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GOVERNOR  
WENDELL R. ANDERSON  
SPECIAL MESSAGE

MINNESOTA'S CONTINUING CRISIS IN HOUSING



To the 67<sup>th</sup> Session  
of the Legislature of Minnesota

March 5, 1971

Mr. Speaker, Mr. President, Members of the 67th Session of the Minnesota Legislature, and fellow citizens of Minnesota:

In 1947, when Governor Youngdahl asked the Legislature to pass the first housing legislation for the State, he pointed out that it was necessary in order to enable Minnesota to take advantage of federal programs. Governor Youngdahl also said, "Minnesota's housing problems will be with us for a decade."

That decade has lasted 23 years so far. Unfortunately, Minnesota still has housing problems, and state government must act again to begin to solve them.

Housing costs are increasing at a rapid and dramatic rate. Federal programs and private industry do not provide enough new housing at prices most Minnesotans can afford. Families with adequate housing find their homes threatened by the rapid increase in real estate taxes. Little has been done in the decade of the '60's to reduce the amount of substandard housing that exists in all areas of Minnesota.

Minnesota has a housing crisis.

It is a crisis for the family, anywhere in Minnesota, that needs housing and finds no new or existing housing available at a price the family can afford. It is a crisis even more severe for the minority family excluded from decent housing because of race as well as income.

It is a crisis for the middle income family unable to meet housing needs even with a steady job and a reasonable income.

It is a crisis for the retired couple, for whom the rising property tax is the major element of housing cost and must be paid from limited or fixed incomes.

It is a crisis for inner-city families in deteriorated housing with absolutely no alternative at a price the family can afford.

It is a crisis for employer and employee in rural Minnesota, where adequate housing cannot be made available locally even when businesses and schools are expanding.

The State Planning Agency estimates that during the decade of the '70's, Minnesota must provide about 41,000 new units of housing per year to meet the requirements of new family formation, migration into the state, and the replacement of a reasonable number of deteriorated units.

of housing. Professor John Borchert of the University of Minnesota, in a separate calculation, estimates that the state needs approximately 43,000 new units of housing per year. A unit of housing is a single family dwelling, townhouse, or apartment, which is available for a family. Mobile homes are also included in the definition of housing units.

No one can be certain whether Minnesota needs 41,000 or 43,000 new housing units per year, but the need is clearly of that magnitude. By contrast, preliminary 1970 census data indicates that during the 1960's the average production of new housing units per year in Minnesota was 15,500. During the last two years of the decade, the number of new housing units per year averaged 25,000 to 27,000 units.

We clearly are not producing enough units of new housing each year in Minnesota. Furthermore, there is a very real question whether our housing production system can presently produce enough units of new housing at prices which most Minnesotans can afford.

The cost of housing has increased at a dramatic and rapid rate. Data from the Ninth Federal Reserve Bank,

based on building permit information, shows that the average price of a new home in the Twin Cities metropolitan area, without a lot, is approximately \$28,000. The average price of a new home in the non-metropolitan area of the state, without a lot, is approximately \$24,000.

The average family in Minnesota, even with the new 7% Federal Housing Administration rates, still has a difficult time purchasing a new home at today's prices. The Federal Housing Administration office for Minnesota estimates that purchasing a \$25,000 house at the current 7% interest rate would require a \$1,500 down payment and a \$23,500 mortgage. Payments on this mortgage, for principal, interest, taxes and insurance, would be about \$235 a month. Current Federal Housing Administration underwriting rules require a monthly income of \$1,100 or a yearly income of more than \$13,000 to qualify for Federal Housing Administration assistance in financing a \$25,000 house.

We know, based on information from 1967 Minnesota State Income Tax returns, that 80 percent of the families paying state income taxes in Minnesota had gross incomes of \$12,000 or less.

A study done for one of the largest homebuilders in the metropolitan area estimates that 45% of the families

coming into the housing market for the first time in the 1970's will not be able to afford housing which costs over \$17,500 to purchase or over \$140 a month to rent. Yet, the average cost of a new home, without a lot, in the metropolitan area today is \$28,000.

The cost of available new housing is clearly beyond the ability of most Minnesotans, and beyond the ability of most persons who will be entering the housing market in the 1970's. This cost is increasing at a rapid rate and the problem of housing cost is getting very much worse rather than any better.

Minnesota must develop and carry out a state housing policy and a state housing program with the major goal of assisting in the production of an adequate number of new housing units per year at costs which allow all Minnesotans to afford decent housing. The recommendations that I make today are designed to work toward this policy objective.

#### REDUCING THE COSTS OF HOUSING

There is no new low-cost housing available today.

There are only programs which help reduce the cost of available housing. In Minnesota today, the only sources

of assistance in directly reducing the cost of available housing are programs provided by the federal government.

Currently, all federal housing assistance programs are providing only about 3,000 units of assisted housing per year for the entire state of Minnesota. The Metropolitan Council estimates that 12,500 units of assisted housing are needed each year within the metropolitan area alone.

Current federal assistance is unevenly distributed within our state, and the capability to utilize federal housing assistance programs is also unevenly distributed. There is no field staff available, either in state government or in the Federal Housing Administration, to work with sponsoring organizations which require assistance in order to take advantage of federal and/or moderate income housing programs. While there are 160 municipal housing authorities in the state, these municipal housing authorities are not eligible to participate in some of the most important federal programs. The present allocation for federal housing assistance for Minnesota is completely subscribed, and each of the federal housing assistance programs has a significant backlog of funding requests at the present time.

Federal housing assistance programs, even with a dramatic increase in the amount of federal funding, will not provide funds for a sufficient number of assisted units of housing to solve the housing crisis which exists in Minnesota. With state assistance, however, we can increase the amount of federal funds available and take better advantage of existing federal programs through improved planning and administration.

CREATION OF STATE HOUSING FINANCE AGENCY

My most important recommendation is the creation of a Minnesota State Housing Finance Agency with new and imaginative powers to assist in meeting the housing needs of our state.

Fifteen states have taken action to provide housing assistance to low and moderate income families and to take greater advantage of federal housing assistance programs, by creating some form of state housing finance agency. A number of other states are considering, and many will undoubtedly adopt, legislation that creates some form of state housing finance agency.

The Housing Finance Agency which I am asking the Legislature to establish in this session is simple in its concept and operation, yet dramatic in its impact on the

housing crisis that faces Minnesota. I am asking the Legislature to create a Minnesota Housing Finance Agency which can sell revenue bonds and thus make new resources available to sponsors and developers of low and moderate income housing. These new resources will be added to and become a part of existing federal housing assistance programs which operate in Minnesota, and will enable Minnesota to greatly increase the number of federal housing assistance dollars which come to our state.

Established federal funding procedures give priority to states with housing finance agencies, so that these states obtain additional federal dollars by virtue of having a State Housing Finance program available to add to federal assistance programs. As more states provide housing finance assistance, fewer dollars will be available to those states which fail to provide this assistance.

By selling tax-exempt revenue bonds, the Minnesota Housing Finance Agency can add resources to federal housing assistance programs and use both the administrative and management skills of the federal government, as well as the loan and insurance guarantees of the federal government. Each program of the Minnesota Housing Finance Agency that I am recommending utilizes an existing federal program and

a federal loan guarantee or federal mortgage insurance. The revenue bonds of the Minnesota Housing Finance Agency would not have the full faith and credit of the state of Minnesota behind them and they would not be obligations of the State of Minnesota and its taxpayers.

Because all programs of the proposed Minnesota Housing Finance Agency will operate with federal guarantees and federal insurance, the revenue bonds of the Minnesota Housing Finance Agency will have the best guarantee available, that of the federal government. This will add to the attractiveness of these bonds for investors and will further reduce the interest rate at which these bonds will be sold.

By having resources made available through the sale of tax-exempt revenue bonds, the Minnesota Housing Finance Agency will be able to provide assistance to sponsoring organizations eligible to participate in federal housing programs. The state assistance will increase existing federal dollars available to the state, and will reduce the monthly costs of housing by providing financing at costs below those available from usual financing sources.

The proposed Minnesota Housing Finance Agency will provide the following basic forms of housing assistance:

First, the Agency will be able to make seed money or development loans to organizations sponsoring housing for low and moderate income individuals and families and make these loans at a no-interest cost. These loans will be repaid when federal financing for the construction of the project is provided.

Second, the Agency will be able to make construction loans at reduced interest rates to sponsoring organizations, with these construction loans guaranteed by the federal government as a part of its participation in the project.

Third, the Agency will be able to provide permanent mortgage financing to sponsoring groups or organizations eligible to participate in federal programs for low and moderate income housing. This reduction in mortgage financing costs will substantially reduce the cost of housing to individuals and families who live in the housing.

Fourth, it is contemplated that the Minnesota Housing Finance Agency will be able, in cooperation with private mortgage bankers, to purchase mortgages for single family dwellings at a reduced interest rate. This could be accomplished by having the private mortgage bankers work with the Government National Mortgage Association and pro-

vide funds for the individual Minnesota mortgages. This is a new concept in housing financing which has not yet been used in other states. The Housing Finance Agency Bill which I am proposing establishes a mechanism for implementing this program, to determine whether it is a feasible and practical way to increase the supply of housing.

I want to emphasize that the Minnesota Housing Finance Agency will develop a working partnership with the federal government and its housing assistance programs to provide additional resources to make more units of housing available at a reduced cost for low and moderate income families in Minnesota. The Minnesota Housing Finance Agency will not participate in any programs, make any loans, or provide any form of assistance which is not directly related to an existing federal program or which does not have the guarantee of the federal government associated with it. The only risk assumed by the proposed Minnesota agency will be for development loans which do not result in successful federal proposals.

The Minnesota Housing Finance Agency will collect modest fees and charges for the loans and other assistance that it provides. These fees and charges will enable the

agency to operate without any appropriation from the State of Minnesota, except for the small appropriation necessary to begin the operation of the agency. I recommend a state appropriation of \$250,000 for this purpose.

The Legislature and the people of Minnesota should know that this is a new area of state activity where new administrative and financial skills will have to be developed. It will take time for the State Housing Finance Agency to develop to the point where it is a full partner in federal programs. Experience in other states has shown that it takes about three years for a state housing finance agency to become fully effective. Thus, it is difficult to estimate the immediate impact of the State Housing Finance Agency. A rough estimate is that 55 units of housing can be given assistance for every million dollars of bonding authority provided the agency. I am requesting an initial bonding authorization of \$150 million. The impact of the agency will obviously be affected by the amount of federal assistance made available, since the agency is participating only in federally assisted housing programs.

The bill which I am submitting for legislative action has been very carefully drawn to overcome the constitutional problems which exist in Minnesota and which

potentially limit state activity in providing housing assistance. I want to point out again that the revenue bonds of the Minnesota State Housing Finance Agency would not have the full faith and credit of the State of Minnesota behind them and they are in no way obligations of the State of Minnesota and its taxpayers.

PRESENT STATE TAX-FISCAL ASSISTANCE FOR HOUSING

This recommended Minnesota Housing Finance Agency is new, but it is not the first effort by state government to provide assistance which reduces the cost of housing for our citizens. Substantial assistance in reducing the cost of housing is provided through federal and state tax or fiscal policy. The federal tax assistance provisions are well-known; homeowners are permitted to deduct mortgage interest payments and property tax payments from their taxable federal incomes.

State fiscal policy also provides a substantial form of assistance to homeowners. Homestead provisions, which are a basic part of the Minnesota property tax system, provide substantial direct assistance in reducing the cost of housing. In the City of Minneapolis, for example, a home classified as homestead in 1970 with a \$24,000 market value paid a tax of \$611.82. This same home, without the homestead classification, would pay a tax of \$1,060.70.

IMPACT OF GOVERNOR'S BUDGET RECOMMENDATIONS

Furthermore, my budget recommendations for the biennium carry further proposals to assist homeowners and renters.

During the campaign for Governor, I emphasized the need to reduce property taxes on homes and businesses in Minnesota. In my Budget Message to the Legislature, I have done something about this promise to reduce property taxes.

In my Budget Message, I recommended a plan for financing the maintenance cost of public schools which moves \$390 million of taxes from the property tax to other tax sources. For an \$18,000 market value home in Fridley in 1971-72, this school finance plan results in a reduction in property taxes of \$150. In Chaska, the reduction for the same period is \$142. In Moorhead, the reduction is \$131. In Burnsville, the reduction is \$113. And in Cannon Falls, the reduction is \$161.

In addition to my school finance recommendations, I have asked that the homestead relief payments be calculated on a formula which includes the levy for bonded indebtedness. This increases the amount of property tax relief to homeowners by \$27 million a year and provides substantial additional assistance to homeowners in new and growing communities. I have also recommended that assistance for the elderly through the senior citizen income tax credit be expanded by over \$3 million and that the current program for renters' credit through the income tax be doubled so that the total amount of dollars for renters' credit will be almost \$14 million.

Those budget recommendations make a substantial contribution to lower housing costs for all Minnesotans.

I am suggesting that we must do more to reduce the cost of housing, but I want the Legislature and the people of Minnesota to understand fully that assistance from state government which reduces the cost of housing is nothing new in Minnesota. The state of Minnesota has been doing it for years as part of state-local fiscal policy.

My proposal for a State Housing Finance Agency increases the types of assistance available from state government and also increases the numbers of families who will be able to afford the initial costs of home ownership and thus benefit from existing state assistance programs.

A COOPERATIVE INTERGOVERNMENTAL FRAMEWORK  
FOR HOUSING ASSISTANCE

Providing an adequate number of units of housing at prices which Minnesotans can afford is also a problem in managing an intergovernmental program. The federal government plays a vital role, through specific federal housing assistance programs and federal monetary policies which affect the cost of financing housing. State government provides basic enabling legislation to permit units of local government to make use of federal housing assistance programs. State government also provides enabling

legislation to enact and enforce building codes, housing codes, zoning and subdivision control ordinances, and to provide public services necessary for an adequate supply of housing. Decisions of local governments on land use and the types of housing to be permitted are also crucial decisions in this intergovernmental housing system.

State government is presently not as effective as it must be. Minnesota government does not now have either a state housing policy, or the capability to carry out a state housing policy. Nor has state government provided the type of enabling legislation that is necessary for local governments to be as effective in providing an adequate supply of housing as they could be.

What, then, must be done?

First, we must begin to develop the administrative capability to deal with the serious housing problems that I have outlined. The creation of a State Housing Finance Agency is an important step in developing this administrative capability in state government.

Next, we must enable local governments to come together and deal with housing problems at the regional level in all parts of Minnesota. The provision of an adequate supply of housing is not a problem that can be

solved on a community-by-community basis. Federal assistance programs are unevenly distributed throughout the State of Minnesota because the administrative capability to use these programs is unevenly distributed. Individual communities are often unable to provide adequate resources to participate in federal programs; but if they were permitted to operate at a larger scale, both resources and sufficient administrative capability could be made available.

The regional approach to the solution of housing and related growth and development problems makes sense for all areas of the state. I am recommending that this session of the Legislature provide enabling legislation which would permit the creation of regional housing authorities as part of the regional development commissions which are being formed throughout the state. No regional development commission, of course, would be required to form a regional housing authority, but all would be able to do so.

Within the Twin Cities metropolitan area, the Metropolitan Council has carefully considered and developed a housing program as a part of its metropolitan development guide. The Metropolitan Council is asking the Legislature to provide authorization for the creation of a Metropolitan Housing and Development Assistance Agency to be a part of

the Metropolitan Council in much the same way as the Sewer Board is related to the Metropolitan Council. The regional approach to the provision of housing makes sense. We will not solve the serious housing problems of the inner city until we can provide an adequate supply of housing in a variety of price ranges for people throughout the entire metropolitan area.

The regional approach to housing will help provide for balanced commercial, industrial, and residential development. It will provide a full opportunity for low and moderate income families to participate in the new growth and share in the opportunities for employment, community services, and recreational opportunities throughout the entire metropolitan area.

I support the addition of housing as an area of responsibility for the Metropolitan Council, and I support the formation of a Metropolitan Housing and Development Assistance Agency.

The creation of a Minnesota Housing Finance Agency and the enactment of enabling legislation for the creation of regional housing authorities will greatly add to the capability of the State of Minnesota to be a full and

effective partner in the intergovernmental decision system which is so important in providing adequate housing for all Minnesotans.

BUILDING CODE UNIFORMITY AND THE PRODUCTION OF HOUSING

I have already indicated that we are not producing a sufficient number of new units of housing each year to meet projected statewide requirements. State government must do whatever it can to help produce an adequate number of new housing units.

A basic element in the housing production system which state government can affect is the building codes which are used to regulate the construction of housing and determine the standards at which new housing will be built. Building codes are adopted and enforced by municipal governments as a part of the regulatory powers granted to municipal governments by state governments. Minnesota state government must act to produce greater uniformity in the building codes now used by local governments in all parts of the state, so that builders can standardize their products throughout Minnesota.

There is virtually no uniformity in the building codes as they now exist throughout the State of Minnesota. This lack of uniformity means that a builder must plan for and produce a home which is essentially different in every

municipal jurisdiction of the state. This adds to the cost of housing and reduces the capability of the building industry to produce an adequate number of new housing units. The lack of uniformity in building codes also means that new technology and new materials may not be uniformly applied throughout the state or even throughout a portion of the state, so that any opportunity for economies of scale in the production of housing are also lost.

Building codes are a vital regulatory tool of local governments, and their enactment and enforcement serve a basic municipal function. There is no question as to the need for codes or the importance of building codes to local government. There is a question as to the need for separate building codes in almost every municipal jurisdiction within the State of Minnesota.

I am recommending that the building code developed by the Department of Administration for state buildings be amended to apply more adequately to housing, and that this code be made the mandatory Uniform Statewide Building Code for Minnesota. I am further recommending that the Department of Administration be given the responsibility for enforcing and administering this code; and that the Department of

Administration, in cooperation with other agencies of state government such as the State Planning Agency and the proposed State Housing Finance Agency, develop and implement a training program to insure that the code is effectively administered in all parts of the state.

I shall be continually looking at the entire problem of codes and the implementation of codes and, if necessary, will use the reorganization powers granted the governor to bring together and make more effective the entire state effort to develop and enforce building and construction codes in Minnesota.

State government will provide the necessary technical assistance to work with local communities in developing the administrative capability to implement and administer the uniform statewide building code.

#### MANUFACTURED HOUSING CODE AND SYSTEM CERTIFICATION

Volume production of housing by a manufacturing or assembly line process is now a reality. At least one firm in Minnesota is currently producing manufactured housing units and others will soon follow.

Volume production is possible only if a single statewide code is available to establish standards for

manufactured housing systems and only if the production system and the units produced by it can be certified as meeting the requirements of a statewide code by a state agency. Sufficient experience is available in other states, notably California and Ohio, to use as a model for state action in Minnesota to establish and implement a statewide manufactured housing code and system certification. Mobile homes are included in the definition of manufactured housing.

I am recommending that this session of the Legislature pass a manufactured housing code and system certification bill.

Responsibilities for the development and administration of this code would also be assigned to the Department of Administration as a part of its responsibility in building code enforcement. Local governments will continue to provide the on-site inspection of the placement and erection of manufactured housing units and the connection of utilities to the unit.

The costs of administering this code, after some initial start-up costs, will be met by fees charged to producers of industrialized housing units.

The remaining \$250,000 of my Budget Message recommendation for housing should be provided for the state's activity in establishing a uniform building code and a manufactured housing code as described in these two sections.

TENANTS' RIGHTS LEGISLATION

Low and moderate income tenants face a serious lack of security in occupying the housing that they are now able to afford. The protection given landlords and tenants is unequal. A tenant has no guarantee that the housing he rents will be fit to live in, and he may be promptly forced to move for failure to pay the rent and for reporting housing code violations. Action to force the landlord to adhere to his obligations to provide a safe, sanitary and decent place to live are generally enforceable only through a time-consuming court process. Lower income tenants are unaware of these remedies available to them or are unable to afford adequate assistance when it is required.

During the interim since the last legislative session, the Senate Judiciary Committee, in cooperation with the Legal Aid Society of Minneapolis and various apartment owner associations and organizations, has drafted and agreed upon a package of landlord-tenant legislation which has been introduced into this session of the Legislature.

I support this legislation and urge the Legislature to adopt these landlord-tenant bills.

SUMMARY

I have recommended that the Legislature take the following actions:

1. Create a State Housing Finance Agency and appropriate \$250,000 to get it under way.

2. Pass enabling legislation for Regional Housing Authorities as a part of the Regional Development Commissions, and provide for a Metropolitan Housing and Development Assistance Agency as a part of the Metropolitan Council.

3. Provide for a mandatory Uniform Statewide Building Code and a manufactured housing code to be administered by the Department of Administration; and appropriate \$250,000 to get this effort under way.

4. Enact the Tenants' Rights legislation prepared during the interim to afford the basic security of occupancy necessary for our low income tenants.

These actions will not completely solve the housing crisis which faces the state. Nothing that state government acting alone can do will solve this crisis.

But these actions do give the State of Minnesota and its local governments the ability to deal more effectively

with the housing crisis in our State. I urge all members of the Legislature to carefully consider these recommendations and to give Minnesota the tools we need to better house all of our people.