

| Project Title | 2008 Agency Priority Ranking | Agency Project Request for State Funds (\$ by Session) | | | | Governor's Recommendations 2008 | Governor's Planning Estimate | |
|---|------------------------------|--|------|------|----------|---------------------------------|------------------------------|------|
| | | 2008 | 2010 | 2012 | Total | | 2010 | 2012 |
| Permanent Supportive Housing Loans (debt service on non-profit 501(c)(3) bonds) | 1 | \$30,000 | \$0 | \$0 | \$30,000 | | | |
| Total Project Requests | | \$30,000 | \$0 | \$0 | \$30,000 | | | |

Permanent Supportive Housing Loans (debt service on non-profit 501(c)(3) bonds)

2008 STATE APPROPRIATION REQUEST: \$30,000,000

AGENCY PROJECT PRIORITY: 1 of 1

PROJECT LOCATION: Statewide

Project At A Glance

- ◆ Loans to construct or acquire and/or rehabilitate permanent supportive housing for families with children and individuals who experience long-term homelessness.

Project Description

This request is to support \$30 million in bond funding to construct, acquire, and rehabilitate approximately 245 units of permanent supportive housing for families with children and individuals who experience long-term homelessness or are at risk of becoming long-term homeless. The appropriation will be primarily for the debt service on \$30 million of non-profit 501(c)(3) bonds issued by MHFA for permanent supportive housing.

Funds would be made available to developments throughout the state on a competitive basis. This request conforms to the State's Business Plan to End Long-Term Homelessness developed by a working group established by the legislature in 2003. The business plan anticipated appropriations of \$30 million in bond proceeds in 2008. The 2008-2009 goal of the Business Plan is to create 1,600 new housing opportunities; of those 800 units will require capital funding.

Permanent supportive housing is the keystone of efforts to reform the way that various systems address problems 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. Most of the persons experiencing homelessness have

physical or mental health issues that need to be addressed in order for them to be successful tenants.

- ◆ Fifty-seven percent of the adults identified as long-term homeless reported suffering from a serious or persistent mental illness;
- ◆ Another 24% reported a dual diagnosis of both mental illness and chemical dependency.
- ◆ Forty-eight percent of the adults identified as long-term homeless reported a chronic health condition.
- ◆ Fourteen percent of the adults identified as long-term homeless are military veterans.

Permanent supportive housing has demonstrated its cost effectiveness. Evaluations of permanent supportive housing programs across the country and in Minnesota have found that it can be provided without adding to the long-term costs currently incurred for this population by reducing the use of hospitals, jails, treatment centers, emergency rooms, shelters, and crisis services. Permanent supportive housing has the potential to improve the outcomes for homeless households, including increased employment and improved school attendance and educational achievement for the children.

On any given night in 2006, between 9,200-9,300 Minnesotans were estimated to be homeless or living in temporary housing programs according to the Wilder Research Center, based on its October 2006 statewide survey of homelessness in Minnesota. Fifty-four percent (54%) of those persons have been homeless for more than one year or at least four times in the last three years. The 2006 survey revealed a few new issues:

- ◆ The portion of homeless persons with disabilities continue to increase.
- ◆ Homeless Iraq and Afghanistan veterans, while small in number, are twice as likely to report suffering from post-traumatic stress disorder (PTSD).
- ◆ Transitional housing use has declined.
- ◆ Older adults (55-years old and older) have increased in each of the last three studies as a portion of the overall homeless population.
- ◆ More youth are homeless and not staying in shelters.

MHFA is seeking legislation to establish a process whereby non-profit 501(c)(3) bonds may be issued in lieu of GO bonds for the capital costs of supportive housing. General funds that otherwise would have been used to pay debt service on GO bonds will be appropriated for the debt service on

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the non-profit 501(c)(3) bonds issued by MHFA for housing. This proposal would not increase the amount of general funds that would be spent on debt service to finance supportive housing over the amount spent for GO bonds that might otherwise be authorized.

Funding of housing through non-profit 501(c)(3) bonds is expected to be much more efficient than the use of GO bonds proceeds. Experience has shown that the requirements attached to GO bonds proceeds further complicate already complicated financing. Additional legal expenses are incurred. Many communities have limited experience with ownership of residential project so that they frequently contract with non-profits to manage the property. A number of non-profits, on the other hand, have considerable experience owning and operating supportive housing; management and monitoring of the housing is simplified with non-profit ownership as compared to ownership by a local unit of government.

Projects that are owned by non-profit organizations have been more likely to obtain a larger portion of total funding from non-state resources and from a greater variety of sources compared to projects owned by local units of government. Federal Low Income Housing Tax Credits are the largest sources of equity for affordable housing. Combining tax credits and GO bonds proceeds into one housing development has proven to be a formidable task.

A portion of the \$30 million may be requested for GO bond proceeds; that portion will be determined as we gather more information about proposed projects and possible public owners. If the non-profit bond alternative is not adopted, the appropriation requested would be the Local Government Assisted Housing Account Program (Minn. Stat. § 462A.202, Section 3a).

This request is made in conjunction with the efforts of the Energy and Environment Interagency Group. The supportive housing developed with funding under this proposal will be energy efficient and respectful of the environment. MHFA has adopted a sustainable, healthy housing policy that encourages optimizing the use of cost-effective, durable building materials and systems, and minimizing the consumption of natural resources during construction/rehabilitation and long-term maintenance and operation. Mandatory design standards have been developed to implement this policy for rental housing projects.

Impact on Agency Operating Budgets (Facilities Notes)

Funding this program will have no impact on the agency's operating budget. The ongoing operating costs or supportive services will be provided from other sources, including resident contributions, and federal, state, and local government funds.

Previous Appropriations for this Project

Since 1990, the legislature has appropriated funds each biennium for supportive housing developments as part of capital bonding legislation. In the last two bonding cycles, the legislature has appropriated GO bond proceeds totaling \$29.5 million in the support of the Business Plan to End Long-Term Homelessness. In addition, in 2002, \$16.2 million in GO bonds proceeds were appropriated for two projects targeting homeless veterans.

Other Considerations

The 2003 Minnesota Legislature directed the commissioners of the Housing Finance Agency, and the departments of Human Services, Corrections, and Employment and Economic Development, to convene a Work Group on Supportive Housing for Persons Experiencing Long-Term Homelessness. This group's mission was to develop and implement strategies to make the various systems more cost effective and to increase the employability and self-sufficiency of families with children and individuals who experience long-term homelessness. (Laws of Minnesota 2003, Chapter 128, article 15, section 9.) This Working Group submitted a report and business plan to the legislature in March 2004. In 2007, the Business Plan was recalibrated to reflect the three years of experience in implementing the Business Plan. The 2007 Recalibration of the Business Plan for Ending Long-Term Homelessness in Minnesota can be found at: http://www.mhfa.state.mn.us/multifamily/LTH_Recalibration.pdf.

The State's commitment to the success of this Business Plan is demonstrated by the fact that implementation of the Business Plan is ahead of schedule. The cumulative goal of the end of 2006 was to finance 1,000 additional housing opportunities for households experiencing long-term

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homelessness. By that date, funding for 1,091 housing opportunities had been committed and funding amounts are at plan levels.

The State's leadership on the issue of long-term homelessness has garnered both financial and policy support from outside state government. The private sector has contributed to individual housing projects as well as to a "Partners Fund" for needed social and health services. Many regions of the state have completed plans that align with the State's Business Plan, including 20 counties in Southeast Minnesota, Duluth/St. Louis County, St. Paul/Ramsey County and Minneapolis/Hennepin County.

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Governor's Recommendations