

Housing Finance Agency

Projects Summary
(\$ in Thousands)

Project Title	2012 Agency Priority Ranking	Agency Project Request for State Funds (\$ by Session)				Governor's Recommendations	Governor's Planning Estimate	
		2012	2014	2016	Total		2012	2014
Foreclosure Remediation and Supportive Housing	1	\$30,000	\$20,000	\$0	\$50,000	\$0	\$0	\$0
Public Housing Rehabilitation	2	10,000	10,000	0	20,000	0	0	0
Total Project Requests		\$40,000	\$30,000	\$0	\$70,000	\$0	\$0	\$0

Foreclosure Remediation and Supportive Housing

2012 STATE APPROPRIATION REQUEST: \$30,000,000

AGENCY PROJECT PRIORITY: 1 of 2

PROJECT LOCATION: Areas most impacted by the foreclosure crisis, Statewide

Project At A Glance

\$2.4 million annually starting in FY 2013 for 20 years for the debt service on \$30 million of non-profit housing bonds issued by Minnesota Housing to:

- acquire and rehabilitate or replace foreclosed properties and
- construct or acquire and rehabilitate permanent supportive housing.

Project Description

This request is for a general fund standing appropriation to pay the debt service on 501(c)(3) bonds. The debt service needed for \$30 million in non-profit housing bonds is \$2.4 million per year for 20 years. The bonds will be issued by Minnesota Housing to:

- remediate housing in areas impacted by the foreclosure crisis to create new affordable housing opportunities through rental units and community land trusts, and
- construct or acquire and rehabilitate permanent supportive housing, particularly for persons experiencing or at risk of experiencing long-term homelessness.

This funding will provide an estimated 235-275 new or preserved affordable housing opportunities.

Eligible applicants are experienced and qualified non-profit organizations, who must have as part of their mission the provision of affordable housing to qualify for an award of non-profit housing bond proceeds. Funding will be provided in the form of a 20-year deferred loan. The housing acquired and rehabilitated or constructed with this funding must remain affordable for a minimum of 20 years.

Community land trusts would be eligible applicants to acquire foreclosed, vacant and abandoned homes and permanently own the land. Community land trusts are non-profit organizations that acquire and own land for the long term. The building is sold to a low- or moderate-income homebuyer and the community land trust leases the land to the homeowner. Typically, the community land trust restricts the resale price of the house and restricts eligible new homebuyers to low- and moderate-income households. The average estimated per parcel land acquisition cost is \$35,000.

For every \$1 million in Minnesota Housing investment, nearly 12 FTE jobs are supported. With \$30 million in nonprofit housing bonds, as many as 360 jobs would be supported.

Foreclosure Crisis Trends

The foreclosure crisis continues to challenge communities and families across Minnesota. Mortgage delinquencies continue to increase. The number of sheriff sales in Minnesota due to mortgage foreclosure increased by 270 percent between 2005 and 2010. Three significant factors contribute to the expectations that foreclosures will continue at high levels over the next two to three years:

- the high level of unemployment,
- underwater homeowners who owe more than their homes are worth, and
- backlog of “shadow properties”, or pending supply not yet for sale.

The decline in home values is significant, challenging communities and families who are unable to sell or refinance their homes, a situation exacerbated by continued high levels of unemployment. In Minnesota, nearly 16 percent of homeowners are underwater, or owe more on their mortgage than the home is worth. In Minneapolis/St Paul, nearly 50% of homeowners were underwater as of March 2010. The high number of shadow properties, including homes seriously delinquent, in the foreclosure process and bank-owned but not for sale, will likely take several years to be absorbed given the long timelines in processing and completing foreclosure, according to CoreLogic.

With limited options, many homes are abandoned and the rental market is tightening as more families seek rental housing. The percentage of renters who are cost burdened has increased from 37 percent in 2000 to 50 percent in 2009, while the percentage of homeowners has risen from 17 percent to

Foreclosure Remediation and Supportive Housing

28 percent over the same time period. Nearly 2/3 of renters earning less than \$50,000 are spending more than 30% of their income on rent. The current trend in falling vacancies will likely cause rents to rise.

In some counties, sheriff sales are concentrated in a few neighborhoods within a community or in a few communities within a county. The concentration of foreclosures has a devastating impact on the community or neighborhood. Property values in the Twin Cities Metro Area, for example, have declined by 31.5% percent between 2006 and 2010. The crisis appears to be shifting from the core neighborhoods of North Minneapolis and the East Side of St. Paul to the outer suburbs and Greater Minnesota.

The decline in property values presents an opportunity to secure affordable housing at a reasonable price. Nonprofit housing bonds proceeds used to acquire and rehabilitate these properties will assist in stabilizing communities and create affordable housing opportunities for individuals and families for at least 20 years.

Supportive Housing Trends

A portion of the bond proceeds would also be used to construct or acquire and rehabilitate properties for use as permanent supportive housing for households who are experiencing homelessness, including youth and those experiencing long-term homelessness in particular.

Permanent supportive housing is the keystone in efforts to reform the way that various systems address the challenges of homelessness by moving from a band-aid approach to more cost-effective prevention and long-term solutions. Permanent supportive housing is affordable rental housing with links to the services necessary to enable tenants to live in the community and lead successful lives.

Supportive housing in Minnesota is demonstrating its cost effectiveness. A rigorous evaluation of the Managed Care and Supportive Housing pilot program found that as a result of the pilot, participants maintained housing stability, there was a 36 percent reduction in the number of days people used illegal drugs or alcohol to intoxication and costs shifted from prison, inpatient hospital care and detox to doctors, psychiatrist and prescription medicines.

The funding could help construct or acquire and rehabilitate approximately 80 units of permanent supportive housing, towards the goal of creating 4,000 housing opportunities.

Impact on Agency Operating Budget

The foreclosed rental properties acquired and rehabilitated with bond proceeds are expected to meet their operating costs through the income from tenants' rents. The community land trusts are expected to meet their operating costs through the income from the land lease. The permanent supportive housing properties are expected to cover operating costs through a combination of tenant contribution toward rents, rental assistance, group residential housing assistance and operating subsidies from the Housing Trust Fund. Minnesota Housing does not include operating assistance for specific projects in its state appropriations requests. Award of funding for permanent supportive housing will be dependent on the availability of funding for needed supportive services.

Previous Appropriations

Permanent supportive housing consistent with a plan to end long-term homelessness has received the following appropriations:

2005	\$12 million	GO bond proceeds
2006	\$19.5 million	GO bond proceeds
2008	\$30 million	501 (c) (3) bond proceeds, \$2.4 million in annual debt service appropriated

In 2010, the agency was able to issue \$6 million in additional bonds based on the annual \$2.4 million debt service appropriated in 2008 due to lower-than-expected interest rates. The use of the bond proceeds was expanded to include foreclosure remediation. All of the bond proceeds were awarded to supportive housing projects based on the applications received. No funding has been provided for community land trusts as part of the nonprofit housing bonds; however, the Minnesota Housing Finance Agency has funded community land trusts since at least 2001. Between 2002-2010, \$10.5 million has been committed to community land trusts.

Foreclosure Remediation and Supportive Housing**Other Considerations**

Other organizations and long-term plans have influenced the identification of these priorities. The Minnesota Foreclosure Partners Council was convened in 2007 to facilitate a rapid, coordinated response to the mortgage foreclosure crisis. Their September 2010 report, "The Coordinated Plan to Address Foreclosure in Minnesota," influenced the identification of foreclosure remediation needs. The Business Plan to End Long-term Homelessness, which has the goal of providing 4,000 new supportive housing opportunities by 2015, also contributed to the identification of funding needs. As of June 2011, Minnesota Housing has financed 3,582 permanent supportive housing opportunities, meeting 90% of the goal.

Project Contact Person

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Public Housing Rehabilitation**2012 STATE APPROPRIATION REQUEST:** \$10,000,000**AGENCY PROJECT PRIORITY:** 2 of 2**PROJECT LOCATION:** Statewide**Project At A Glance**

\$10 million in G.O. Bond proceeds for Public Housing rehabilitation. Approximately 3,000 units of public housing will be rehabilitated with this funding.

Project Description

This request is for \$10 million in general obligation bonds for the rehabilitation of public housing. Public housing is housing owned and managed by local public housing authorities and is financed by the federal government. More than 21,000 public housing units are owned and operated by 124 public housing authorities throughout 210 Minnesota communities. Public housing authorities' operations range in size from 12 units of the Cass Lake Housing and Redevelopment Authority to 5,700 units of the Minneapolis Public Housing Authority and 4,300 units of the St. Paul Public Housing Authority.

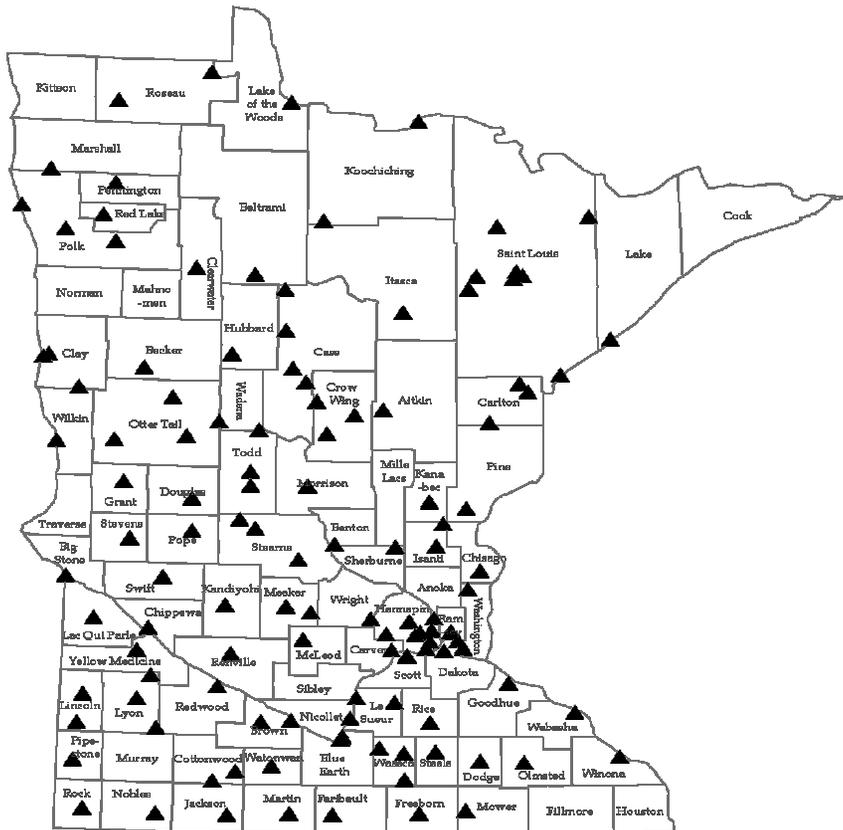
More than 92% of housing authorities have a waiting list and are unable to meet demand for affordable housing during this housing crisis, demonstrating the need for maintaining this affordable housing stock. Nearly 75 percent of the residents of public housing have annual incomes of under \$15,000 and nearly 65 percent of the residents are seniors and/or have a disability. One third of public housing residents are children, many of whom are at high risk of homelessness or recently homeless. Residents of public housing generally pay 30 percent of their income for rent.

Between 2002 and 2010 the federal government's commitment to support public housing diminished as appropriations for operations and maintenance of the housing stock were reduced to inadequate levels. As a consequence, some public housing authorities have been forced to sell some of their units to reduce operating costs and generate enough revenue to properly maintain the remaining inventory. Others have delayed needed maintenance and repairs, putting units at risk of becoming inhabitable. As part of the 2009 economic stimulus legislation, Minnesota public housing authorities received a total of \$47 million, as well as some additional competitive funds. Despite the injection of this funding, it falls short of the amount needed to address all of the indentified capital needs. The capital fund appropriations were recently cut by 20% and even prior to this reduction did not cover the annual accrual of repairs.

Public housing authorities are seeking ways to lower their operating costs. Investments in more energy efficient windows, heating and cooling systems and in renewable energy sources will help them achieve lower operating costs. The requested funding will prioritize projects that address health and safety needs and reduce operating costs by conserving energy.

For every \$1 million in Minnesota investment, nearly 12 FTE jobs are supported. With \$10 million in G.O. bonds, 120 jobs would be supported.

Cities with Public Housing by County



Source: Public Housing Authorities, US Dept of HUD | July 22, 2011

Previous Appropriation

\$2 million in G.O. Bond proceeds was appropriated in 2009. (Law of Minnesota 2009, Chapter 93, section 17.) All of these funds have been awarded to public housing authorities. The 2007 Minnesota Legislature recognized the importance of preserving affordable public housing and appropriated \$2.5 million for that purpose. Funds were awarded to public housing authorities to help address their capital needs.

Other Considerations

None

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Governor's Recommendations

Impact on Operating Budget

None. Public housing is housing owned and managed by local public housing authorities and is financed by the federal government.