



MEETINGS SCHEDULED FOR JUNE

Location:

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

THURSDAY, JUNE 19, 2014

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

NOTE: The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on Thursday, June 19, 2014.

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

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

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Equal Opportunity Housing and Equal Opportunity Employment

AGENDA

Minnesota Housing Finance Agency

Board Meeting

Thursday, June 19, 2014

1:00 p.m.

State Street Conference Room – First Floor
400 Sibley Street, St. Paul, Minnesota 55101

- 1. Call to Order**
- 2. Roll Call**
- 3. Agenda Review**
- 4. Approval of Minutes**
 - A. Regular Meeting of May 22, 2014
 - B. Special Meeting of June 5, 2014
- 5. Reports**
 - A. Chair**
 - B. Commissioner**
 - C. Committee Reports**
- 6. Consent Agenda**
 - A. Renewal, Operating Subsidy Grants, Ending Long Term Homelessness Initiative Fund (ELHIF) and Department of Human Services (DHS) Housing with Supports for Adults with Serious Mental Illness (HSASMI) Fund
 - B. Commitment, Low and Moderate Income Rental (LMIR) and Flexible For Capital Cost (FFCC) Programs
 - Hamline Station Mixed-Use, St. Paul, D7589
 - C. Funding Modification, Bridges Regional Treatment Center (RTC) Rental Assistance
- 7. Action Items**
 - A. Board Policy Revisions
- 8. Discussion Items**
 - A. Fiscal 2015 Administrative Budget
 - B. Agency Strategy for Containing Multifamily Development Costs
 - C. Federal Securities Law Review and Updates; Board Responsibilities
- 9. Informational Items**
 - A. Income and House Price Limit Changes, Home Mortgage Programs
- 10. Other Business**
- 11. Adjournment**

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MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING**Thursday, May 22, 2014**

1:00 p.m.

State Street Conference Room – 1st Floor

400 Sibley Street, St. Paul, MN 55101

1. Call to Order.

Chair Johnson called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 1:01 p.m.

2. Roll Call.

Members present: Gloria Bostrom, John DeCramer, Joe Johnson, Ken Johnson, Steve Johnson, Stephanie Klinzing, Rebecca Otto.

Minnesota Housing staff present: Gene Aho, Tal Anderson, Paula Beck, Dan Boomhower, Jim Cegla, Chuck Commerford, Bill Kapphahn, Kurt Keena, Kasey Kier, Diana Lund, Nira Ly, Tonja Orr, John Patterson, Tony Peleska, Luis Pereira, Devon Pohlman, Paula Rindels, John Rocker, Megan Ryan, Joel Salzer, Kayla Schuchman, Sara Shonrock, Karen Spitzfaden, Barb Sporlein, Kim Stuart, Will Thompson, Rob Tietz, Mary Tingerthal, Katie Topinka, Summer Watson, Xia Yang.

Others present: Laura Janke, RBC Capital Markets; Jean Lee, APAHC, CHI/RRFC; Melanie Lien, Piper Jaffray; Chip Halbach and Sarah Berke, Minnesota Housing Partnership; Paul Rebholz, Wells Fargo; Celeste Grant, Office of the State Auditor; Tom O’Hern, Office of the State Attorney General.

3. Agenda Review

Chair Ken Johnson announced the following changes to the agenda: Item 7D had been moved to the consent agenda and the title of the report was changed to reflect that this request is for a commitment only. An updated version of the AHP progress report was distributed. A written legislative update was distributed.

4. Approval of the Minutes.**A. Regular Meeting of April 24, 2014**

Joe Johnson moved approval of the minutes as written. John DeCramer seconded the motion. Motion carries 6-0, with Ms. Bostrom abstaining.

5. Reports**A. Chair**

There was no chairman’s report.

B. Commissioner

Commissioner Tingerthal announced that \$100 million has been included in the bonding bill for affordable housing, with \$80 million in housing infrastructure bonds and \$20 million in general obligation bonds for public housing. The final amounts were double what had been included in the Governor’s bill. The Commissioner added that the scope and scale of the grassroots support was astounding, with literally thousands of emails sent by various organizations requesting that people contact their legislators and the Governor. The outcome of the bonding bill was a great victory for the groups that do the work on the ground every day and provided a sense of

accomplishment for the communities that think affordable housing is important. Minnesota Housing Partnership is one of the founders of the Homes for All alliance, which is an umbrella organization that really made the push that changed the minds of some legislators. The Agency has determined that it will make the full amount of the infrastructure bonds available in the current RFP, under which it is anticipated that there will be at least 12 supportive housing proposals and a large number of preservation proposals. Given the current interest rate environment, staff felt it made sense to make the full amount available. The GO bonds will be awarded through a separate RFP.

Commissioner Tingerthal then requested a brief, telephonic special meeting on June 5 to issue single family bonds. The timing for the meeting is based on an opinion that has been received by the Agency's bond counsel regarding the ability to roll hedging costs into the bond issue.

Commissioner Tingerthal distributed to board members a flyer for the groundbreaking of the Fort Snelling Veteran's project, stating that Senator Franken would serve as the keynote speaker and the event will include an announcement by United Health Group of a major investment in the project.

The following employee introductions were made:

- John Patterson introduced Karen Spitzfaden. Ms. Spitzfaden is a first year student at the Humphrey Institute pursuing a joint degree with the Carlson School. Ms. Spitzfaden is a graduate of Rice University and will spend the summer working on data issues, performance measures and long term evaluations for the state's plan to prevent and end homelessness.
- Gene Aho introduced Sara Shonrock. Ms. Shonrock will manage the Rehabilitation Loan Program. Ms. Shonrock has a BA from Lionel University and a Masters in Public Policy from the Humphrey Institute. She was most recently employed with the city of Burnsville and has a background in real estate and construction management.
- Barb Sporlein introduced Chuck Commerford, who has joined the Agency as the senior credit risk officer. Mr. Commerford was the vice president of asset management at Sherman and Associates and previously worked as an analyst and risk manager at Oak Grove. Mr. Commerford has a BA in real estate studies, an MBA in finance and teaches a mortgage financial class at the University of Saint Thomas.

C. Committee

None

6. Consent Agenda

A. Approval, Changes, Neighborhood Stabilization Program Target Areas

B. Commitment, Low and Moderate Income Rental (LMIR) Program - Compass Pointe Apartments, New Hope, D7582

MOTION: Mr. John DeCramer moved approval of the consent agenda and the adoption of Resolution No. MHFA 14-025. Ms. Stephanie Klinzing seconded the motion. Motion carries 7-0.

7. Action Items

A. Approval, Changes, Community Homeownership Impact Fund Procedural Manual

Mr. Luis Pereira presented this request, stating that staff was made aware of a HUD restriction on conveyances related to down payment assistance loans for borrowers receiving FHA insured first mortgages and this restriction also applies to the deferred payment loan program. Mr. Pereira requested a waiver of rules restricting conveyance, which the Board previously approved for the deferred payment loan program. Mr. Pereira stated that the waiver would be limited to buyers using FHA first mortgage financing with Impact Fund affordability gap financing.

In response to a question from Ms. Bostrom regarding the requirement that a deferred payment loan be repaid, up to the value of the home, Mr. Pereira stated that staff look at circumstances where repayment may be triggered and consider any hardships that may occur by requiring that repayment. Mr. Pereira added that these are 30-year loans and there has not yet been a scenario where that consideration was needed. In response to a question from Ms. Bostrom, Mike Haley stated that a junior lien holder would need to redeem the first mortgage in order to exercise the junior lien and access available equity in a home. Mr. Haley added that it typically does not make sense to take that action and a foreclosure would eliminate the junior lien position. **MOTION:** Ms. Bostrom moved approval the waiver of the Challenge rules and the revision of the procedural manual. Mr. Joe Johnson seconded the motion. Motion carries 7-0.

B. Approval, Expansion of HFA Preferred Risk Sharing and Changes to the Start Up Procedural Manual

Ms. Devon Pohlman presented this request to expand availability of two interest free deferred loan options used for down-payment and closing cost assistance so that the products would be available for use in conjunction with the HFA preferred risk sharing first mortgage product.

Ms. Pohlman stated that the preferred risk sharing product serves very high credit quality borrowers and when the program was launched in 2010, the income limits of the down-payment and closing cost assistances programs were incompatible with the borrower profile of borrowers who could access the preferred risk sharing product, and the use of both products was not allowed. Staff has since seen a large increase in the use of conventional financing and believes it is prudent to provide those borrowers with deferred loan options that will provide an affordability advantage to lower income borrowers who are able to credit qualify for the HFA preferred risk sharing first mortgage. Ms. Bostrom clarified that the question she had asked during Mr. Pereira's presentation for 7A was regarding this request but her questions had been answered by Mr. Pereira. **MOTION:** Ms. Klinzing moved approval of the changes. Auditor Otto seconded the motion. Motion carries 7-0.

C. Selection and Commitment, Low and Moderate Income Rental (LMIR) Program - Northpoint Townhomes, Aitkin, D0005

John Rocker presented this request for authorization of a LMIR end loan for an existing 32 unit project in Aitken that is owned by CommonBond Communities. In response to a question from Mr. DeCramer, Mr. Rocker stated that the project had a 20-year HAP contract at the time of purchase. In response to another question from Mr. DeCramer, Mr. Rocker stated that the contractor has experience doing in-place rehabilitations and that the tenants will shift units

during the rehab. **MOTION:** Mr. John DeCramer moved approval of the selection and commitment and the adoption of Resolution No. MHFA 14-020. Mr. Steve Johnson seconded the motion. Motion carries 7-0.

D. Board Policy Revisions

Tom O'Hern presented the revisions to the board policies, stating that there has been discussion with the board in the past about the need to update the policies, some of which have been in place since the 1970s and have never been revised. Mr. O'Hern added that many of the deleted policies are not necessary, such as the per diem, conflict of interest and ethics policies, because those topics are covered by state statutes and that Board members are bound by those statutes. Other policies, like the debt management policy, addressed issues unique to the Agency, are appropriate for a policy and those have been reviewed and revised as needed. Mr. O'Hern also stated that there were a few remaining policies that needed further review and would be brought to the board at a future date for approval.

Ms. Bostrom inquired about the process for revising the policies and Mr. O'Hern responded that policies that were deemed to be necessary were assigned to the appropriate division for review and they then provided input on the changes. Ms. Bostrom also inquired about the addition of the public appearance information in the meetings policy and Chair Johnson responded that the Board did review that policy the previous fall. Mr. O'Hern clarified that the public appearance policy had been a standalone policy that had been incorporated into the meetings policy. In response to a question from Mr. DeCramer, Mr. O'Hern stated that the policy for reporting non-compliance should not be a policy of the Board; it is really a staff policy and is not written as a policy for the board. The language in the policy includes the entire whistleblower statute and not all portions of it apply to the Agency.

Commissioner Tingerthal stated that the Board has been clear about being part of and engaged in the fact that we have a whistleblower policy and as we talk about what we embed in the employee policy, we will determine how to formally make a link with the Board. Auditor Otto responded that, through the role of the Chief Risk Officer, who reports directly to the Board, that link is made clear. In response to a question from Mr. DeCramer, Mr. Bill Kapphahn stated that the Agency has a short term borrowing limit of \$75 million and the Agency has in the past borrowed substantial amounts from the Federal Home Loan bank to warehouse MBSs but the Agency currently does not have any money borrowed. There was a discussion about the fraud policy and requirements of reporting to the Office of the Legislative Auditor, inclusion of information pertaining to the whistleblower statute and differing reporting requirements for Federal funds. Commissioner Tingerthal walked the Board through the proposed new format for the policies. **MOTION:** Ms. Bostrom moved approval of the changes to the board policies. Auditor Otto seconded the motion. Motion carries 7-0.

8. Discussion Items

A. 2014 Affordable Housing Plan and 2013-15 Strategic Plan: Second Quarter Progress Report

John Patterson reviewed with the board the progress report, stating that things were progressing nicely, with the exception of the home-buying market.

B. 2015 Affordable Housing Plan (AHP) Development Kickoff– Presentation of Key Trends and Public Input

Mr. John Patterson presented information about key trends in the affordable housing marketplace. Trends include: economic and housing recoveries are expected to continue and will result in a need for more affordable housing; future numbers of cost-burdened households will depend on the relative size of the housing cost and income changes; household formation is increasing in the stronger economy, which is increasing the demand for housing; Minnesota is becoming more diverse, but disparities in homeownership are significant; the aging of the baby boom generation will create new housing needs and challenges; there is a high percentage of seniors living in the Agency's Section 8 portfolio; and, that the housing stock in Minnesota is aging. Ms. Bostrom asked that Mr. Patterson clarify what portion of households are cost burdened and he stated that 50,000 households have annual incomes below \$50,000 are cost-burdened and there are 2.1 million households in Minnesota in total.

Mr. Patterson shared with the board that the Key Trends information is information that staff uses as they prepare the next Affordable Housing Plan. During this year's process, staff also sought early input from the public. Input received was shared with Board members in their packages. Mr. Patterson stated that almost all of the Agency's programs and activities were identified by someone as a priority and acknowledged that it will be a challenge to take all of the information and draft an affordable housing plan. Auditor Otto quoted one comment that stated a request for a more "transparent, open and accountable system for how [the Agency] uses its resources" and stated that she thinks the Agency is very transparent and has good materials developed and was unsure how the Agency could be more transparent. Chair Johnson agreed that he feels the Agency is transparent and stated that he took the comment to mean that there is a desire that housing finance was less complicated.

Commissioner Tingerthal shared that the early input served as another opportunity for public comment and the opportunity was made available in response to feedback received last year. Commissioner Tingerthal asked that Board members contact her or Mr. Patterson if there is anything they would like to see addressed, adding that she did not feel there were any big areas in which the Agency was not putting resources or working towards investing resources. Chair Johnson stated that some housing and redevelopment authorities continue to talk about senior housing and that he did not know how the Agency talks about it or responds to it, but he is seeing it. Mr. Joe Johnson inquired how the Agency responds to a comment from Children's Hope expressing disappointment at a lack of opportunity for public involvement and a lack of notice. Mr. Patterson stated that he felt the process had been very well publicized and Mr. Johnson agreed that it was well publicized. Discussion item. No action needed.

9. Informational Items

A. Legislative Update

Commissioner Tingerthal invited Tonja Orr and Katie Topinka to provide an overview of the legislative session. Ms. Orr stated that Ms. Topinka had spent a great deal of time at the Capitol over the past few months. Ms. Topinka shared that the capital investment package was a big

focus and was made up of two bills, one for bonding and the other for cash. The Agency has a piece in each bill, with the housing infrastructure bonds and the general obligation bonds, the uses of which will be the same as in the 2012 authorization. This year saw the largest amount for housing in the history of the capital investment bill.

Ms. Topinka added that the Governor's "unsession" initiative asked all state employees to submit ideas that would make government work better and that Agencies do the same. Staff reviewed the Agency's statute and repealed language regarding some activities that had been rolled into other programs but had not been funded by the legislature in at least 10 years. It's of note that these are activities that the Agency is still doing, but that no longer need to be detailed in the statute because they are undertaken in other programs. The same review was done with rules, which resulted in some reports repealed and a reduction in the number of things that needed to be published in the State Register. The change will allow the Agency to instead publish information on our website.

Ms. Orr stated that the Agency was bound by the Governor's request for the bonding bill, which included \$50 million for housing and the largest amount ever in a Governor's bill. The advocacy community promoted a \$100 million request and deserves a great deal of credit for the large bill. Ms. Orr stated that this session was an example of the importance of having a champion for housing. Many times, there is a struggle to find agreement and advocacy, but this year there was a real champion, especially in the House, and that made a big difference.

Ms. Orr stated that the supplemental budget bill was \$280 million and did not include a target for housing, but there were some pieces for housing included, for example \$2.2 million for student housing. The Agency made clear that it does not intend to be in the business of student housing but acknowledged there are a few communities that have particular needs and the Agency would be the easiest repository for the money, which will be distributed through an RFP. There was also \$250,000 made available to help communities determine what the need is for veteran's housing. The Agency will work with the Veteran's Administration to get that money out. There is also a set-aside of Challenge appropriations to assist families with a disabled child who are facing eviction due to the behavior of their disabled child. Another bill included language establishing a pilot for a mortgage product that would address the disparity in the homeownership rate. That bill did not include funding or add to the Agency's authority but did serve to establish the legislature's intent around the issue. The Agency is already doing that work, through the targeted mortgage opportunity program. Commissioner Tingerthal added that there was also a bill with provisions for reporting, including a report on disparities and stated that the Agency has been doing that reporting for years voluntarily but it is now required by law.

Commissioner Tingerthal shared that Ms. Orr and Ms. Topinka make the work seem easy and acknowledged that part of the reason that our bills do tend to work smoothly is because Ms. Orr and Ms. Topinka do a great job of thinking about strategy and relationships with committee

members well in advance of the session. Ms. Tingerthal thanked Ms. Orr and Ms. Topinka for their work at the legislature. No action needed.

B. Post-Sale Report, Residential Housing Finance Bonds, 2014 Series B

Information item. No presentation or action.

10. Other Business

11. Adjournment.

The meeting was adjourned at 2:17 p.m.

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MINUTES

MINNESOTA HOUSING FINANCE AGENCY SPECIAL BOARD MEETING**Thursday, June 05, 2014**

3:00 p.m.

Jelatis Conference Room – 3rd Floor

400 Sibley Street, St. Paul, MN 55101

1. Call to Order.

Vice Chair Joe Johnson called to order the special meeting of the Board of the Minnesota Housing Finance Agency at 3:02 p.m.

2. Roll Call.

Members present: Gloria Bostrom, John DeCramer, Joe Johnson, Steve Johnson, Stephanie Klinzing, Rebecca Otto (all by phone). Absent: Ken Johnson

Minnesota Housing staff present: Paula Beck, Paula Rindels, Bill Kapphahn, Kurt Keena, Tonja Orr, Becky Schack, Barb Sporlein, Rob Tietz, Mary Tingerthal, Will Thompson.

Others present: By phone: Cory Hoepfner and Derek McGreal, RBC Capital Markets; Michelle Adams, Kutak Rock; Gene Slater, CSG Advisors; Paul Rebholz, Wells Fargo; Celeste Grant, Office of the State Auditor. In person: Tom O’Hern, Assistant Attorney General.

3. Agenda Review

Vice Chair Johnson announced the items for consideration.

4. Approval of the Minutes.

None.

5. Reports

None.

6. Consent Agenda

None.

7. Action Items**A. Resolution Authorizing the Issuance and Sale of Minnesota Housing Finance Agency Homeownership Finance Bonds, 2014 Series A.**

Mr. Rob Tietz presented this request, stating that the environment to issue bonds is attractive because of yields, the ratio of tax exempts to taxables and a limited available supply. Mr. Tietz stated that traders from RBC Capital Markets started to see secondary market trading activity on the Agency’s prior pass-through transactions at sub-3% yields, which prompted conversations resulting in determining that it would be in the Agency’s best interest to again enter the market with the pass-through product the Agency introduced in 2012.

Mr. Tietz requested authorization of the issuance of up to \$100 million in pass-through bonds in the HFB Indenture, with the first transaction of \$25 million to \$40 million expected in the following week, depending on market conditions and investor interest. Mr. Tietz stated that it is expected that these bonds will price around 3% and will be at full spread. Mr. Tietz added that staff along with the Agency’s finance team, had now developed a method for including the Agency’s hedging economics into this bond transaction, which will adjust the bond yield for tax purposes. **MOTION:** Auditor Otto moved approval of this item and the adoption of Resolution No. MHFA 14-024. Mr. DeCramer seconded the

motion. Voting in the affirmative: Mr. Steve Johnson, Mr. Joe Johnson, Ms. Stephanie Klinzing, Mr. John DeCramer, Auditor Otto and Ms. Gloria Bostrom. Voting no: None. Motion carries 6-0.

B. Approval, Section 8 Opt Out Notice Review Policy

Ms. Tonja Orr requested approval of the adoption of a policy regarding requests to opt out of the Section 8 program. Ms. Orr stated that the Agency has received such a request and, looking at the options, staff believes it would be helpful to have a Board policy to guide considerations when such a notice is received. In response to a question from Ms. Bostrom regarding the urgency of the need to adopt a policy, Ms. Orr stated that a notice had been received and staff has a meeting scheduled with the building owner the following week. Staff will work to negotiate with the owner for the property to remain in the program and having a policy statement from the Board will reinforce that position. Commissioner Tingerthal added that the opt outs require notification one year in advance and that time is to allow for a suitable resolution to be sought for both the owner and the tenants. Tingerthal added that it is in the best interest of the Board to make a statement because there is a greater likelihood of more notices being received and there may be higher visibility of the option. Mr. DeCramer inquired about the frequency of opt outs and how they are handled by staff. Ms. Orr responded that there had been fewer in the past two years, with only one request. Following that request, staff developed guidelines for responding. For that particular building, the Agency did agree to the opt out after considering the owner's capacity and the location and condition of the building. Commissioner Tingerthal added that, if there is a successful opt out, tenants receive vouchers to seek other housing, which results in no immediate impact to the current tenants but those units are then permanently lost. The building last year was an unusual case and staff determined that the loss of the assisted units was acceptable. Tingerthal added that there are a few buildings that may attempt to opt out in the next few years. In response to a question from Mr. Joe Johnson, Commissioner Tingerthal stated that some owners opt out because they feel they can make more money as a market rate building and added that owners do not always do what is in their best interest. Tingerthal gave an example of an owner who is seeking an opt out in order to charge higher rents but has not sought allowable rent increases under the Section 8 program. **MOTION:** Ms. Klinzing moved approval and adoption of the Section 8 Opt Out Notice Review Policy. Mr. Steve Johnson seconded the motion. Voting in the affirmative: Mr. Steve Johnson, Mr. Joe Johnson, Ms. Stephanie Klinzing, Mr. John DeCramer, Auditor Otto and Ms. Gloria Bostrom. Voting no: None. Motion carries 6-0.

8. Discussion Items

None.

9. Informational Items

None.

10. Other Business

None.

11. Adjournment.

The meeting was adjourned at 3:17 p.m.



AGENDA ITEM: 6.A.
MINNESOTA HOUSING BOARD MEETING
June 19, 2014

ITEM: Renewal, Operating Subsidy Grants, Ending Long-Term Homelessness Initiative Fund (ELHIF) and Department of Human Services (DHS) Housing with Supports for Adults with Serious Mental Illness (HSASMI) Fund

CONTACT: Vicki Farden, 651-296-8125 Laird Sourdif, 651-296-9795
 vicki.farden@state.mn.us laird.sourdif@state.mn.us

REQUEST:

Approval Discussion Information

TYPE(S):

Administrative Commitment(s) Modification/Change Policy Selection(s) Waiver(s)
 Other: _____

ACTION:

Motion Resolution No Action Required

SUMMARY REQUEST:

Adoption of the attached Resolution authorizing \$125,593 ELHIF and \$152,113 DHS HSASMI funding for Operating Subsidy grants. This action will renew grants for 75 supportive housing units at five existing developments, providing up to one year of funding.

FISCAL IMPACT:

The funding recommended is available in the current 2014 Affordable Housing Plan (AHP) and has not been identified for any other purpose.

MEETING AGENCY PRIORITIES:

Promote and support successful homeownership Preserve federally-subsidized rental housing
 Address specific and critical needs in rental housing markets Prevent and end homelessness
 Prevent foreclosures and support community recovery Strengthening Organizational Capacity

ATTACHMENT(S):

- Background
- 2014 Operating Subsidy Renewal Grants
- Resolution

BACKGROUND:

The Operating Subsidy (OS) Program provides funds for revenue shortfalls and unique costs associated with operating low-income supportive housing developments. The Agency and the Department of Human Services – Adult Mental Health Division (DHS-AMHD) are partnering for a fifth year to provide funding to support this activity. The Agency’s Affordable Housing Plan set aside Ending Long-term Homelessness Initiative Fund (ELHIF) dollars for this purpose. The DHS Housing with Services for Adults with Serious Mental Illness (HSASMI) funds come to the Agency through an Interagency Agreement and are administered under Housing Trust Fund (HTF) Program rules and in accordance with the HTF/ELHIF/DHS HSASMI OS Program Guide. The DHS- AMHD may provide up to \$950,000 in operating subsidy assistance annually to support new and existing Agency-financed supportive housing developments agreeing to provide housing units with support for adults with serious mental illnesses.

The Agency and DHS-AMHD notified seven (7) grantees with OS grants expiring by December 31, 2014 of the opportunity to apply for renewal OS funding. Applications were due on April 29, 2014. Five (5) renewal applications were received. One of the eligible properties did not request renewal funding because they had sufficient resources to support operating costs. The other eligible property did not respond to the renewal notice. These two non-renewed grants reduced the agency’s OS commitment by \$38,000/year.

The OS Program is a “last resort” source and is available only to owners demonstrating the need for the subsidy when all other possible funding sources and cost saving measures have been investigated and implemented where available. Agency staff reviewed the application narrative, operating budgets and property financial statements to ensure the assistance is necessary. Priority for funding is given to developments that preserve affordable housing units that offer permanent supportive housing to very low income households with long histories of homelessness.

The following housing opportunities and demographic trends were observed in the distribution of the units assisted with the recommended awards:

- 68% in Greater Minnesota Area, and 32 % in the seven (7) County Metropolitan Area
- 81% for households with long histories of homelessness
- 60% for families
- 40% for single adults
- These developments leverage other funding sources for operations such as Group Residential Housing (GRH), HUD Continuum of Care, Section 8 Rental Assistance, and Native American Housing Assistance and Self Determination Act (NAHASDA).

The division of funding resources for the purpose of providing operating subsidies to the recommended developments for one year is reflected below:

Funding Source	Amount
ELHIF	\$125,593
DHS HSASMI	\$152,113
TOTAL	\$277,706

Funding Use	Amount
Tenant Service Coordinator	\$64,388
Front Desk	\$20,579
Revenue Shortfall	\$192,739
TOTAL	\$277,706

Region	D #	Property Name	Owner	City	HH Type	Total Supp Hsg Units	LTH	SMI	Recmd MHFA ELHIF	Recmd DHS HSASMI	Subsidy Purpose/Comments
NEMIF	D6357	New Moon Supportive Housing	Bois Forte Band	Tower	Mixed	19	19	7	\$69,589	25,000	Tenant Service Coordinator and Revenue Shortfall
MHIG	D6350	3631 Penn Avenue N.	Alliance Housing	Mpls	Families	6	2	0	\$36,004		Tenant Service Coordinator and Revenue Shortfall
MHIG	D6256	Fort Road Flats	PPL	St. Paul	Families	16	10	0	\$20,000		Tenant Service Coordinator
NEMIF	D5954	Fond du Lac Supportive Housing	Fond du Lac Band	Cloquet	Mixed	24	20	6		106,534	Revenue Shortfall
SEMIF	D3844	Maxfield Place	Salvation Army	Mankato	Singles	10	10	5		20,579	Front Desk
Totals						75	61	18	\$125,593	\$152,113	
						TOTAL				\$277,706	

Units	
Families	45
Singles	30

Unit distribution	24	32%
Metro	51	68%
Greater Minnesota		
Funding Distribution	\$56,004	20%
Metro	\$221,702	80%
Greater Minnesota		

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

RESOLUTION NO. MHFA 14-026

RESOLUTION APPROVING SELECTION/COMMITMENT ENDING LONG TERM HOMELESSNESS INITIATIVE FUND (ELHIF) AND HOUSING TRUST FUND OPERATING SUBSIDY RENEWAL GRANTS

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received applications to provide operating subsidies for properties serving families and individuals who are low income, near homeless, homeless or long-term homeless.

WHEREAS, Agency staff has reviewed the applications and determined that they are in compliance with the Agency’s rules, regulations and policies; that such grants are not otherwise available, wholly or in part, from private lenders or other agencies upon equivalent terms and conditions; and that the applications will assist in fulfilling the purpose of Minn. Stat. ch. 462A.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to enter into grant agreements using State resources as set forth below, subject to changes allowable under the multifamily funding modification policy, upon the following conditions:

- 1. Agency staff shall award grants for the intended purpose up to the total recommended amount for one (1) year:

• New Moon Supportive Housing	Tower	D6357	\$94,589
• Fond du Lac Supportive Housing	Cloquet	D5954	\$106,534
• 3631 Penn Avenue	Minneapolis	D6350	\$36,004
• Fort Road Flats	St Paul	D6256	\$20,000
• Maxfield Place	Mankato	D3844	\$20,579

- 2. The issuance of grant agreements in form and substance acceptable to the Agency staff and the closing of the individual grants shall occur no later than twelve months from the adoption date of this Resolution; and
- 3. The sponsors and such other parties shall execute all such documents relating to said grant, to the security therefore, as the Agency, in its sole discretion, deems necessary.

Adopted this 19th day of June, 2014.

CHAIRMAN



AGENDA ITEM: 6.B.
MINNESOTA HOUSING BOARD MEETING
June 19, 2014

ITEM: Hamline Station Mixed-Use, St. Paul – D7589

CONTACT: Ted Tulashie, 651-297-3119
 ted.tulashie@state.mn

REQUEST:

Approval Discussion Information

TYPE(S):

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

Other: _____

ACTION:

Motion Resolution No Action Required

SUMMARY REQUEST:

Agency staff has completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of \$2,025,005 and a deferred funding commitment in the amount of \$3,240,000 under the Flexible Financing for Capital Costs (FFCC) program, both subject to the review and approval of the Mortgagor, and the terms and conditions of the Agency mortgage loan commitment.

FISCAL IMPACT:

In the 2014 amended Affordable Housing Plan (AHP), the Board allocated \$51 million in new activity for the LMIR program which includes \$21 million from the Housing Investment Fund (Pool 2) and \$30 million for LMIR and LMIR Bridge Loan activity through tax-exempt bonding. The AHP also allocated \$4.5 million in new activity under the FFCC program (funded through the Housing Affordability Fund – Pool 3). Funding for this loan falls within the approved budget and the loan will be made at an interest rate and terms consistent with what is described in the AHP. Additionally, this loan should generate \$130,792 in fee income (origination fee and construction oversight fee) as well as interest earnings which will help offset Agency operating costs.

MEETING AGENCY PRIORITIES:

Promote and support successful homeownership Preserve federally-subsidized rental housing
 Address specific and critical needs in rental housing markets Prevent and end homelessness
 Prevent foreclosures and support community recovery Strengthening Organizational Capacity

ATTACHMENT(S):

- Background
- Development Summary
- Resolution

The Minnesota Housing Finance Agency (Agency) Board, at its November 7, 2013, meeting, approved this development for processing under the Low and Moderate Income Rental (LMIR) and the Flexible Financing for Capital Costs (FFCC) programs. The following summarizes the changes in the composition of the proposal since that time:

DESCRIPTION:	SELECTION		COMMITMENT		VARIANCE	
Total Development Cost	\$12,713,081		\$14,394,393		\$1,681,312	
Gross Construction Cost	\$8,039,153		\$9,560,040		\$1,520,887	
Agency Sources:						
LMIR	\$2,143,258		\$2,025,005		\$-118,253	
FFCC	\$3,240,000		\$3,240,000		\$0	
Total Agency Sources	\$5,383,258		\$5,265,005		\$-118,253	
Other Non-Agency Sources:						
Housing Syndication Proceeds	\$2,753,415		\$3,977,049		\$1,223,634	
Sales Tax Rebate	0		\$175,000		\$175,000	
Excelsior Bay Partners - Commercial	\$1,000,000		\$1,000,000		0	
FHF	0		\$400,000		\$400,000	
Met Council TBRA - TOD	\$250,306		\$250,306		0	
St Paul HOME	\$750,000		\$1,150,000		\$400,000	
Met Council LCDA	\$375,000		\$375,000		0	
Met Council LCA - TOD	\$1,045,000		\$1,045,000		0	
Def. Dev. Fee	\$597,198		\$356,933		\$-240,265	
Corridors of Opportunity LIC	\$100,000		\$200,000		\$100,000	
Met Council LHIA	0		\$200,000		\$200,000	
General Partner Cash	\$458,904		\$100		\$-458,804	
Gross Rents:						
Unit Type	# of DU	Rent	# of DU	Rent	# of DU	Rent
OBR/SRO - LTH	1	\$670	1	\$604	0	\$-66
OBR/SRO	2	\$702	2	\$604	0	\$-98
OBR/SRO	6	\$702	6	\$714	0	\$12
OBR Plus	6	\$827	6	\$784	0	\$-43
1BR - LTH	3	\$670	3	\$745	0	\$75
1BR	15	\$837	15	\$830	0	\$-7
1BR	5	\$837	5	\$745	0	\$-92
1BR	1	\$837	1	\$830	0	\$-7
2BR	17	\$1,053	17	\$1,057	0	\$4
2BR	1	\$918	1	\$922	0	\$4
Total Number of Units	57		57			

Factors Contributing to Variances:

Since selection, the development has experienced an increase in the total development costs primarily due to rising construction costs since the application was submitted. The largest cost increases are \$1.5 million in construction costs, \$203,000 in developer fee and \$145,000 in required reserves. The developer was able to find some cost savings, but not enough to offset the cost of construction.

Syndication proceeds increased 44% from a combination of increased investor pricing and additional basis attributed to additional developer fee. The increase in syndication pricing was partially targeted to reduce the LMIR loan to ensure the long term financial viability of the proposal. The City of St. Paul increased their HOME funds and the Family Housing Fund agreed to contribute an additional \$400,000 to complete the funding package and allow the development to proceed to closing.

Other significant events since Board Selection:

None.

DEVELOPMENT SUMMARY

DEVELOPMENT:

Name:	Hamline Station Mixed-Use	D7589	
Address:	1333 University Ave W	App#:	M16628
City:	Saint Paul	County:	Ramsey
		Region:	MHIG

MORTGAGOR:

Ownership Entity: Hamline Station LP
 General Partner/Principals: PPL Hamline Station LLC

DEVELOPMENT TEAM:

General Contractor: Anderson Companies, St. Louis Park
 Architect: ESG Architects (Elness Swenson Graham Architects Inc.),
 Minneapolis
 Attorney: Faegre Baker Daniels LLP, Minneapolis
 Management Company: Project for Pride in Living Inc., Minneapolis
 Service Provider: Guild Incorporated, Saint Paul

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

\$ 2,025,005 LMIR First Mortgage
 Funding Source: Housing Investment Fund (Pool2)
 Interest Rate: 5.25%
 MIP Rate: 0.25%
 Term (Years): 30
 Amortization (Years): 30

\$ 3,240,000 Flexible Financing Cap Cost
 Funding Source: Housing Affordability Fund(Pool 3)
 Interest Rate: 0.00%
 Term (Years): 30

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORDABILITY*
OBR – LTH**	1	574	\$ 604	\$ 608	\$ 24,160
OBR	2	595	\$ 604	\$ 721	\$ 24,160
OBR	6	595	\$ 714	\$ 721	\$ 28,560
OBR Plus	6	711	\$ 784	\$ 865	\$ 31,360
1BR – LTH**	3	710	\$ 745	\$ 772	\$ 29,800
1BR	5	702	\$ 745	\$ 927	\$ 29,800
1BR	15	702	\$ 830	\$ 927	\$ 33,200
1BR	1	735	\$ 830	\$ 927	\$ 33,200
2BR	1	1,047	\$ 922	\$ 926	\$ 36,880
2BR	17	1,047	\$ 1,057	\$ 1,111	\$ 42,280
TOTAL	57				

NOTES: *Under the LMIR program, rents are affordable to households at 50% AMI with incomes up to 60% AMI.

**Four units serving long term homeless households will pay no more than 30% of their income towards rent.

Purpose:

Hamline Station Mixed-Use is a 57-unit new construction elevator building located on the north side of University Avenue West, between Hamline Avenue and Syndicate Street in St. Paul. This apartment building (also known as the West Tower), is part of a larger development that will include 51-unit Hamline Station Family (the East Tower) on the remaining portion of the larger 1.74 acre site. The West tower (Mixed-use - 57 units) will include a mix of 15 studio units, 24 one-bedroom units and 18 two-bedroom units. These combined 108 units of affordable workforce housing over first floor commercial space and underground parking will be located on a former car dealership site. The building will also include a 14,250 square feet commercial space and a center plaza between the two towers.

This transit-oriented project in St. Paul is adjacent to the Hamline Central Corridor Light Rail Transit (LRT) station. The adjacent and surrounding area use includes a mix of residential homes and commercial with many large big box retailers and small shops.

Target Population:

The proposed development intends to serve a diverse population including households of color, single heads of households, and individuals and families with children. The development will target individuals with incomes at or less than 60% of the area median income. In addition, there will be 4 units set aside (in the West Tower) for low income individuals who meet the State's definition for Long-Term Homeless. Guild Inc., who has experience with this population, will provide supportive services and case management for these supportive units.

Project Feasibility:

The development's financing includes syndication of 4% Tax Credits through the City of St. Paul and Agency LMIR first mortgage of \$2,025,005. A portion of the first mortgage will be serviced with a 25 year Pay-As-You-Go Tax Increment Financing from the City. The proposal is projected to maintain a positive cash flow through 15 years. The construction costs are being bridged by tax-exempt bonds from the City of St. Paul, which are being purchased by US Bank and then loaned to the limited partnership. The balance of the funding will be from local contributions, funding partner deferred loans along with other developer funds. City of St. Paul's Home funds will be providing \$20,175 per unit and the Met Council is contributing nearly \$33,000 per unit in deferred funding. Equity from the syndication of housing tax credits will generate 28 percent of the funding needed (\$70,000/unit). The construction of the commercial space shell will be funded with a \$1,000,000 in equity to the project from Excelsior Bay Partners.

The per unit TDC of \$252,533 is within 25% of the predictive cost model estimate of \$223,287.

Development Team Capacity:

The developer, Project for Pride in Living, Inc. (PPL), a Twin Cities based nonprofit provider of affordable housing and social services will provide development oversight and long term ownership and management for the Project.

Physical and Technical Review:

The site is currently a vacant lot and an existing former car dealership building to be demolished. The architect, ESG, and the contractor, Anderson Companies have the capacity to complete this project. Overall, the proposed building design is appealing, which should make this development a landmark along the Green Line.

Market Feasibility:

The project has excellent linkages to supporting services and public facilities as it is located within walking distance to retail, schools and adjacent to the Hamline Green Line LRT station. The market analysis prepared by Maxfield Research Inc. for this development supports additional need for this type of housing. The immediate area surrounding this development and all along the LRT corridor has seen significant growth in retail and service sector jobs. It also concluded that all 57 total units could be completely absorbed into the market within four to six months of completion, contingent upon proper marketing and pre-leasing.

Board Agenda Item: 6.B.
Attachment: Development Summary

Supportive Housing:

The Hamline Station Mixed Use building will have four long term homeless units for single households. The Delancey Street team from Guild, Inc. will provide supportive services. The multidisciplinary teams allow services to be personalized to fit each participant's needs. The Delancey team is a member of the Hearth Connection provider network and will provide referrals to the LTH units through their team. Guild has extensive experience providing services to the target population and has a successful supportive housing partnership with PPL at Delancey Street Apartments. Services are funded through the long-term homelessness supportive services grant and billable Medicaid services. Shelter Plus Care (S+C) will be used to pay rents, ensuring the tenant's portion is not greater than 30% of their income.

DEVELOPMENT COST SUMMARY (estimated):

	Total	Per Unit
Total Development Cost	\$14,394,393	\$252,533
Acquisition or Refinance Cost	\$1,220,000	\$21,404
Gross Construction Cost	\$9,810,346	\$172,111
Soft Costs (excluding Reserves)	\$2,933,047	\$51,457
Non-Mortgageable Costs (excluding Reserves)	\$431,000	\$7,561
Reserves		
Total LMIR Mortgage	\$2,025,005	\$35,526
First Mortgage Loan-to-Cost Ratio		14%
Agency Deferred Loan Sources		
Flexible Financing for Capital Costs	\$3,240,000	\$56,842
Total Agency Sources	\$5,265,005	\$92,369
Total Loan-to-Cost Ratio		37%
Other Non-Agency Sources		
Sales Tax Rebate	\$175,000	\$3,070
Excelsior Bay Partners - Commercial	\$1,000,000	\$17,544
Syndication Proceeds	\$3,977,049	\$69,773
Family Housing Fund	\$400,000	\$7,018
Met Council TBRA - TOD	\$250,306	\$4,391
St Paul HOME	\$1,150,000	\$20,175
Met Council LCDA	\$375,000	\$6,579
Met Council LCA - TOD	\$1,045,000	\$18,333
Deferred Developer Fee	\$356,933	\$6,262
Corridors of Opportunity LIC grant	\$200,000	\$3,509
Met Council LHIA grant	\$200,000	\$3,509
General Partner Cash	\$100	\$2
Total Non-Agency Sources	\$9,129,388	\$160,165

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

RESOLUTION NO. MHFA 14-

**RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM
AND FLEXIBLE FINANCING FOR CAPITAL COSTS (FFCC) 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:	Hamline Station Mixed-Use
Sponsor:	PPL Hamline Station, LLC
Guarantors:	Project for Pride in Living, Inc. (PPL), Minneapolis
Location of Development:	St. Paul
Number of Units:	57
General Contractor:	Anderson Companies, St. Louis Park
Architect:	ESG, Minneapolis
Amount of Development Cost:	\$14,394,393
Amount of LMIR Mortgage:	\$2,025,005
Amount of FFCC Loan:	\$3,240,000

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

WHEREAS, Agency staff 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 end 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 \$2,025,005; and
2. The Closing of the LMIR loan (processed as an end loan) shall be on or before December 31, 2015 (which shall also be the LMIR Commitment Expiration Date); and
3. The interest rate on the permanent LMIR loan shall be 5.25 percent per annum plus 0.25 percent per annum HUD Risk Share Mortgage Insurance Premium, with monthly payments based on a 30 year amortization; and
4. The term of the permanent LMIR loan shall be 30 years; and
5. The amount of the FFCC deferred loan shall be \$3,240,000; and
6. The Closing of the FFCC loan (processed as an end loan) shall be on or before December 31, 2015 (which shall also be the FFCC Commitment Expiration Date); and
7. Repayment of the FFCC loan shall be deferred at 0 percent and is co-terminus with the LMIR loan; and
8. Agency staff shall review and approve the Mortgagor; and
9. The Mortgagor shall execute an Agency Mortgage Loan Commitment with terms and conditions embodying the above in form and substance acceptable to Agency staff; and
10. PPL, Minneapolis shall guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.20 debt service coverage ratio (assuming stabilized expenses) for three successive months; and
11. PPL, Minneapolis shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and
12. The sponsor, the builder, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary shall execute all such documents relating to said loan, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 19th day of June 2014.

CHAIRMAN



AGENDA ITEM: 6.C.
MINNESOTA HOUSING BOARD MEETING
June 26, 2014

ITEM: Bridges Regional Treatment Center (RTC) Rental Assistance

CONTACT: Carrie Marsh, 651-215-6236
 carrie.marsh@state.mn.us

Elaine Vollbrecht, 651-296-9953
 Elaine.vollbrecht@state.mn.us

REQUEST:

Approval Discussion Information

TYPE(S):

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

Other: _____

ACTION:

Motion Resolution No Action Required

SUMMARY REQUEST:

Staff wishes to inform the Board of the extension of seven existing Bridges RTC pilot program grants for an additional two years. Two of the grants require additional funding, which will be committed from the Department of Human Services funds which have already been transferred to the Agency.

FISCAL IMPACT:

Bridges RTC was funded by the Department of Human Services, State Operated Services funding which was transferred to Minnesota Housing in 2012 to administer. Currently, a balance of \$375,000 of those funds has not been committed. Approximately \$360,000 of the transferred funds will remain uncommitted after the rental assistance grant extensions are funded through the action described in this report.

MEETING AGENCY PRIORITIES:

Promote and support successful homeownership Preserve federally-subsidized rental housing
 Address specific and critical needs in rental housing markets Prevent and end homelessness
 Prevent foreclosures and support community recovery Strengthening Organizational Capacity

ATTACHMENT(S):

- Background
- Summary of Action

Background

Minnesota Department of Human Services, Adult Mental Health Division (DHS-AMH), has been a long-time partner in the implementation of the Bridges program, which provides rental assistance for persons with a serious mental illness, with the goal that they achieve permanent housing stability by transitioning to Section 8 Housing Choice Vouchers, or another stable housing option.

In 2011, DHS-AMH approached Minnesota Housing and together began planning a pilot program to assist individuals at the Anoka Metro Regional Treatment Center (AMRTC), who no longer needed to be at the facility but lacked housing options and would likely be homeless upon exit.

AMRTC is a psychiatric hospital serving a small target population: adults with serious and persistent mental illnesses and co-occurring conditions—including substance use disorders, intellectual disabilities, chronic physical illnesses, and aging-related dementia—that complicate their recoveries.

According to the legislative report¹ dated 2/18/14, “AMRTC is experiencing severe patient flow problems: 1) a long waiting list for admission; 2) frequent treatment episodes for some patients; and 3) patients “stuck” at AMRTC after they no longer meet criteria for a hospital level of care because appropriate community settings and/or services are not available in their home communities.”

The Bridges RTC program is one of several strategies targeted at addressing these issues.

In April 2012, the Bridges RTC pilot program awarded \$1.02 million to four grantees in the seven-county metro area, to serve up to 56 households per month. In October 2012, three Bridges RTC grantees were awarded \$178,400 in Greater Minnesota, targeting up to 21 households per month across three Adult Mental Health Initiatives serving 32 counties. Allocations were based on historical intakes to Anoka Metro Regional Treatment Center (AMRTC).

Utilization of the program has been slower than expected, but is reaching full capacity in some areas. Reasons for the delay include: lack of eligible participants in the grantee service area, persons at AMRTC who are there to gain competency for their criminal cases, personal histories which are barriers to leasing apartments, ensuring that complex sets of services are available, and changing practices to a “Housing First” approach.

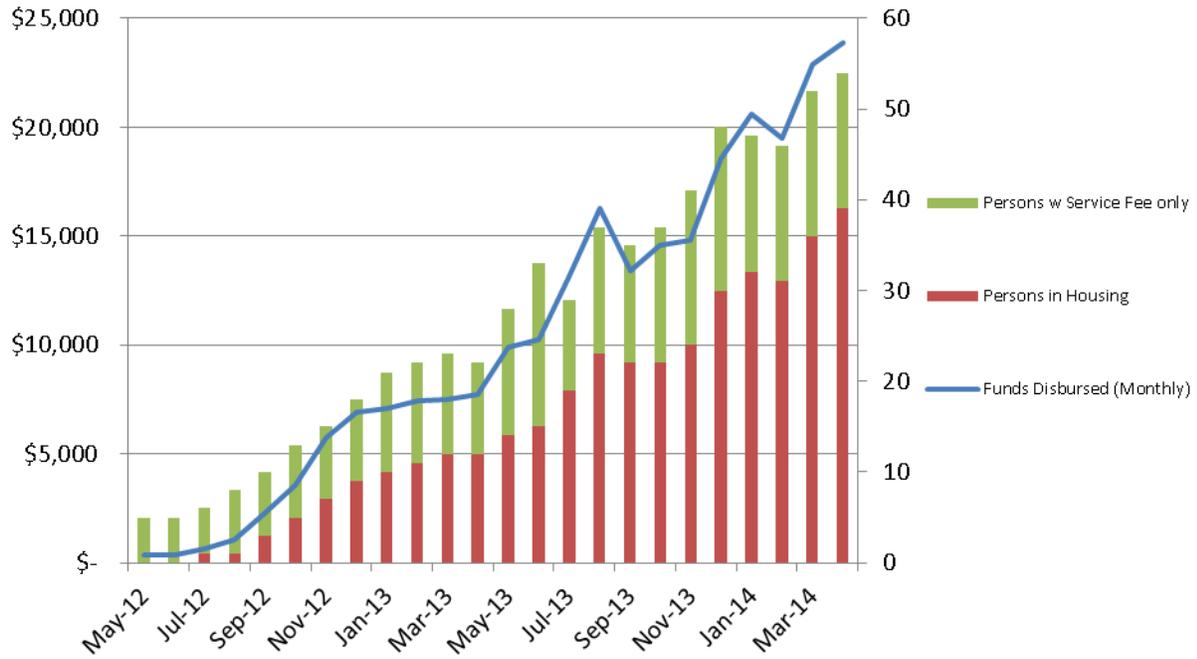
Multiple issues caused this pilot program to be more challenging to implement and manage than other programs. They include an extremely high-need target population of adults with serious mental illness and complex mental health and co-occurring health care needs who frequently have difficulty obtaining or retaining affordable housing. Individual barriers to housing often include a combination of complex physical and mental health service needs, criminal histories, poor rental and credit history, and behavioral problems. Changes in the program have been made in response to suggestions from grantees and include redefining the eligibility criteria to allow persons on the waiting list for Anoka who are diverted to another community hospital setting. A new program, Transitions to Community, provides grants from DHS-AMH for mental health services for persons leaving AMRTC.

A summary graph of the number of individuals and monthly reimbursements, shown below, demonstrates the utilization of the program over the last two years. Currently, 39 persons are living in their own apartments, with 15 additional persons participating in the housing search process.

¹ *Plan for the Anoka Metro Regional Treatment Center:*

<http://www.mentalhealthmn.org/pdfs/AMRTCLegislativeReport2-18-14.pdf>

Bridges Rental Assistance Regional Treatment Center Pilot



Graph based on monthly reimbursement requests submitted to Minnesota Housing by grantees.

Summary of Action

DHS-AMH and Minnesota Housing staff has had recent conversations with the grantees in order to determine the funding for the next two years. Grantees indicated that they believe it is a valuable resource that helps individuals integrate back into the community and would advocate for continued funding. Two of the grantees, Guild Incorporated, serving Ramsey and Dakota counties, and the Southwestern Minnesota Adult Mental Health Consortium, serving 18 counties in the southwest region, will be awarded additional funds to continue serving the target number of individuals for the next two years. Two of the grantees have not yet utilized the funds, but wish to continue to working to identify and serve eligible participants. These two grants, with the Owatonna Housing and Redevelopment Authority and the St. Cloud Housing and Redevelopment Authority, will be reduced to slightly more than half of the original award.

Grantee	2012 Award	Target # of Households	2014 Change	Total Award
Guild, Incorporated	\$172,000	10	\$63,000	\$235,000
Mental Health Resources	\$733,000	40	\$0	\$733,000
Scott/Carver CDAs	\$74,000	4	\$0	\$74,000
Washington HRA	\$41,000	2	\$0	\$41,000
Owatonna HRA	\$77,100	11	-\$37,100	\$40,000
St. Cloud HRA	\$57,600	6	-\$22,600	\$35,000
Southwestern Minnesota Adult Mental Health Consortium	\$43,700	4	\$12,000	\$55,700
Total	\$1,198,400	77	\$15,300	\$1,213,700

Plans are underway for providing a more detailed report this year summarizing the outcomes of the Bridges RTC pilot program and recommendations for future program policy.



AGENDA ITEM: 7.A
MINNESOTA HOUSING BOARD MEETING
June 19, 2014

ITEM: Board Policy Revisions

CONTACT: Mary Tingerthal, 651.296.5738
 mary.tingerthal@state.mn.us

Tom O'Hern, 651.296.9796
 tom.ohern@state.mn.us

REQUEST:

Approval Discussion Information

TYPE(S):

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

Other: _____

ACTION:

Motion Resolution No Action Required

SUMMARY REQUEST:

Staff requests approval of the final revisions to existing board policies.

FISCAL IMPACT:

None.

MEETING AGENCY PRIORITIES:

- Promote and support successful homeownership Preserve federally-subsidized rental housing
- Address specific and critical needs in rental housing markets Prevent and end homelessness
- Prevent foreclosures and support community recovery Strengthening Organizational Capacity

ATTACHMENTS:

- Summary of actions requested
- Current policies showing changes

Policy	Proposed Action	Reason	Policy Number
Fiscal Notes Policy	Delete	Obsolete	2
Housing and Long-Term Care Group Living Policy	Delete	Obsolete and inconsistent with efforts to end long-term homelessness.	3
Reporting Non-Compliance With Agency Policy and Procedures	Delete	Superseded by Policy 14	11
Reporting Fraud, Misuse of Funds or Unethical Conduct	New		14

Policy 2 – Fiscal Notes **DELETE POLICY**

Adopted: 10/25/2007

Lending transactions pass through several stages of staff review, including underwriting and formal approval by the Mortgage Credit Committee for many types of loans before the Board is asked to approve a loan commitment. The following outlines the parameters for using fiscal notes.

- 1) Individual proposals that require Board approval and that allocate resources consistent with the budgeted resources in the Affordable Housing Plan (the Plan) and consistent with program parameters as described in the Plan, will not require fiscal impact statements within Board reports.

Examples include: selection or commitment of a first mortgage under the Low and Moderate Income Rental (LMIR) Program; selection or commitment of deferred loan financing from the agency's Flexible Financing for Capital Costs (FFCC) to be provided in conjunction with a LMIR loan; selection or commitment of loans from the Ending long-Term Homelessness Initiative Fund (ELHIF); selection or commitment of loans under state and federal appropriated programs.

Internal agency processes and Board policies are in place so that Board approval of these items is not intended to and would not likely result in the agency being unable to meet established financial targets or to exceed established allocations in the Plan, nor would it prevent anticipated outcomes from being achieved.

- 2) Individual proposals that allocate resources from any fund source will require inclusion of a fiscal impact statement within the Board report under the following circumstances:
 - Modification or refinancing of existing loans;
 - Modification to or deviation from original program intent as described in the Plan;
 - Additional resource allocation to a previously approved selection or commitment other than changes of allocations between selection and commitment as are governed by existing Board variance policy.
- 3) Changes to programs will include a fiscal impact statement regardless of whether there is a fiscal impact. Program changes with a neutral fiscal impact will be designated "no fiscal impact." Program changes that impact the way the agency uses agency resources in programs will include a detailed fiscal impact statement.

Nothing in this policy diminishes staff's responsibility to review proposals for consistency with agency statutes, rules, and other Board adopted policies or to diminish the due diligence required in the credit review process applicable to certain programs and lending activities. In addition, Board reports will continue to provide information on agency investments per unit,

~~market analysis, program trends and outcomes, and other information the Board currently receives in Board reports.~~

~~The Board will continue to receive the other regular reports required by Board policy including, for example, the variable rate debt and interest rate swap performance report, the multifamily selection/commitment variance report, a report prior to and following each issuance of mortgage revenue bonds, and the annual report of interfund transfers of assets.~~

Policy 3 – Housing and Long-Term Care Group Living **DELETE POLICY**

Adopted: 03/25/1993

Priorities. The Agency will give a priority in all its permanent housing programs for projects where:

- ~~The housing itself is residential housing or where the housing will be generally available to low and moderate income people.~~
- ~~The owner of the housing is not the provider of services.~~

~~"Permanent housing" is housing in which occupancy is not limited, at the outset of the tenancy, to a specific term.~~

~~"Residential housing" is housing where the individual units have bathroom and kitchen facilities.~~

~~Housing that is "generally available to low and moderate income people" is housing for which occupancy is either unrestricted or restricted only on the basis of income.~~

~~Permanent housing projects which are not consistent with these priorities should be funded in the context of a program specifically designed to be available to all similarly situated providers and developed on a systematic basis in conjunction with the other appropriate state agencies.~~

Procedural Provisions. ~~Applications for permanent housing projects must disclose any negotiated rate payments for room and board from county, state or federal sources received by the owner or by residents and must enclose a copy of any contract with the county for negotiated room and board payments or for funding for services. (Negotiated rate payments for room and board include, for example, group residential housing payments, Minnesota supplemental aid equivalent rate payments, medical assistance room and board rate payments.)~~

~~The following types of applications for permanent housing projects will be referred to the Interagency Long Term Care Planning Committee (Intercom) for review and comment:~~

- ~~Projects where the housing itself is neither residential housing nor generally available to the low and moderate income public.~~
- ~~Projects in which the owner of the housing is the provider of services.~~
- ~~Projects which receive a negotiated rate payment for room and board.~~

Policy 11 – Reporting Non-Compliance with Agency Policy and Procedures **DELETE POLICY**

Adopted: 01/27/2011

All directors, officers, employees, and contractors of Minnesota Housing have a responsibility to report any action or suspected action taken within the Agency or in connection with Agency business that is illegal, unethical or violates any adopted policy of Minnesota Housing. Such reporting can be done under the Minnesota Housing Fraud Policy procedures. Please Note: reporting persons are protected from retaliation for good faith reports of violations under the Minnesota Whistleblower Statute. In addition, persons may make reports anonymously.

Processes for reporting illegal or unethical behavior or non-compliance with agency policy and procedures are found in the agency's policy and procedural manual http://mhfa-cms/idc/groups/public/documents/document/mhfa_010249.pdf.

Types of activities that should be reported include the following:

Accounting and Internal Controls	Concerns regarding questionable practices relating to accounting, or internal controls. (Examples include, but are not limited to: misstatement of revenues or documents relating to revenue, misstatement of expenses, misstatement of assets, misapplication of GAAP principles or non-compliance with laws, regulations and provisions of contracts and grant agreements applicable to the agency.)
Fraud and Theft	Matters related to the deliberate use of misrepresentation or deceit in order to achieve an economic or financial gain or benefit. Reference Minnesota Housing Fraud Policy for more detail.
Conflict of Interests	Matters in which an employee's personal interests conflict, or appear to conflict, with an employee's duties to the agency. Reference agency Employee Code of Ethics for more detail.

Employees should also ensure that all grant agreements, contracts and agency program procedural manuals include requirements that suspected fraud be reported to the appropriate agency person. See Minnesota Housing Fraud Policy at http://mhfa-cms/idc/groups/public/documents/document/mhfa_010249.pdf pages 57-59.

The Minnesota Whistleblower Statute (Minnesota Statutes Section 181.932) provides:

Subdivision 1. Prohibited action. An employer shall not discharge, discipline, threaten, otherwise discriminate against, or penalize an employee regarding the employee's compensation, terms, conditions, location, or privileges of employment because:

~~(1) the employee, or a person acting on behalf of an employee, in good faith, reports a violation or suspected violation of any federal or state law or rule adopted pursuant to law to an employer or to any governmental body or law enforcement official;~~

~~(2) the employee is requested by a public body or office to participate in an investigation, hearing, inquiry;~~

~~(3) the employee refuses an employer's order to perform an action that the employee has an objective basis in fact to believe violates any state or federal law or rule or regulation adopted pursuant to law, and the employee informs the employer that the order is being refused for that reason;~~

~~(4) the employee, in good faith, reports a situation in which the quality of health care services provided by a health care facility, organization, or health care provider violates a standard established by federal or state law or a professionally recognized national clinical or ethical standard and potentially places the public at risk of harm; or~~

~~(5) a public employee communicates the findings of a scientific or technical study that the employee, in good faith, believes to be truthful and accurate, including reports to a governmental body or law enforcement official.~~

~~The disclosures protected pursuant to this section do not authorize the disclosure of data otherwise protected by law.~~

~~Subd. 2. Disclosure of identity. The identity of any employee making a report to a governmental body or law enforcement official under subdivision 1, clause (1) or (4), is private data on individuals as defined in section 13.02. The identity of an employee providing information under subdivision 1, clause (2), is private data on individuals if: (1) the employee would not have provided the information without an assurance that the employee's identity would remain private, because of a concern that the employer would commit an action prohibited under subdivision 1 or that the employee would be subject to some other form of retaliation; or~~

~~(2) the state agency, statewide system, or political subdivision reasonably believes that the employee would not have provided the data because of that concern.~~

~~If the disclosure is necessary for prosecution, the identity of the employee may be disclosed but the employee shall be informed prior to the disclosure.~~

~~Subd. 3. False disclosures. This section does not permit an employee to make statements or disclosures knowing that they are false or that they are in reckless disregard of the truth.~~

~~Subd. 4. Collective bargaining rights. This section does not diminish or impair the rights of a person under any collective bargaining agreement.~~

~~Subd. 5. Confidential information. This section does not permit disclosures that would violate federal or state law or diminish or impair the rights of any person to the continued protection of confidentiality of communications provided by common law.~~

~~**Anonymous reporting of illegal, unethical or violations of Minnesota Housing policies.** If an agency employee or a contractor, or other external party that utilizes agency funds wishes to anonymously report any known or suspected illegal or unethical activities or Minnesota Housing policy violations they may call toll free at 1-866-886-1274 or click on the "Report Possible Misconduct" link from the Minnesota Housing Internet site.~~

~~Matters related to human resources and personnel issues should be reported to the Human Resources office. These matters include most employee relations issues, harassment, workplace violence, discrimination, disrespectful behavior, diversity, substance abuse, hiring practices, performance management issues, promotion practices, and solicitations. (For more details see Minnesota Housing General Harassment, Hiring, Non-Discrimination, Zero Tolerance of Workplace Violence, and Zero Tolerance for Sexual Harassment Policies.)~~

~~Such concerns may also be reported anonymously as indicated above.~~

Policy 14 – Reporting Fraud, Misuse of Funds or Unethical Conduct

NEW POLICY

Adopted: 06__/2014

It is the responsibility of all Minnesota Housing employees, contractors and board members to report any action or suspected action involving the Agency, its business or its employees that is illegal, unethical or in violation of any adopted policy of the Agency.

14.01 Activities to Report

Activities that should be reported include, but are not limited to, the following:

- **Accounting.** Questionable Agency activities relating to the receipt or disbursement of funds.
- **Fraud and Theft.** Use of misrepresentation or deceit in order to achieve an economic or financial gain or benefit.
- **Misuse of Funds.** Funds that are not used as agreed to by a recipient.
- **Conflicts of Interest.** Employee activities that compromise or may compromise the integrity of an employee's job performance.

14.02 Confidentiality

All reports made under this policy, if requested, will be treated as confidential to the extent permitted by law.

14.03 Reporting to the Board

The Agency's Chief Risk Officer will periodically provide to the Board a summary of all reports made and the status of those reports.

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AGENDA ITEM: 8.A.
MINNESOTA HOUSING BOARD MEETING
June 19, 2014

ITEM: Fiscal 2015 Administrative Budget

CONTACT: Barb Sporlein, 651-297-3125
 barb.sporlein@state.mn.us

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

REQUEST:

Approval Discussion Information

TYPE(S):

Administrative Commitment(s) Modification/Change Policy Selection(s) Waiver(s)
 Other: _____

ACTION:

Motion Resolution No Action Required

SUMMARY REQUEST:

The Agency's administrative budget is prepared and presented to the Board each June. Presentation of the administrative budget is informational and no action by the Board is required.

FISCAL IMPACT:

The Agency funds its administrative budget with earnings from loans and other investments and with fees from service activities. The fiscal 2015 administrative budget represents the funding necessary to support the level of program activity to which the Agency is committed.

MEETING AGENCY PRIORITIES:

- Promote and support successful homeownership Preserve federally-subsidized rental housing
 Address specific and critical needs in rental housing markets Prevent and end homelessness
 Prevent foreclosures and support community recovery Strengthening Organizational Capacity

ATTACHMENT(S):

- Background
- Administrative Budget FY 2015
- Administrative Budget History and Forecast
- Administrative Expenditures as % of Assistance Provided
- Operating Expenses as % of Assets
- Salaries and Benefits as % of Revenues
- Average Adjusted Asset Balances by Fiscal Year

BACKGROUND

Staff has prepared the fiscal 2015 administrative budget for the operating expenses necessary to administer housing programs and initiatives and to meet work plan goals and objectives. The administrative budget does not include program expenditures such as loans, grants, and other housing assistance disbursements. Those expenditures are components of the Affordable Housing Plan, which is a one-year program budget approved by the Board in September.

The fiscal year 2015 administrative budget is \$30,539,000. This represents \$2,406,000 or 8.6% more than the fiscal 2014 budget but, if fully expended, will represent an increase of \$4,267,000 or 16.2% compared with the projected actual expenditures for fiscal 2014. However, the administrative budget as a share of housing assistance provided by the Agency (3.59%) will remain consistent with previous years. While the Agency's administrative budget has risen, the amount of housing assistance provided has also increased.

In addition, actual expenditures have been less than the approved budget for the past several years with some large technology-based investments and projects not being fully implemented during the administrative budget year.

The primary drivers of the increase in 2015 are:

1. Payroll increases due to:
 - a. Larger employer contributions for all employees in the General Retirement Plan (about 95% of all agency employees) – increasing from 5.0% of an employee's salary to 5.5%;
 - b. Cost of living increases for approved labor and bargaining unit contracts for both 2014 and 2015, and approved salary range progression increases in 2015;
 - c. Insurance expenses increasing by 3.84% on January 1, 2015;
 - d. Increased anticipated separation/retirement expenses; and,
 - e. New FTEs to implement new and expanded business activities.

2. Information technology investments that are expected to be larger in 2015 than 2014. Investments include a new single family loan origination system, expanded website functionality, implementation of a new business intelligence solution, implementation of new data warehousing solution, as well as an initial phase of a customer relationship management tool.

These drivers are related to maintaining and increasing organizational capacity, which is one of the Agency's strategic priorities in its 2013-2015 Strategic Plan.

The FY 2015 budget includes 237.55 FTEs, an increase of 6.5 over last year. New positions include Project Manager for the Plan to Prevent and End Homelessness, Product Development Manager in Finance, Originator/Business Developer and Processing Technician in Multifamily, and a few backfill/new positions in Multifamily related to the major business process improvement project called the Multifamily Roadmap.

	Budgeted FTEs	Change
FY2015	237.55	+6.5
FY2014	231.05	+3.4
FY2013	227.65	+12.0
FY2012	215.65	+2.6
FY2011	213.07	

Board Agenda Item: 8.A.
Attachment: Background

In addition to new business activities, the Agency has seen a significant increase in funds available for housing investments over the last couple of years, which will likely continue. The increases have resulted from:

1. The approval of Housing Infrastructure and General Obligation Bonds in the 2014 legislative session (which added \$100 million);
2. Increases in single family home mortgage and home improvement loan activity;
3. Increases in multifamily first mortgage activity related to new loan origination efforts and new loan products such as becoming an active Multifamily Accelerated Processing (MAP) lender. The Agency projects it will close 12 first mortgages in 2014 and as many as 25 in 2015, with a potential for more in 2016. Increased mortgage activity will generate revenue to help offset agency operating costs.

The addition of new resources and development and implementation of new programs and activities requires additional administrative resources.

It should also be noted that while every effort is made to achieve a high degree of accuracy in forecasting expenditures through the end of fiscal 2014, actual expenditures may vary from the forecast. The forecast of assistance provided that is shown on the third table for fiscal 2014 is also subject to change, especially given that "assistance provided" uses activity through September 30, 2014, meaning that four months remain in the reporting period.



<u>EXPENSE CATEGORY</u>	<u>2015 Budget</u>	<u>2014 Budget</u>	<u>2015 Budget Change from 2014 Budget</u>	<u>2014 Forecast</u>	<u>2014 Budget/Forecast (Savings) Overage</u>
Salaries	\$ 22,799,000	\$ 20,714,000	10.1 %	\$ 20,832,000	0.6 %
Computer Systems & Services/Supplies/Equipment	2,207,000	2,588,000	(14.7)%	1,689,000	(34.7)%
Professional & Technical Contracts	2,404,000	1,843,000	30.4 %	953,000	(48.3)%
Other General Operating	1,772,000	1,732,000	2.3 %	1,631,000	(5.8)%
Professional & Other Benefits	466,000	443,000	5.2 %	393,000	(11.3)%
Travel	399,000	359,000	11.1 %	309,000	(13.9)%
State Indirect Costs	492,000	454,000	8.4 %	465,000	2.4 %
TOTALS	\$ 30,539,000	\$ 28,133,000	8.6 %	\$ 26,272,000	(6.6)%



MINNESOTA HOUSING FINANCE AGENCY
ADMINISTRATIVE BUDGET HISTORY
AND FORECAST TO FISCAL YEAR END 2013
(000's)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY* 2014	FY 2015
Budgeted	21,850	21,266	23,523	24,472	27,502	25,697	26,063	25,612	26,884	28,133	30,539
Actual**	20,124 ³	21,266 ⁴	22,832 ⁴	24,001 ⁵	25,178 ⁹	24,447 ⁹	23,319 ⁹	23,786 ¹⁰	25,470	262,72	N/A
Variance	1,726	0	691	471	2,324	1,250	2,744	1,826	1,414	1,861	N/A

Average annual actual administrative expense growth during the five year period from 2007-2011 is 1.73%

Expense actual change % year/year
Expense actual change \$\$ year/year

5.12%	4.90%	-2.90%	-4.61%	2.00%	7.08%	3.15%
1,169	1,177	(731)	(1,128)	467	1,684	802

Sustainable core net earnings before unrealized gain/loss*** 33,494⁶ 7,308⁶ 6,923⁷ 13,000⁷ 17,000⁸ 30,000⁸ 32,000

Notes:

- * For FY2014 the "actual" amount is MHFA's forecast estimate.
- ** Actual expense is gross amount not reduced by overhead recoveries

- ³ No 4d. monitoring
- ⁴ Acquired second floor space
- ⁵ Implemented Single Family HDS
- ⁶ Funds restructure
- ⁷ Incurred higher loan losses and lower investment earnings
- ⁸ Incurred less loan losses
- ⁹ Incurred lower than expected Information Systems contractor expense and salary savings due to turnover, retirements & hiring restrictions.
- ¹⁰ Incurred lower than expected Information Systems contractor expense and salary savings due to turnover, retirements.



MINNESOTA HOUSING FINANCE AGENCY

ADMINISTRATIVE EXPENDITURES AS A PERCENTAGE OF ASSISTANCE PROVIDED

<u>Expenditures (Thousands)</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014 Est</u>
Administrative Expenditures (NOTE A)	20,186	20,124	21,266	22,832	24,001	25,178	24,447	23,319	23,786	25,776	26,272
Assistance Provided (NOTE B & C)	533,983	637,314	717,616	744,983	669,756	514,367	717,376	726,979	638,307	781,800	732,500
Admin Exp % of Assistance Provided	3.78%	3.16%	2.96%	3.06%	3.58%	4.89%	3.41%	3.21%	3.73%	3.30%	3.59%

NOTE A. The administrative expenditures are taken from the state accounting system. In each case, the figure is for the state fiscal year ending 6/30/xx.

NOTE B. The assistance amounts are taken from the agency's assessment report and are for the federal fiscal years ending 9/30/xx.

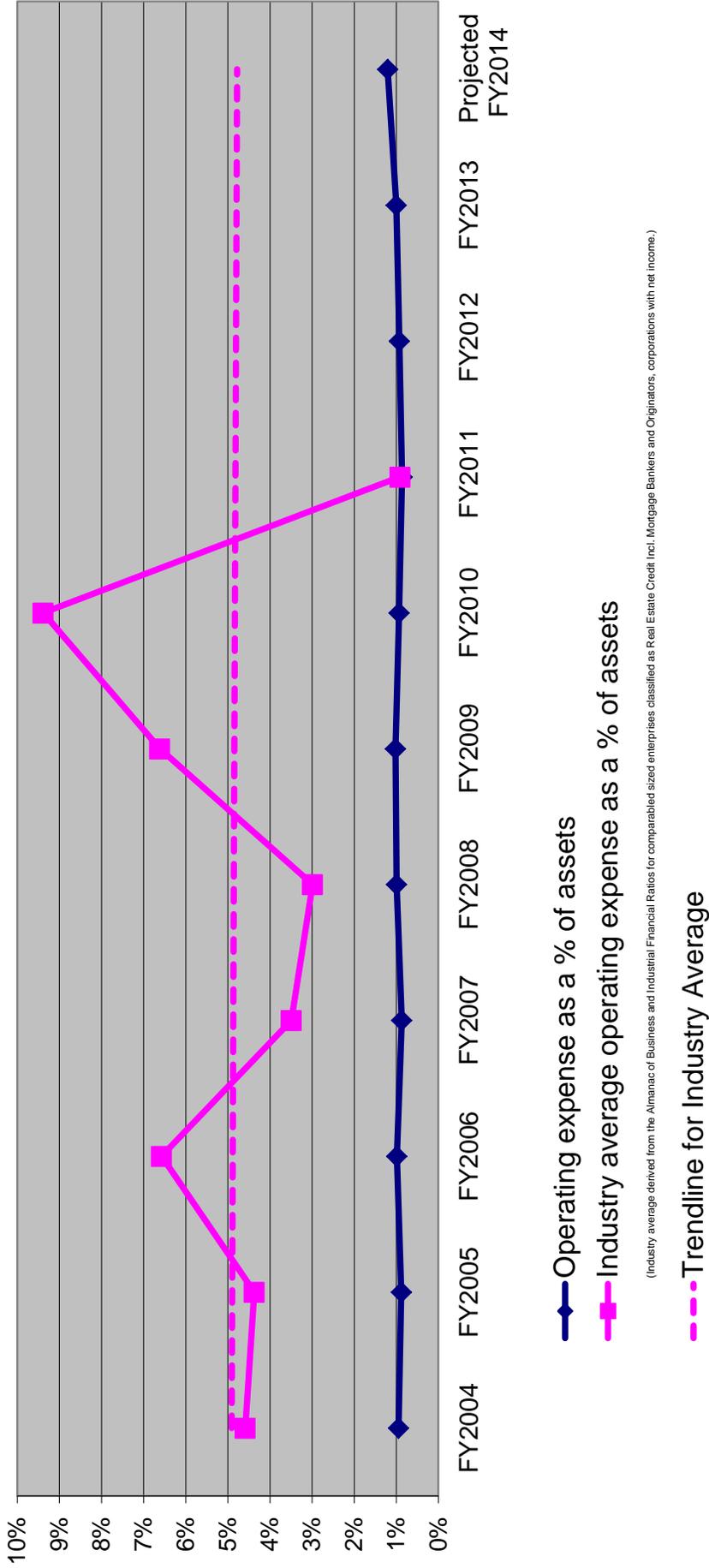
NOTE C. Effective 2009 the agency changed the reporting methodology to reporting actual Low Income Housing Tax Credit syndication proceeds.

Prior to 2009, the Agency reported the annual amount of tax credits available, which underrepresents the actual assistance provided.



Operating Expense as a % of Assets

Industry Average compared to Sustainable Core

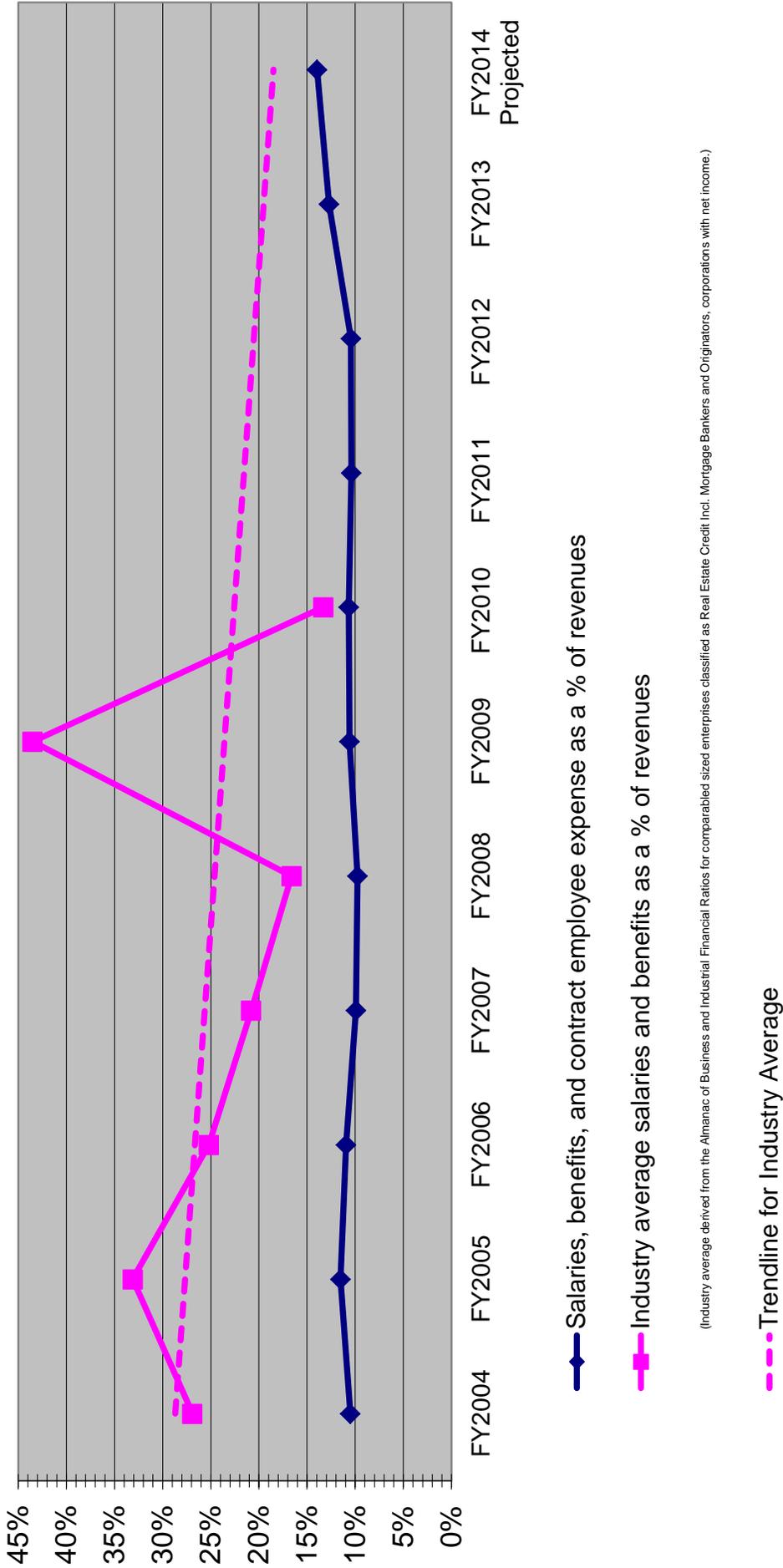


(Industry average derived from the Almanac of Business and Industrial Financial Ratios for comparable sized enterprises classified as Real Estate Credit Incl. Mortgage Bankers and Originators, corporations with net income.)



Salaries and Benefits as a % of Revenues

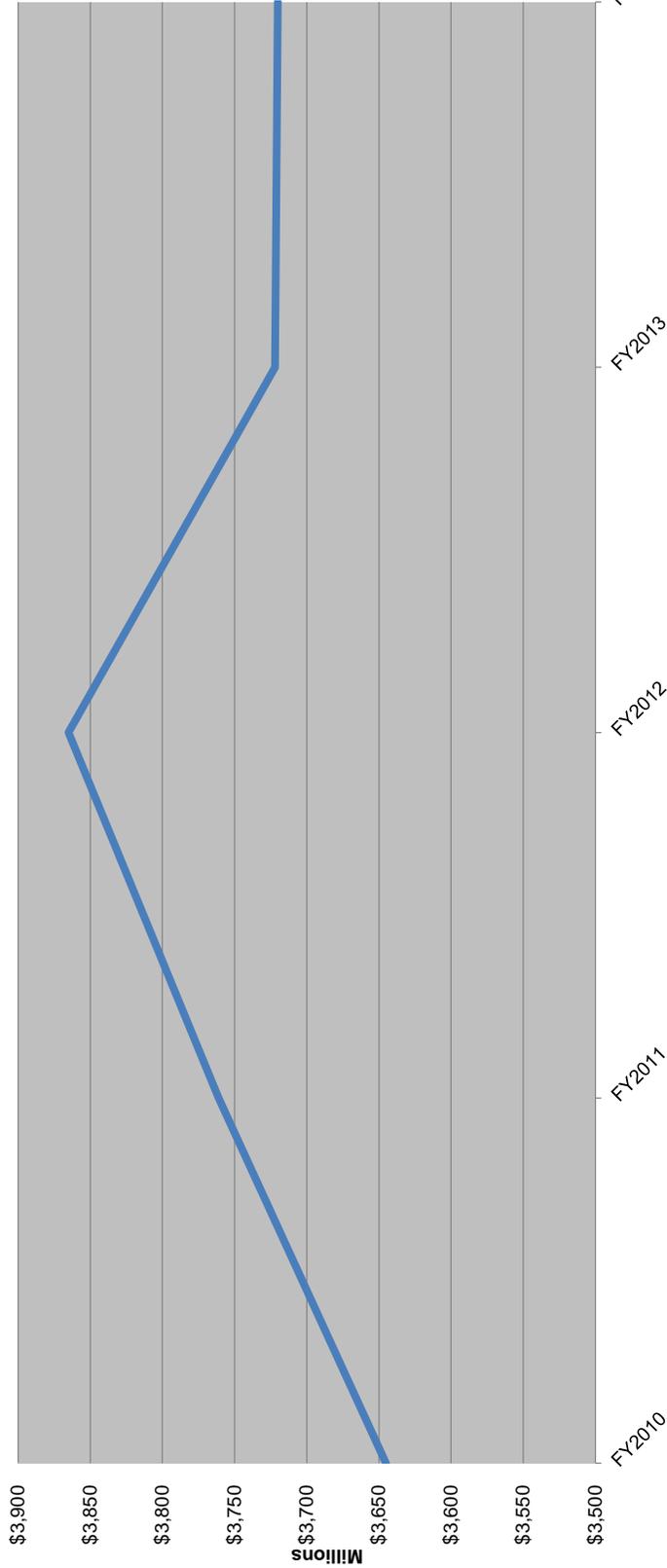
Industry Average compared to Sustainable Core



(Industry average derived from the Almanac of Business and Industrial Financial Ratios for comparabled sized enterprises classified as Real Estate Credit Incl. Mortgage Bankers and Originators, corporations with net income.)



Average Adjusted Asset Balances by Fiscal Year



The Adjusted Asset Balances consist of total assets excluding certain significant positive and negative amounts whose inclusion would distort the relative magnitude of the effort required to administer the assets (proceeds of short-term debt issued to preserve bonding authority, reserves for loan losses, unrealized appreciation or depreciation on investments, deferred loss on swap agreements, discounts and premiums on loans, and deferred finance costs).

Fiscal Year Ending	Adjusted Asset Balance
FY2008	\$3,527,000,000
FY2009	\$3,652,000,000
FY2010	\$3,645,000,000
FY2011	\$3,761,000,000
FY2012	\$3,865,000,000
FY2013	\$3,722,000,000
FY2014 as of 12/31/2013	\$3,720,000,000



AGENDA ITEM: 8.B
MINNESOTA HOUSING BOARD MEETING
June 19, 2014

ITEM: Agency Strategy for Containing Multifamily Development Costs

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

REQUEST:

Approval Discussion Information

TYPE(S):

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

Other: _____

ACTION:

Motion Resolution No Action Required

SUMMARY REQUEST:

At the Board meeting, staff will provide an overview of the Agency's strategy for containing multifamily development costs.

FISCAL IMPACT:

No direct impact; however, the strategy will support that the Agency's effort to produce the largest number of quality affordable housing units possible with the limited resources available.

MEETING AGENCY PRIORITIES:

- Promote and support successful homeownership Preserve federally-subsidized rental housing
- Address specific and critical needs in rental housing markets Prevent and end homelessness
- Prevent foreclosures and support community recovery Strengthening Organizational Capacity

ATTACHMENT(S):

- Agency Strategy for Containing Multifamily Development Costs (PowerPoint presentation)

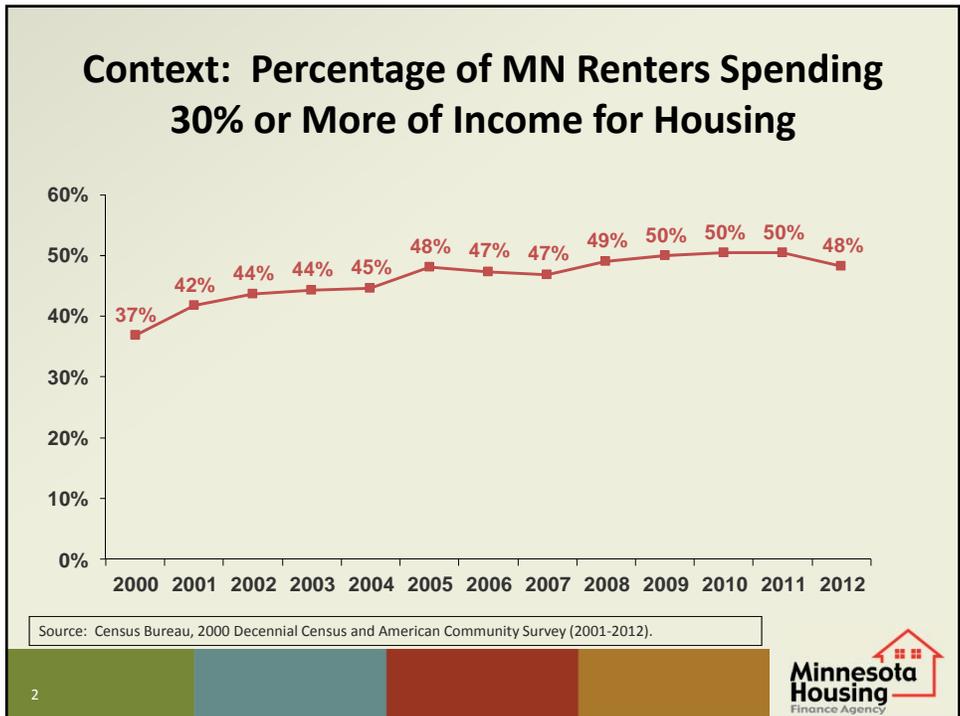
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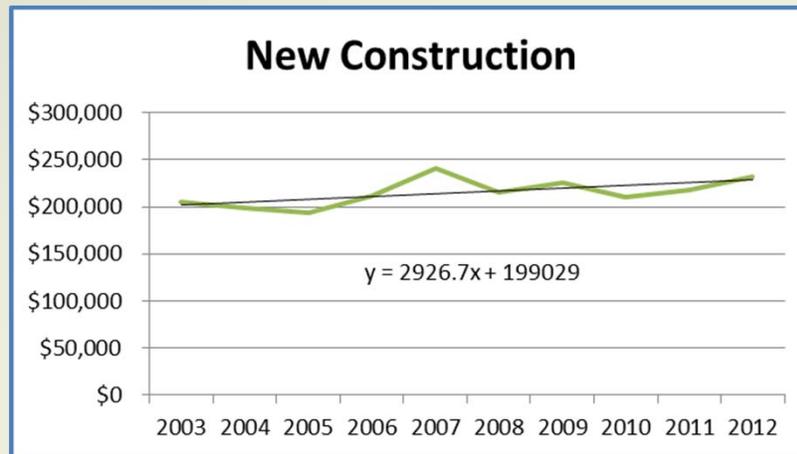
Agency Strategy for Containing Multifamily Development Costs

June 2014

1



Context: Cost Curve for Housing Financed by Minnesota Housing (adj. for inflation)



3

Cost Containment Efforts Three Pronged Approach

1. Predictive Cost Model –
Assess cost reasonableness
2. Tax Credit Scoring Criterion –
Encourage cost reductions for individual projects,
not just cost reasonableness
3. MN Challenge –
Encourage system-level cost reductions

4

Cost Containment Effort #1 Predictive Model – Cost Reasonableness

- Econometric regression model that predicts TDC per unit based on 18 project characteristics
- Uses data from projects that Minnesota Housing financed between 2003 and 2014 (costs adjusted for inflation)
- Also uses cost data from RSMeans as a benchmark
- Model is used to assess cost reasonableness of all tax credit, RFP, and pipeline applications

5



Cost Reasonableness Tests

- Proposed costs should not be more than 25% greater than the predicted costs
- Professional judgment:
 - Underwriters
 - Architects

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Cost Containment Effort #2 Tax Credit Scoring Criterion

- New with 2014/15 QAP
- 4 points available to 50% of applications with lowest TDC per unit
 - Broken out by development type and location:
 - Metro – New Construction
 - Metro – Rehab
 - Greater MN – New Construction
 - Greater MN – Rehab
 - Includes unit size adjustments

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Policy and Priority Context of Cost Containment Scoring – 2014/15 QAP

Criterion	Points	Criterion	Points
Supportive Housing for LTH	110/10	Intermediary (Soft) Costs	6
Preservation of Federally Assisted	40	Stabilization	5
Unacceptable Practices	-25	Workforce Housing Community	5
Rental Assistance	21	Economic Integration	5
Financial Readiness to Proceed	14	Minimizing Transportation Costs	5
Lowest Income / Rent Reduction	13	Cost Containment	4
Strategically Targeted Resources	12	High Speed Internet Access	1
Preservation of Existing LIHTC	10	Smoke Free Building	1
Federal/State/Other Contribution	10	QCT / Community Revitalization	1
Household Targeting	10	Eventual Tenant Ownership	1
Foreclosure	10		

8

Suggested Approach for Tax Credit Applicants

- Achieve other scoring priorities
- Produce quality housing and comply with:
 - Minnesota Housing design standards
 - Green overlay
- Be innovative to contain costs
- “Sharpen your pencils” and eliminate unnecessary costs

9



Cost Containment Survey Overview – After 2014 HTC Applications Submitted

- Purpose – To learn more about:
 - The impact the cost containment criterion had on proposed costs and projects
 - Why developers made their cost containment decisions
 - Areas for improvement
- Survey Details:
 - 26 different developers submitted at least one regular LIHTC application
 - 26 surveys sent out
 - 12 responses

10



Cost Containment Survey Lead Question

Did you pursue additional cost containment activities because of the new scoring criterion?

- Yes – 4 developers
 - 2% to 14% estimated savings
- No – 8 developers

11



Cost Containment Survey Questions for “No” Developers

Why didn't you propose additional cost savings?

- Already pursued all viable options
- Additional reductions in upfront costs will increase life-cycle costs (ongoing maintenance and utilities)
- With 15-year tax credit guarantee need to keep property competitive for long period
- Need to keep additional cost savings options in the proposal in case costs increase and need to be reduced later

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Cost Containment Effort #3 MN Challenge

- Need more than project-specific savings
- Need system-level savings
- Leverage work by Enterprise and ULI – report on national best practices

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MN Challenge Idea Competition Overview

- Generate implementable ideas to lower the cost of affordable housing
- Two-phase idea competition
 - Phase I: 3 page concept papers
 - Phase II: Fully developed proposals with an implementation plan (3 finalists)
- \$100,000 in assistance
 - \$10,000 for each finalist (to create full proposal)
 - \$70,000 for winner (to implement idea)

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MN Challenge Evaluating Proposals

- High quality and achievable idea
- Amount of cost savings – applicable to a wide range of projects types and locations
- Supported and vetted by multi-disciplinary team
- Not compromise housing quality, durability, etc.
- Implementable in near future

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Cost Categories (2003-13; Adj. for Inflation)

Project Type	Sample Size	Avg. TDC Per Unit	Average Share of TDC		
			Acq	Constr	Soft
ALL	412	\$161,791	15.35%	65.03%	19.61%
ALL ACQ PROJECTS	284	\$186,825	20.95%	58.29%	20.77%
ACQ NEW CON LIHTC METRO	70	\$237,308	8.24%	67.45%	24.31%
ACQ NEW CON NON LIHTC METRO	18	\$202,842	10.16%	72.06%	17.78%
ACQ NEW CON LIHTC GR. MN	45	\$186,321	4.99%	71.84%	23.17%
ACQ NEW CON NON LIHTC GR. MN	25	\$183,501	6.58%	76.59%	16.83%
ACQ REHAB LIHTC METRO	37	\$197,399	35.11%	41.15%	23.74%
ACQ REHAB NON LIHTC METRO	39	\$123,891	41.43%	43.32%	15.26%
ACQ REHAB LIHTC GR. MN	29	\$149,746	35.48%	43.15%	21.37%
ACQ REHAB NON LIHTC GR. MN	21	\$117,403	42.37%	42.73%	14.89%

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Minnesota Housing's Multifamily Roadmap Project

- Enterprise/ULI Findings – Funder processes and timelines can be system-level cost drivers
- Minnesota Housing – reengineer its processes and timelines
 - More efficient system:
 - For the Agency
 - For our partners
 - Lower TDC per unit
- MN Challenge – Opportunity for partner input

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MN Challenge Potential Impact

- Minnesota Housing's November 2013 multifamily project selections:
 - Aggregate TDC = \$262 million
- Hypothetical cost reduction concept:
 - Reduces soft costs by 10%
 - Reduces TDC by 2%
- November 2013 savings = \$5.2 million
- Translates to:
 - 20 to 40 additional units each year
 - Additional development each year

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MN Challenge Competition Results

- Phase I - 12 concept papers received
- Phase II - 3 finalists developed full proposals:
 - PPL – right sizing reserves
 - PPL/MSR – building archetypes
 - CURA/HPP – local regulations and practices
 - Winner
 - Two pronged implementation
 - Metro-wide – Met Council processes
 - Targeted communities – tailored recommendations and technical assistance

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MN Challenge CURA/HPP Plan – Potential Impact

- Eliminating unnecessary or inefficient regulations and practices – reduce TDC by 5% - 25%
- Depends on:
 - Local context
 - What is considered unnecessary or inefficient
- CURA/HPP plan focuses on metro area and not necessarily implemented in all communities
- 1% to 2% system-wide reduction in TDC is possible

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MN Challenge

Next Steps – Conversation Not Over

- Monitor implementation of winning idea
- Find ways to incorporate ideas from 12 concept papers into the Roadmap Project
- Find ways to implement other ideas – e.g. reserves
- Continue overall conversation about system-level inefficiencies and savings – not a “one-and-done” event

21



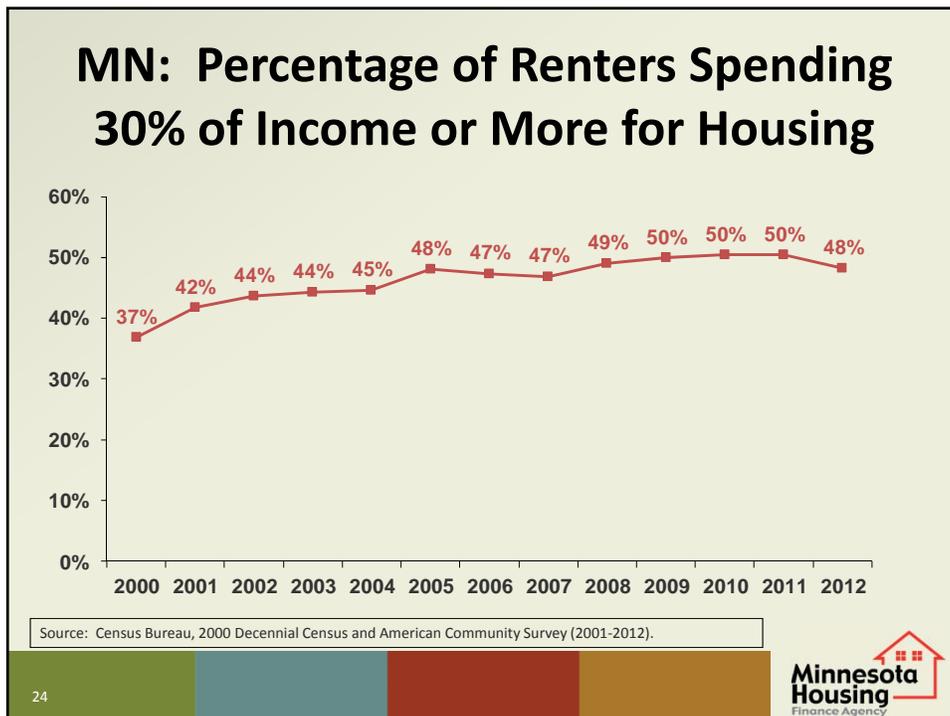
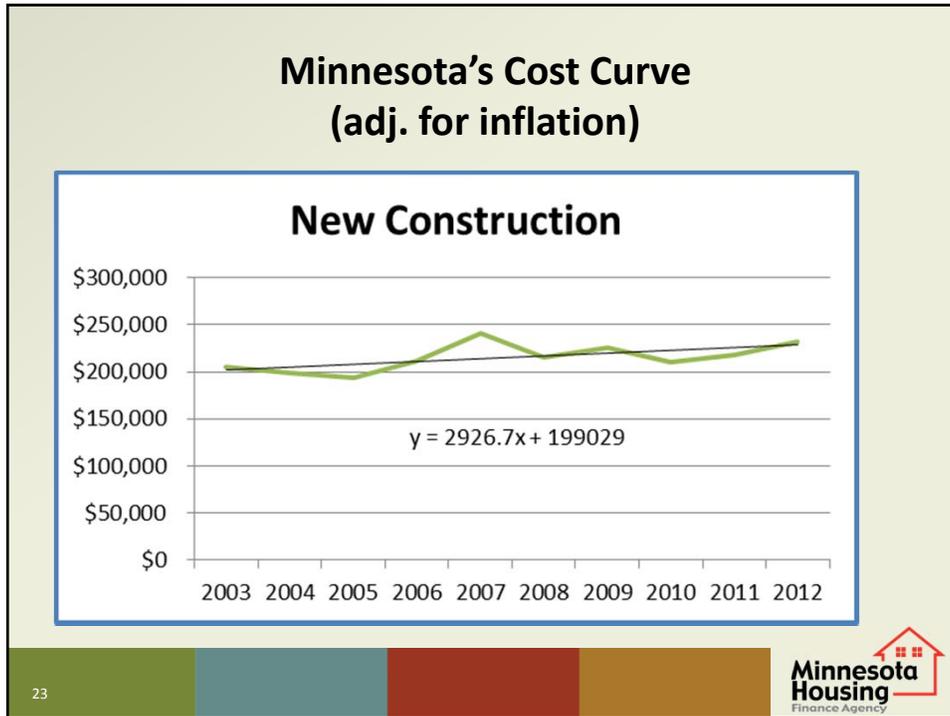
Cost Containment Overall

Next Steps – Conversation Not Over

- Continue to push for cost-containment
 - Systems-level cost drivers
 - Individual projects (e.g. tax credit scoring)
- Be reasonable and pursue balance with other objectives
- Listen to developers and other partners
- Monitor for:
 - Unintended consequences
 - Results – Lower costs

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**AGENDA ITEM: 8.C.
MINNESOTA HOUSING BOARD MEETING
June 19, 2014**

ITEM: Federal Securities Law Review and Updates; Board Responsibilities

CONTACT: Paula Rindels, 651-296-9813 Rob Tietz, 651-297-4009
paula.rindels@state.mn.us rob.tietz@state.mn.us

REQUEST:

Approval Discussion Information

TYPE(S):

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

Other: _____

ACTION:

Motion Resolution No Action Required

SUMMARY REQUEST:

None.

FISCAL IMPACT:

None.

MEETING AGENCY PRIORITIES:

- Promote and support successful homeownership Preserve federally-subsidized rental housing
- Address specific and critical needs in rental housing markets Prevent and end homelessness
- Prevent foreclosures and support community recovery Strengthening Organizational Capacity

ATTACHMENT(S):

- Memorandum describing federal securities law requirements and recent developments.

MUNICIPAL SECURITIES – FEDERAL SECURITIES LAW REQUIREMENTS AND DEVELOPMENTS

Introduction

Minnesota Housing has issued its bonds in the public markets since 1975. As of December 31, 2013, there were approximately \$1.89 *billion* in aggregate principal amount of Minnesota Housing's single family mortgage bonds outstanding under three bond resolutions or indentures and approximately \$77.6 million in aggregate principal amount of Minnesota Housing's rental housing bonds outstanding under two bond resolutions. The issuance of bonds in public offerings subjects Minnesota Housing to certain provisions of the federal securities laws, which require Minnesota Housing to make complete and accurate disclosure of information material to potential purchasers or holders of its bonds, as further described in this Memorandum.

As a result of the financial regulatory reform bill that was enacted by Congress in 2010 (commonly referred to as the "Dodd-Frank Act"), there have been and will likely continue to be significant developments as to how the federal securities laws and related federal laws will be applied to Minnesota Housing and its bonds.

The Federal Securities Laws and Related Authority

There are two primary federal laws that apply to Minnesota Housing and its bond issues. The laws generally require disclosure of material information about bonds to allow investors to make informed decisions and prohibit misrepresentation or other fraudulent conduct in connection with the purchase and sale of bonds.

Securities Act of 1933 and the Securities Exchange Act of 1934

The Securities Act of 1933 (the "1933 Act") requires registration with the Securities and Exchange Commission (the "SEC") of certain securities and provides for civil liabilities for failure to register such securities and for materially misleading disclosure in connection with the offer and sale of securities.

The Securities Exchange Act of 1934 (the "1934 Act") governs the regulation of the securities markets and requires registration with the SEC of brokers, dealers and municipal securities dealers and establishes requirements for periodic, ongoing disclosure in the secondary market for certain securities. The 1934 Act also provided for the creation of the Municipal Securities Rulemaking Board (the "MSRB"), which regulates the market for municipal securities. The 1934 Act also contains the antifraud provisions that gave the SEC authority to promulgate Rules 10(b)-5 and 15c2-12, discussed below.

Minnesota Housing, like other issuers of municipal securities (which commonly refers to bonds, notes or other securities issued not only by local governments but states, their agencies, and instrumentalities as well), is subject only to the antifraud provisions of Section 17 of the 1933 Act and Section 10(b) of the 1934 Act and Rule 10b-5 promulgated thereunder. Municipal securities generally are exempt from the registration and reporting provisions of the 1933 Act, and the SEC cannot specify

line-item disclosure requirements or review disclosure documents in connection with the offerings of municipal securities. As a result, the municipal securities market bears little resemblance to the corporate securities market, where the content of registration statements is specifically prescribed by detailed regulation under the 1933 Act. For municipal securities, generally the market itself regulates disclosure, subject to the antifraud provisions of the federal securities laws.

Rule 10b-5

Rule 10b-5(b) states in part that it is *unlawful* in connection with an offering of securities “[t]o make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.”

Under United States Supreme Court decisions and relevant SEC authorities, a primary test of whether a fact is *material* is whether there is a substantial likelihood that a reasonable investor would consider it important to a decision to buy, hold or sell a security. A misstatement or omission of fact may be material if its affects the security’s value by, for example, affecting its rating or market yield or risk of prepayment, even if the fact presents no material risk of default on the security.

Rule 15c2-12

Pursuant to this rule, the SEC has imposed duties on underwriters to obtain a preliminary official statement, which is final except for pricing information, before entering into a purchase contract for municipal securities, and to assure that issuers have entered into a continuing disclosure undertaking to provide annual updates and event notices while the securities are outstanding. This has permitted the SEC to indirectly regulate municipal securities. Rule 15c2-12 also generally requires that any final official statement prepared in connection with a primary offering of municipal securities contain a description of any instances in the previous five years in which the issuer failed to comply, in all material respects, with any previous commitment to provide such continuing disclosure.

SEC Interpretative Releases and Reports

In 1994 the SEC issued a release providing interpretative guidance on the antifraud provisions of the securities laws as they relate to municipal securities. The SEC issued its Report on the Municipal Securities Market (July 31, 2012), in which it made recommendations for improvements in the disclosure practices of municipal securities issuers, including recommendations regarding the timeliness of financial statements and financial information, comparability/standardization of financial information, pension disclosure, disclosure with respect to exposure to derivatives, overuse of disclaimers of responsibility for statements included in disclosure documents and disclosures of conflicts of interest. In addition, the SEC Report proposed legislative changes to set minimum disclosure and financial statements requirements for municipal issuers and provide tools to enforce those requirements. Also, on the regulatory front the SEC Report proposed to issue a new, updated interpretive release on disclosure obligations of municipal issuers, to further amend Rule 15c2-12 to improve disclosures and to work with the MSRB to enhance EMMA (the Electronic Municipal Market Access system).

Enforcement of the Federal Securities Laws

The SEC can enforce the federal securities laws against various municipal market participants (the issuer, members of its governing body, its employees and agents, and third parties such as underwriters, financial advisors and bond counsel) in several ways:

(1) the SEC can initiate an administrative proceeding, in which it can seek a cease-and-desist order on a finding of negligence or recklessness, disgorgement of improperly obtained funds and, as amended by the Dodd-Frank Act, the imposition of civil penalties;

(2) the SEC can bring a civil action in federal court, in which it can seek injunctive relief, disgorgement, and civil penalties upon a finding of fraudulent intent, recklessness or, if under the 1933 Act, negligence; or

(3) the SEC can refer a case involving willful intent to mislead or deceive to the Department of Justice for criminal proceedings.

It is noteworthy that the Dodd-Frank Act created within the SEC an Office of Municipal Securities whose Director is to report directly to the Chairman of the SEC.

The SEC also announced in 2010 that it has created five new enforcement units with additional staff and resources to promote more comprehensive enforcement of the securities laws. One of the units is to investigate municipal securities and public pension abuses, focusing on five areas of misconduct: offering and disclosure fraud, tax or arbitrage-driven misconduct, pay-to-play and public corruption violations, public pension accounting and disclosure violations, and valuation and pricing fraud. The number of SEC enforcement actions relating to municipal securities has increased in the past few years.

Private parties, including bondholders, can also seek damages under Rule 10b-5 for misleading disclosure if they prove deliberate intent or recklessness, reliance on the misleading disclosure and damages.

Means of Disclosure

A. Primary Market Disclosure

When Agency bonds are to be issued, they are offered for sale by means of two documents:

- (a) a Preliminary Official Statement, which is distributed by the underwriters to potential investors so that the bonds may be priced; and

- (b) a final Official Statement, which contains pricing information and the final terms of the bonds.

Both the Preliminary Official Statement and the final Official Statement usually contain: (1) a description of Minnesota Housing, its finances and its programs; (2) a description of the legal documentation for and terms of and security for the bond issue; (3) specific information about Minnesota Housing program for which bonds are being issued; (4) information about Minnesota Housing's continuing disclosure undertaking and continuing disclosure practices; and (5) Minnesota Housing's most recent audited and interim unaudited financial statements.

As discussed above, the SEC cannot regulate the content of the offering documents that Minnesota Housing uses to sell its bonds, but the documents must be accurate and complete so that the antifraud provisions of the securities laws are not violated.

Board members of Minnesota Housing are updated on the information in Minnesota Housing's offering documents in a number of ways:

1. The general structure of the Official Statement may be reviewed in the periodic disclosure review required by Minnesota Housing's Investor Continuing Disclosure Policy if there have been material changes in the Official Statement. The periodic review also includes a discussion of recent developments in disclosure requirements.
2. The audited financial statements of Minnesota Housing are reviewed annually with the auditors and staff upon completion of the annual audit, usually in August.
3. The Board receives regular updates from staff regarding Minnesota Housing's operating results and performance of loan portfolios.
4. The Board receives semiannual reports on the performance of Minnesota Housing's interest rate swaps, as required by its Debt Management Policy.
5. The Preliminary Official Statement is included in the Board packet for review and approval in connection with each bond issue, or the first in a series of bond issues when bonds are approved to be issued in one or more series. If there are major changes in the Preliminary Official Statement, staff highlights them at the Board meeting at which approval is sought.

These procedures have been designed to help ensure the accuracy and completeness of Minnesota Housing's Official Statements and permit Board members to comply with their duties under the federal securities laws. (See "SEC Enforcement Action against Orange County and Duties of Board Members" below.)

B. Secondary Market Disclosure

Mandatory Reporting

Each bond or series resolution adopted by the Board authorizing the issuance of bonds subject to Rule 15c2-12 obligates Minnesota Housing to enter into a continuing disclosure undertaking, which is described in the related Official Statement. Under a continuing disclosure undertaking, Minnesota Housing agrees to provide on an annual basis its audited financial statements and certain other financial and operating information contained in the related Official Statement and to give notice of the occurrence of any of fifteen specified events. As required by Rule 15c2-12, the annual information and notices of material events must be forwarded to EMMA (the Electronic Municipal Market Access system) of the MSRB. In addition to secondary disclosure filings, EMMA contains Official Statements and refunding documents, real-time pricing information and some educational resources. It can be found at www.emma.msrb.org. Access is free.

Voluntary Reporting

In addition to its obligations under continuing disclosure undertakings, Minnesota Housing has made in its Investor Continuing Disclosure Policy a voluntary commitment to provide information about bonds outstanding under each of its bond resolutions, either on a quarterly or a semiannual basis. The disclosure reports are filed with EMMA and are also posted on Minnesota Housing's website in the "Investors" section (together with Official Statements, audited financial statements, bond redemption notices, and other event notices).

"Informal" Disclosure

Releases or statements by an issuer or its officials that contain financial or other information material to the issuer's securities and are reasonably expected to reach investors and the securities markets are also subject to the antifraud provisions of the securities laws. Examples are investor information on the issuer's website, press releases, public statements by board members or issuer officials, and responses to inquiries from the public.

C. Fair and Equal Access to Disclosure Information.

The SEC has also promulgated a regulation (Regulation FD) mandating fair disclosure practices to promote equal access to information so that some market participants do not have an advantage over others. While Regulation FD does not apply to municipal issuers, its principles of fair and equal access to information has been adopted by some municipal issuers, including Minnesota Housing. Restrictions on the selective disclosure of information are contained in Minnesota Housing's Investor Continuing Disclosure Policy.

SEC Enforcement Actions Generally

While the antifraud provisions of the 1934 Act and Rule 10b-5 may be enforced by private parties, private lawsuits relating to municipal securities have been comparatively rare. The principal enforcement tool has been enforcement actions brought by the SEC, which Congress first authorized in 1990. While this Memorandum will discuss four significant enforcement actions, there have been many more affecting issuers around the country, including, for example, actions against Maricopa County, Arizona in 1996 (material omissions in offering documents that affected issuer's financial condition but not ability to repay bonds), the City of Miami in 2001 (misleading statements in offering documents and financial statements in light of the City's deteriorating cash position) and the Massachusetts Turnpike Authority in 2003 (delay in disclosing over several bond issues substantial project cost overruns). In 2013 alone shortcomings in disclosure practices resulted in SEC charges of securities fraud against eight issuers including the State of Illinois (inadequate pension disclosures); Harrisburg, Pennsylvania (misleading statements made outside of its securities disclosure documents); Victorville, California (inflated property valuations of security for bonds); South Miami, Florida (failure to disclose threats to tax-exempt eligibility); City of Miami, Florida (false and misleading statements); West Clark Community Schools, Indiana (false statements and noncompliance with continuing disclosure obligations); The Greater Wenatchee Regional Events Center Public Facilities District, Washington (inaccuracies in the primary disclosure document resulting in \$20,000 fine; first time SEC assessed financial penalties against an issuer); and Public Health Trust of Miami-Dade County, Florida (misstated revenues). (Also see "SEC Enforcement Action against City of Harrisburg, Pennsylvania" and "Municipalities Continuing Disclosure Cooperation Initiative" below for a more detailed description of the Harrisburg and West Clark enforcement actions, respectively.)

SEC Enforcement Action against Orange County and Duties of Board Members

The SEC enforcement action most directly relevant to members of a governing body of a government issuer is the SEC enforcement action against Orange County, California and the Orange County Board. The facts there, like the facts in most SEC enforcement actions, were egregious. Orange County operated a combined investment pool for itself and political subdivisions within the county. The county treasurer, who was responsible for investment of the pool, invested in risky derivative investments, in effect taking large interest rate bets and producing a return substantially greater than other short-term investments. Between 1991 and 1995, the percentage of the county discretionary budget paid from property taxes declined from 52% to 25%, while the portion paid from investment income increased from 7% to 15%. In effect, the county used its investments in the pool to avoid tax increases. The risky nature of the investments was an issue in the election for county treasurer. But there was no meaningful disclosure about the investment pool in the county's official statements for bond issues during this period, even though investment income from the pool was material to the repayment of the county's bonds. *The county board members did not review the offering documents and did not receive regular financial reports.* When short-term interest rates rose in 1994, the value of investments in the pool plummeted. The county filed for bankruptcy in December 1994, and by the time the SEC brought its enforcement actions, the county had defaulted on approximately \$910 million of municipal securities.

The SEC brought enforcement actions against the county and the county board, but did not bring an enforcement action against the members of the county board in their individual capacities. In a 1996 Report relating to Orange County (certain excerpts of which are attached as Exhibit A), however, the SEC for the first time officially took the position that *individual* board members of a municipal issuer have a personal disclosure duty under the federal securities laws. In its Orange County report, the SEC stated that when authorizing the issuance of securities, board members with *personal knowledge* of information that is material must take reasonable steps to ensure that the information is disclosed. Reasonable steps include telling the staff and retained professionals. This rule applies to information the board member *actually knew or should have known* if the board member carried out his or her duties properly.

The federal securities laws currently do not require that a board member scrutinize the minutiae of an official statement. However, they do require that a board member act prudently, and if a board member has concerns he or she should contact staff or retained professionals to make sure all material information is disclosed. In the Orange County report, the SEC pointed out that the board members either had information about significant problems or should have received reports with that information, *but never contacted their staff or retained professionals* about whether the information should have been disclosed. Informing staff or retained professionals of possible disclosure matters should satisfy a board member's duty of disclosure under current law.

A widely recognized disclosure guide (Disclosure Roles of Counsel in State and Local Government Securities Offerings at 80-81 (ABA 3d ed. 2009)) suggests that board members of a governmental issuer may wish to consider the following questions relevant to their reasonable reliance on others in preparing disclosure documents:

1. Has the issuer adopted disclosure processes for preparing official statements, and, if so, am I satisfied that such processes have been reasonably designed to produce accurate and reliable information?
2. Do I have a reasonable basis to have confidence in the integrity and competence of the financing team (e.g., financial staff, in-house counsel and outside counsel) that has prepared the official statement?
3. Do I know anything that would cause me to question the accuracy of the disclosures or that would indicate that they are misleading?
4. Do I know of any potentially material issues that should be brought to the attention of the financing team or for which I would like a further explanation?

SEC Enforcement Action against the City of San Diego, its Auditor and Officers

A more recent significant SEC enforcement action involved the City of San Diego. On November 14, 2006, the SEC issued an administrative order finding that the City had committed securities fraud in the offer and sale of five municipal bond issues aggregating \$260 million in 2002 and 2003. In the settlement, the City was ordered to cease and desist from future securities fraud and to enter into remedial undertakings to improve its disclosure practices, including the hiring of an independent consultant. The City failed to disclose (in its offering documents, presentations to rating agencies and continuing disclosure documents) the City's substantial and rapidly growing unfunded liabilities for pensions and retiree health care. These liabilities could be expected to result in a financial crisis for the City, unless new revenues were obtained, pension and health care benefits reduced or services were cut. The City also made false and misleading statements regarding the current funding of its pension obligations. On December 26, 2007, the SEC also settled a federal court action against the City's then independent auditor for primary violations of the securities laws. Reportedly, the City spent approximately \$26 million to investigate and defend these allegations and establish disclosure procedures and was not able to issue bonds in the public market until late 2008 because of problems obtaining audited financial statements.

The facts outlined in the SEC's order are egregious, akin to that involving Orange County in 1994, and the action is cited by the SEC as evidence for the need for reform. The lessons for municipal issuers, as stated by the SEC, are: (1) adopt policies and procedures for disclosure (although many question the wisdom of the City accepting the exacting disclosure procedures resulting from the order); (2) provide training to issuer officials and employees responsible for disclosure; (3) disclose the bad with the good; and (4) hire auditors with adequate skills and resources. These lessons are not new to Minnesota Housing.

In April 2008, the SEC took the further unusual step of filing a civil complaint against five former San Diego officials alleging violations of the federal securities laws. The defendants are the former City Manager, former City Auditor and Comptroller, former Deputy City Manager, former Assistant City Auditor and Comptroller and former City Treasurer. The complaint alleged that the defendants acted recklessly in failing to disclose material facts and making certain false statements to investors and rating agencies. The SEC sought, in addition to injunctive relief, a civil penalty from each of the defendants. In October 2010, four of the five defendants settled the action and agreed to pay civil penalties aggregating \$80,000 and further agreed not to seek any form of reimbursement from the City or insurance. This is the first time that the SEC secured civil penalties against individual government officials, but presumably not the last.

SEC Enforcement Action against the State of New Jersey

In August 2010, the SEC announced that it had charged the State of New Jersey with securities fraud for misrepresenting and failing to disclose to investors in billions of dollars' worth of municipal bond offerings over a six-year period that it was underfunding the state's two largest public pension plans. New Jersey consented to the order finding negligent conduct and providing injunctive relief without admitting or denying the charges. This action is noteworthy because it is the first enforcement action against a state. The order is also noteworthy because it attributes antifraud violations in offering documents and continuing disclosure reports to lack of disclosure training and inadequate disclosure procedures, although the lack of such training and procedures is not itself a violation of the antifraud provisions (although it would be a violation for a registered corporate issuer).

SEC Enforcement Action against City of Harrisburg, Pennsylvania

In the settled administrative proceeding, published in May 2013, the SEC charged the City of Harrisburg, Pennsylvania, with securities fraud for its misleading public statements in

the City's budget report, annual and mid-year financial statements, and a State of the City address, all while the City's financial condition was deteriorating and financial information available to municipal bond investors was either incomplete or outdated. This was the first time the SEC charged a municipality for misleading statements made outside of its securities disclosure documents. The SEC found that, as a result of the City's failure to comply with requirements to provide ongoing financial information and audited financial statements from 2009 to 2011, investors had to seek out the City's other public statements in order to obtain current information about the City's finances. However, very little information about the City's fiscal situation was publicly available elsewhere. Information that was accessible on the City's website such as its 2009 budget, 2009 State of the City address (given by the Mayor), and 2009 mid-year fiscal report either misstated or failed to disclose critical information about the City's financial condition and credit ratings.

The SEC separately issued a 21(a) Report entitled Report of Investigation in the Matter of the City of Harrisburg, Pennsylvania Concerning the Potential Liability of Public Officials with Regard to Disclosure Obligations in the Secondary Market. The Report makes three key points:

1. Public officials should be mindful that their public statements, whether written or oral, may affect the total mix of information available to investors, and should understand that these public statements, if they are materially misleading or omit material information, can lead to potential liability under the antifraud provisions of the federal securities laws.
2. Because such public statements are evaluated for antifraud purposes in light of the circumstances in which they are made, the lack of other disclosures by the municipal entity may increase the risk that municipal officials' public statements may be misleading or may omit material information.

3. Given this potential for liability, public officials who make public statements concerning the municipal issuer should consider taking steps to reduce the risk of misleading investors. At a minimum, they should consider adopting policies and procedures that are reasonably designed to result in accurate, timely, and complete public disclosures; identifying those persons involved in the disclosure process; evaluating other public disclosures that the municipal securities issuer has made, including financial information and other statements, prior to public dissemination; and assuring that responsible individuals receive adequate training about their obligations under the federal securities laws.

Municipalities Continuing Disclosure Cooperation Initiative

On March 10, 2014, the Enforcement Division of the SEC (the “Division”) announced the Municipalities Continuing Disclosure Cooperation Initiative (“MCDC”) – an offer for municipal issuers and their underwriters to turn themselves in now for certain potential violations of the securities laws in exchange for lighter punishments, in contrast to harsh penalties threatened for those caught after a September 9, 2014 deadline. The MCDC is intended to address potentially widespread violations of the federal securities laws by municipal issuers and underwriters of municipal securities in connection with certain materially inaccurate statements relating to prior compliance with the continuing disclosure obligations specified in Rule 15c2-12 in bond offering documents. Issuers who may have made materially inaccurate statements in a final official statement regarding their prior compliance with their continuing obligations as described in Rule 15c2-12 must self-report to the Division to take advantage of the MCDC.

The MCDC does not identify a time period for offerings covered by the MCDC. However, a five year statute of limitations applies to SEC enforcement actions seeking financial penalties, running from the time the alleged violation occurs. Official Statements must disclose non-compliance by the issuer with its continuing disclosure obligations within the past five years. As a result, depending upon the circumstances, a review of continuing disclosure compliance by an issuer would need to extend as far back as ten years from the date of self-reporting.

West Clark Schools/City Securities

Two settled SEC administrative proceedings, West Clark Community Schools and City Securities, help explain the reason for the MCDC. In these proceedings, the SEC for the first time charged an issuer and its underwriter for violation of the antifraud provisions arising from misstatements about compliance with continuing disclosure undertakings. West Clark Community Schools, a school district in Indiana, entered into a continuing disclosure agreement when it issued municipal bonds in 2005 but in the two years following issuance, never filed the annual disclosure reports required. In the Official Statement for the bonds offered for sale in 2007, the School District stated “[i]n the previous five years, the School [District] has never failed to comply, in all material respects, with any previous undertakings” and delivered a certificate at closing making a similar statement. The School District settled with the SEC, accepting findings that its statements in the Official Statement and at closing were materially false and

knowingly or recklessly made without admitting or denying the findings. In addition, the School District agreed to extensive undertakings relating to implementation of disclosure procedures and controls and training of relevant personnel. The SEC also settled with the School District's underwriter, City Securities Corporation, finding that the underwriter conducted inadequate due diligence and, as a result, failed to form a reasonable basis for accepting the truthfulness of the School District's assertion that it had complied with its prior continuing disclosure undertakings. The SEC found that City Securities willfully violated Section 17(a)(2) of the 1933 Act, Sections 10(b) and 15B(c)(1) of the 1934 Act and Rule 10b-5(b) thereunder, and willfully violated MSRB Rule G-17. City Securities agreed to pay nearly \$580,000 to settle the SEC's charges, and a permanent supervisory bar and one-year collateral bar were imposed for the head of its public finance department.

Settlement Terms for Issuers

For eligible issuers, the Division will recommend that the SEC accept a settlement pursuant to which the issuer consents to the institution of a cease and desist proceeding under Section 8A of the 1933 Act for violation(s) of Section 17(a)(2) of the 1933 Act. The Division will recommend a settlement in which the issuer neither admits nor denies the findings of the SEC and in which there is no payment of any civil penalty by the issuer. For eligible issuers, the settlement to be recommended by the Division must include undertakings by the issuers. Specifically, as part of the settlement, the issuer must undertake to:

1. Establish appropriate policies and procedures and training regarding continuing disclosure obligations within 180 days of the institution of the proceedings;
2. Comply with existing continuing disclosure undertakings, including updating past delinquent filings within 180 days of the institution of the proceedings;
3. Cooperate with any subsequent investigation by the Division regarding the false statement(s), including the roles of individuals and/or other parties involved;
4. Disclose in a clear and conspicuous fashion the settlement terms in any final official statement for an offering by the issuer within five years of the date of institution of the proceedings; and
5. Provide the SEC staff with a compliance certification regarding the applicable undertakings by the issuer on the one year anniversary of the date of institution of the proceedings.

The Division provides no assurance that individuals associated with issuers, such as municipal officials, will be offered similar terms if they have engaged in violations of the federal securities laws. For issuers that would be eligible for the terms of the MCDC but that do not self-report pursuant to the terms of the MCDC, the Division offers no assurances that it will recommend the above terms in any subsequent enforcement recommendation. The offer extends only to potential violations of the

antifraud rules made in an Official Statement regarding the issuer's past compliance with continuing disclosure agreements and not to other violations of the antifraud provisions.

Dodd-Frank Act Reforms

- A. Change in Composition and Duties of MSRB. The composition of the board has been expanded and a majority must be independent members unaffiliated with a broker-dealer or municipal advisor. The MSRB is now also authorized to protect municipal entities as well as investors and is given broader enforcement support authority (although the SEC continues to enforce MSRB rules).
- B. Regulation of Municipal Advisors. The MSRB with the SEC are to regulate municipal advisors, including financial advisors, swap advisors, guaranteed investment contract brokers, solicitors and other market intermediaries. In September 2013, the SEC issued final rules regarding municipal advisors, including definitions of what constitutes municipal advisory activity requiring registration with the SEC. The final rules become effective July 1, 2014. A fiduciary duty standard is imposed on municipal advisors.
- C. Credit Rating Agencies. An Office of Credit Ratings is established within the SEC with its own compliance staff and the authority to fine rating agencies. In addition, among other things, Dodd-Frank requires disclosure of rating agency methodologies, creates a private right of action against rating agencies for knowingly or recklessly failing to conduct a reasonable investigation; authorizes the SEC to deregister a rating agency for providing bad ratings over time; requires rating analysts to pass qualifying exams and requires continuing education; and subjects rating agencies to liability as experts under the antifraud provisions of the 1933 Act in respect of registered securities (municipal securities are generally exempt from registration).
- D. Asset-Backed Securities. Requires issuers of asset-backed securities to retain at least 5% of the credit risk, unless the underlying loans meet certain standards that reduce riskiness or are all "qualified residential mortgages." Directs the SEC to provide a total or partial exemption for any asset-backed security that is a municipal security. Requires the SEC to adopt regulations requiring issuers to disclose more information about underlying assets.
- E. Swaps. Subjects swap dealers to new business conduct, risk and disclosure requirements when dealing with governmental entities, including, if acting as a swap advisor, complying with special rules relating to fraud, deception and manipulation, and, if acting as a swap provider, having a reasonable basis to believe that the governmental entity has a qualified independent advisor. Provisions are to be implemented through joint rulemaking by the SEC and the Commodity Futures Trading Commission.
- F. GAO Studies. Requires the Government Accounting Office within two years to study the value of enhanced municipal disclosure and the advisability of the repeal or retention of the Tower Amendment (which prohibits the SEC from requiring municipal issuers from filing documents with the SEC or the MSRB before municipal securities are sold), and within 18 months to study the efficiency and transparency of and uses of derivatives in the municipal

securities markets. The GAO released Municipal Securities -- Options for Improving Continuing Disclosure in July 2012. That report addresses the extent to which information currently provided on municipal securities is useful and the extent to which existing regulation reflects principles for effective disclosure, and options for improving the information issuers disclose to investors of municipal securities, and the related benefits and challenges of these options.

If you have questions relating to any of these matters, please feel free to contact me.

Dated: June 11, 2014.

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Exhibit A**Excerpts from the Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors, SEC Release No. 36761, January 24, 1996**

“The Commission is issuing this Report to emphasize the responsibilities under the federal securities laws of local government officials who authorize the issuance of municipal securities and related disclosure documents and the critical role such officials play with respect to the representations contained in the Official Statements for those securities. Public entities that issue securities are primarily liable for the content of their disclosure documents and are subject to proscriptions under the federal securities laws against false and misleading information in their disclosure documents. In addition to the governmental entity issuing municipal securities, public officials of the issuer who have ultimate authority to approve the issuance of securities and related disclosure documents have responsibilities under the federal securities laws as well. In authorizing the issuance of securities and related disclosure documents, a public official may not authorize disclosure that the official knows to be false; nor may a public official authorize disclosure while recklessly disregarding facts that indicate that there is a risk that the disclosure may be misleading. When, for example, a public official has knowledge of facts bringing into question the issuer’s ability to repay the securities, it is reckless for that official to approve disclosure to investors without taking steps appropriate under the circumstances to prevent the dissemination of materially false or misleading information regarding those facts. In this matter, such steps could have included becoming familiar with the disclosure documents and questioning the issuer’s officials, employees or other agents about the disclosure of those facts.

In this case, the Supervisors approved Official Statements that, among other things, failed to disclose certain material information about Orange County’s financial condition that brought into question the County’s ability to repay its securities absent significant interest income from the County Pools. The Supervisors were aware of material information concerning Orange County’s financial condition; this information called into question the County’s ability to repay its securities. Nevertheless, the Supervisors failed to take appropriate steps to assure disclosure of these facts. In light of these circumstances, the Board members did not fulfill their obligations under the antifraud provisions of the federal securities laws in authorizing the issuance of the municipal securities and related disclosure documents.” (Report, pages 2-4)

“In addition, the County retained financial advisers, bond counsel and underwriters to assist in these municipal securities offerings. The County also retained a national accounting firm to audit the County’s financial statements. The Supervisors approved the retention of these professionals. While the Supervisors believed that they could rely on these professionals, the Supervisors never questioned the professionals regarding the disclosure in the Official Statements, despite their knowledge of facts calling into question the County’s ability to repay the securities.” (Report, page 11)

“Despite their knowledge of the County’s increasing use of interest income from the County Pools to balance the discretionary budget, the Supervisors approved the Official Statements for the various offerings without taking steps to assure disclosure of this information. They never received or asked to receive a copy of any Preliminary Official Statement once finalized, or any final Official Statement; nor did they question the County’s officials, employees or other agents concerning the disclosure regarding the County’s financial condition. Thereafter, the Supervisors chose to authorize and approve approximately \$1.3 billion of municipal securities offerings.” (Report, page 14)



AGENDA ITEM: 9.A.
MINNESOTA HOUSING BOARD MEETING
June 19, 2014

ITEM: Income and House Price Limit Changes, Home Mortgage Programs

CONTACT: Devon Pohlman, 651-296-8255
 devon.pohlman@state.mn.us

REQUEST:

Approval Discussion Information

TYPE(S):

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

Other:

ACTION:

Motion Resolution No Action Required

SUMMARY REQUEST:

Changes to home mortgage program income limits and purchase price limits are provided. Increases to the HOME HELP downpayment and closing cost loan program's purchase price limits are outlined.

FISCAL IMPACT:

No fiscal impact.

MEETING AGENCY PRIORITIES:

- Promote and support successful homeownership Preserve federally-subsidized rental housing
- Address specific and critical needs in rental housing markets Prevent and end homelessness
- Prevent foreclosures and support community recovery Strengthening Organizational Capacity

ATTACHMENT:

- Background

BACKGROUND

This memo informs the board of changes to home mortgage program income and purchase price limit changes per Board Delegation Number 013 that delegates authority to the Commissioner to make changes to programs and guides as a result of Federal requirements.

The Internal Revenue Service (IRS) establishes annual income and purchase price limits for mortgage revenue bond programs. Minnesota Housing must use these limits for the Start Up and Mortgage Credit Certificate (MCC) programs, and aligns Step Up program guidelines accordingly to streamline home mortgage program requirements.

Income limits effective May 2014 are:

Location	1-2 Person Household	3+ Person Household
11-county Twin Cities Metropolitan Area	\$82,900	\$95,335
Rochester Metropolitan Area	\$81,300	\$93,495
Greater Minnesota	\$73,900	\$84,985

Purchase price limits effective May 2014 are:

Location	Purchase Price Limits
11-county Twin Cities Metropolitan Area	\$310,000
Rochester Metropolitan Area	\$265,000
Greater Minnesota	\$265,000

In addition, the Department of Housing and Urban Development (HUD) approved changes to the HOME HELP downpayment and closing cost loan program purchase price limits as recommended to the board as part of the Action Plan Modification request presented in March 2014. The HOME HELP program's purchase price limits are significantly lower than the Start Up program's purchase price limits and income limits are tiered by specific household size and county as required by the federal funding source. The HOME HELP program will implement the purchase price limit changes in June 2014.