APPENDIX A-1:
Overview of Funding Sources

Our strong balance sheet and financial resources are among our key strengths. This Appendix describes each of our funding sources and outlines how we will use them in 2017. The table in Appendix A-2 shows how we allocate resources from each source to each program.

Table 4 shows the 2017 AHP funding levels from each source and compares it with the original 2016 AHP. We then describe how each source operates after the discussion of Table 4.

Table 4: 2017 Funding by Source

Program Category	Original 2016 AHP	Proposed 2017 AHP
Federal Resources	$196,255,098	$213,797,648
State Appropriated Resources	$76,315,060	$84,694,391
State Capital Investments (GO & Housing Infrastructure Bonds)	$22,530,378	$4,687,858
Agency Bond Proceeds and Other Mortgage Capital	$580,400,000	$660,700,000
Housing Investment Fund (Pool 2)	$66,432,450	$74,227,500
Housing Affordability Fund (Pool 3)	$24,350,863	$27,272,000
Total	**$966,283,849**	**$1,065,379,397**

A few sources in 2017 will have sizable changes from what we originally budgeted in 2016.

- **Agency Bond Proceeds & Other Mortgage Capital** will increase by about $80.3 million. As discussed earlier, mortgage production in 2016 turned out to be higher than we originally anticipated. We expect 2017 production to be similar to the final 2016 level.
- **State Capital Investments (GO and Housing Infrastructure Bonds)** will decrease by about $17.8 million. Last year, we had $22.5 million in these resources, while this year, we have $4.7 million. The Governor recommended $90 million in additional funding in his capital investment proposal to the 2016 Legislature. The 2016 Legislature did not take action on a capital investment bill.
- **Federal Resources** will essentially remain the same. However, last year, we delayed budgeting the 2016 federal appropriation for HOME because the amount was uncertain. This year, we are budgeting it ahead of time so that we do not delay getting the funds committed. In addition, the HOME program will likely generate about $1.2 million in program repayments, which will be reused for new projects. We also expect to receive $6 million more to make Section 8 contract payments.
- **State Appropriated Resources** will be slightly higher. The 2016 Legislature appropriated $1.5 million in supplemental funds for three specific programs. In addition, we expect a higher level of loan repayments from previously appropriated funds, which we will recommit this year.
- **Housing Investment Fund (Pool 2)** investments will increase by $7.8 million. This reflects a few changes, including $20 million of new investments to support the Twin Cities Community Land Bank and to preserve naturally-occurring affordable housing. This increased investment is partially offset by a couple decreases. This includes a $5 million reduction in lending under the Low and Moderate Income Rental (LMIR) program,

due to lower overall multifamily production, and a $4 million reduction under the Targeted Mortgage Opportunity Program, which is a pilot program.

- **Housing Affordability Fund (Pool 3)** investments will increase by $2.9 million. The availability of Pool 3 depends largely on our earnings. In allocating Pool 3 resources, we also balance immediate and future needs that will draw upon Pool 3.

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

Federal Resources. There are two types of federal resources: (1) appropriations to the U.S. Department of Housing and Urban Development (HUD) that are made available to Minnesota Housing, and (2) Low-Income Housing Tax Credits from the Internal Revenue Service (IRS). For planning purposes, we generally assume that 2017 funding will remain at its 2016 level. The amount of federal housing tax credits is based on a per capita formula and may vary slightly each year.

State Appropriations. The amount of funding is largely based on the 2016-17 general fund budget adopted by the 2015 Minnesota Legislature. We generally split the appropriations evenly between state fiscal years 2016 and 2017, unless otherwise noted.

State Capital Investments. These funds come from the state capital budget (bonding bill) and include General Obligation and Housing Infrastructure Bond proceeds. There are no new resources for 2017 because the 2016 Legislature did not take action on a capital investment bill.

Agency Bond Proceeds and Other Mortgage Capital. Bond proceeds are generated by the issuance of tax-exempt bonds. Tax-exempt bond proceeds have historically been limited by the amount of new bonding authority under a state allocation formula, the projected amount of bonds refunded over the next year, and an estimate of the amount of bonding authority contributed by cities and counties for issuance on their behalf. In recent years, market conditions have made it difficult to use all of the available bonding authority. However, that is no longer the case, and bonding authority has once again become a scarce resource that we will need to manage very carefully. We also sell some of our mortgage-backed securities on the secondary market as another way to access attractively-priced private capital. Finally, for a couple of years now, we accessed a new source of mortgage capital for rental housing. We became a MAP (Multifamily Accelerated Processing) lender and now originate FHA-insured mortgages that are financed through a third-party investor.

Agency Resources. We generate resources from our lending activities and make them available for investment in housing programs. Agency resources are currently categorized as follows:

- **Housing Investment Fund (Pool 2) for amortizing loans and investments.** The Housing Investment Fund's balance is set according to the net asset requirements and investment guidelines adopted by our Board in April, 2007 after review and confirmation with the rating agencies and our cash flow projections. The level of funding that must be retained in Pool 2 is an amount that will cause the combined net assets in the General Reserve Account and bond funds (exclusive of Pool 3) to be not less than the combined net assets of the same funds for the immediately preceding audited fiscal year end. The practical result of this requirement is to set the amount of current period earnings as an upper limit on the amount that can be annually transferred from Pool 2 to Pool 3.

  According to Board policy, the use of Pool 2 funds is limited to investment quality amortizing loans and investment grade securities. Most of the net assets in Pool 2 are already invested in housing loans, so it is the Pool 2 liquid assets and expected loan repayments that are available for budgeting in the Plan.

- **Housing Affordability Fund (Pool 3) for deferred loans and grants.** The Housing Affordability Fund is set pursuant to the same Board policy as the Housing Investment Fund described above. The sources of ongoing funding for Pool 3 are transfers from Pool 2 that capture a portion of current period earnings, combined with any repayments or prepayments from loans previously funded under Pool 3.

  This fund is more flexible than the Housing Investment Fund, and it may be used for programs not resulting in amortizing, investment quality loans, including deferred loans and grants.