Workforce Housing Development	80

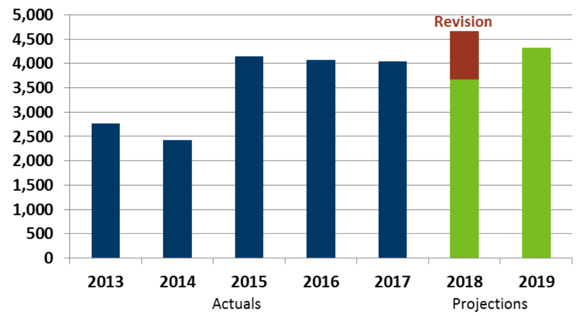
	Program	House-holds or Units
Rental Assistance Contract Administration		**28,259**
23	Section 8 - Performance Based Contract Administration	21,763
24	Section 8 - Traditional Contract Administration	6,496
Housing Stability for Vulnerable Populations		**11,059**
25	Housing Trust Fund (HTF)	2,900
26	Bridges	888
27	Section 811 Supportive Housing Program	127
28	Family Homeless Prevention and Assistance Program (FHPAP)	6,935
29	Housing Opportunities for Persons with AIDS (HOPWA)	209
Multiple Use Resources		**541**
30	EDHC - Single Family RFP (Impact Fund)	407
31	Single Family Interim Lending	Part of EDHC RFP
32	Housing Infrastructure Bonds (HIB) - Community Land Trusts	Part of EDHC RFP
33	Community-Owned Manufactured Home Parks	133
34	Technical Assistance and Operating Support	TBD
35	Strategic Priority Contingency Fund	TBD
36	Strategic Investments/Loans	TBD
Other		**TBD**
37	Manufactured Home Relocation Trust Fund	TBD
38	Disaster Relief Contingency Fund	TBD
Total		**69,715**

Note: The forecasted numbers are based on the assumption that all of funds budgeted in the AHP are used.

Homebuyer Financing and Refinancing

Figure 10 shows our historical home mortgage lending, which was about 2,500 mortgages in 2013 and 2014. It then took off in 2015, reaching 4,000 mortgages in 2015 through 2017, and about 4,500 since then. Despite a tight supply of homes, rising prices and interests, and regulatory changes, we have increased our lending.

Figure 10: Households/Home Assisted – Home Mortgage Loans



In 2019, we expect to serve a little more than 500 households under "other homeownership opportunities", which is higher than the 400 households we typically served in previous years. Activity and funding in 2018 was particularly high with a large balance of Economic Development and Housing/Challenge funds carrying forward from the previous year. (Figure 11 includes the Habitat for Humanity Initiative, the single-family portion of the Economic Development and Housing/Challenge program, Housing Infrastructure Bond proceeds going to community land trusts, Single Family Interim Lending, and Community-Owned Manufactured Home Parks.)

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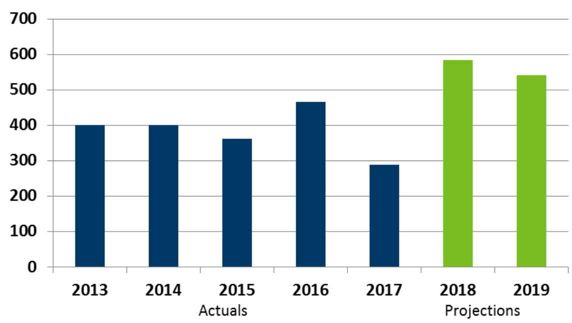
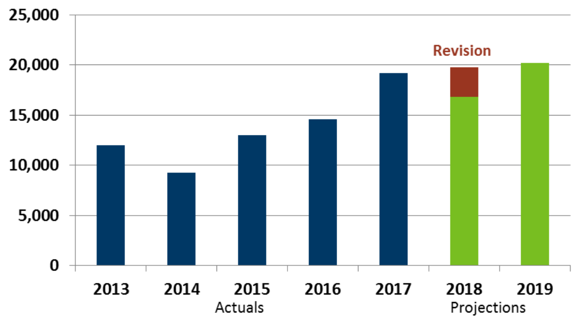
Figure 11: Households/Homes Assisted – Other Homeownership Opportunities



Homebuyer/Owner Education, Counseling, and Coaching

As shown in Figure 12, education and counseling declined in 2013 and 2014, reflecting less need for foreclosure prevention counseling. The need for homebuyer education continues and has increased since 2014. The addition of the Homeownership Center's online course called Framework, which is an alternative to traditional classroom training, has supported the increase. (Figure 12 includes Homebuyer Education, Counseling & Training (HECAT) and the Enhanced Homeownership Capacity Initiative.)

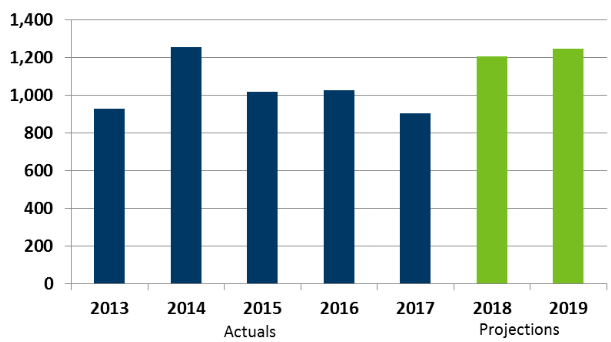
Figure 12: Households Assisted – Homebuyer/Owner Education and Counseling



Home Improvement Lending

Home improvement production (Figure 13) was limited after the recession. Since then, production has increased, but the availability of home equity lines of credit and cash from mortgage refinancing has limited demand for our installment loans. Activity in 2014 was particularly strong because of a special program offering that our largest lender ran at the State Fair. Lending in 2018 will come in lower than originally projected, but we expect activity to increase in 2019 due to changes that made the program more desirable for borrowers and easier to administer. (Figure 14 includes both the Home Improvement Loan Program and the Rehabilitation Loan Program.)

Figure 13: Households/Homes Assisted – Home Improvement Programs

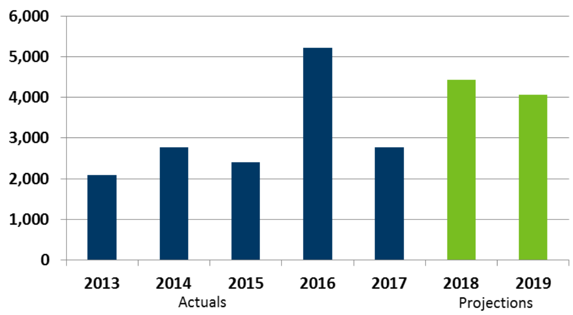


Rental Production

In a typical year, rental unit production (new constructions and rehabilitation) varies between 2,000 and 3,000 units, but we expect production to reach about 4,000 in 2018 and 2019 with the availability

Housing Infrastructure Bond (HIB) and General Obligation Bond proceeds. A large allocation of Low-Income Housing Tax Credits (made possible by a temporary increase approved by Congress) is also supporting 2019 activity. Production in 2016 was particularly high with the completion of developments that received the last major round of bond proceeds ($100 million). Production in 2018 and 2019 will be tempered a little because we will fund more new construction projects than we did a few years ago. New construction projects require more funding per unit, which limits the number of assisted units. (Figure 14 captures all the programs in the rental production area and the multifamily portion of the Economic Development and Housing/Challenge and Housing Infrastructure Bond programs.)

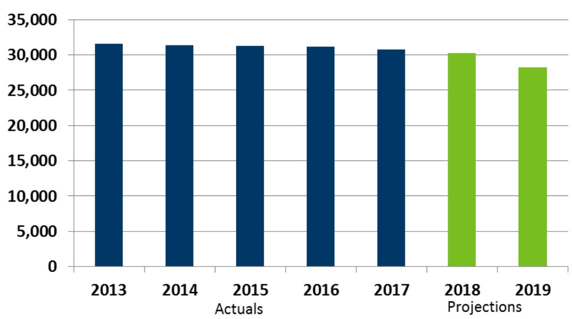
Figure 14: Units Assisted - Rental Production



Rent Assistance Contact Administration

Activity in the Section 8 and Section 236 contract administration has been very steady (Figure 15). These are ongoing contracts that we have administered, and the number of households served does not vary significantly from year to year. The number will drop slightly in 2019 because HUD has taken over administration of 24 Section 8 properties for budget reasons. The households in these 24 properties will continued to receive Section 8 assistance, but not from us. With the last Section 236 mortgages maturing in 2017, that program has closed out. It became a small program in recent years as it wound down.

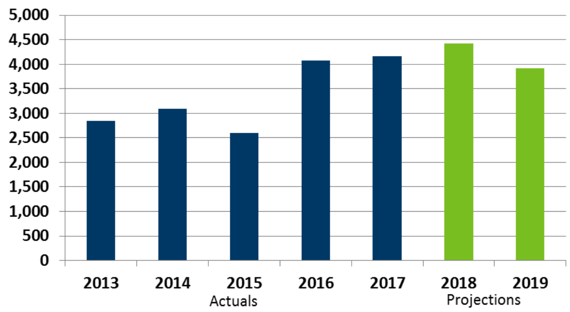
Figure 15: Households Assisted – Rental Assistance Contract Administration



Housing Stability for Vulnerable Populations

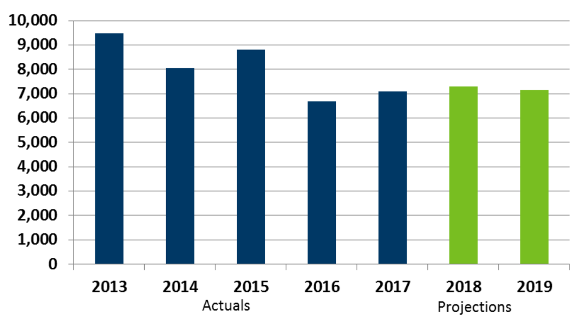
Since 2015, there has been an increase in activity for state- and Agency-funded rent assistance and operating subsidies (Figure 16). Starting with the 2016-17 biennium, we have received an additional $2.5 million for the Bridges program (rent assistance for people with very low incomes and a serious mental illness). We have also increased activity under Housing Trust Fund rent assistance, with most of the new activity focused on pilot programs that test new approaches. Finally, we have added the Section 811 program that serves people with disabilities. As shown in Figure 16, overall activity in 2019 will decline modestly because the Minnesota Department of Human Services has taken over the administration of some operating subsidies in supportive housing developments that we had previously administered for them. (Figure 16 includes the three rent assistance programs and Housing Trust Fund operating subsidies.)

Figure 16: Households/Units Assisted – Agency Rental and Operating Assistance



The number of households assisted by the Family Homeless Prevention and Assistance Program (FHPAP) and Housing Opportunities for Persons with AIDS (HOPWA) (Figure 17) has declined in recent years because FHPAP has targeted harder-to-serve clients, which requires more funding per household.

Figure 17: Household Assisted – Targeted Assistance – FHPAP and HOPWA



Notes

[1] Minnesota Housing analysis of data from the U.S. Census Bureau's American Community Survey (2017, 1-year sample).

[2] Recipients of rent assistance typically receive it for multiple years, and they are counted only once in the four year total.

[3] Christopher E. Herbert, Daniel T. McCue, and Rocio Sanchez-Moyano, *Is Homeownership Still an Effective Means of Building Wealth for Low-income and Minority Households? (Was it Ever?)* (Harvard University, Joint Center for Housing Studies, September 2013, HBTL-06) pp. 2 and 45-46.

[4] Minnesota Housing analysis of HUD's CHAS data (2010-2014). For this analysis, we defined the "lowest-income renter households" as those with an income at or below 30% of the area median income (AMI), and the "renter households who are able to afford homeownership" as those with an income over 50% of AMI.

[5] Based on data for the 16-county Twin Cities metro area. The inventory dropped from 9,413 in June of 2014 to 4,314 in June of 2017.

[6] Minnesota Housing analysis of data from the U.S. Census Bureau's American Community Survey (2016, 1-year sample).

[7] Federal Financial Institutions Examination Council, Home Mortgage Disclosure Act (HMDA) data (2016).

[8] Minnesota Housing estimate for the Governor's Task Force on Housing.

[9] Minnesota Housing analysis of data from the U.S. Department of Housing and Urban Development's (HUD's) CHAS data (2010-14).

[10] Based on Minnesota Housing Analysis of metro-area construction data from the Metropolitan Council; https://stats.metc.state.mn.us/data_download/DD_start.aspx.

[11] Minnesota Housing, *2018 Cost Containment Report* (2018).

[12] Minnesota Housing analysis of data from the U.S. Census Bureau's American Community Survey (2016, 1-year sample, microdata from IPUMS.com).

[13] Minnesota Housing analysis of data from the U.S. Census Bureau's American Community Survey (2016, 1-year sample, microdata from IPUMS.com)

[14] U.S Department of Housing and Urban Development (HUD), Comprehensive Housing Affordability Strategy (CHAS) Data (2011-2015); https://www.huduser.gov/portal/datasets/cp.html.

[15] Minnesota Housing, *The Loss of Naturally Occurring Affordable Housing (NOAH)* (May 2, 2018).

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Appendix A-1
Overview of Funding Sources

Appendix A-1: Overview of Funding Sources

Our strong balance sheet and financial resources are a key strength. This Appendix describes each of our funding sources and outlines how we will use them in 2019. Table 1 shows our planned program investment by funding source and compares it with the original 2018 AHP. Appendix A-2 is a crosswalk that shows how we will allocate resources from each source to each program.

Table 1: 2019 Planned Program Investments by Funding Source

Program Category	Original 2018 AHP	2019 AHP
Federal Resources	$207,289,490	$211,164,825
State Appropriated Resources	$93,407,123	$87,533,590
State Capital Investments (GO & Housing Infrastructure Bonds)	$57,379,080	$69,231,696
Pool 2, Agency Bond Proceeds, and Other Mortgage Capital	$735,200,000	$943,250,000
Housing Affordability Fund (Pool 3)	$33,708,373	$34,087,000
Total	**$1,126,984,065**	**$1,345,267,111**

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Key Changes by Source:

- **Federal Resources** are $3.9 million higher in 2019.
- **State Appropriated Resources** are $5.9 million lower, primarily because the Economic Development and Housing/Challenge (EDHC) and Housing Trust Fund (HTF) programs have smaller balances of funds carrying over from previous years.
- **State Capital Investments (General Obligation and Housing Infrastructure Bonds)** will be $11.9 million higher. The Legislature increased funding from $65 million in the 2017 bonding bill to $90 million in the 2018 bill. We committed most of the funds from the 2017 bill in program years 2017 and 2018, but some unused funds will carry forward to 2019. We expect to commit all the funds from the 2018 bill in program years 2019 and 2020.
- **Housing Investment/Loan Resources: Pool 2, Agency Bond Proceeds, & Other Mortgage Capital** are projected to increase by over $208 million, with increased home mortgage and multifamily first mortgage lending.
- **Housing Affordability Fund (Pool 3)** investments will increase by $0.4 million.

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The funding sources operate as described below. The precise amount of some resources is known at the time this plan is developed, while others (such as loan repayments) are estimates of resources that will become available during the year. Staff uses various analytical approaches (including cash flow analysis) to project the amount of resources available for housing programs.

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Funding Source Descriptions

Federal Resources: There are various types of federal resources, including appropriations to the U.S. Department of Housing and Urban Development (HUD) that are made available to Minnesota Housing and Low-Income Housing Tax Credits from the Internal Revenue Service (IRS). For planning purposes, we generally assume that 2019 funding will remain at its 2018 level; however, as described earlier, we did not budget the 2018 HOME funds until the 2019 AHP because of funding uncertainty. The amount of federal housing tax credits is based on a per capita formula and will be higher for the next four years due to a temporary increase approved by Congress.

State Appropriations: The amount of funding is based on the 2018-19 general fund budget adopted by the 2017 Minnesota Legislature. We generally split the appropriations evenly between state fiscal years 2018 and 2019. Repayments of loans from previous year appropriations are also a funding source.

State Capital Investments: These funds come from the state capital budget (bonding bill) and include General Obligation (GO) Bond and Housing Infrastructure Bond (HIB) proceeds. For HIBs, we are allocating only a portion of the funds from the 2018 bonding bill in 2019, reserving some for the 2020 program year.

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Agency Bond Proceeds and Other Mortgage Capital: Bond proceeds are generated by the issuance of tax-exempt, taxable, and recycled bonds. Certain tax-exempt bonding activity is limited statewide by IRS rules, which cap the amount of new issuance, making it a scarce resource. We can also sell mortgage-backed securities backed by loans originated under our program on the secondary market. Finally, we are a MAP (Multifamily Accelerated Processing) lender, which allows us to originate FHA-insured multifamily mortgages that are financed through a third-party investor.

Agency Resources: We generate earnings from our lending and investment activities and reinvest them in wide variety of housing programs. Agency resources are currently categorized as follows:

> **Housing Investment Fund (Pool 2)**: Most of our investment-earning assets are carried in the Housing Investment Fund, and most assets in Pool 2 produce revenue that supports our operations and programs. We can transfer Pool 2 earnings to Pool 3 only to the extent that we project that our aggregate net position will satisfy our Board policy and rating agency stress tests. The earning assets that use Pool 2 funds are required to be of investment grade quality. Accordingly, the planned allocation of Pool 2 funds in a given AHP is primarily determined by the expected market opportunities that meet those loan and investment quality considerations and the projected earnings and net asset requirements for the future.
>
> **Housing Affordability Fund (Pool 3):** Pool 3 resources come from: (1) transfers from Pool 2 that capture a portion of the Agency's earnings, and (2) repayments or prepayments from loans previously funded under Pool 3. Because Pool 3 has no earnings requirements, it is more flexible than Pool 2 and can be used for deferred loans and grants. However, Pool 3 is a more limited resource than Pool 2 because it is dependent on the transfer of earnings from Pool 2.

Table 2 shows the original funding amounts from Pool 3 under the 2018 and 2019 AHPs, along with the activity that we estimate will actually occur under the 2018 AHP.

Table 2: Pool 3 Funding and Activity

	2018 AHP Original Funding	2018 Estimated Commitments	2019 AHP Funding
Deferred Payment Loans (DPL)	$14,115,000	$19,478,967	$18,115,000
Habitat for Humanity Initiative **	$1,000,000	$0	$0
Enhanced Homeownership Capacity Initiative	$750,000	$750,000	$750,000
Rehabilitation Loan Program (RPL)	$5,722,000	$3,443,066	$5,722,000
Multifamily Flexible Capital Account	$8,500,000	$2,520,162	$5,000,000
Single Family Interim Lending	$0	$0	$650,000
Community-Owned Manufactured Home Parks	$250,000	$250,000	$0
Technical Assistance and Operating Support	$1,850,000	$1,680,500	$1,850,000
Strategic Priority Contingency Fund	$1,500,000	$0	$2,000,000
Total	$33,687,000	$28,122,695	$34,087,000

** Habitat for Humanity Twin Cities requested a line of credit instead of this previously anticipated funding. A $25 million line of credit was put in place in 2018.

Appendix A-2: 2019 Program Funding by Source

#	Program	2019 Total	Federal Resources	State Appropriations	State Capital Investment (GO & Housing Infrastructure Bonds)	Housing Investment/Loan Resources (Agency Bond Proceeds, Other Mortgage Capital, & Pool 2)	Housing Affordability Fund (Pool 3)
	Homebuyer Financing and Home Refinancing	**$840,000,000**	**$0**	**$3,885,000**	**$0**	**$818,000,000**	**$18,115,000**
1	Home Mortgage Loans	$800,000,000	$0	$0	$0	$800,000,000	$0
2	Deferred Payment Loans	$22,000,000	$0	$3,885,000	$0	$0	$18,115,000
3	Monthly Payment Loans	$18,000,000	$0	$0	$0	$18,000,000	$0
	Homebuyer/Owner Education & Counseling	**$2,777,000**	**$0**	**$2,027,000**	**$0**	**$0**	**$750,000**
4	Homebuyer Education, Counseling & Training (HECAT)	$1,527,000	$0	$1,527,000	$0	$0	$0
5	Enhanced Homeownership Capacity Initiative	$1,250,000	$0	$500,000	$0	$0	$750,000
	Home Improvement Lending	**$26,494,000**	**$0**	**$3,772,000**	**$0**	**$17,000,000**	**$5,722,000**
6	Home Improvement Loan Program	$17,000,000	$0	$0	$0	$17,000,000	$0
7	Rehabilitation Loan Program (RLP)	$9,494,000	$0	$3,772,000	$0	$0	$5,722,000
	Rental Production- New Construction and Rehabilitation	**$179,920,842**	**$31,244,380**	**$29,444,766**	**$9,231,696**	**$105,000,000**	**$5,000,000**
8	Multifamily First Mortgage	$105,000,000	$0	$0	$0	$105,000,000	$0
9	Flexible Financing for Capital Costs (FFCC)	$0	$0	$0	$0	$0	$0
10	Multifamily Flexible Capital Account	$5,000,000	$0	$0	$0	$0	$5,000,000
11	Low-Income Housing Tax Credits (LIHTC)	$12,413,026	$12,413,026	$0	$0	$0	$0
12	National Housing Trust Fund	$3,445,781	$3,445,781	$0	$0	$0	$0
13	HOME	$11,885,573	$11,885,573	$0	$0	$0	$0
14	Preservation Affordable Rental Investment Fund (PARIF)	$17,782,453	$0	$17,782,453	$0	$0	$0
15	Asset Management	$3,500,000	$3,500,000	$0	$0	$0	$0
16	Rental Rehabilitation Deferred Loan (RRDL)	$9,735,313	$0	$9,735,313	$0	$0	$0
17	Publicly Owned Housing Program (POHP)	$9,231,696	$0	$0	$9,231,696	$0	$0
18	Workforce Housing Development	$1,927,000	$0	$1,927,000	$0	$0	$0
	Rental Assistance Contract Administration	**$178,810,000**	**$178,810,000**	**$0**	**$0**	**$0**	**$0**
19	Section 8 - Performance Based Contract Administration	$141,460,000	$141,460,000	$0	$0	$0	$0
20	Section 8 - Traditional Contract Administration	$37,350,000	$37,350,000	$0	$0	$0	$0
	Housing Stability for Vulnerable Populations	**$29,870,556**	**$1,110,445**	**$28,760,111**	**$0**	**$0**	**$0**
21	Housing Trust Fund (HTF) - **Net Activity**	$15,495,000	$0	$15,495,000	$0	$0	$0
21a	Funding for new contracts	$27,390,000	$0	$27,390,000	$0	$0	$0
21b	Adj. to spread two-year contracts over two years	-$11,895,000	$0	-$11,895,000	$0	$0	$0
22	Bridges - **Net Activity**	$4,596,635	$0	$4,596,635	$0	$0	$0
22a	Funding for new contracts	$9,193,270	$0	$9,193,270	$0	$0	$0
22b	Adj. to spread two-year contracts over two years	-$4,596,635	$0	-$4,596,635	$0	$0	$0
23	Section 811 Supportive Housing Program	$912,000	$912,000	$0	$0	$0	$0
24	Family Homeless Prevention and Assistance Program (FHPAP) - **Net Activity**	$8,668,476	$0	$8,668,476	$0	$0	$0
24a	Funding for new contracts	$17,070,286	$0	$17,070,286	$0	$0	$0
24b	Adj. to spread two-year contracts over two years	-$8,401,810	$0	-$8,401,810	$0	$0	$0
25	Housing Opportunities for Persons with AIDS (HOPWA)	$198,445	$198,445	$0	$0	$0	$0

Appendix A-2: 2019 Program Funding by Source

		2019 Total	Federal Resources	State Appropriations	State Capital Investment (GO & Housing Infrastructure Bonds)	Housing Investment/Loan Resources (Agency Bond Proceeds, Other Mortgage Capital, & Pool 2)	Housing Affordability Fund (Pool 3)
	Multiple Use Resources	**$85,026,481**	**$0**	**$17,276,481**	**$60,000,000**	**$3,250,000**	**$4,500,000**
26	Economic Development and Housing/Challenge (EDHC)	$16,601,481	$0	$16,601,481	$0	$0	$0
27	Single Family Interim Lending	$1,900,000	$0	$0	$0	$1,250,000	$650,000
28	Housing Infrastructure Bonds	$60,000,000	$0	$0	$60,000,000	$0	$0
29	Community-Owned Manufactured Home Parks	$2,000,000	$0	$0	$0	$2,000,000	$0
30	Technical Assistance and Operating Support	$2,525,000	$0	$675,000	$0	$0	$1,850,000
31	Strategic Priority Contingency Fund	$2,000,000	$0	$0	$0	$0	$2,000,000
33	Strategic Investments / Loans	TBD	$0	$0	$0	TBD	$0
	Other	**$2,368,232**	**$0**	**$2,368,232**	**$0**	**$0**	**$0**
32	Manufactured Home Relocation Trust Fund	$621,178	$0	$621,178	$0	$0	$0
34	Disaster Relief Contingency Fund	$1,747,054	$0	$1,747,054	$0	$0	$0
	AHP Total	**$1,345,267,111**	**$211,164,825**	**$87,533,590**	**$69,231,696**	**$943,250,000**	**$34,087,000**

Appendix B
Program Descriptions

Contents

Notes on reading the program descriptions:

- "Housing Investment Fund" and "Pool 2" refer to the same resource.
- "Housing Affordability Fund" and "Pool 3" refer to the same resource.
- The sum of the projections for the number of housing units or households assisted by individual programs during the plan period exceed the total number of households projected to be served across all programs. This occurs because some households or housing units will receive assistance from multiple programs to achieve needed affordability levels.
- The projections for the number of households or units assisted generally are based on the average assistance per unit or per household for the last five years, by program, adjusted for inflation and program trends and changes.
- The funding levels described in the narratives are the estimated amounts available for commitment in 2019. For amortizing loans (Home Mortgages, Monthly Payment Loans, Home Improvement Loans, Multifamily First Mortgages, Single Family Interim Lending, and Community Owned Manufactured Home Parks), the funding level is an estimate of demand and not a fixed budget.
- "Program" is used broadly throughout the AHP to refer to Minnesota Housing programs, initiatives, and activities.

Home Mortgage Loans

We offer two home mortgage programs, Start Up serving first-time home buyers, and Step Up for borrowers who do not qualify for Start Up. Step Up offers both purchase and refinance options. Under the programs, participating lenders originate fully-amortizing first mortgages throughout the state. To support home mortgage borrowers, we also offer downpayment and closing-cost loans that are structured to meet the needs of low- and moderate-income homeowners. To promote successful homeownership, our home mortgage programs also require at least one borrower in a first time homebuyer household to complete homebuyer education.

In our current business model for homeownership, we access capital to finance the purchase of mortgage-backed securities containing our program mortgages primarily by selling bonds in the municipal bond market. Program mortgages not eligible for bond sales are sold on the secondary market.

We remain committed through our programs to serve households of color or Hispanic ethnicity and households with incomes below 80 percent of area median income.

Current household income limits for Start Up:

Property Location	Maximum Household Income	
	1-2 person	3 or more
Minneapolis/Saint Paul Metro Area (11-county)	$94,300	108,400
Dodge & Olmstead Counties	90,500	$104,000
All Other Counties	84,200	96,800

Current income limits for Step Up:

Property Location	Maximum
Minneapolis/Saint Paul Metro Area (11-county)	$141,000
Dodge & Olmstead Counties	$141,000
All Other Counties	$125,900

Purchase price limits:

Property Location	Maximum
Minneapolis/Saint Paul Metro Area (11-county)	$328,000
All Other Counties	$271,100

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

- 4,035 loans
- $661,274,817 total loan amount
- $163,885 average loan
- A median household income of $54,349 or 68 percent of the statewide median income
- 32% percent of households were of color or Hispanic ethnicity

Our home mortgage programs are experiencing high production, which is heavily supported by downpayment and closing-cost loans. Ninety-seven percent of home mortgage borrowers use some

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type of downpayment and closing-cost loan, which is comparable with other top-producing housing finance agencies nationally.

Proposal for 2019

Expected 2019 funding is $800,000,000.

With the amount of funds requested to support downpayment and closing-cost loans, the 2019 home mortgage production forecast is $800 million. This is a similar level of production to what we expect to achieve in 2018, which increased from an original forecast of $630 million. If production strengthens, we will need additional funds in 2019 or program changes for downpayment and closing-cost loans.

Based on resources available for new activity, we expect to finance mortgages for 4,324 households. Reducing the homeownership disparity for households of color or Hispanic ethnicity will continue to be a priority.

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Deferred Payment Loans

We offer two downpayment and closing-cost loans—Deferred Payment Loans and Monthly Payment Loans—that support homeowners receiving Start Up and Step Up first mortgage loans. For the past two years, 95-97% of our borrowers have received one of these downpayment and closing-cost loans.

The Deferred Payment Loan (DPL) provides an interest-free, deferred loan for downpayment and closing costs to income-eligible first-time homebuyers purchasing a home under the Start Up program. Borrowers that receive DPL lack the necessary funds for standard mortgage downpayment and closing costs. The maximum loan amount is $10,000. The program serves lower income households than the amortizing Monthly Payment Loan (MPL) and is funded through a combination of state appropriations and Pool 3 funds.

To ensure that funds support successful homeownership, DPL requires borrowers to contribute a minimum cash investment of the lesser of one percent of the purchase price or $1,000 and have a credit score of at least 640.

Current income limits are adjusted by household size. Limits for households of one to two members are:

Property Location	Maximum
Minneapolis/Saint Paul Metro Area (11-county)	$68,000
Dodge & Olmstead Counties	$68,000
All Other Counties	$61,000

Current purchase price limits are:

Property Location	Maximum
Minneapolis/Saint Paul Metro Area (11-county)	$328,200
All Other Counties	$271,100

Program Performance and Trends

The availability of DPL is a driver of overall home mortgage production, particularly among lower-income and more targeted borrowers. In 2016, we increased the maximum DPL loan amounts slightly to reflect higher downpayment and closing costs resulting from higher home prices and sellers who are no longer willing to pay a sale's transaction costs. The changes went into effective on June 29, 2016.

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

- 2,388 loans
- $17,536,900 total loan amount
- $7,344 average loan
- A median household income of $47,708 or 59 percent of the statewide median income
- 34 percent of households were of color or Hispanic ethnicity

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Proposal for 2019

Expected 2019 funding is $22,000,000.

If home mortgage demand remains very strong, additional resources may be needed to support DPL, or we will have to make program changes.

Based on resources available for new activity, we expect to support 2,675 households.

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Monthly Payment Loans

Monthly Payment Loans (MPLs) are interest-bearing, amortizing loans that provide downpayment and closing-cost funds. MPLs support our Start Up and Step Up home mortgage loan programs. Borrowers who qualify for MPLs receive up to $15,000. MPLs use Pool 2 resources have a 10-year term with an interest rate equal to that of the first mortgage.

To ensure that funds support successful homeownership, MPL requires borrowers to contribute a minimum cash investment of the lesser of one percent of the purchase price or $1,000 and have a credit score of at least 640.

Current household income limits are:

Property Location	Maximum Household Income	
	1-2 person	3 or more
Minneapolis/Saint Paul Metro Area (11-county)	$94,300	$108,400
Dodge & Olmstead Counties	$90,500	$104,000
All Other Counties	$84,200	$96,800

Current purchase price limits are:

Property Location	Maximum
Minneapolis/Saint Paul Metro Area (11-county)	$328,200
All Other Counties	$271,100

Program Performance and Trends

Demand for this program has remained strong since its introduction in late 2012.

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

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- 1,360 loans
- $11,174,300 total loan amount
- $8,216 average loan
- A median household income of $70,034 or 87 percent of the statewide median income
- 29 percent of households were of color or Hispanic ethnicity

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Proposal for 2019

Expected 2019 funding is $18,000,000.

For 2019, we anticipate over one-third of overall home mortgage production will involve MPL, which would require $18 million for MPL. MPL production is subject to overall home mortgage production trends, the interest rate environment, the overall percentage of our borrowers who need a downpayment and closing-cost loan, and program design. Given that MPL is available with both home mortgage options, the demand for MPL depends upon the demand for first mortgage loans. If home mortgage demand remains very strong, additional resources may be needed to support MPL, or we will have to make program changes.

Based on resources available for new activity, we expect to fund loans for 1,636 households.

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Homeownership Education, Counseling & Training (HECAT)

The Homeownership Education, Counseling and Training (HECAT) program supports comprehensive homebuyer education and counseling, including: pre-purchase homebuyer education (Home Stretch), pre-purchase homebuyer services (financial wellness or homebuyer counseling), home equity conversion (reverse mortgage) counseling, and foreclosure prevention counseling. Besides the regular state appropriation, the Greater Minnesota Housing Fund and the Homeownership Center have historically each contributed $250,000 annually to the program, and the Family Housing Fund has contributed $150,000. We award the funds through a competitive annual Request for Proposals (RFP) process. Homebuyer education also includes Framework, an online option.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

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- 8,268 households served through the traditional HECAT program and an additional 8,956 households through Framework
- $1,750,850 total funding
- $188 average Minnesota Housing assistance per household
- A median household income of $36,000 or 45 percent of the statewide median income
- 47 percent of households were of color or Hispanic ethnicity

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Proposal for 2019

Expected 2019 funding is $1,527,000.

Based on resources available for new activity, the program will assist 19,088 households (including online Framework training).

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Enhanced Homeownership Capacity Initiative

Households of color or Hispanic ethnicity are an increasing share of the state's population, yet Minnesota's homeownership disparity (the homeownership rate differential between white/non-Hispanic households and households of color) is the fifth-highest in the nation. These households often struggle to access the mortgage market.

Homeownership Capacity has been a pilot program funded with state appropriations and Pool 3 resources that provides intensive financial education, comprehensive homebuyer/owner training, and case management services to prepare families for sustainable homeownership. It serves a range of households but has targeted efforts to reach households of color and low-to-moderate income households to increase their probability of successful homeownership.

In the most recent round of funding, thirteen organizations will provide services – nine in the Twin Cities metro, four in Greater Minnesota, and two in both areas.

Program Performance and Trends

This initiative supports new and expanded homeowner training efforts through existing organizations, which leverage funds from a number of sources.

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

- 868 households served
- $1,108,504 total grant amount
- $1,277 average Minnesota Housing funding per household
- A median household income of $34,158 or 43 percent of the statewide median income
- 84 percent of households were of color or Hispanic ethnicity

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Proposal for 2019

Expected 2019 funding is $1,250,000.

In July 2018, Minnesota Housing's Board approved the conversion of this pilot into a permanent program.

Based on the resources available for new activity, we anticipate serving approximately 1,136 households.

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Home Improvement Loan Program

The Home Improvement Loan Program (including Fix-Up and Community-Fix-Up Loans) uses Pool 2 resource to provide fully-amortizing home improvement loans to low- and moderate-income homeowners to improve the livability and energy efficiency of their homes. The Community-Fix-Up component is an add-on for eligible Fix-Up lending partners and provides affordable financing to support community partnerships that target resources. Lending partners working with Community Fix Up are able to offer a slightly lower interest rate compared to the regular Fix-Up Loan Program. Fix-Up and Community-Fix-Up loans are key tools for addressing the state's aging housing stock.

The program serves a broad range of incomes and promotes economic diversity in lending. With higher loan-to-value limits than traditional loan products and an unsecured loan option, borrowers are able to improve and preserve their homes when other financing options may not be available to them.

Income limit:

Property Location	Income Limit
Minneapolis/Saint Paul Metro Area (11-county)	$141,000
Dodge & Olmstead Counties	$141,000
All Other Counties	$125,900

(No Income limit for unsecured energy incentive and secured energy/accessibility loans.)

Maximum loan amount:
- $50,000 for secured loans
- $15,000 for unsecured loans and secured energy/accessibility loans.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 —September 30, 2017, we reported:

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- 644 loans
- $12,489,603 total loan amount
- $19,394 average loan
- A median household income of $69,732 or 87 percent of the statewide median income
- 12 percent of households were of color or Hispanic ethnicity

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Loan production has leveled off in recent years. Staff completed a program evaluation and is implementing changes in the last quarter of the 2018 program year, which includes:

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- Changing income limits (see above)
- Form changes
- Interest rate changes (does not apply to Energy or Accessibility loans)
- Program changes

Proposal for 2019

Expected 2019 funding is $17,000,000.

The recent program changes are designed to make the program easier for lenders to use and better meet borrowers' needs, and as a result, the projected demand for the program should increase. Staff will focus on lender training, increase outreach to new and existing lenders, and continue to promote Community Fix Up initiatives.

Based on the resources available for new activity, we anticipate serving approximately 895 households.

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Rehabilitation Loan Program (RLP)

The Rehabilitation Loan Program (RLP) provides zero-percent deferred loans to extremely-low-income homeowners at or below 30 percent of area median income (AMI) to improve the safety, livability, or energy efficiency of their homes. The homes are rehabilitated to the greatest extent practicable to meet the rehabilitation standard adopted by the Agency in 2010. Homeowners who need emergency assistance or have an essential accessibility need are referred to the Emergency & Accessibility Loan (ELP) component of the program.

A network of over 30 lender partners, such as community action agencies and local units of government, administer RLP throughout the state. The maximum loan term is 15 years for properties taxed as real property and 10 years for manufactured homes taxed as personal property and located in a manufactured home park. All loans are forgiven after the loan term if the borrower does not sell, transfer title, or cease to occupy the property during the loan term.

Current income limits are adjusted by household size, from $19,900 for a single person household to $28,300 for a four-person household. Other borrower assets cannot exceed $25,000.

Maximum loan amount: $15,000 for an ELP and $27,000 for an RLP loan.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

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- 260 loans
- $6,641,005 total loan amount
- $25,542 average loan
- A median household income of $14,286 or 18 percent of statewide median income
- 10 percent of households were of color or Hispanic ethnicity

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Over the past year, staff completed a program assessment and redesigned the program to increase efficiency in program delivery and better meet the needs of our lender partners. The redesign streamlines the loan origination and review processes and increases the compensation for our lender partners. Staff also completed three in-person lender trainings and conducted outreach to current and potential new lenders to address gaps in the program's coverage.

Proposal for 2019

2019 funding is $9,494,000.

In 2019, staff will implement the program redesign, including providing training and technical assistance to lenders on the process enhancements and assessing the new redesign for further program improvements. Program staff will prioritize outreach to ensure statewide program coverage in urban, suburban and rural markets, as well as coverage to core demographics who often receive assistance, including seniors and households with a disabled member.

Based on resources available for the program, we expect to fund rehabilitation loans for approximately 352 households.

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Multifamily First Mortgages

We make available Multifamily First Mortgages through our Low and Moderate Income Rental (LMIR) program and MAP (Multifamily Accelerated Processing) lending, using resources from Pool 2, Agency bond proceeds, and other mortgage capital.

Low and Moderate Income Rental (LMIR)

We have the ability to finance amortizing first mortgages. Traditionally, we have made direct loans through our Low and Moderate Income Rental Program (LMIR) using either Pool 2 resources or proceeds from the issuance of tax-exempt bonds. Direct loans are generally made under LMIR in combination with HUD's Risk Sharing Program.

The LMIR program makes interest-bearing, amortizing first mortgages available for the refinance, acquisition, rehabilitation, new construction, or conversion of rental developments that house low- and moderate-income Minnesotans. We also finance construction (bridge) loans under this program. Financing is available to housing sponsors both through the Request for Proposals (RFP) process and on a year-round pipeline basis. To enhance LMIR loans, we may also offer a companion, low- or no-interest deferred loan under the Flexible Financing for Capital Cost (FFCC) program, resulting in a lower overall interest rate on a blended basis.

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Current rent restrictions: a minimum of 40 percent of units must be affordable to households with incomes at 60 percent of the area median income; or 20 percent of units must be at affordable to households with incomes at 50 percent area median income; and the balance of units may have rents at the Minnesota Housing determined "market rate".

Current tenant income restrictions: 40 percent of units must be occupied by households with incomes at 60 percent or less of the area median income;[1] or 20 percent of units must be occupied by households with incomes at 50 percent or less of area median income; and 25 percent of units may be occupied by households with unrestricted incomes. The balance of the units may be occupied by households with incomes equal to or less than 100 percent of the area median income.

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There are no set minimum or maximum loan amounts; however, due to financing costs, loans are generally not feasible with loan amounts less than $2 million on tax-exempt bond loans and $350,000 on all others.

For the past several years, the bond market has not produced attractive interest rates for long-term bonds; as a result, we have issued short-term tax-exempt bonds to finance LMIR construction (bridge) loans. Bridge loans are later paid off by permanent LMIR loans funded from Pool 2 resources, a structure that allows developments to qualify for 4 percent housing tax credits and realize the benefit of very low

[1] It is actually 60% of MTSP (Multifamily Tax Credit Subsidy Projects), which is very similar to AMI (area median income). We are using AMI in this explanation because it is a more widely used term.

short-term interest rates while protecting against interest rate risk on the permanent mortgages. This structure is subject to change as directed by our finance staff (as the bond market changes).

MAP Lending

The HUD Multifamily Accelerated Processing (MAP) program provides mortgage insurance through HUD's Federal Housing Administration to facilitate new construction, rehabilitation, acquisition, and refinance of multifamily rental housing. MAP transactions are fully-insured, fully-amortizing loan products. Through a partnership with Dougherty Mortgage, we complete the loan underwriting and then assign HUD's commitment to a third party for rate lock, closing, funding, and servicing. These loans may be paired with our other loan programs.

Eligibility requirements: The development must meet the underwriting standards as prescribed by HUD, including loan-to-value requirements and debt-service-coverage ratio. The development team must also meet HUD requirements regarding experience and financial strength.

There are no set minimum or maximum loan amounts; however, due to financing costs, loans are generally not feasible in amounts of less than $1 million.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, under LMIR, we reported:

- 10 loans for developments with 576 units
- $26,139,250 total loan amount
- $45,381 average LMIR assistance per unit
- A median household income of $25,129 or 31 percent of the statewide median income
- 53 percent of households were of color or Hispanic ethnicity

For MAP, we reported:

- 1 loan for a development with 75 units
- $2,662,000 total loan amount
- $35,493 average MAP assistance per unit

Proposal for 2019

2019 funding is $105,000,000.

To broaden the benefit and flexibility of our first mortgage programs, we have improved the program to make it more beneficial to borrowers and began exploring ways to streamline our application and review processes. We have also developed a year-round funding approach to enhance the marketing and benefit of our mortgage products. We expect to pair deferred funding sources (including FFCC, PARIF, Assets Management loans, and possibly HOME) with amortizing mortgages to support this year-round approach.

We review funding applications to determine if they would be better served as LMIR or MAP loans. For 2019, we will continue to explore and implement additional mortgage products.

We anticipate that roughly 50 percent of the permanent financing will be awarded through the RFP process and 50 percent will be awarded through year-round funding.

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Deleted: One MAP loan for a development with 75 units closed October 1, 2016 – September 30, 2017. In the current interest rate environment, MAP loan volume is expected to remain level, both through the RFP and on a pipeline basis.

Based on resources available, we expect to assist up to 1,875 units under permanent LMIR financing (excluding bridge loans) and MAP lending, which would include new construction, rehabilitation, and refinancing.

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Flexible Financing for Capital Costs (FFCC)

We provide Flexible Financing for Capital Costs (FFCC) deferred loans at low or no interest, using Pool 3 resources. FFCC is available only in conjunction with Agency-originated first mortgage loans for the refinance, acquisition, rehabilitation, new construction, or conversion of rental developments that house low- and moderate-income Minnesotans.

We allocate FFCC funds through the Request for Proposals (RFP) process and on a year-round pipeline basis, allowing us to act more quickly to meet the immediate needs of developments that would be unnecessarily delayed if required to wait for the next RFP.

Current rent restrictions: a minimum of 40 percent of units must be affordable to households with incomes at 60 percent of the area median income; or 20 percent of units must be at affordable to households with incomes at 50 percent area median income; and the balance of units may have rents at the Minnesota Housing determined “market rate”.

Current tenant income restrictions: 40 percent of units must be occupied by households with incomes at 60 percent or less of the area median income; or 20 percent of units must be occupied by households with incomes at 50 percent or less of area median income; and 25 percent of units may be occupied by households with unrestricted incomes. The balance of the units may be occupied by households with incomes equal to or less than 100 percent of the area median income.

Maximum loan amount: no set limit, subject to funding availability.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

- 4 FFCC loans for developments with 203 units
- $4,469,762 total loan amount
- $22,019 average FFCC assistance per unit

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Proposal for 2019

Expected 2019 funding will be determined at a later date.

Because the need for FFCC is largely dependent on which develops ask for and receive a first mortgage with gap financing from us, demand for FFCC is very uncertain. Thus, we are not allocating funds to FFCC at this time. As RFP selections are made, we will transfer Pool 3 funds from the Multifamily Flexible Capital Account to FFCC. (The next program description outlines this account.)

Of the FFCC funds that will eventually be made available, we anticipate that approximately 60 percent of the funds will be awarded through the 2018 RFP and up to 40 percent will be awarded through year round pipeline.

Until we determine the amount of funds needed for FFCC, we cannot estimate the number of units that would be assisted.

Multifamily Flexible Capital Account

Our multifamily underwriting team has the difficult challenge of funding as many high-quality rental developments each year as possible with available funds and varying program restrictions. Matching the right funds to the right development to maximize the number of affordable housing opportunities is a complex process. The Multifamily Flexible Capital Account, using resources from our Housing Affordability Fund (Pool 3), allows us to fill the last funding gaps in projects to maximize production. We will use this account to fund FFCC activity, Asset Management loans, and other gaps.

Program Performance and Trends

This is not a program but a funding source typically run through the Asset Management and Flexible Financing for Capital Cost programs.

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Proposal for 2019

Expected 2019 funding is $5,000,000.

Based on the resources available, we expect to fund the development or rehabilitation of about 187 units.

Low-Income Housing Tax Credits (LIHTC)

Low-Income Housing Tax Credits (LIHTCs) provide federal income tax credits to owners and investors in the construction or acquisition/substantial rehabilitation of eligible rental housing. The housing must meet income and rent restrictions for a minimum of 30 years. The U. S. Department of Treasury's Internal Revenue Service (IRS) allocates 9% tax credits based upon state population and a per capita amount that increases each year with the cost of living. Syndication proceeds are the amounts of private equity invested in developments as a result of federal housing tax credits awarded and then sold to investors. The award of LIHTCs to developments is a highly competitive process, with requests far exceeding available credits.

The Minnesota Legislature designated Minnesota Housing as the primary allocating agency of LIHTC in Minnesota and qualified local cities and counties as suballocators.

We award 9% tax credits in two rounds of a competitive allocation process held each year. Round 1 is held concurrent with our Request for Proposals, and a smaller Round 2 is traditionally held early in the next calendar year. We establish a waiting list of unfunded or partially funded applications at the conclusion of Round 2.

Section 42 of the Internal Revenue Code requires that tax credit allocating agencies develop an allocation plan for the distribution of the tax credits within the jurisdiction of the allocating agency. Our Qualified Allocation Plan (QAP) includes selection criteria and preferences required by Section 42 and deemed appropriate to local conditions and established by us based on input from the public, partners and stakeholders.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

- 828 LIHTC units receiving credits
- $94,957,135 in syndication proceeds (investor equity from the sale of credits)
- $114,683 average syndication amount per unit
- A median household income of $22,682 or 28 percent of the statewide median income
- 44 percent of households were of color or Hispanic ethnicity

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Proposal for 2019

Expected 2019 funding is $12,413,026 in credits, which should generate about $110,0000,000 in syndication proceeds. This year's allocation will be our largest ever, due to an additional allocation from Congress.

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We expect to allocate tax credits to support 717 rental units in 2019.

National Housing Trust Fund (NHTF)

The National Housing Trust Fund (NHTF) is an affordable housing production program that complements existing Federal, State, and local efforts to increase and preserve the supply of safe, affordable housing for extremely low-income households, including families experiencing homelessness. The Fund is capitalized through contributions from the government sponsored enterprises Fannie Mae and Freddie Mac and administered by U.S. Department of Housing and Urban Development.

Current Rent Restrictions: Rents of an extremely low-income tenant shall not exceed affordability at 30 percent of AMI. HUD will publish the NHTF rent limits on an annual basis.

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Current Income Restrictions: NHTF-assisted units must be occupied by households with incomes at or below 30% of the area median income (AMI).

Moved up [1]: Current Rent Restrictions: Rents of an extremely low-income tenant shall not exceed affordability at 30 percent of AMI. HUD will publish the NHTF rent limits on an annual basis.¶

Program Performance and Trends

The first development closed in September 2017 and supports 16 units. The second development has an anticipated closing date of late fall 2018 and will support 19 units.

Proposal for 2019

Expected 2019 funding is $3,445,781.

The program will provide financing for one to two developments that are:

- New construction,
- Acquisition with rehabilitation,
- Rehabilitation without acquisition, or

- Operating subsidies for one of the above developments that produces new units meeting the permanent supportive housing strategic priority (up to 30% of the grant)

Based on the available resources, funds are expected to support 26 units in 2019.

HOME

HOME provides deferred loans for new construction, rehabilitation or acquisition/rehabilitation of permanent affordable rental housing, including housing with state or federal project-based rental subsidies. The program is funded with federal appropriations.

We allocate HOME funds through the annual Request for Proposals (RFP) process and on a year-round pipeline basis, allowing us to act more quickly to meet the immediate needs of developments that would be adversely impacted if required to wait for the next RFP.

Tenant income limit: The U.S. Department of Housing and Urban Development (HUD) annually sets limits for the HOME program.

Rent limits: HUD annually sets limits for the HOME program.

Maximum assistance amount: HUD annually sets the maximum per-unit subsidy.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

- 2 loans for developments with 110 units
- $4,403,000 total loan amount
- $37,000 average HOME assistance per unit
- A median household income of $19,083 or 24 percent of the statewide median income
- 42 percent of households were of color or Hispanic ethnicity

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This program is a critical tool in the long-term preservation of expiring project-based Section 8 contracts, as well as other project-based assisted housing.

Proposal for 2019

Expected 2019 funding is $11,885,573

In 2019, HOME funds will be used to support either new construction or rehabilitation needs. We anticipate assisting about 85 rent units.

Preservation Affordable Rental Investment Fund (PARIF)

PARIF provides loans to fund the preservation of: 1) permanent affordable rental housing with federal project-based federal rent subsidies that are in jeopardy of being lost, and 2) existing supportive housing developments. Eligible activities under PARIF include rehabilitation, acquisition and rehabilitation, and debt restructuring.

We allocate PARIF funds, which are state appropriations, through our annual Request for Proposals (RFP) process and on a year-round pipeline basis, allowing us to act more quickly to meet the immediate needs of developments that would be adversely impacted if required to wait for the next RFP.

Tenant income limit: PARIF is subject to the federal guidelines for the units being preserved.

Maximum assistance amount: None

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

- 11 loans for developments with 688 units
- $9,916,531 total loan amount
- $14,414 average PARIF assistance per unit
- A median household income of $17,826 or 22 percent of the statewide median income
- 44 percent of households were of color or Hispanic ethnicity

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This program is a critical tool in the long-term preservation of expiring project-based Section 8 contracts, properties with Rural Development rental assistance, and other project-based federally assisted housing.

Proposal for 2019

Expected 2019 funding is $17,782,453.

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We anticipate that approximately 80 percent of the funds will be awarded through the 2018 RFP and up to 20 percent will be awarded through the year-round pipeline.

Based on resources available for new activity, we expect to fund 445 units.

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Asset Management

Under the Asset Management program, resources are available on a pipeline basis to fund deferred maintenance, capital improvements, or acquisition or to buy out partners. Eligible properties include those with financing from Minnesota Housing, including those with existing affordability restrictions or rental assistance contracts administered by Minnesota Housing. Because we prioritize properties already in Minnesota Housing's portfolio, referrals primarily come from Minnesota Housing's asset management and compliance staff.

Under the Asset Management program, we can provide a range of loan types, including interest-bearing, non-interest bearing, amortizing, and/or deferred loans.

Owners receiving funds under this program must agree to extend affordability restrictions to be coterminous with the new loan.

Funding for Asset Management comes from two sources: (1) Financing Adjustment Factor (FAF)/Financing Adjustment (FA), and (2) Pool 3. FAF/FA are federal funds and come from a financing agreement between the U.S. Department of Housing and Urban Development (HUD) and Minnesota Housing.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we provided asset management assistance for no developments. The program was inactive during this time, with staff preparing new guidelines and considerations.

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Proposal for 2019

We expect to make available $5,500,000 in FA/FAF funds to support 183 units. As needed, we will also transfer available Pool 3 funds from the Multifamily Flexible Capital Account to the Asset Management to assist additional rental units. The amount that we will transfer and the number of additional units that would be assisted are unknown at this time.

Rental Rehabilitation Deferred Loan Pilot Program (RRDL)

RRDL provides deferred loans at no interest to individuals, developers, nonprofits, units of government, and tribal housing corporations for the moderate rehabilitation of existing affordable rental housing throughout Greater Minnesota. The program is funded with state appropriations and designed to serve owners of smaller federally-assisted properties or naturally affordable properties that do not apply or would not be competitive in our regular Consolidated Request for Proposals process.

Program funds are available through a network of local administrators. For developments located in areas of the state that are not represented by a local program administrator, owners may apply directly to Minnesota Housing for RRDL funds as a project-specific applicant. Loan terms range from 10 to 30 years depending on the loan amount. Buildings that contain 1-4 units may apply for loans up to $100,000 and these loans are 100% forgivable. Properties containing five or more units, may apply for loans where 10 percent of the loan amount is forgiven after the loan term has been met.

Current tenant income limit: 80 percent of the greater of the statewide or area median income (AMI) for a family of four, not adjusted for family size.

Maximum loan amount: $35,000 per unit for 1-2 unit properties or $25,000 per unit up to a maximum loan of $300,000 for other properties.

Program Performance and Trends

RRDL continues to not reach as many naturally affordable properties as intended, especially properties with 1-4 units. As we move into the 2019 AHP, staff are refining potential program changes and improvements, with the ultimate goal of serving more renter households, strengthen the delivery network, as well as streamline the application and underwriting processes.

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

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- 2 loans for developments with 48 units
- $574,517 total loan amount

- $11,969 average RRDL assistance per unit
- A median household income of $19,028 or 24 percent of the statewide median income
- 20 percent of households were color or Hispanic ethnicity

Proposal for 2019

Expected 2019 funding is $9,735,313.

We typically run the Request for Proposal (RFP) process for RRDL every other year. After the program changes have been refined and approved, agency staff will carry out an RFP for RRDL funds.

Based on resources available, we expect to finance 649 units.

Publicly Owned Housing Program (POHP)

Through the Publicly Owned Housing Program (POHP), we provide deferred, forgivable loans at no interest to eligible public housing authorities or housing and redevelopment authorities to preserve/rehabilitate properties that they own and operate under HUD's Public Housing program. Funds are from the proceeds of state General Obligation Bonds and can be used only for eligible capital costs of a non-recurring nature that add value or life to the buildings.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

- 13 loans for developments with 917 units
- $5,251,450 total loan amount
- $5,727 average POHP assistance per unit
- A median household income of $13,700 or 17 percent of the statewide median
- 21 percent of households were of color or Hispanic ethnicity

Proposal for 2019

Expected 2019 funding is $9,231,696.

The tentative RFP schedule for POHP has applications due in December 2018 and funding recommendations going to our Board in April or May 2019.

Based on resources available for new activity, we expect to rehabilitate 1,154 units.

Workforce Housing Development Program

This competitive funding program targets small to mid-size cities in Greater Minnesota with rental workforce housing needs. Funds may be used for qualified expenditure resulting in the direct development of rental properties, including: (1) acquisition of a property, (2) construction or improvements, or (3) provision of loans or subsidies, grants, interest rate subsidies, public infrastructure, and related financing costs. Funds target housing proposals with the greatest proportion

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of market rate units, but can be used to fund housing with rent and income restrictions imposed by other funding sources. There is also a funding priority to communities with 30,000 or fewer residents.

Funding is available under a stand-alone request for proposals (RFP). Proposals are ranked and scored according the Workforce Housing Development program statute. Proposed project rents are evaluated against the current and projected jobs and wages within the community. This program furthers Minnesota Housing's strategic priority of addressing specific and critical local housing needs by working with communities in Greater Minnesota that have a demand for workforce rental housing. Funding is solely from state appropriations.

Program Performance and Trends

In the first year of operation, we projected deploying $2,000,000 in funds for the development of approximately 80 units of housing. We selected five projects totaling $2,073,000 and 191 new units of rental housing throughout Greater Minnesota.

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Proposal for 2019

Expected 2019 funding is $1,927,000.

Based on resources and past program performance, we expect the funds to support the development of 80 units of new rental housing in Greater Minnesota.

Section 8 – Performance Based Contract Administration (PBCA)

The Housing and Community Development Act of 1974 created the project-based Section 8 Housing Assistance Payments Program. Under the program, the U. S. Department of Housing and Urban Development (HUD) entered into contracts with property owners to provide rental assistance for a fixed period of time for families with incomes no greater than 80 percent of the area median income. No new development has been funded under this program since the mid-1980s; however, under existing contracts, tenants pay no more than 30 percent of adjusted household income for rent. HUD pays the difference between tenant rent payments and the contract rent of assisted units.

Under an agreement with HUD that has been extended several times, we administer existing Section 8 contracts for affordable rental units that were not part of our Section 8 Traditional Contract Administration (TCA) first mortgage portfolio as a Performance Based Contract Administrator. Our primary responsibilities under PBCA are performing management and occupancy reviews, processing contract renewals and annual rent adjustments, processing monthly payment vouchers, responding to tenant concerns, and following up on Real Estate Assessment Center physical inspections. These activities assist in identifying and planning for the preservation needs of developments with Section 8 assistance.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

- 21,443 households assisted
- $137,065,490 in Housing Assistance Payments (HAP)
- $6,392 average (HAP) assistance per household

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- A median household income of $12,000 or 15 percent of the statewide median income
- 39 percent of households were of color or Hispanic ethnicity

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The geographic distribution of developments is important in understanding differences in assistance (and tenants assisted) between PBCA and TCA. A greater proportion of PBCA units are located in the Twin Cities Metropolitan Area than TCA units.

Proposal for 2019

Expected 2019 funding is $141,460,000.

Our current agreement with HUD extends through December 31, 2018, and we expect information on a new invitation to bid or an additional contract extension by year's end. We currently manage 406 PBCA contracts under this agreement. PBCA revenue earned through administration of the contracts pays 100 percent of the cost of administering the program.

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Since 2007, about 100 TCA contracts have transitioned to PBCA. Funding levels will continue to change as Section 8 contracts transition from the TCA portfolio to PBCA, per HUD's instruction. Because PBCA outlays are based in part on the number of assisted units in the portfolio, outlays will increase as the portfolio increases. The transition from TCA to PBCA has been mitigated a little. For budget reasons, HUD is taking over the administration of 24 Section 8 properties, rather than adding them to our PBCA portfolio. These units will continue to receive assistance, but not from us.

We expect to assist an estimated 21,763 units under PBCA.

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Section 8 – Traditional Contract Administration (TCA)

The Housing and Community Development Act of 1974 created the project-based Section 8 Housing Assistance Payments Program. Under the program, the U. S. Department of Housing and Urban Development (HUD) entered into contracts with property owners to provide rental assistance for a fixed period of time for families with incomes no greater than 80 percent of the area median income. No new development has been funded under this program since the mid-1980s; however, under existing contracts, tenants pay no more than 30 percent of adjusted household income for rent. HUD pays the difference between tenant rent payments and the contract rent of assisted units.

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We provided permanent mortgage financing for more than 235 Section 8 Traditional Contract Administration (TCA) properties developed from 1975 to the mid-1980s. We currently manage 121 of these TCA contracts. Our primary responsibilities under Section 8 TCA are to perform asset management functions, including carrying out management and occupancy reviews, processing contract renewals and annual rent adjustments, processing monthly payment vouchers, and responding to tenant concerns. These activities assist us in identifying and planning for the preservation needs of developments with Section 8 assistance.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

- 8,948 households assisted
- $51,524,013 in Housing Assistance Payments (HAP)

- $5,758 average HAP assistance per household
- A median household income of $12,603 or 16 percent of the statewide median income
- 29 percent of households were of color or Hispanic ethnicity

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Geographic distribution of developments is important in understanding differences in assistance (and tenants assisted) between PBCA and TCA. A greater proportion of PBCA units are located in the Twin Cities Metropolitan Area than TCA units.

Funding levels will change as Section 8 contracts transition from the TCA portfolio to PBCA, per HUD's instruction.

Proposal for 2019

Expected 2019 funding is $37,350,000.

We expect to assist an estimated 6,496 units under TCA.

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Housing Trust Fund (HTF)

Historically, funding for the HTF has been used to fund capital, rental assistance, and operating subsidy expenses. In recent years, we have used HTF state appropriations for rental assistance and some operating subsidies. HTF serves low-income families and individuals who are near-homeless, homeless, or long-term homeless.

Current tenant income limit: 60 percent of the area median income (AMI) for the Minneapolis/Saint Paul metro region, with priority for proposals at 30 percent of AMI and proposals to serve the long-term homeless.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

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- 1,674 households assisted
- $9,266,305 in total disbursements
- $7,402 average HTF assistance per household
- A median household income of $9,186 or 11 percent of the statewide median income
- 65 percent of households were of color or Hispanic ethnicity

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Proposal for 2019

Minnesota Housing typically provides HTF rental assistance and operating subsidies under two-year contracts with local administrators, and 2019 is a contract year. For rent assistance, we will enter into new two-year contracts. For operating subsidies, we will fund a one-year extension of current grants in order to change the timeline of the Request for Proposals (RFP) and complete an evaluation of the program. After the timeline change, the RFPs for rent assistance and operating subsidies will be in alternating years, not the same year.

We expect to make available $27,390,000 for the new contracts, which annualizes to $15,495,00 of assistance in 2019. All of the funding for operating subsidies is for 2019.

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The rental assistance contracts will include the Step Down pilot, which helps households, who need a lower-level of support, move from supportive housing units with high service levels to scattered site units with rental assistance and lower-intensity supportive services. The "step down" transition will make the more intensive supportive housing units available for new households that need the higher level of support.

We will also make available $500,000 for rental assistance that will be combined with funds from Margaret A. Cargill Philanthropies for a pilot program to serve homeless youth in northwestern Minnesota.

Based on resources available in 2019, we expect to provide rental assistance for an estimated 2,006 households through the core contracts and the pilots and assist 894 units through operating subsidies.

Bridges

Bridges is a state-funded rental assistance program for people with a serious mental illness. The goal of Bridges is to assist individuals so they can live in integrated settings in their communities until a permanent housing subsidy is available. Bridges operates in selected counties throughout the state and is administered through local housing organizations. The Minnesota Department of Human Services and Minnesota Housing collaborate in the administration of this program.

Tenants are responsible for a portion of the rent, which is generally equal to 30 percent of their income. Participants are required to be on a waiting list or eligible for a permanent rent subsidy, such as a Section 8 Housing Choice Voucher.

Bridges is a major component of Minnesota Housing's contribution to achieving the goals of Minnesota's Olmstead Plan, as well as a significant part of the state's Plan to Prevent and End Homelessness. In 2015, the program started prioritizing households with:

- Persons residing in an institution or other segregated setting who will be homeless upon discharge.
- Persons experiencing homelessness for one year or more, or multiple times in the last three years.
- People experiencing or at imminent risk of homelessness.

Current tenant income limit: 50 percent of area median income.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

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- 882 households assisted
- $4,167,435 in total disbursements
- $6,271 average Bridges assistance per household
- A median household income of $9,644 or 12 percent of the statewide median income
- 31 percent of households were color or Hispanic ethnicity

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Proposal for 2019

Bridges funds rent assistance under two-year contracts with local administrators. Minnesota Housing funded the most recent contracts in the 2017 AHP, and 2019 is a contract year.

We expect to make available $9,193,270 for the new two-year contracts, which annualizes to $4,596,635 of assistance in 2019.

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Based on the resources available in 2019, we expect to assist an estimated 888 households.

Section 811 Supportive Housing Program

Section 811 is a federal program under which the U.S. Department of Housing and Urban Development (HUD) has provided funding to states for project-based rental assistance to create integrated, cost-effective supportive housing units for people with disabilities. The goals of the program are to:

- Increase housing opportunities for people with disabilities,
- Transition people with disabilities from institutions to community-based settings,
- Reduce public costs of homelessness and institutional care,
- Create a centralized outreach and referral system, and
- Develop new service linkages.

We implement the program in partnership with the Minnesota Department of Human Services (DHS). DHS staff coordinates all outreach, screening, and referrals for 811 units and works with property owners to ensure support services are offered to tenants.

Eligible applicants for Minnesota's allocation of 811 funding include private and public owners of multifamily housing. The project-based rent assistance covers the difference between the tenant's payment and the approved gross rent.

Eligible tenants include extremely low-income households with one or more disabled members, who are either participating in the Minnesota Department of Human Services' Money Follows the Person demonstration program or are experiencing long-term homelessness.

The Section 811 program is a key tool for achieving the goals of the Olmstead Plan to provide integrated housing options for people with disabilities. It is a unique opportunity to expand supportive housing for people with disabilities and leverage Medicaid resources for services.

The state will enter into contracts with selected owners for a minimum of 20 years, with initial funding for a period of five years. Funding beyond the first five years is subject to federal appropriations. A small portion of the grant is used to pay for administrative expenses.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

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- 71 households assisted
- $362,022 in total disbursements
- $5,099 average Section 811 assistance per household

- A median household income of $8,070 or 10 percent of the statewide median income
- 55 percent of households were of color or Hispanic ethnicity

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HUD initially awarded Minnesota $3 million for up to 85 units of project-based rental assistance. We have awarded all of this funding for 84 project-based rental assistance subsidies (one unit less than the original goal of 85 units). Lease up of 811 units began in early 2016 with 71 households in housing by the end of June 2017.

In 2015, we received a second round of funding for an additional 75 units, which were awarded to existing or new properties through the Multifamily Consolidated RFP process. We selected nine properties with 48 units for the 811 program in the 2015 and 2016 RFPs, and the remaining 27 units were awarded in the 2017 funding rounds.

Proposal for 2019

The Section 811 funds spread over five years will support $1.2 million of annual activity. We expect to disburse about $912,000 in 2019 and support roughly 127 households, with lease up is still occurring.

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Family Homeless Prevention and Assistance Program (FHPAP)

Under FHPAP, we assist families with children, unaccompanied youth, and single adults who are homeless or are at imminent risk of homelessness. Funds are used for a broad range of purposes aimed at preventing homelessness, shortening the length of stay in emergency shelters, eliminating repeat episodes of homelessness, and assisting individuals and families experiencing homelessness to secure permanent affordable housing.

FHPAP assists extremely low-income people primarily through short-term rent assistance (limited to 24 months but typically less than three months), security deposits, utilities and transportation assistance, and case management services. FHPAP grants also encourage and support innovations at the county, region, or local level for a more seamless and comprehensive homelessness response system.

Grant funds are awarded through a competitive Request for Proposals process. In the seven-county Twin Cities metro area, only counties are eligible to apply for funding. In Greater Minnesota, eligible applicants include counties, groups of contiguous counties acting together, or community-based nonprofit organizations or tribal nations.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

- 6,914 households assisted
- $8,667,049 in total disbursements
- $1,254 average FHPAP assistance per household
- A median household income of $12,000 or 15 percent of the statewide median income
- 59 percent of households were of color or Hispanic ethnicity

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The total number of households served has declined over the past few years because the program has targeted assistance to households with higher needs and utilized rapid rehousing as a strategy. Rapid rehousing provides short term rental assistance, housing case management and housing navigation services.

As of the end of state fiscal year 2017, 44 percent of funds allocated to providers were used for direct cash assistance including rent and mortgage assistance, security deposits, and transportation and utility assistance; 48 percent of funds were used for support services; and 8 percent of funds were used for program administration.

Available data, collected through Minnesota's Homeless Management Information System (HMIS), indicate that only 6 percent of assisted households returned to shelter within one year of exiting the program. HMIS also tracks the percentage of households stably housed at program exit.

Percentage of FHPAP Households Stably Housed At Exit

Biennium	% Stably Housed at Exit
2016-17	80%
2014-15	77%
2012-13	78%
2010-11	78%

Proposal for 2019

FHPAP also operates under two-year contracts with local administrators, and 2019 is a contract year.

We expect to make available $17,070,286 for the new two-year contracts, which annualizes to $8,688,476 of assistance in 2019.

Based on resources available in 2019, we expect to assist an estimated 6,935 households.

Housing Opportunities for Persons with AIDS (HOPWA)

The Housing Opportunities for Persons with AIDS (HOPWA) program provides grants for housing assistance and services (including short-term rent, mortgage, and utility assistance) for people with Acquired Immune Deficiency Syndrome (AIDS), HIV-positive status, or related diseases and their families. The U.S. Department of Housing and Urban Development (HUD) allocates formula funds to local jurisdictions based on the number of individuals living with HIV or AIDS. The City of Minneapolis receives and administers a direct award for the 13-county Minneapolis/Saint Paul Metropolitan Statistical Area. We receive a direct award for the portion of the state not covered by the City of Minneapolis grant and contract with the Minnesota AIDS Project to administer these funds.

Current tenant income limit: 80 percent of area median income, adjusted for family size.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

- 178 households assisted in 50 counties
- $154,842 of assistance disbursed
- $870 average HOPWA assistance per household
- A median household income of $17,344 or 22 percent of the statewide median income

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- 46 percent of households were of color or Hispanic ethnicity

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Proposal for 2019

Expected 2019 funding is $198,445.

Based on resources available for new activity, we expect to assist an estimated 209 households.

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Economic Development and Housing/Challenge (EDHC) – Regular

Under the Economic Development and Housing/Challenge Program (EDHC), we provide grants or deferred loans for construction, acquisition, rehabilitation, interest rate reduction, interim or permanent financing, refinancing, and gap funding. Funds are used to support economic and community development within an area by meeting locally identified housing needs for either renter or owner-occupied housing.

Our Multifamily and Single Family divisions allocate these resources to proposals submitted through competitive Request for Proposals (RFP) processes. Staff evaluate proposals according to EDHC selection standards and our strategic priorities. RFP funding for single family housing is available under the Community Homeownership Impact Fund ("Impact Fund"), which is the umbrella program for EDHC and interim construction financing for homeownership activities.

We make EDHC loans and grants to cities, private developers, tribal and urban Indian housing authorities, nonprofit organizations, or owners of housing (including individuals) for both multifamily (minimum of four units) and single family projects. EDHC requires that 50 percent of the funds be used for projects that have leveraged funds from non-state resources. Preference is given to proposals with the greatest portion of costs covered by non-state resources.

Current income limit: 115 percent of the state median income for owner-occupied housing and 80 percent of the greater of area or state median income for rental housing.

Maximum loan amount: None beyond funding availability.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

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Multifamily EDHC

- 7 loans to developments with 255 units
- $16,877,296 total loan amount
- $66,185 average EDHC assistance per unit
- A median household of $21,413 or 27 percent of the statewide median income
- 70 percent of households were of color or Hispanic ethnicity

Single Family EDHC – Impact Fund

- 275 loans
- $5,651,266 total loan/grant amount
- $20,550 average EDHC assistance per home
- A median household income of $40,280 or 50 percent of statewide median income
- 45 percent of households were of color or Hispanic ethnicity

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Proposal for 2019

Expected 2019 funding is $16,601,481.

We will allocate funds through our 2018 Single Family and Multifamily RFPs, with any remaining funds made available on a pipeline basis in multifamily and through an incentive fund in Single Family.

Based on resources available for new activity, we expect to fund an estimated 561 units.

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Single Family Interim Lending

Single Family Interim Lending provides loans, most often to smaller nonprofit organizations, to acquire, rehabilitate, demolish, or construct owner-occupied housing under the Community Homeownership Impact Fund program. The homes are then sold to households with incomes at or below 115% of the area median income (AMI). Interim loans are financed with Agency resources and have a term of 26 months. Funds are awarded annually through the Single Family Request for Proposals process in accordance with our mission and priorities. While two-thirds of the units supported in the past year have been affordable to households with incomes at or below 80 percent AMI, the ongoing need for workforce housing may mean that a greater portion of units supported in the coming year will serve households with incomes between 80 percent and 115 percent of AMI.

Program Performance and Trends

Performance data on interim lending are reported under the Community Homeownership Impact Fund in the EDHC program. The Impact Fund is the umbrella program under which we deliver the Economic Development and Housing/Challenge program and interim construction financing, primarily for single family owner-occupied housing.

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Proposal for 2019

Expected 2019 funding is $1,900,000.

For 2019, Single Family Interim Lending will be funded through both interest-earning Pool 2 resources and interest-free Pool 3 resources, enabling the Agency to maximize returns on Pool 2 investments while still meeting the mission-oriented need of supporting the development of single family homes that are affordable.

Based on resources available for new activity, we anticipate making interim or construction loans to administrators for approximately 19 housing units.

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Housing Infrastructure Bonds (HIBs)

We have allocated Housing Infrastructure Bond (HIB) proceeds for the following project types:

- The acquisition, construction, or rehabilitation of affordable permanent supportive housing. Funding priority is given to housing proposals that serve households experiencing long-term homelessness and households at risk of becoming homeless;

- The preservation of existing federally subsidized rental housing by funding acquisition, rehabilitation, and refinancing; and
- The acquisition of land by community land trusts and used for affordable single-family homeownership opportunities.

In its 2018 session, the Legislature added two new uses for HIB proceeds: (1) senior housing, and (2) improvements and infrastructure for manufactured home parks. They also placed an emphasis on supportive housing for people with behavioral health needs.

HIB funds are allocated through the annual multifamily and single-family Request for Proposal (RFP). HIBs can be issued as governmental, 501c3, and private activity bonds. If the bonds are issued as private activity bonds, applicants also may access 4% housing tax credits. HIB proceeds are provided as deferred, no interest loans.

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Current income limit: 115 percent of the state median income for owner-occupied housing and 80 percent of the greater of area or state median income for rental housing.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported two supportive housing developments:

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- 103 units
- $12,178,056 total loan amount
- $118,234 average HIB assistance per unit
- A median household income of $9,688 or 12 percent of the statewide median income
- 50 percent of households were of color or Hispanic ethnicity

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We financed one preservation project:

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- 75 units
- $3,134,528 total loan amount
- $41,794 average HIB assistance per unit
- A median household income of $15,211 or 19 percent of the statewide median income
- 50 percent of households were of color or Hispanic ethnicity

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We financed land acquisition by community land trusts:

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- 14 homes
- $383,821 total grant amount
- $27,416 average HIB assistance per unit
- A median household income of $38,838 or 48 percent of the statewide median income
- 29 percent of households were of color or Hispanic ethnicity

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Proposal for 2019

The Legislature provided $80 million of HIB funding in their 2018 bonding bill, with up to $30 million set aside for supportive housing for people with behavioral health needs. We plan to commit these funds and some uncommitted funds from previous bonding bills under the 2019 and 2020 AHPs. After this fall's RFP selections, future funding rounds will include senior and manufactured housing projects.

For 2019, we are budgeting up to $60,000,000 in HIB resources, and with the new uses, we will reserve the remaining funds for the following year. We estimate that the 2019 funds will support the development or rehabilitation of about 551 units.

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Overall, we expect to allocate approximately 95% of the funds through the RFP, with the remaining amount available for funding modifications.

Community Owned Manufactured Home Parks

We are a participating lender investing in loans made by Resident Owned Capital, LLC (ROC-USA), a national nonprofit. ROC-USA lends to resident manufactured home cooperatives to enable them to purchase, own, and manage the parks that they occupy. ROC-USA acts as a lead lender and is responsible for loan servicing and loan origination and takes a lead role in due diligence review. In addition, ROC-USA contracts with Northcountry Cooperative Foundation (NCF), a local nonprofit, to engage cooperatives in development activities, such as organizing the cooperative entity and contracting for third party reports. NCF is retained after closing to provide ongoing technical assistance to the cooperative.

Program Performance and Trends

The program had no activity in 2017.

Proposal for 2019

Expected 2019 funding is $2,000,000.

Based on resources available, we estimate being able to support about 133 homes in manufactured home parks.

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Technical Assistance and Operating Support

The Technical Assistance and Operating Support program provides grants that enhance the ability of housing and community development organizations to meet Minnesota's affordable housing needs. This program supports all our strategic priorities by:

- Providing resources for the state's homeless response system – including the state's Homeless Management Information System, the regional Continuum of Care's homelessness assistance planning, and coordinated entry;
- Providing grants to specific organizations – including the Homeownership Center for its statewide counseling network and HousingLink for its statewide affordable housing website; and
- Supporting capacity building programs and initiatives – including the Capacity Building Initiative, Community Developer Capacity, and the Capacity Building Intermediary program.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we funded $1,310,119 of activity under this program.

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Proposal for 2019

Expected 2019 funding is $2,525,000.

Strategic Investments / Loans

Periodically, we have the opportunity to make strategic investments/loans with Pool 2 resources or other mortgage capital to help address an affordable housing issue. For example, in 2017, we committed up to $5 million to help fund an initiative through the Greater Minnesota Housing Fund to preserve naturally-occurring affordable housing. In 2018, we provided Twin Cities Habitat for Humanity with a $25 million line of credit to expand their business model. These investment opportunities and initiatives are not always known when the Affordable Housing Plan is developed, but we want to have the ability to respond quickly when good opportunities arise.

Under this activity, we will have the authority to make these investments/loans, but only after the Minnesota Housing Board of Directors has received a briefing on the parameters governing the initiative. While the precise details of the initiative may not be completely fleshed out at the time of the briefing, it will provide the Board with information on the purpose, nature, and scope of the investment/loan. This will give us the flexibility to work out the final details and act quickly.

Program Performance and Trends

In 2017, we budgeted up to $10 million for an investment in a fund to preserve naturally-occurring affordable housing. We ended up committing up to $5 million.

Proposal for 2019

The type and size of these of these investments/loans will be determined as opportunities arise. At this time, we do not have an estimate of the amount that we will potentially invest.

Strategic Priority Contingency Fund

During any given year, we anticipate that some programs are likely to need additional resources. To be nimbler and more responsive, we set aside contingency funds from Pool 3 to meet unexpected needs. As needed, we transfer these funds to those programs.

Proposal for 2019

Expected 2019 funding is $2,000,000.

Manufactured Home Relocation Trust Fund

The Manufactured Home Relocation Trust Fund requires owners of manufactured home parks to pay $15 per licensed lot into a Trust Fund each year if the fund's balance is below $1,000,000. The park owner is authorized to collect funds from each manufactured homeowner either monthly or in a lump sum that is paid to Minnesota Management and Budget for deposit into the Trust Fund. The Trust Fund is available to homeowners who must relocate because the park they live in is being closed.

The statute sets out a process for determining the amount of money for which a homeowner is eligible for either moving or selling their home. Minnesota Management and Budget collects the assessment, and we make payments to homeowners, with claims overseen by an appointed neutral third party, for eligible costs.

Program Performance and Trends

State law suspends collection of the fee if the balance in the account is equal to or exceeds $1 million. Due to significant payments from the trust fund in 2017, the balance in the fund is below the $1 million required to trigger collection of fees.

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

- 101 households assisted
- $995,450 total disbursements
- $9,856 average assistance per household

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Proposal for 2019

The 2019 available funds are expected to be $621,178.

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Flood Disaster

Disaster response programs provide funding for the repair or replacement of renter or owner-occupied housing damaged by natural disasters such as flood or tornado. We distribute these funds through the Quick Start Disaster Recovery program for single family properties and also assist in repairing damaged rental buildings, providing relocation services to renters displaced or homeless due to disasters, building organizational capacity to respond to disasters, and covering administrative costs related to disaster outreach.

Funds are typically delivered through administrators under contract to deliver ongoing Agency programs for the areas impacted by a disaster. These include administrators for the Single Family Rehabilitation Loan Program, the Multifamily Rental Rehabilitation Deferred Loan Program (RRDL), and the Family Homeless Prevention and Assistance Program (FHPAP).

Quick Start provides homeowners and smaller rental property owners with deferred loans at no interest for repair costs that are not covered by federal assistance or insurance proceeds. The loan is forgiven if the homeowner remains in the property for 10 years, or for rental properties, if property owners keep rents affordable for 10 years. There are no income limits under Quick Start.

Program Performance and Trends

Typically, activities have been funded by special appropriations from the Minnesota Legislature following a federal disaster declaration and determination of the level of available federal funding from the Federal Emergency Management Agency and the Small Business Administration. State appropriations have ranged from $1,000,000 for the May 2011 Minneapolis tornado to $12,720,000 for the August 2012 flooding in northeast Minnesota.

For the program assessment period October 1, 2016 – September 30, 2017, we did not fund any loans under this program.

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Proposal for 2019

Typically, the Minnesota Legislature appropriates funds following the declaration of a disaster.

Disaster Relief Contingency Fund

The Minnesota Legislature established this fund in 2001 as the account into which we deposit all repayments of previously made disaster relief loans or grants. Funds deposited in this account are used to assist with rehabilitation or replacement of housing that is damaged by a natural disaster in areas covered by a presidential declaration of disaster. Funding also may be used for capacity building grants for disaster response and flood insurance payments.

The terms and conditions under which the funds are made available are at the sole discretion of Minnesota Housing. Eligible uses of funds have included writing down the interest rate on Home Improvement Loans and activating the Quick Start Disaster Recovery program.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we funded 30 loans for $401,316.

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Proposal for 2019

Expected 2019 funding is $1,747,054.

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MINNESOTA HOUSING

Board Agenda Item: 8.A
Date: 9/27/2018

Item: 4th Quarter FY 2018 Financial Reporting Package

Staff Contact(s):
Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us
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Request Type:

☐ Approval
- ☐ Motion
- ☐ Resolution

☒ No Action Needed
- ☒ Discussion
- ☐ Information

Summary of Request:
Staff will review the 4th quarter and full fiscal year 2018 financial results.

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):
- 4th Quarter Fiscal Year 2018 Operating Results, Noteworthy Items
- Financial Dashboard
- Selected Financial Statements

Minnesota Housing Finance Agency
FY 2018 4th Quarter and Full Year Financial Results
Noteworthy Items

Balance Sheet – 6/30/18 compared to 6/30/17

Assets grew by over $300 million, as substantial growth in the Mortgage-Backed Securities (MBS) portfolio offset modest declines in loans and cash/investments.

Single family loans continue to run off as new production is securitized into MBS.

Bonds payable liability also increased by over $300 million due primarily to continued bond-financing of strong homeownership production.

Overall balance sheet treatment of pension net liability and related deferred outflows/inflows improved approximately $10 million.

Net position decreased by approximately $50 million, due primarily to the unrealized mark-to-market of the large MBS portfolio in a rising interest rate environment.

Each fiscal year includes a liability for state appropriation backed debt, $141 million for 2018 and $133 million for 2017.

Operating Results – Fiscal Year 2018 compared to Fiscal Year 2017

In Sustainable Core, Net Interest Income stayed approximately flat at $49.1 million vs. $49.6 million a year ago (and vs. $48.7 million in FY 2016). Annual Net Interest Margin decreased to 1.44% from 1.51% as more assets were required to earn same amount of net interest income:

- Interest revenue on loans continues to decrease as SF loans run off and pace of new MF interest earning loans does not offset the SF run off
- Interest income on MBS is increasing with more MBS and at higher coupons
- Slight increase in investment income as rise in interest rates on investments offsets decrease in investable assets
- Interest expense increased with more bonds outstanding and new bonds are carrying higher rates
- 4th quarter interest expense anomaly due to accounting treatment related to bond premiums.

At Consolidated level, net interest income grew to $53.6 million from $52.7 million last year.

Other non-interest revenue (primarily administrative reimbursements and fees) increased by $3.1 million year-over-year due to increased activities that generate such revenue.

Unrealized gain/(loss) on investments (primarily the MBS held as collateral securing bond issues) remains volatile from quarter to quarter, and year to year; full year 2018 of approximately ($60 million) up from ($38 million) for FY 2017. In a rising interest rate environment, fixed rate investments, including MBS, will decline in value, but as the MBS will not be sold the loss remains unrealized..

Operating and other expenses varied:

- Salary/benefit expenses down $3.2 million as drop in annual pension expense offset increased salary/benefit costs (including expense for other post-retirement benefits)
- General Operating expenses down $3 million, as 2017 included significant 1-time move related expenses and purchases
- Net financing expense increased $2.3 million.

BALANCE SHEET*
Quarterly Financial Dashboard - Selected Reporting
As of June 30, 2018 - ($ million)

	Quarter End	Prior Quarter End	Change from Prior Quarter	Year Ago **	Change From Year Ago
CONSOLIDATED					
Total Assets	**3,818.5**	**3,734.4**	**84.1**	**3,509.7**	**308.8**
Program Securities	2,151.4	2,037.8	113.6	1,710.7	440.7
Loans, net	992.7	1,017.1	(24.4)	1,071.1	(78.4)
Other investments and cash	644.8	654.5	(9.7)	706.2	(61.4)
Total Liabilities	**3,011.9**	**2,786.1**	**225.8**	**2,699.1**	**312.8**
Net Position					
restricted by Resolution	318.5	331.2	(12.7)	360.4	(41.9)
restricted by Covenant	465.2	475.9	(10.7)	471.7	(6.5)
restricted by Law	149.5	167.2	(17.7)	146.7	2.8
unrestricted - State Appr-Backed Debt	(140.9)	0.0	(140.9)	(133.0)	(7.9)
other	5.7	4.8	0.9	3.8	1.9
Total Net Position	**798.0**	**979.1**	**(181.1)**	**849.6**	**(51.6)**
CONSOLIDATED EXCLUDING APPROPRIATED					
Total Assets	**3,649.4**	**3,551.9**	**97.5**	**3,347.2**	**302.2**
Net Position	**789.4**	**812.0**	**(22.6)**	**835.9**	**(46.5)**
SUSTAINABLE CORE					
Total Assets	**3,546.6**	**3,452.4**	**94.2**	**3,253.9**	**292.7**
Program Securities	2,151.4	2,037.8	113.6	1,710.7	440.7
Loans, net	884.8	912.2	(27.4)	979.8	(95.0)
Other investments & cash	482.6	478.9	3.7	543.4	(60.8)
Total Liabilities	**2,859.4**	**2,778.8**	**80.6**	**2,567.2**	**292.2**
Bonds payable, net	2,687.8	2,587.2	100.6	2,369.5	318.3
Net Position	**678.7**	**704.3**	**(25.6)**	**725.8**	**(47.1)**

* Assets and liabilities do not include deferred inflows/outflows
** As restated for State appropriated debt liability

STATEMENT OF OPERATIONS
Quarterly Financial Dashboard - Selected Reporting
As of June 30, 2018 - ($ million)

	This Quarter	Prior Quarter	Change from Prior Quarter	FYTD	Last Year FYTD	Change
CONSOLIDATED						
Revenues	71.0	48.2	22.8	367.8	363.3	4.5
Expenses	109.6	96.2	13.4	409.5	379.0	30.5
Net	**(38.6)**	**(48.0)**	**9.4**	**(41.7)**	**(15.7)**	**(26.0)**
SUSTAINABLE CORE						
Interest revenue	31.5	31.3	0.2	122.2	116.2	6.0
Other revenue	20.8	11.1	9.7	41.7	38.6	3.1
Unrealized gain (loss)	(11.7)	(48.8)	37.1	(59.6)	(38.1)	(21.5)
TOTAL REVENUE	**40.6**	**(6.4)**	**47.0**	**104.3**	**116.7**	**(12.4)**
Interest Expense	24.8	18.9	5.9	73.1	66.6	6.5
Operating Expenses(1)	16.7	8.5	8.2	40.5	44.8	(4.3)
Other Expenses	7.7	2.2	5.5	30.6	26.1	4.5
TOTAL EXPENSE	**49.2**	**29.6**	**19.6**	**144.2**	**137.5**	**6.7**
Revenue over Expense	**(8.6)**	**(36.0)**	**27.4**	**(39.9)**	**(20.8)**	**(19.1)**
Net Interest Income	**6.7**	**12.4**	**(5.7)**	**49.1**	**49.6**	**(0.5)**
Annualized Net Interest Margin(2)	*0.77%*	*1.43%*		*1.44%*	*1.51%*	

(1) Salaries, benefits and other general operating
(2)Annualized Net Interest Income/Average assets for period

Minnesota Housing Finance Agency
Fund Financial Statements
Statement of Net Position (in thousands) - UNAUDITED
Proprietary Funds
As of June 30, 2018 (with comparative totals as of June 30, 2017)

		Bond Funds					Appropriated Funds			
	General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES^{SM}	State Appropriated	Federal Appropriated	Total as of June 30, 2018	Total as of June 30, 2017
Cash and cash equivalents	$ 56,385	$ 28,926	$ 210,567	$ 42,916	$ 1,468	$ -	$ 67,294	$ 6,724	$ 414,280	$ 439,184
Investments-program mortgage-backed securities	-	-	747,700	1,403,685	-	-	-	-	2,151,385	1,710,715
Investment securities-other	29,706	20,636	110,314	-	-	18,230	47,312	4,350	230,548	267,043
Loans receivable, net	-	140,234	796,716	-	13,944	-	41,839	-	992,733	1,071,058
Interest receivable on loans and program mortgage-backed securities	-	625	5,699	4,366	51	-	30	-	10,771	10,381
Interest receivable on investments	130	112	687	41	2	48	260	12	1,292	1,265
Interest rate swap agreements	-	-	4,623	-	-	-	-	-	4,623	-
FHA/VA insurance claims, net	-	-	1,309	-	-	-	-	-	1,309	1,575
Real estate owned, net	-	-	1,985	-	-	-	-	-	1,985	1,229
Capital assets, net	5,710	-	-	-	-	-	-	-	5,710	3,845
Other assets	2,183	4	325	33	-	-	-	1,325	3,870	3,367
Total assets	94,114	190,537	1,879,925	1,451,041	15,465	18,278	156,735	12,411	3,818,506	3,509,662
Deferred loss on refunding	-	-	1,785	-	-	-	-	-	1,785	137
Deferred loss on interest rate swap agreements	-	-	169	-	-	-	-	-	169	5,264
Deferred pension and OPEB expense	38,618	-	-	-	-	-	-	-	38,618	53,275
Total deferred outflows of resources	38,618	-	1,954	-	-	-	-	-	40,572	58,676
Bonds payable, net	-	39,530	1,200,197	1,415,873	13,720	18,472	140,905	-	2,828,697	2,502,508
Interest payable	-	498	17,506	5,898	34	48	-	-	23,984	24,523
Interest rate swap agreements	-	-	1,862	-	-	-	-	-	1,862	5,264
Net pension and OPEB liability	47,879	-	-	-	-	-	-	-	47,879	76,077
Accounts payable and other liabilities	4,840	6,864	13,557	77	-	-	4,555	1,127	31,020	12,397
Interfund payable (receivable)	(27,812)	122	25,683	-	-	-	1,801	206	-	-
Funds held for others	65,507	-	1,250	-	-	(242)	11,976	2	78,493	78,345
Total liabilities	90,414	47,014	1,260,055	1,421,848	13,754	18,278	159,237	1,335	3,011,935	2,699,114
Deferred gain on interest rate swap agreements	-	-	4,623				-	-	4,623	-
Deferred service release fee	-	-	9,921	6,935	-	-	-	-	16,856	13,993
Deferred pension and OPEB credit	27,699	-	-	-	-	-	-	-	27,699	5,554
Total deferred inflows of resources	27,699	-	14,544	6,935	-	-	-	-	49,178	19,547
Restricted by bond resolution	-	143,523	151,020	22,258	1,711	-	-	-	318,512	360,383
Restricted by covenant	8,909	-	456,260	-	-	-	-	-	465,169	471,700
Restricted by law	-	-	-	-	-	-	138,390	11,076	149,466	146,734
Invested in capital assets	5,710	-	-	-	-	-	-	-	5,710	3,845
Unrestricted - State Appropriation-backed Debt			-				(140,892)		(140,892)	(132,985)
Total net position	$ 14,619	$ 143,523	$ 607,280	$ 22,258	$ 1,711	$ -	$ (2,502)	$ 11,076	$ 797,965	$ 849,677

See accompanying notes to financial statements

Minnesota Housing Finance Agency
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Position (in thousands) - Ul
Proprietary Funds
Twelve Months Ended June 30, 2018 (with comparative totals for Twelve Months Ended June 30, 2017)

		Bond Funds					Appropriated Funds			
	General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance	Multifamily Housing	HOMES^{SM}	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2018	Total for the Year Ended June 30, 2017
Interest earned on loans	$ -	$ 7,266	$ 43,277	$ -	$ 616	$ -	$ 895	$ -	$ 52,054	$ 59,183
Interest earned on investments-program mortgage-backed securities	-	-	16,527	45,469	-	-	-	-	61,996	50,825
Interest earned on investments-other	419	537	8,480	312	17	606	2,097	159	12,627	9,313
Net G/L on Sale of MBS Held for Sale/HOMES Certificates	-	-	2,240	-	-	-	-	-	2,240	2,521
Appropriations received	-	-	-	-	-	-	55,291	202,780	258,071	243,897
Administrative reimbursement	24,479	-	-	-	-	-	-	-	24,479	22,482
Fees earned and other income	11,936	253	2,034	955	-	-	1,730	-	16,908	14,448
Unrealized gains (losses) on investments	-	(180)	(13,980)	(46,042)	-	-	(324)	(9)	(60,535)	(39,397)
Total revenues	36,834	7,876	58,578	694	633	606	59,689	202,930	367,840	363,272
Interest	-	1,190	32,823	38,022	416	606	-	-	73,057	66,620
Financing, net	-	-	4,958	2,157	-	-	-	-	7,115	4,774
Loan administration and trustee fees	-	133	3,157	485	4	-	93	-	3,872	3,898
Administrative reimbursement	-	1,129	12,136	7,868	94	-	2,100	-	23,327	22,001
Salaries and benefits	33,114	-	-	-	-	-	-	-	33,114	36,311
Other general operating	6,338	3	3,327	22	-	-	1,851	-	11,541	14,772
Appropriations disbursed	-	-	-	-	-	-	29,094	202,219	231,313	218,151
Reduction in carrying value of certain low interest	-	-	-	-	-	-	-	-	-	
rate deferred loans	-	-	1,758	-	-	-	23,461	-	25,219	13,626
Provision for loan losses	-	(525)	930	-	(1)	-	507	-	911	(1,170)
Total expenses	39,452	1,930	59,089	48,554	513	606	57,106	202,219	409,469	378,983
Revenues over (under) expenses	(2,618)	5,946	(511)	(47,860)	120	-	2,583	711	(41,629)	(15,711)
Non-operating transfer of assets between funds & Adj.	5,192	53	(19,822)	14,634	-	-	(7,907)	(57)	(7,907)	(14,618)
Change in net position	2,574	5,999	(20,333)	(33,226)	120	-	(5,324)	654	(49,536)	(30,329)
Total net position, beginning of Year, as restated	12,045	137,524	627,613	55,484	1,591	-	2,822	10,422	847,501	880,006
Total net position, end of Year	$ 14,619	$ 143,523	$ 607,280	$ 22,258	$ 1,711	$ -	$ (2,502)	$ 11,076	$ 797,965	$ 849,677

See accompanying notes to financial statements

Minnesota Housing Finance Agency
Supplementary Information(Unaudited)
Statement of Net Position (in thousands)
General Reserve & Bond Funds
As of June 30, 2018 (with comparative totals for June 30, 2017)

		Bond Funds						General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended	Residential Housing Finance Pool 3 Total For The Year Ended	General Reserve & Bond Funds Total For The Year Ended	General Reserve & Bond Funds Total For The Year Ended
			Residential Housing Finance									
	General Reserve	Rental Housing	Bonds	Pool 2	Homeownership Finance	Multifamily Housing	HOMES^{SM}	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2018	June 30, 2017
Cash and cash equivalents	$ 56,385	$ 28,926	$ 137,923	$ 66,744	$ 42,916	$ 1,468	$ -	$ 334,362	$ 345,044	$ 5,900	$ 340,262	$ 349,293
Investments-program mortgage-backed securities	-	-	747,700	-	1,403,685	-	-	2,151,385	1,710,715	-	2,151,385	1,710,715
Investment securities-other	29,706	20,636	19,909	59,760	-	-	18,230	148,241	198,428	30,645	178,886	234,443
Loans receivable, net	-	140,234	459,788	270,861	-	13,944	-	884,827	979,771	66,067	950,894	1,031,614
Interest receivable on loans and program mortgage-backed securities	-	625	4,479	1,164	4,366	51	-	10,685	10,276	56	10,741	10,351
Interest receivable on investments	130	112	384	228	41	2	48	945	969	75	1,020	1,040
Interest Rate Swap Agreements	-	-	4,623	-				4,623	-		4,623	-
FHA/VA insurance claims, net	-	-	1,309	-	-	-	-	1,309	1,575	-	1,309	1,575
Real estate owned, net	-	-	1,774	211	-	-	-	1,985	1,229	-	1,985	1,229
Capital assets, net	5,710	-	-	-	-	-	-	5,710	3,845	-	5,710	3,845
Other assets	2,183	4	32	292	33	-	-	2,544	2,055	1	2,545	3,056
Total assets	94,114	190,537	1,377,921	399,260	1,451,041	15,465	18,278	3,546,616	3,253,907	102,744	3,649,360	3,347,161
Deferred loss on refunding	-	-	1,785	-	-	-	-	1,785	137	-	1,785	137
Deferred loss on interest rate swap agreements	-	-	169	-	-	-	-	169	5,264	-	169	5,264
Deferred pension and OPEB expense	38,618	-	-	-	-	-	-	38,618	53,275	-	38,618	53,275
Total deferred outflows of resources	38,618	-	1,954	-	-	-	-	40,572	58,676	-	40,572	58,676
Bonds payable, net	$ -	$ 39,530	$ 1,200,197	$ -	$ 1,415,873	$ 13,720	$ 18,472	$ 2,687,792	$ 2,369,523	$ -	2,687,792	$ 2,369,523
Interest payable	-	498	17,499	7	5,898	34	48	23,984	24,523	-	23,984	24,523
Interest rate swap agreements	-	-	1,862	-	-	-	-	1,862	5,264	-	1,862	5,264
Net pension and OPEB liability	47,879	-	-	-	-	-	-	47,879	76,077	-	47,879	76,077
Accounts payable and other liabilities	4,840	6,864	484	12,961	77	-	-	25,226	10,083	112	25,338	10,265
Interfund payable (receivable)	(27,812)	122	(1)	33,792	-	-	-	6,101	16,425	(8,108)	(2,007)	(598)
Funds held for others	65,507	-	-	1,250	-	-	(242)	66,515	65,308	-	66,515	65,308
Total liabilities	90,414	47,014	1,220,041	48,010	1,421,848	13,754	18,278	2,859,359	2,567,203	(7,996)	2,851,363	2,550,362
Defered gain on interest rate swap agreements	$ -	$ -	$ 4,623	$ -			$ -	4,623	$ -		4,623	$ -
Deferred service release fee	-	-	4,191	5,730	6,935	-	-	16,856	13,993	-	16,856	13,993
Deferred pension and OPEB credit	27,699	-	-	-	-	-	-	27,699	5,554	-	27,699	5,554
Total deferred inflows of resources	27,699	-	8,814	5,730	6,935	-	-	49,178	19,547	-	49,178	19,547
Restricted by bond resolution	-	143,523	151,020	-	22,258	1,711	-	318,512	360,383	-	318,512	360,383
Restricted by covenant	8,909	-	-	345,520	-	-	-	354,429	361,605	110,740	465,169	471,700
Invested in capital assets	5,710	-	-	-	-	-	-	5,710	3,845	-	5,710	3,845
Total net position	14,619	143,523	151,020	345,520	22,258	1,711	-	678,651	725,833	110,740	789,391	835,928
Total liabilities, deferred inflows, and net position	$132,732	$ 190,537	$ 1,379,875	$ 399,260	$ 1,451,041	$ 15,465	$ 18,278	$ 3,587,188	$ 3,312,583	$ 102,744	$ 3,689,932	$ 3,405,837

Minnesota Housing Finance Agency
Supplementary Information (Unaudited)
Statement of Revenues, Expenses and Changes in Net Position (in thousands)
General Reserve & Bond Funds
Twelve Months Ended June 30, 2018 (with comparative totals for the twelve months ended June 30, 2017)

		Bond Funds						General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended	Residential Housing Finance Pool 3 Total For The Year Ended	General Reserve & Bond Funds Total For The Year Ended	General Reserve & Bond Funds Total For The Year Ended
			Residential Housing Finance									
	General Reserve	Rental Housing	Bonds	Pool 2	Homeownership Finance	Multifamily Housing	HOMES^{SM}	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2018	June 30, 2017
Interest earned on loans	$ -	$ 7,266	$ 27,090	$ 15,700	$ -	$ 616	$ -	$ 50,672	$ 58,484	$ 487	51,159	$ 58,746
Interest earned on investments-program mortgage-backed securities	-	-	16,527	-	45,469	-	-	61,996	50,825	-	61,996	50,825
Interest earned on investments-other	419	537	2,223	5,418	312	17	606	9,532	6,884	839	10,371	7,705
Net G/L on Sale of MBS Held for Sale/HOMES Certificate	-	-	-	2,240	-	-	-	2,240	2,521	-	2,240	2,521
Administrative reimbursement	24,479	-	-	-	-	-	-	24,479	22,482	-	24,479	22,482
Fees earned and other income	11,936	253	481	1,408	955	-	-	15,033	13,571	145	15,178	13,606
Unrealized gains (losses) on Investments	-	(180)	(19,657)	6,234	(46,042)	-	-	(59,645)	(38,060)	(557)	(60,202)	(38,857)
Total revenues	36,834	7,876	26,664	31,000	694	633	606	104,307	116,707	914	105,221	117,028
Interest	-	1,190	31,687	1,136	38,022	416	606	73,057	66,620	-	73,057	66,620
Financing, net	-	-	4,855	103	2,157	-	-	7,115	4,774	-	7,115	4,774
Loan administration and trustee fees	-	133	2,086	1,055	485	4	-	3,763	3,758	16	3,779	3,772
Administrative reimbursement	-	1,129	7,516	3,304	7,868	94	-	19,911	19,192	1,316	21,227	20,460
Salaries and benefits	33,114	-	-	-	-	-	-	33,114	36,311	-	33,114	36,311
Other general operating	6,338	3	21	967	22	-	-	7,351	8,472	2,339	9,690	12,681
Reduction in carrying value of certain low interest rate deferred loans	-	-	-	(47)	-	-	-	(47)	165	1,805	1,758	2,409
Provision for loan losses	-	(525)	112	314	-	(1)	-	(100)	(1,840)	504	404	(1,511)
Total expenses	39,452	1,930	46,277	6,832	48,554	513	606	144,164	137,452	5,980	150,144	145,516
Revenue over(Under) expenses	(2,618)	5,946	(19,613)	24,168	(47,860)	120	-	(39,857)	(20,745)	(5,066)	(44,923)	(28,488)
Non-operating transfer of assets between funds	5,192	53	4,849	(30,382)	14,634	-	-	(5,654)	(956)	5,711	57	2,044
Change in net position	2,574	5,999	(14,764)	(6,214)	(33,226)	120	-	(45,511)	(21,701)	645	(44,866)	(26,444)
Total net position, beginning of Year, as restated	12,045	137,524	165,784	351,734	55,484	1,591	-	724,162	747,534	110,095	834,257	862,372
Total net position, end of Year	$ 14,619	$ 143,523	$ 151,020	$ 345,520	$ 22,258	$ 1,711	$ -	$ 678,651	$ 725,833	$ 110,740	$ 789,391	$ 835,928

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MINNESOTA HOUSING

Board Agenda Item: 8.B
Date: 9/27/2018

Item: 2018 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:
Staff are providing our 2018 Cost Containment Report for your review and discussion. To provide context, we annually provide this report the month before you review and approve housing developments for funding through our Consolidated Request for Proposals.

We are also providing the executive summary of a national cost analysis prepared by Abt Associates. The results of this report are consistent with and support our analysis.

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):
- 2018 Cost Containment Report
- Variation in Development Cost for LIHTC Projects (Executive Summary)

Evaluating Affordable Housing Efforts

Cost Containment Report

2018

MINNESOTA HOUSING

OVERVIEW AND CONTEXT

Containing the cost of developing housing is a critical issue in Minnesota. In 2017, about 550,000 Minnesota households were cost burdened by spending more than 30 percent of their income on housing.[1] If we are to address the need for affordable housing, we must build and preserve as many affordable units as possible with the limited resources 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 provides access to opportunity and 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 and a half – 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 and people with disabilities, energy-efficient and healthy homes, and locations that provide opportunity. 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 American Community Survey (2017, 1-year sample).

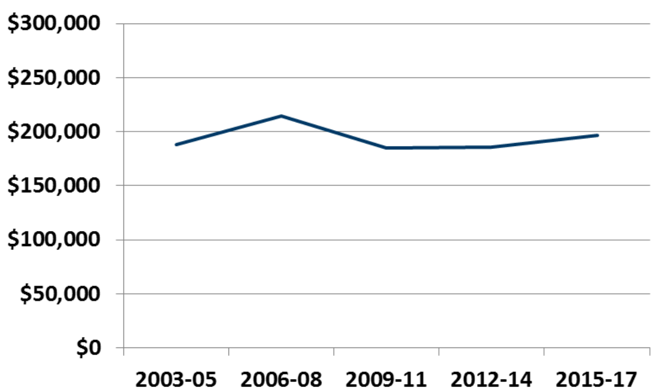
MULTIFAMILY COSTS

In a typical year, we distribute over $150 million for multifamily development.[2] We must ensure that these funds are efficiently and effectively used to address the significant shortage of affordable housing. The first part of this 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 been around $200,000 for the last decade, after controlling for inflation in residential construction costs (which accounts for changes in material and wage costs over time). 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.[3] For example, a larger share of resources going to new construction developments with tax credits in the metro area will increase average costs, while a larger share going to rehabilitation developments without tax credits in Greater Minnesota will decrease average costs.

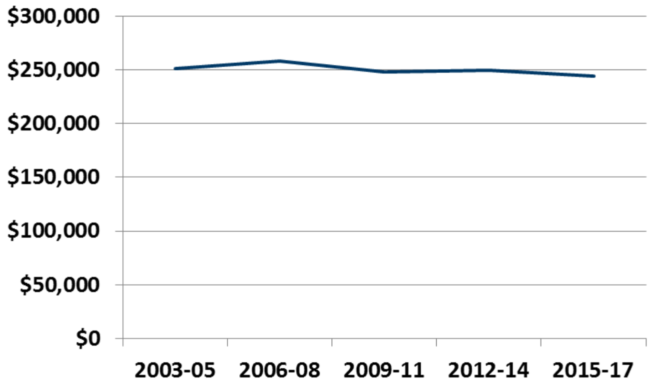
Figure 1: Average TDC per Unit 2003 to 2017 – All Types of Developments (Adjusted for Construction Inflation, 2018 Dollars)



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] This includes syndication proceeds from 9% housing tax credits.
[3] 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 2017 – New Construction with Tax Credits in the Metro Area (Adjusted for Construction Inflation, 2018 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 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, good schools, 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 helps maintain costs at a reasonable level.
- With the Qualified Allocation Plan (QAP) 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 Minnesota Challenge to Lower the Cost of Affordable Housing, which was initiated as an idea competition to identify and address system-level factors (such as land use policies or design standards) that increase costs for all developments. Since this initial competition, we have carried out several activities to address these systemic-cost drivers. We try to carry out at least one initiative each year.

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

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.

- 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 24 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 access to opportunity. 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 four 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 24 percent for developments with tax credits.

Table 1: Share of TDC by Project Type, Location and Cost Component
Developments Completed between 2003 and 2017
(Adjusted for Construction Inflation, 2018 Dollars)

				Share of TDC			
			Avg. TDC per Unit	**Construc-tion**	**Acquisi-tion**	**Soft**	**N**
New Const.	LIHTC	Metro	$251,588	68%	8%	24%	74
New Const.	No-LIHTC	Metro	$200,971	72%	11%	17%	18
New Const.	LITHC	Greater MN	$203,887	72%	6%	22%	48
New Const.	No-LIHTC	Greater MN	$183,404	72%	11%	17%	15
Rehab	LIHTC	Metro	$199,159	36%	41%	23%	35
Rehab	No-LIHTC	Metro	$136,525	41%	45%	14%	25
Rehab	LITHC	Greater MN	$124,478	42%	37%	21%	34
Rehab	No-LIHTC	Greater MN	$88,342	41%	42%	17%	18

Over time, each of the three cost components has accounted for a relatively consistent share of TDC, indicating that we are containing each cost component, not just overall costs. See Table 2. In the most recent period, 2015 through 2017, construction costs' share of TDC is up a little, while acquisition costs' share is down. We'll have to see if this trend continues.

Table 2: New Construction with Tax Credits in the Metro Area – Cost Component Share of TDC 2003 to 2017

	Construc-tion	Acquisi-tion	Soft
2003-05	68%	8%	24%
2006-08	68%	8%	24%
2009-11	64%	8%	27%
2012-14	66%	9%	25%
2015-17	71%	6%	23%
2003-17	68%	8%	24%

Strategies for Containing and Reducing Multifamily Costs

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

1. Assess Cost Reasonableness
2. Incent Cost Containment and Reductions in the Selection of Projects for Housing Tax Credits
3. Address Systemic Cost Drivers

Strategy 1: Assess Cost Reasonableness

Minnesota Housing assesses each development for cost reasonableness. An important tool for identifying high cost developments is our predictive cost model. The model predicts a development's TDC per unit based on its characteristics. To develop the parameters for the model, we run a multivariate regression analysis on the inflation-adjusted costs and characteristics of the developments that the Agency financed between 2003 and 2017. 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[4]
  - More Limited Rehabilitation
  - Combination of New Construction and Rehabilitation
  - Conversion/Adaptive-Reuse
- Building Type:
  - Walkup
  - Elevator
  - Townhome
  - Single Family Home/Duplex
  - Other

[4] 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.

- Unit Size – based on average number of bedrooms per unit in the development
- Gross Square Footage
- Location:
  - Minneapolis or Saint Paul
  - Suburbs in Twin Cities Seven-County Metro Area
  - Greater Minnesota – Large City[5]
  - Greater Minnesota – Regional Job Center[6]
  - Greater Minnesota - Rural
- Year Built
- Garage Type:
  - None
  - Above ground
  - Underground
- Acquisition:
  - Land
  - Structure
  - None
- 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 to ensure that our costs are in line with the industry.

Overall, the model has worked very well for us. It explains a sizable portion (64 percent to 79 percent) of the variation in the costs for developments that we financed between 2003 and 2017, which is a robust result.[7] For comparison, Abt Associates (a national consulting firm) released in August 2018 a cost analysis of housing tax credit developments from across the county, and their regression models

[5] The large cities are Duluth, Rochester, St. Cloud, Moorhead, and Mankato; and include a five-mile commute shed around the cities.

[6] 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, and Wyoming. These areas also include a five-mile commute shed around the cities.

[7] The model explains about 79% of the variation in construction costs and about 64% of the variation in acquisition and soft costs.

explained 52 to 54 percent of the variation in the national data.[8] Similarly, the U.S. Government Accountability Office (GAO) released in September 2018 another cost analysis of tax credit developments, and their regression models explained 63 to 65 percent of the variation in their national data.[9] Besides the statistical rigor, the model has proven very effective over the last 12 years in 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 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 funding, they must identify the developments that have a proposed cost that is more than 25 percent higher than the predicted costs from the predictive cost model, and the Board must agree to grant a waiver to allow the higher costs. For these projects, staff must explain why the proposed cost is reasonable even though it is above the 25 percent threshold. There are a wide range of reasons why the costs could be reasonable. For example, a housing development and site may be critical to meet a local housing need, but the site requires an unusually large amount of environmental remediation.

While the predictive cost model is a useful tool to identify high-cost developments, it is not the only way that Agency staff review cost reasonableness. The professional judgment 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 predictive cost model threshold, staff will still question costs if they seem high given the context of the development. Our staff has extensive experience reviewing funding applications and development costs. Each year, they typically evaluate 75 or more applications.

Strategy 2: Incent Cost Containment and Reductions in the Selection of Projects for Low-Income Housing Tax Credits

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. The 50 percent of tax credit

[8] Abt Associates, *Variation in Development Costs for LIHTC Projects* (prepared for the National Council of State Housing Agencies, August 30, 2018). The adjusted R-Squared values shown in the appendix varied from 0.5222 to 0.5433.

[9] U.S. Government Accountability Office (GAO), *Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessments and Fraud Risk*, (September 2018, GAO-18-637). The adjusted R-Squared values shown in Appendix II varied from 0.626 to 0.648.

applications with the lowest TDC per unit are eligible to receive six points in the selection process. 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 with predominantly smaller units (efficiencies and one bedroom) have their costs adjusted upward when making comparisons; and projects with predominantly large units (three or more bedrooms) have their costs adjusted downward.[10]

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 strategically chose to award six points to projects that meet this criterion.

Table 3 provides the maximum points awarded under each selection criteria for the 2019 QAP.

- Six points are 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 six points of the selection threshold. For example, with the October 2017 selections, 9 of the 40 applications for 9% tax credits scored within this range.

- The six points for cost containment are no more 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.

[10] 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.

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

Table 3: Tax Credit Selection Points, 2019 QAP

Criterion	Points
Preservation	30
Rental Assistance	26
Unacceptable Practices	-25
Supportive Housing for Homeless	22
Financial Readiness to Proceed / Leveraged Funds	16
Lowest Income / Rent Reduction	13
People with Disabilities	10
Other Contributions	10
Rural/Tribal	10
Economic Integration	9
Location Efficiency	9

Criterion	Points
Large Family	7
Intermediary (Soft) Costs	6
Workforce Housing Community	6
Cost Containment	**6**
Higher Performing Schools	4
Planned Community Development	3
Minority- / Women-Owned Business	3
Universal Design	3
Smoke Free Building	1
QCT / Community Revitalization	1
Eventual Tenant Ownership	1

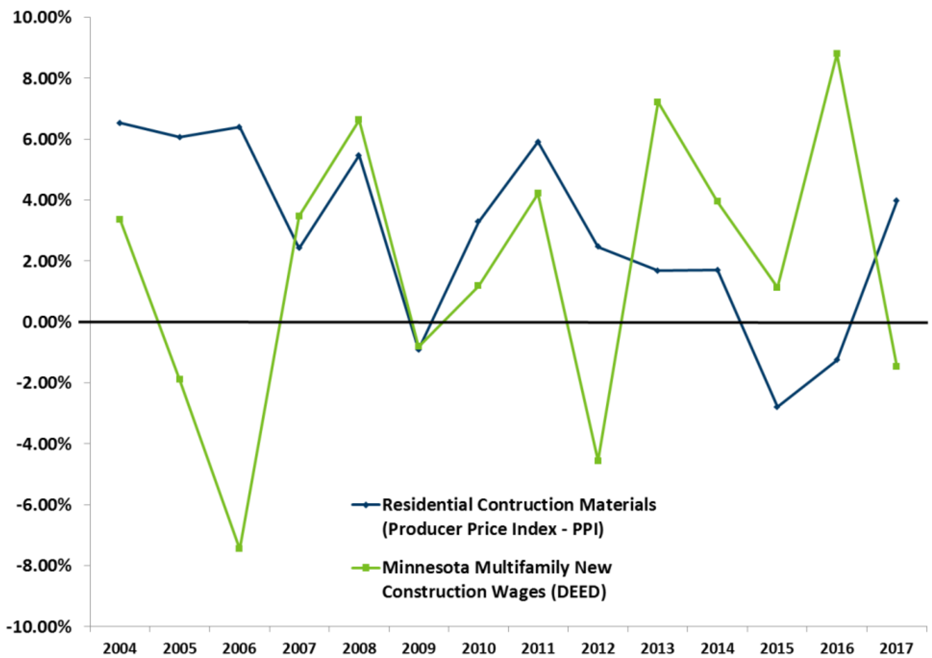
We have limited the application of this selection priority to just developments applying for housing tax credits for two reasons. First, tax credit developments generally have higher costs and containment is a larger issue. Second, the level of work done on tax credit developments, particularly rehabilitation, is more consistent across tax-credit 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. Even though non-tax credit applications (those applying just for first mortgages or deferred loans) do not receive points under this selection priority, they are subject to a cost reasonableness analysis, including the requirement that it receive a waiver if the per unit TDC exceeds 25 percent of the predicted costs.

Because the scoring criterion is relatively new, we continue to monitor it closely for unintended consequences by assessing the type, size, nature, and location 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 the annual changes in multifamily construction costs. The blue line shows changes in the Produce Price Index (PPI) for residential construction materials, and the green line shows changes in wages for multifamily residential construction workers in Minnesota.[11] Wages in particular can vary dramatically from year to year. Developers may plan for a modest 2 percent increase in wages in their funding application, only to find they have increased by 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 if costs spike. If final actual costs come in too high, we assess developers with *negative* four points for their next tax credit application.

[11] 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*.

Figure 4: Residential Construction Inflation, 2003 to 2017



During the first four years of providing cost containment points, we saw increases in the proposed new construction costs for metro area developments that could have received the cost containment points (the 50 percent of projects with the lowest costs), with particularly high costs in 2015 and 2016, as shown in Table 4. This increase may be an unintended consequence of our cost containment strategy. Because we hold developers accountable for managing volatile construction costs, developers may have padded their budgets more than they had previously to protect against the risk of losing four points in future applications.

Table 4: Average Total Development Costs per Unit, 9 Percent Tax Credit Applications in the Metro Area that Were Eligible for Cost Containment Points (Adjusted for Construction Inflation, 2018 Dollars)[12]

	2013 Applications (2014 Credits)	2014 Applications (2015 Credits)	2015 Applications (2016 Credits)	2016 Applications (2017 Credits)	2017 Applications (2018 Credits)	2018 Applications (2019 Credits)
Metro New Construction	$224,399	$236,358	$259,786	$260,610	$247,399	$249,736

In response to the increase in proposed costs and to encourage developers to pursue the cost containment points, eliminate unnecessary costs, and not excessively pad their budgets, we increased the cost containment points from four to six in the QAP for 2018 tax credits, but kept the penalty for cost overruns at negative four points. This increases the benefit of more aggressively pursuing cost

[12] These costs include the cost adjustments to put developments with different sized units on equivalent terms.

containment relative to the risk. As hoped, the proposed costs in the 2017 and 2018 applications (2018 and 2019 credits) came down.

Projects that receive an allocation of tax-exempt bonds through Minnesota Management and Budget and apply to Minnesota Housing for an award of 4% tax credits are subject to a cost reasonableness analysis, including the predictive cost model. The 2018 and 2019 Qualified Allocation Plans (QAPs) also provide points for 4% tax credit applications that have costs at or below the 50th percentile cost thresholds established in 2017 and 2018 RFP competitions.

Strategy 3: Address Systemic Cost Drivers

The first two tactics address costs that are specific to individual developments. We also understand that systemic cost drivers outside the control of developers are a critical issue that we need to address. These cost drivers ranged from local policies and regulations that increase 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.

In January 2014, Enterprise Community Partners and the Urban Land Institute's (ULI's) Terwilliger Center for Housing released a report on best practices from across the country to address these systemic cost drivers.[13] 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 dozens of small inefficiencies. As one of the lead authors described it, "death by a thousand cuts."[14]

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. We asked the development community to create cross-discipline teams (developers, funders, attorneys, local officials, housing advocates, etc.) and develop and submit ideas to address these systemic cost drivers. From the 12 submissions, we selected one to receive $70,000 for implementation.[15]

The winning idea was submitted by the Center for Urban and Region Affairs at the University of Minnesota, the Housing Justice Center, and Becker Consulting. Their proposal addresses 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. These cost drivers have been identified and known for years. The value of this idea was identifying and implementing best practices to address them, which included providing technical assistance to communities to pursue the practices and encouraging regional

[13] Enterprise Community Partners and Urban Land Institute's Terwilliger Center for Housing, *Bending the Cost Curve on Affordable Rental Development: Understanding the Drivers of Costs* (January 2014).
[14] Michael Spotts, Enterprise Community Partner, presentation to the Affordable Housing Investors Council (AHIC), Portland Oregon, October 9, 2014.
[15] The initiative was jointly funded by the McKnight Foundation and Minnesota Housing.

organizations to incorporate the 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.

As part of our overall cost containment strategy, we try to initiate at least one cost containment initiative each year.

- **2014 – 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 submissions 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. Even though the redesign is still being implemented, it has already achieved some positive outcomes. For example, we created a customized online portal to receive funding applications for the multifamily consolidated RFP, eliminating paper applications.

- **2015 – MinnDocs – Consolidated Legal Documents**. Most affordable housing projects have multiple deferred loan funding sources, each with their own set of legal documents and attorneys, which add unnecessary costs. The Enterprise/ULI report highlighted Massachusetts' practice that consolidates legal documents for all subordinate debt into a single set. Because the development community in Minnesota was intrigued by this idea, we decided to pursue it. In 2015, we received a grant from the McKnight foundation to implement the practice. While the project has taken significant time in light of the number of community partners involved, Minnesota Housing and community partners entered into an agreement to develop and utilize a single set of loan documents. The legal documents are now being finalized. Massachusetts estimates that consolidated legal documents have reduced their costs by about $10,000 per subordinate loan for each development. Even though the context is different in Minnesota, and we are unlikely to achieve that level of savings, MinnDocs has the potential to chip away at the soft costs associated with multifamily developments.

- **2016 - Minnesota Housing's Design and Construction Standards.** As part of our annual preparation for the consolidated RFP, we review these standards. During 2016, we specifically reviewed the standards with an emphasis on cost containment. We focused on reducing life-cycle costs (which includes ongoing maintenance, repair, and utility costs), not just upfront development costs. Specifically, we surveyed architects, general contractors, and developers who work on the developments that we finance about the standards and costs. We received 66 responses. Based on the feedback, we made several design changes that should reduce costs. For example, we clarified that a separate dining room is not required in units with two or more bedrooms but that a dining area (or eat in kitchen) is sufficient. Each of the changes to the standards will unlikely result in significant savings, but they are more examples of small savings that can lead to larger savings when combined with each other over time.

- **2017 – Developer Fees.** These fees compensate developers for the time, compliance requirements, and risks associated with developing affordable housing and can account for a substantial portion of a development's softs costs. The maximum developer fee that Minnesota Housing allows is 15 percent of TDC for the first 50 units and 8 percent for additional units. In 2017, we assessed our fees and found that they are consistent with other states and that the average fee taken by our developers is 7 percent of TDC, well below our maximum. Given our cost containment incentives, it appears that developers are typically taking the minimum fee that still allows the deal to work for them. If developers applying for tax credits take a higher fee, their applications will be less competitive in a highly competitive process, particularly for 9% tax credits. Based on this analysis, we decided not to adjust our developer fee structure at this time, but it is an area that we will continue to assess given the size of these costs.

- **2018 – Governor's Task Force on Housing.** Minnesota Housing was a lead sponsor of the Task Force, providing much of the staff support. The cost of developing housing was a primary issue addressed by the Task Force, which made several cost-related recommendations, including:

    - Position Minnesota as a national leader in the advancement of housing innovation and technology, which should increase the efficiency and productivity of developing housing and reduce the costs.

    - Grow the pool of talent in Minnesota's building trades to enable the sector to meet current and future demand, which should address the current shortage of skilled labor.

    - Create a statewide review panel to evaluate regulations related to building standards, land use, and environmental stewardship for their impact on housing affordability.

  While these actions are largely outside the scope of our work, they will directly impact the cost of the housing that we finance, and we support their advancement.

SINGLE FAMILY COSTS

While we typically distribute over $150 million annually for multifamily development, we typically distribute less than $10 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 5 shows the median cost per home by location and activity for developments that we have financed over the last five and one-half years.

Table 5: Impact Fund – Median TDC by Location and Project Type
Loans Closed October 1, 2012 through March 9, 2018

Location	New Construction	Acquisition/Rehab/ Resale
Rural Greater MN	$154,571	$144,833
Greater MN Large City	$155,467	$176,675
Minneapolis/Saint Paul	$328,793	$253,968
Suburban Twin Cities	$275,880	$263,638
Total	**$225,398**	**$244,518**

The new construction costs for Greater Minnesota are relatively low because a sizable share of the activity that we finance in Greater Minnesota is developed by Habitat for Humanity Minnesota. With volunteer labor and other donations, they have lower costs than regular developments. Besides that, the costs in Table 5 are generally consistent with industry standards. Table 6 shows the RSMeans industry-wide costs for new construction (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 RSMeans construction costs for a 1,600 square-foot 2 story home with an unfinished basement and average class design is $223,562, which is in the middle of the cost range shown in the Table 6 ($150,970 to $302,473).

- Assuming that construction costs account for 75 percent of the TDC and that acquisition and additional soft costs account for the remaining 25 percent, the TDC would be $298,082.

- The $328,793 median TDC for new construction financed by Minnesota Housing in Minneapolis/ Saint Paul (see Table 5) is relatively consistent with the RSMeans costs, but it is 10% higher.

Table 6: RSMeans Estimated Construction Costs, 2018 (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	$150,970	$182,784	$199,091	$234,156
With unfinished basement	$165,891	$200,913	$218,957	$257,283
With finished basement	$191,204	$233,725	$255,877	$302,473
Two Story				
No basement	$159,603	$191,439	$210,346	$241,403
With unfinished basement	$169,408	$203,450	$223,562	$256,644
With finished basement	$184,383	$224,414	$247,265	$285,527

Source: RSMeans, *Residential Cost Data, 2018*

Strategies for Containing and Reducing Single-Family Costs

Until 2015, we relied solely on the professional expertise and judgment of our staff to assess the cost reasonableness of single-family projects. We are now becoming more systematic and objective in our assessment. Table 7 shows the range of costs per home that we have financed for new construction over the last five and one-half years. The benchmark for the 80th percentile is our threshold 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 $359,706, it will be flagged for additional scrutiny by staff. 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 threshold of the 80th percentile has proven valuable for an initial discussion, it has deficiencies. It does not account for cost difference resulting from home sizes, garages, number of bathrooms, and other factors.

Table 7: Impact Fund – TDC Benchmarks for New Construction, by Location

	TDC
Rural Greater MN	
Median	$154,571
20th percentile	$130,648
80th percentile	$192,585
Greater MN Large City	
Median	$155,467
20th percentile	$136,138
80th percentile	$191,405
Minneapolis/Saint Paul	
Median	$328,793
20th percentile	$261,929
80th percentile	$359,706
Suburban Twin Cities	
Median	$275,880
20th percentile	$222,125
80th percentile	$316,057
Total	
Median	$225,398
20th percentile	$151,347
80th percentile	$336,450

CONCLUSION

Over the last decade and a half, we have successfully contained development costs while adding new policy initiatives that tend to increase costs. However, given the shortage of 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.

MINNESOTA HOUSING

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Variation in Development Costs for LIHTC Projects

Final Report

August 30, 2018

Prepared for:
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Executive Summary

This report examines the factors affecting the cost of developing affordable multifamily rental housing using the federal Low-Income Housing Tax Credit Program (LIHTC). Using data provided by 14 LIHTC syndicators, we analyze development cost data for more than 2,500 projects developed through the LIHTC program and placed into service between 2011 and 2016. These projects include over 160,000 housing units.

Our sample includes approximately 47% of the units in properties developed with 9% credits and 20% of the units in properties developed with 4% credits placed into service between 2011 and 2016. The sample spans the country, including at least two projects in every state and more than 25 projects in each of 35 states.[1]

The primary measure of cost used in this quantitative analysis is "per-unit TDC" which reflects the total development cost for a project (including the cost of land) divided by the number of units in the project. The median per-unit TDC in our sample was $164,757, which means that half of the units had TDC below this level and half had per-unit TDC above that level. Three-quarters of units had per-unit TDC at or below $224,903 and one-quarter had per-unit TDC at or below $121,254.

We used descriptive and regression analyses to investigate which geographic and project characteristics were associated with cost differences. In brief, we found that:

- **Location matters**. Costs were higher for projects developed in principal cities of metropolitan areas, difficult development areas (DDAs), and qualified census tracts (QCTs). Costs were also higher for projects developed in New England, the Mid-Atlantic and the Pacific regions, as compared with other regions. These relationships held true even when we analyzed total development costs without land, suggesting the higher cost of land is not the sole factor driving this finding. Nor is the finding due solely to differences in construction-cost wages, since we controlled for state-level differences in these wages, which also had a significant effect on costs. One potential explanation is that developers adjust to higher land costs by employing different construction methods, like taller buildings and structured parking, which carry a higher cost.
- **Project and unit size matter**. Smaller projects were more expensive per unit to build than larger projects, likely due to the economies of scale of developing larger projects. Projects where the unit size averaged more than 2.5 bedrooms were also more expensive on a per-unit basis.
- **Project type matters**. New construction projects were substantially more expensive than projects developed by acquiring and rehabilitating existing structures. Projects with multiple financing sources were more expensive on a per-unit basis, which could be due to the challenges associated with assembling multiple financing sources or could be due to the need to find multiple financing sources to pay for higher-cost projects.

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[1] Since the projects in our sample were compiled based on data provided by participating syndicators, rather than selected at random, the sample cannot be said to be statistically representative of all projects in the United States. It is, nevertheless, a large and robust dataset that includes a large share of the U.S. inventory.

These findings illustrate the important tradeoffs involved in developing affordable housing across the U.S. Projects cost more to build in high-cost areas, but people need affordable housing in these locations just as much as (or even more than) in lower-cost areas. Smaller projects cost more to build on a per-unit basis than larger projects, but larger projects are not desirable in all locations. Smaller units cost less to build but are not appropriate for all household types. Developing projects by acquiring and rehabilitating an existing building is less expensive than new construction, but suitable properties for redevelopment are not available in all of the places where affordable housing is needed, and in some settings (such as a greenfield location), new construction is a very efficient development method.

The text and tables below provide more detail on the key findings in three areas: costs over time, costs across geography, and costs by project characteristics.

Costs over Time

In general, the costs of developing LIHTC projects placed in service between 2011 and 2016 grew in line with the average growth of all construction costs nationwide, which was about 8.4% over this period. After adjusting for an index measuring these nationwide changes in construction costs, the total per-unit development costs for projects placed in service in 2011, 2012, and 2016 did not differ in a statistically significant way from the reference year of 2014 in our main regression model. The per-unit development costs for projects placed in service in 2013 and 2015 were lower than 2014, however.

There is some evidence to suggest that the costs of constructing market-rate apartments rose much faster than the 8.4% increase suggested by the construction costs inflator we used from RS Means, which is a composite measure based on a variety of construction types.[2] We did not independently study the costs of developing non-LIHTC properties, however, and did not observe this rate of sharp increase in construction costs among LIHTC properties.

Costs across Geography

Exhibit ES-1 summarizes the findings of our study with regard to geography. In brief, we found strong associations between the location of a project and per-unit TDC. As one might expect, states with higher residential construction wages had higher costs. Similarly, projects located in the principal city of a metropolitan area had higher costs than projects located in a metropolitan area but outside a principal city (a proxy for a suburban location), which in turn had higher costs than rural projects located outside of a metropolitan area. Cost varied by region, as noted above, a finding that may potentially be explained by the more common use of steel construction, structured parking and other high-cost development types, in areas with higher land costs.

While we found associations between per-unit TDC and the poverty rate of a census tract in certain of our models, we did not find consistent associations across all of our models, suggesting the finding may not be as robust as other findings in the report.

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[2] See, e.g., Nicco-Annan, Francisco. 2017. Multifamily Market Commentary – March 2017: Multifamily Construction Costs Still Escalating. Washington, DC: Fannie Mae Multifamily Economics and Market Research Group. Retrieved on June 12, 2018 from http://www.fanniemae.com/resources/file/research/emma/pdf/MF_Market_Commentary_031517.pdf .

Exhibit ES-1. Relationship of location characteristics to per-unit TDC

Factor	Description of relationship to per-unit TDC	Statistical Significance
Region	Costs varied strongly by region, even when we analyzed per-unit TDC without land costs. The highest-cost regions were the New England, Mid Atlantic and Pacific regions. The lowest-cost regions were in the South.	Highest-cost regions were highly significantly different from mid-cost regions.
Project location type	Costs varied by type of area. Projects developed in the principal city of metropolitan areas had the highest costs, followed by metropolitan area projects developed outside of principal cities, followed by projects in non-metro areas.	Highly significant
Difficult to develop area	Projects located in DDAs had higher per-unit costs.	Highly significant
Qualified census tract	Projects located in QCTs had higher per-unit costs.	Highly significant
Construction wages	Projects located in states with higher construction wages had higher per-unit costs.	Highly significant
Poverty rate	We found different results in different models, suggesting the relationship between poverty rate and per-unit TDC is not robust.	Mixed
Note: Mixed indicates we found significant relationships for some categories, but not all, included in the regression model, or that results differed in different regression model. Highly significant indicates significance level of p <0.001. Significant indicates a significance level of p <.10.		

Costs by Project Characteristics

Exhibit ES-2 summarizes the findings of our study with regard to project characteristics. The most robust findings were that smaller projects have higher per-unit costs than larger projects and new construction projects have higher costs than acquisition-rehab projects. We also found that projects developed with 9% credits had higher per-unit costs than projects developed with 4% credits and that costs increased as the number of financing sources of a project increased.

In general, we found that projects with a higher average bedroom size had higher per-unit costs, but the differences were most apparent at the extremes. In particular, projects with an average bedroom size of 2.5 bedrooms or more had higher per-unit TDC than projects with fewer than 1.75 bedrooms. Projects serving the elderly had lower costs than projects serving families, though this could potentially be explained by the fact that elderly projects tend to have smaller units. Projects developed by non-profit developers had higher costs than projects developed by for-profit developers in some but not all of our models.

Exhibit ES-2. Relationship of project characteristics to per-unit TDC

Factor	Description of relationship to per-unit TDC	Statistical Significance
Development type	New construction projects had higher costs than acquisition-rehab projects.	Highly significant
Total units	Projects with more units had lower per-unit costs.	Highly significant
Tax credit type	Projects developed with 9% credits had higher per-unit costs than 4% credit projects.	Significant
Financing sources	Costs increased as financing sources increased.	Significant
Average bedrooms	While results differed a bit in different models, in general, we found projects with a higher average bedroom size had higher per-unit costs.	Significant.
Target population	Our main model finds that projects for the elderly had lower per-unit costs than family projects and that special needs projects had higher per-unit costs than family projects. However, these effects did not persist in two of our alternative models.	Mixed
Developer type	In our main model, we found that projects developed by non-profit developers had higher per-unit costs than projects developed by for-profit developers. However, we did not find this result in two of our alternative models.	Mixed
Note: Mixed indicates we found significant relationships for some categories, but not all, included in the regression model, or that results differed in different regression model. Highly significant indicates significance level of $p < 0.001$. Significant indicates a significance level of $p < .10$.		

Cost drivers we were unable to consider

While our analysis identified many significant predictors of higher or lower developments costs, there are many additional factors likely to be associated with differences in costs that we could not examine because we did not have sufficient data in our dataset. For example, the following factors may be associated with higher per-unit costs:

- A long development timeline related to obtaining local development approval or addressing local opposition
- A tight labor market that leads to higher labor costs (In some cases, higher wages are required even in the absence of a tight market due to legal requirements associated with certain public financing sources used in conjunction with LIHTC.)
- Certain types of construction, such as steel framing (required in many locations for projects of five stories or more) and structured parking

Some factors could also lead to lower development costs, such as donated land or below-market land transfers and location in a master-planned development where the development approval has already been obtained.

MINNESOTA HOUSING

Board Agenda Item: 8.C
Date: 9/27/2018

Item: Report of The Governor's Task Force on Housing

Staff Contact(s):
Mary Tingerthal, 651-296-5738, mary.tingerthal@state.mn.us

Request Type:

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

Summary of Request:
As requested by the Board, we will provide an overview and summary of the report from the Governor's Task Force on Housing – *More Places to Call Home: Investing in Minnesota's Future* – which will be followed by a discussion. Board members received a copy of the report at the August meeting.

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):
- None.

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MINNESOTA HOUSING

Board Agenda Item: 9.A
Date: 9/27/2018

Item: Post-Sale Report, Homeownership Finance Bonds (HFB) 2018 EF

Staff Contact(s):
Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us

Request Type:

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

Summary of Request:
The Agency sold $100,330,208 of Homeownership Finance Bonds on August 16, 2018 with a closing on August 28, 2018. In accordance with the Debt and Balance Sheet Management Policy the attached detailed post-sale report is provided by the Agency's financial advisor, CSG Advisors.

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):
- Post-Sale Report

CSG | advisors

Via Email Delivery

MEMORANDUM

Date: **August 31, 2018**

To: **Minnesota Housing Finance Agency**

From: **Gene Slater, Tim Rittenhouse, David Jones, Eric Olson**

Re: **Post-Sale Report**
$100,330,208 Homeownership Finance Bonds (HFB)
2018 Series E (Non-AMT) and F (Taxable)

BOND CRITERIA

The 2018 Series E & F Homeownership Finance Bonds were issued to finance single-family new production. The key criteria for issuing the debt were:

1. ***Avoid major interest rate risk*** by continuing to hedge pipeline production until loans are either sold or permanently financed by bond issues.

2. ***Maintain high ratings on all Minnesota Housing single-family bonds***, with Series E & F rated Aaa.

3. ***Enhance Minnesota Housing's long-term financial sustainability*** through a mix of bond financing and sales of MBS, to provide more financially sustainable results for Minnesota Housing.

4. ***Provide at least a comparable expected level of return to selling MBS,*** at reasonably anticipated prepayment speeds.

5. ***Use bond volume cap as efficiently and sparingly as possible,*** so that the Agency can continue both its single-family and multi-family programs even though volume cap has become an increasingly scarce resource.

KEY RESULTS FOR MINNESOTA HOUSING

Key Measurable Objectives. Minnesota Housing's objectives for each issue reflect its overall goal: How can the Agency maintain a long-term sustainable program that continues to finance production on the balance sheet so long as this is the best execution for the Agency.

Minnesota Housing therefore seeks to make sure that it:

1. Obtains a present value return for Minnesota Housing at least similar to selling the same MBS in the secondary market, assuming a reasonable prepayment speed.

2. Obtains approximately 1.125% spread on the overall issue (the maximum the IRS would allow if the issue were all tax-exempt).

3. Balances the amount of (a) new volume cap needed in financing such production and (b) the amount of zero participations required, so that the Agency can continue its program in future years.

4. Where possible, in addition to looking to long-term returns under 1 and 2, uses opportunities to balance the impact of hedge gains and losses across transactions on Agency current year income.

Accomplishments. The results were very successful in meeting Minnesota Housing's objectives:

- ***Leveraging Limited Volume Cap.*** The issue was structured so that Minnesota Housing could finance $100.33 million of new mortgages on balance sheet *with $26.155 million of volume cap, or 26% of the total issue.* To achieve this result, Minnesota Housing used $52.573 million of taxable bonds for Series F, more than half the total issue, and recycled $21.6 million of private activity bond authority from past issues in Series E.

To date in 2018, Minnesota Housing has financed $352 million of new single-family mortgages, using $105 million of volume cap—a leveraging ratio of 3.35 to 1.

Being able to do this, however, requires zero participations. These zero participations are generated by RHFB bond issues that help refund past bond issues at lower rates and create these subsidies. The dollar amount of refunding opportunities is lower in 2018 and 2019 than in past years. This is because old bonds can be refunded approximately 10 years after original issuance, and Minnesota Housing issued fewer bonds in 2008 and 2009 during the financial crisis.

- ***Full Spread.*** On the overall issue, Minnesota Housing obtained a spread of about 1.12%, similar to what the IRS would allow as full spread on an all-tax-exempt issue.[1]

- ***Attractive Bond Yield.*** The bond rate was 3.5% on tax-exempt Series E and 3.85% on taxable Series F.

- ***Return to Minnesota Housing.*** The relative benefits to Minnesota Housing from issuing the bonds depend on how long the mortgages remain outstanding, on average.

The break-even prepayment speed[2] compared to selling the loans was 219%. This is far higher than the actual average prepayment speeds on similar loans in this indenture, and suggests the benefits of putting this production on the balance sheet rather than selling it.[3] The result is that, at expected prepayment speeds, Minnesota Housing will earn more from issuing 2018 E & F than from having directly sold the MBS.

The net present value to Minnesota Housing (after net service release premiums) is projected to be approximately $2.8 million at 150% PSA prepayment speed.

- ***Zero Participations.*** The issue required $2.1 million of zero participations. Going forward, Minnesota Housing has approximately $30 million of zeros for future transactions.

The Agency made two choices that affected how many zero participations were used:

a) *Level of overall spread*. The Agency could have received even higher total spread, but this would have required using $6.4 million more of zeros to earn that higher spread.

b) *Impact of taxable bonds*. If the entire transaction had been tax-exempt, Minnesota Housing would have used $3.7 million less of zeros—but $52.573 million of additional volume cap. This would have tripled the volume cap actually used on E & F. It is important to balance two competing needs: to

[1] Minnesota Housing could have achieved even higher total spread, by receiving the full 1.125% on tax-exempt Series E while still receiving 1.6 % on taxable Series F, for a blended average of 1.37%. This would have required $6.4 million more of zero participations than was actually needed, however.

[2] The break-even speed measures how fast mortgages can prepay while still assuring Minnesota Housing at least the same present value as an MBS sale.

[3] The average prepayment speed on all securities in the HFB indenture since inception is calculated at 129%.

stretch out the supply of available zeros while minimizing the use of available bond cap.

	Actual	**No Taxable Bonds**	**Actual with Higher Spread**
Taxable %	52%	0%	52%
Volume cap required	$26.14 million	$78.73 million	$26.14 million
Ave. Spread	1.116%	1.125%	1.37%
Net impact on Agency's Zero Participations	**- 2.1 million**	**+ 1.6 million**	**- 8.5 million**

5. ***Hedging.*** The loan production pipeline remained fully hedged until bonds were sold. A small amount of approximately $440,000 of hedge losses were included in bond yield and can therefore be recovered over time.

6. ***Investor Demand.*** There were $45.5 million of going away orders from 5 investors on tax-exempt Series E. There were $52.5 million of going away orders from 3 investors for taxable series F. The orders almost exactly matched the total issue size, suggesting that the issues were very efficiently priced.

Implications. Key implications include:

- ***Viability of Pass-Through Approach*****.** Minnesota Housing's pass-through issues since June 2014 demonstrate the renewed viability of this approach for financing production on-balance sheet. The Agency has been, by far, the national leader in such financings.

- ***Balance Sheet Management.*** Minnesota Housing, in recent years, has been able to finance all tax-exempt eligible production as the best execution return to the Agency.

- ***Volume Cap.*** Minnesota Housing's single-family production together with demand for multi-family issuance in the State remains so great that *private activity volume cap is a major constraint* on tax-exempt issuance. To help address this:

    - The Agency is actively utilizing taxable bonds, and

- Has renewed its credit facility with RBC to recycle past private activity volume cap when old bonds are redeemed (whether on a monthly or semi-annual basis).

This bond issue took advantage of both approaches.

TIMING AND STRUCTURE

Timing. The issue was priced on Thursday, Aug. 16th, for closing on Tuesday, Aug. 28th.

Sizing. The sizing was based on specific hedged MBS in Minnesota Housing's pipeline.

Major Design Decisions. Key decisions by Minnesota Housing were to:

- Continue to include a 10-year par call at Minnesota Housing's option, so that the Agency can potentially take advantage of interest rates in the future to either refund the bonds or sell the MBS and pay off the bonds.
- Include Ginnie Mae, Fannie Mae and Freddie Mac MBS in the issue, with no percentage limit on any category. This provides Minnesota Housing the ability to adjust to the actual mix of loans in its pipeline. The MBS financed were approximately 36% Ginnie Mae, 60% Fannie Mae and 4% Freddie Mac. The share of the pipeline that is Fannie Mae, rather than Ginnie Mae, has increased significantly.
- Finance a substantial portion of the issue as taxable bonds.

Rating. Bonds under the HFB indenture are rated Aaa by Moody's.

Hedging. Minnesota Housing has remained fully hedged on its pipeline until bonds were sold. This protects the Agency from risk if interest rates rise between the time the loans are committed and when they are packaged into MBS and either the corresponding bonds are sold or the MBS are sold via TBA. The purpose of this strategy is to help make the Agency largely indifferent to changes in rates.

BOND SALE RESULTS. Key highlights are:

1. ***Investor Interest for Series 2018 E & F.*** There was adequate institutional interest for the entire issue. Minnesota Housing had originally structured the issue for approximately 65% taxable and 35% tax-exempt, but adjusted the mix to meet the buyer interest available, rather than setting wider spreads on the taxable bonds than it has offered in the past.

2. ***Timing.*** The 10-year Treasury started the year at 2.46%, almost the same as it began 2017, and increased significantly and steadily through February. It was 2.83% both when Minnesota's HFB Series 2018 AB priced on February 13, and when 2018 CD was priced on April 12. Rates rose gradually to as high as 3.11% on May 17th when investor concerns about a trade war between the U.S. and China led to a flight to quality. The 10-year yield was 2.93% on June 7 when RHFB ABC was priced, and was 2.87% when E&F was priced.

The yield curve has flattened out dramatically this year. The difference in yield between 10- and 30-year Treasuries was only 16 basis points at pricing, compared to 59 basis points at the beginning of 2017. The difference between the 1-year and 30-year yield was 107 basis points at pricing, compared with 215 basis points at the beginning of 2017. The Federal Reserve's steady program of raising short-term rates has had virtually no impact on 30-year yields—largely due to international uncertainty, including American-initiated trade proposals, and little sign of inflation.

3. ***Successful Sale.*** The sale was well-priced as described under "Investor Interest" above.

4. ***Comparison to GNMA Yields.*** Investors compare yields on pass-through issues to current-coupon GNMAs, as well as Treasuries and municipals. Compared to GNMAs, Minnesota bonds provide much less liquidity in the global markets but do offer tax-exemption. On this transaction, the spreads were 5 basis points wider than on Series C&D.

	2017 C/D	**2017 E/F**	**2017 G/H**	**2017 I/J**	**2018 A/B**	**2018 C/D**	**2018 E/F**
	Mar. 2017	May 2017	Sept. 2017	Nov. 2017	Feb. 2018	April 2018	August 2018
Minn. Housing bond yield **Tax-Exempt** **Taxable**	**3.08%** **3.43%**	**2.85%** **3.20%**	**2.65%** **3.00%**	**2.80%** **3.10%**	**3.30%** **3.65%**	**3.30%** **3.65%**	**3.45%** **3.80%**
Yield on GNMA I, 3.0 current coupon, at dealer prepay speed	**3.12%**	**2.86%**	**2.67%**	**2.80%**	**3.32%**	**3.27%**	**3.35%**
Minn. Housing v. GNMA **Tax-exempt** **Taxable**	**- 4 bp** **+ 31 bp**	**- 1 bp** **+ 34 bp**	**-2 bp** **+33 bp**	**0 bp** **+30 bp**	**-2 bp** **+33 bp**	**+3 bp** **+38 bp**	**+10 bp** **+45 bp**

5. ***Comparable Tax-Exempt Pass-Through Transactions:*** Aside from Minnesota, there has been only one other new money single-family tax-exempt pass-through issue this year. In February, RBC priced a Colorado pass-through on the same date as Minnesota A & B. As the yield curve has flattened, the relative advantage of tax-

exempt pass-through transactions v. tax-exempt exempt traditional structure has eroded; the spread between pass-throughs and Treasuries, and between pass-throughs and GNMA's has widened.

	Missouri Tax-Exempt 2017 C	Minnesota Tax-Exempt 2017 I	Colorado Tax-Exempt 2018 AA	Minnesota Tax-Exempt 2018 A	Minnesota Tax-Exempt 2018 C	**Minnesota Tax-Exempt 2018 E**
Size	$53.9 m.	$69.3 m.	$73.1 m.	$38.2 m.	$30.3 m.	**$47.8m.**
Rating	AA+	Aaa	Aaa	Aaa	Aaa	**Aaa**
Pricing Date	Nov. 9, 2017	Nov. 9, 2017	Feb. 13, 2018	Feb. 13, 2018	April 12, 2018	**Aug. 16, 2018**
Price	103.1 Premium	Par	102.978 Premium	Par	Par	**Par**
Ave. Life at 150% PSA	8.7 years	8.6 years	8.3 years	8.7 years	8.7 years	**8.9 years**
Yield on Tax-Exempt Series	2.87%	2.80%	3.30%	3.30%	3.30%	**3.45%**
Spread to 10 year US Treasury	54 bp	47 bp	47 bp	47 bp	47 bp	**58 bp**
Spread to 10 year MMD	94 bp	87 bp	88 bp	88 bp	90 bp	**102 bp**
Spread to 3% GNMA (at Dealer Forecast Prepayment Speed)	-2 bp	+ 7 bp	-0 bp	-2 bp	-2 bp	**+10 bp**
Difference between Taxable and Tax-Exempt Series	35 bp	n.a.	30 bp	n.a.	35 bp	**35 bp**
Underwriter	Stifel	RBC	RBC	RBC	RBC	**RBC**

*bonds sold at a premium; yield is based on assumed approx. 150% prepayment speed

6. ***Comparable Taxable Pass-Through Transactions:*** Aside from Minnesota, the only other single-family taxable pass-through issues have been Delaware (which was a refunding with a significantly shorter average life) and Utah (which is overcollateralized with a significantly shorter average life). Both Delaware and Utah are purchased by in-state banks for CRA credit.

The pass-through structure remains very advantageous for issuing taxable debt to stretch volume cap. The rates on taxable pass-throughs are significantly lower than on long term traditionally structured taxable maturities.

	Minnesota Taxable 2017 J	Utah Taxable 2017 B	Minnesota Taxable 2018 B	Minnesota Taxable 2018 D	Utah Taxable 2018 A	Delaware Taxable 2018 A	**Minnesota Taxable 2018 F**
Size	$46.2 m.	$10.7 m.	$38.2 m.	$20.2 m.	$17.9 m.	$20.6 m.	**$52.6 m.**
Type	New money	New money	New money	New money	New money	**Refunding**	**New Money**
Rating	Aaa	Aa3	Aaa	Aaa	Aa3	Aa1	**Aaa**
Pricing Date	Nov. 9, 2017	Nov. 9, 2017	Feb. 13, 2018	April 12, 2018	June 20, 2018	June 28, 2018	**Aug. 16, 2018**
Price	Par	Par	Par	Par	Par	Par	**Par**
Ave. Life at 150% PSA	8.7 years	**6.6 years**	8.7 years	8.7 years	**6.5 years**	**6.6 years**	**8.9 years**
Yield	3.1%	2.69%	3.65%	3.65%	3.45%	3.48%	**3.80%**
Spread to 10 year US Treasury	77 bp	36 bp	82 bp	82 bp	52 bp	64 bp	**93 bp**
Spread to 10 year MMD	117 bp	76 bp	123 bp	125 bp	98 bp	102 bp	**137 bp**
Spread to 3% GNMA (at Dealer Forecast Prepayment Speed)	+30 bp	-11 bp	+ 33 bp	+38 bp	+3 bp	+ 13 bp	**+45 bp**
Underwriter	RBC	Zions	RBC	RBC	Zions	Baum	**RBC**

7. ***Spread to Minnesota Housing.*** While the spreads to Treasury, MMD and GNMA were all slightly wider than on Series C&D, what may be most important is how Minnesota's borrowing costs compare with its lending. As mortgage rates rise, Minnesota Housing has needed fewer zero participations to achieve full spread on its transactions.

UNDERWRITING

Underwriters. RBC was the senior manager; regular co-managers were J.P. Morgan, Piper Jaffray and Wells Fargo. Monthly pass-through bonds are sold only to institutional investors, so there was no selling group.

Underwriter Fees. Management fees were appropriate, consistent with industry standards and in the same range as fees reported for other housing issues of similar size and structure.

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ISSUE DETAILS

Key Dates: 2018 E & F Bond Pricing HFB Indenture
Institutional Order Period: Thurs, Aug. 16, 2018
Closing Date: Tues., Aug. 28, 2018

Economic Calendar. Economic growth indicators continued to be strong in the period leading up to the sale. On Wednesday, retail sales came in higher than expected, and productivity jumped to a 2.9% annualized rate. Jobless claims , too, came in slightly lower than expected at 212,000. The labor market remains the key strength of the economy, with near-record low unemployment.

Treasuries. The 10 year Treasury yield had risen above 3% in mid-May, but then dropped into the 2.90s with the trade war with China. It rose to 3% again on Aug. 1st, but the drop in the Turkish lira again led to a flight to quality. The 10 year was at 2.87% on the date of sale.

Municipals. While municipal bond yields generally closely track the movements in Treasury yields, the relationship has been distorted by high profile municipal credit events (Puerto Rico's problems, most recently) and international investment flows, as well as supply and demand for municipal bonds. In the months leading up to the sale, as international economic news regarding China and Turkey led to a flight to quality and rallied Treasuries, there was less of an improvement in municipals.

Issue	Date	10-Year Treasury	10-Year MMD	MMD/ Treasury Ratio
2015 RHFB EFG	11/24/15	2.24%	2.04%	91.1%
2016 A	1/12/16	2.12%	1.78%	84.0%
2016 B	3/1016	1.93%	1.88%	97.4%
2016 RHFB ABC	5/25/16	1.87%	1.66%	88.8%
2016 C/D	7/14/16	1.53%	1.41%	92.2%
2016 E/F	9/12/16	1.68%	1.52%	90.5%
2016 G/H	10/20/16	1.76%	1.73%	98.3%
2016 RHFB DEF	12/13/16	2.48%	2.37%	95.6%
2017 HFB A/B	2/9/17	2.40%	2.28%	95.0%

Issue	Date	10-Year Treasury	10-Year MMD	MMD/ Treasury Ratio
2017 HFB C/D	3/13/17	2.62%	2.49%	95.0%
2017 HFB E/F	5/20/17	2.41%	2.17%	90.0%
2017 RHFB ABC	6/20/17	2.16%	1.86%	86.1%
2017 HFB G/H	9/12/17	2.17%	1.86%	85.7%
2017 HFB I/J	11/9/17	2.33%	1.93%	82.8%
2017 RHFB DEF	12/4/17	2.37%	2.05%	86.5%
2018 HFB A/B	2/13/18	2.83%	2.42%	85.5%
2018 HFB C/D	**4/12/18**	**2.83%**	**2.40%**	**84.8%**
2018 *RHFB ABC*	6/7/18	2.93%	2.47%	84.0%
2018 HFB EF	**8/16/18**	**2.87%**	**2.43%**	**84.7%**
Change from C/D		**+4 bp**	**+ 3bp**	**-0.1%**

***Municipal Calendar*.** The overall supply for the week was the highest for the year, as issuers sought to price transactions before Labor Day. The BondBuyer called the $11.8 billion slate "Christmas in August for municipal investors." The largest negotiated issues were $2.28 billion for Denver's airport, $915 million for the Allegheny Pa. hospital network, $889 million for Connecticut G.O.'s and $717 million for Miami-Dade airport.

It was a busy week for single-family housing issuers as well. In addition to Minnesota's pass-through transaction, several state HFA's brought traditionally structured transactions: Oregon for $87 million, Pennsylvania for $159 million and Wyoming for $55 million.

MBS Yields. MBS yields are very relevant because investors can choose between purchasing MBS directly or buying Minnesota Housing's bonds backed by MBS. Bond purchasers look as much to the spread between Minnesota Housing's bonds and MBS as they do to the spread between Minnesota Housing bonds and Treasuries or MMD. GNMAs rose 8 basis points since Series C & D (while 10 year Treasury rates rose 4 basis points and MMD rose 3 bp). Minnesota's tax-exempt and taxable yields increased by 15 basis points.

Type	Delivery	Coupon	Measure	Mar. 13, 2017	May 10, 2017	Sept. 12, 2017	Nov. 9, 2017	Feb. 13, 2018	Apr. 12, 2018	Aug. 16, 2018
GNMA	Current	3.0	Price	99.27	100.89	101.92	101.17	97.98	98.33	97.92
			Yield*	**3.12%**	**2.86%**	**2.67%**	**2.80%**	**3.32%**	**3.27%**	**3.35%**
			Dealer Forecast % PSA	159%	160%	184%	175%	153%	153%	149%
FNMA	Current	3.5	Price	100.77	102.33	103.55	102.89	100.02	98.92	99.39
			Yield*	**3.38%**	**3.11%**	**2.77%**	**2.96%**	**3.49%**	**3.50%**	**3.58%**
			Dealer Forecast % PSA	140%	178%	244%	211%	146%	129%	126%
10-Year Treasury	n/a	n/a	Yield	**2.62%**	**2.41%**	**2.17%**	**2.33%**	**2.83%**	**2.83%**	**2.87%**
GNMA to 10-Year Treasury	n/a	n/a	Yield*	**118.92%**	**118.69%**	**122.94%**	**120.17%**	**117.3%**	**115.5%**	**116.7%**
GNMA to 10-Year MMD	n/a	n/a	Yield*	**125.13%**	**131.82%**	**143.44%**	**145.08%**	**137.2%**	**136.2%**	**137.9%**
Minnesota Housing	Tax-exempt Taxable			**3.08%** **3.43%**	**2.85%** **3.20%**	**2.65%** **3.00%**	**2.80%** **3.10%**	**3.30%** **3.65%**	**3.30%** **3.65%**	**3.45%** **3.80%**

* Yield at dealer forecast prepayment speed

TAX-EXEMPT SINGLE FAMILY HOUSING PASS-THROUGH BOND PRICING COMPARABLES, PAST 12 MONTHS

Pricing Date	8/16/18		4/12/18		2/13/18		2/13/18		11/9/17	
Amount	$47,757,180		$30,326,457		$38,247,496		$73,115,747		$69,238,429	
Issuer	Minnesota HFA		Minnesota HFA		Minnesota HFA		Colorado HFA		Minnesota HFA	
Series	2018 Series E		2018 Series C		2018 Series A		Series 2018AA		2017 Series I	
Program	Single Family / Negotiated		Single Family / Negotiated		Single Family / Negotiated		Single Family / Negotiated		Single Family / Negotiated	
Rating(s)	Aaa / - / -		Aaa / - / -		Aaa / - / -		Aaa / - / -		Aaa / - / -	
Tax Status	Tax Exempt, Non-AMT		Tax Exempt, Non-AMT		Tax Exempt, Non-AMT		Tax Exempt, Non-AMT		Tax Exempt, Non-AMT	
Use of Funds	New Money		New Money		New Money		New Money		New Money	
Maturity	2048		2048		2048		2048		2047	
Price	100.000		100.000		100.000		102.978		100.000	
Coupon/Yield	3.450		3.300		3.300		3.7C/3.3Y at 125% PSA		2.800	
Indicator	Indicative Yield 8/16/18	Spread	Indicative Yield 4/12/18	Spread	Indicative Yield 2/13/18	Spread	Indicative Yield 2/13/18	Spread	Indicative Yield 11/9/17	Spread
5-Year US Treasury CMT	2.75	+70	2.67	+63	2.54	+76	2.54	+76	2.01	+79
7-Year US Treasury CMT	2.82	+63	2.78	+52	2.74	+56	2.74	+56	2.20	+60
10-Year US Treasury CMT	2.87	+58	2.83	+47	2.83	+47	2.83	+47	2.33	+47
3% GNMA I @ 100% PSA	3.29	+16	3.22	+8	3.27	+3	3.27	+3	2.85	-5
3% GNMA I @ Dlr Forecast	3.35 (149%)	+10	3.27 (153%)	+3	3.32 (153%)	-2	3.32 (153%)	-2	2.80 (175%)	-
9-Year MMD	2.37	+108	2.35	+95	2.35	+95	2.35	+95	1.83	+97
10-Year MMD	2.43	+102	2.40	+90	2.42	+88	2.42	+88	1.93	+87
MBS PREPAY HISTORY (%PSA)										
Past 3 months	-		-		-		-		-	
Past 6 months	-		-		-		-		-	
Past 12 months	-		-		-		-		-	
Since issuance	-		-		-		-		-	
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)										
At 100% PSA	11.0		10.7		10.7		10.4		10.7	
At 150% PSA	8.9		8.7		8.7		8.3		8.6	
At 200% PSA	7.4		7.2		7.3		6.8		7.2	
At 300% PSA	5.5		5.4		5.4		5.1		5.4	
WEIGHTED AVERAGE MORTGAGE RATE	5.12%		4.33%		4.41%		4.55%		4.14%	
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	4.39%		3.67%		3.62%		4.00%		3.56%	
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	358		357		357		357		357	
Notes										
Sr Manager	RBC Capital Markets		RBC Capital Markets		RBC Capital Markets		RBC Capital Markets		RBC Capital Markets	

TAX-EXEMPT SINGLE FAMILY HOUSING PASS-THROUGH BOND PRICING COMPARABLES, PAST 12 MONTHS

Pricing Date	11/9/17	9/12/17	8/15/17
Amount	$53,938,946	$84,997,946	$54,240,768
Issuer	Missouri HDC	Minnesota HFA	Missouri HDC
Series	2017 Series C	2017 Series G	2017 Series B
Program	Single Family / Negotiated	Single Family / Negotiated	Single Family / Negotiated
Rating(s)	- / AA+ / -	Aaa / - / -	- / AA+ / -
Tax Status	Tax Exempt, Non-AMT	Tax Exempt, Non-AMT	Tax Exempt, Non-AMT
Use of Funds	New Money	New Money	New Money
Maturity	2047	2047	2047
Price	103.115	100.000	103.100
Coupon/Yield	3.30C/2.87Y	2.650	3.25C / 2.82Y

Indicator	Indicative Yield 11/9/17	Spread	Indicative Yield 9/8/17	Spread	Indicative Yield 8/15/17	Spread
5-Year US Treasury CMT	2.01	+86	1.75	+90	1.83	+99
7-Year US Treasury CMT	2.20	+67	1.99	+66	2.09	+73
10-Year US Treasury CMT	2.33	+54	2.17	+48	2.27	+55
3% GNMA I @ 100% PSA	2.85	+2	2.76	-11	2.82	+0
3% GNMA I @ Dlr Forecast	2.80 (175%)	+7	2.67 (184%)	-2	2.753 (177%)	+7
9-Year MMD	1.83	+104	1.74	+91	1.76	+91
10-Year MMD	1.93	+94	1.86	+79	1.91	+91
MBS PREPAY HISTORY (%PSA)						
Past 3 months	-		-		-	
Past 6 months	-		-		-	
Past 12 months	-		-		-	
Since issuance	-		-		-	
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)						
At 100% PSA	10.8		10.7		10.6	
At 150% PSA	8.7		8.7		8.6	
At 200% PSA	7.3		7.2		7.1	
At 300% PSA	5.4		5.4		5.3	
WEIGHTED AVERAGE MORTGAGE RATE	4.61%		4.27%		4.48%	
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	4.15%		3.61%		4.06%	
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	357		357		355	
Notes						
Sr Manager	Stifel		RBC Capital Markets		George K. Baum	

TAXABLE PASS-THROUGH BOND PRICING COMPARABLES, PAST 12 MONTHS

Pricing Date	8/16/18		6/28/18		6/20/18		4/12/18		2/13/18	
Amount	$52,573,028		$20,630,000		$17,850,000		$20,217,638		$38,247,494	
Issuer	Minnesota HFA		Delaware SHA		Utah HC		Minnesota HFA		Minnesota HFA	
Series	2018 Series F		2018 Series A		2018 Series A		2018 Series D		2018 Series B	
Program	Single Family / Negotiated		Single Family / Negotiated		Single Family / Negotiated		Single Family / Negotiated		Single Family / Negotiated	
Rating(s)	Aaa / - / -		Aa1 / - / -		Aa3 / - / -		Aaa / - / -		Aaa / - / -	
Tax Status	Taxable		Taxable		Taxable		Taxable		Taxable	
Use of Funds	New Money		Refunding		New Money		New Money		New Money	
Maturity	2048		2048		2048		2048		2048	
Price	100.000		100.000		100.000		100.000		100.000	
Coupon/Yield	3.800		3.480		3.450		3.650		3.650	
Indicator	Indicative Yield 8/16/18	Spread	Indicative Yield 6/28/18	Spread	Indicative Yield 6/20/18	Spread	Indicative Yield 4/12/18	Spread	Indicative Yield 2/13/18	Spread
5-Year US Treasury	2.75	+105	2.73	+75	2.80	+65	2.67	+98	2.54	+111
7-Year US Treasury	2.82	+98	2.81	+67	2.89	+56	2.78	+87	2.74	+91
10-Year US Treasury	2.87	+93	2.84	+64	2.93	+52	2.83	+82	2.83	+82
3% GNMA I @ 100% PSA	3.29	+51	3.30	+18	3.36	+9	3.22	+43	3.27	+38
3% GNMA I @ Dlr Forecast	3.35 (149%)	+45	3.35 (149%)	+13	3.42 (147%)	+3	3.27 (153%)	+38	3.32 (153%)	+33
9-Year MMD	2.37	+143	2.41	+107	2.41	+104	2.35	+130	2.35	+130
10-Year MMD	2.43	+137	2.46	+102	2.47	+98	2.40	+125	2.42	+123
MBS PREPAY HISTORY (%PSA)										
Past 3 months	-		-		-		-		-	
Past 6 months	-		-		-		-		-	
Past 12 months	-		-		-		-		-	
Since issuance	-		-		-		-		-	
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)										
At 100% PSA	11.0		8.0		8.7		10.7		10.8	
At 150% PSA	8.9		6.6		6.5		8.7		8.7	
At 200% PSA	7.4		5.5		5.2		7.3		7.3	
At 300% PSA	5.5		4.0		3.9		5.4		5.5	
WEIGHTED AVERAGE MORTGAGE RATE	5.12%		5.96%		-		4.33%		4.41%	
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	4.39%		5.46%		-		3.67%		3.62%	
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	358		253		-		357		357	
Notes					Semiannual payments					
Sr Manager	RBC Capital Markets		George K. Baum		Zions Bank		RBC Capital Markets		RBC Capital Markets	

TAXABLE PASS-THROUGH BOND PRICING COMPARABLES, PAST 12 MONTHS

Pricing Date	11/9/17	11/9/17	10/31/17	9/28/17	9/12/17
Amount	$46,158,952	$10,700,000	$10,693,777	$59,891,354	$64,997,812
Issuer	Minnesota HFA	Utah HC	Illinois HDA	New York City HDC	Minnesota HFA
Series	2017 Series J	2017 Series B	2017 Series B	2017 Series A	2017 Series H
Program	Single Family / Negotiated	Single Family / Negotiated	Multifamily / Negotiated	Multifamily / Negotiated	Single Family / Negotiated
Rating(s)	Aaa / - / -	Aa3 / - / -	Aaa / - / -	- / AA+ / -	Aaa / - / -
Tax Status	Taxable	Taxable	Taxable	Taxable	Taxable
Use of Funds	New Money	New Money	Refunding	New Money	New Money
Maturity	2047	2048	2043	2046	2047
Price	100.000	100.000	100.000	100.000	100.000
Coupon/Yield	3.100	2.690	3.210	3.098	3.000

Indicator	Indicative Yield 11/9/17	Spread	Indicative Yield 11/9/17	Spread	Indicative Yield 10/31/17	Spread	Indicative Yield 9/28/17	Spread	Indicative Yield 9/8/17	Spread
5-Year US Treasury	2.01	+109	2.01	+68	2.01	+120	1.89	+121	1.75	+125
7-Year US Treasury	2.20	+90	2.20	+49	2.23	+98	2.13	+97	1.99	+101
10-Year US Treasury	2.33	+77	2.33	+36	2.38	+83	2.31	+79	2.17	+83
3% GNMA I @ 100% PSA	2.85	+25	2.85	-16	2.86	+35	2.83	+27	2.76	+24
3% GNMA I @ Dlr Forecast	2.80 (175%)	+30	2.80 (175%)	-11			2.77 (178%)	+33	2.67 (184%)	+33
9-Year MMD	1.83	+127	1.83	+86	1.91	+130	1.90	+120	1.74	+126
10-Year MMD	1.93	+117	1.93	+76	2.01	+120	2.00	+110	1.86	+114
MBS PREPAY HISTORY (%PSA)										
Past 3 months	-		-		-		-		-	
Past 6 months	-		-		-		-		-	
Past 12 months	-		-		-		-		-	
Since issuance	-		-		-		-		-	
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)										
At 100% PSA	10.7		8.7		-		-		10.7	
At 150% PSA	8.7		6.6		-		-		8.7	
At 200% PSA	7.2		5.3		-		-		7.2	
At 300% PSA	5.4		4.0		-		-		5.4	
WEIGHTED AVERAGE MORTGAGE RATE	4.14%		-		5.80%		6.90%		4.27%	
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	3.56%		-		-		-		3.61%	
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	357		-		312		-		357	
Notes			Semiannual payments		Projected weighted average life is 16.16 yrs at 0% CPR, 7.55 yrs at 10% CPR, 5.71 yrs at 15% CPR, and 4.60 yrs at 20% CPR ; priced at +120 to 5-year UST		Projected weighted average life is 17.21 yrs at 0% CPR, 10.08 yrs at 10% CPR, 8.42 yrs at 15% CPR, and 7.37 yrs at 20% CPR ; priced at +120 to 5-year UST			
Sr Manager	RBC Capital Markets		Zions Bank		Jefferies		Jefferies		RBC Capital Markets	

TAXABLE PASS-THROUGH BOND PRICING COMPARABLES, PAST 12 MONTHS

Pricing Date	8/16/17	
Amount	$50,168,626	
Issuer	Colorado HFA	
Series	2017 Series AA	
Program	Single Family / Negotiated	
Rating(s)	Aaa / - / -	
Tax Status	Taxable	
Use of Funds	New Money	
Maturity	2047	
Price	100.000	
Coupon/Yield	3.030	
Indicator	Indicative Yield 8/16/17	Spread
5-Year US Treasury	1.79	+124
7-Year US Treasury	2.04	+99
10-Year US Treasury	2.23	+80
3% GNMA I @ 100% PSA	2.79	+24
3% GNMA I @ Dlr Forecast	2.711 (177%)	+32
9-Year MMD	1.77	+126
10-Year MMD	1.92	+111
MBS PREPAY HISTORY (%PSA)		
Past 3 months	-	
Past 6 months	-	
Past 12 months	-	
Since issuance	-	
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)		
At 100% PSA	11.0	
At 150% PSA	8.9	
At 200% PSA	7.5	
At 300% PSA	5.6	
WEIGHTED AVERAGE MORTGAGE RATE	4.625%	
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	4.00%	
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	360	
Notes		
Sr Manager	RBC Capital Markets	

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