

Minnesota Housing - Successfully positioning investment in housing as investment in infrastructure

Overview:

The primary focus of Minnesota Housing's legislative strategy during the 2012 Minnesota Legislative session was obtaining housing resources through the bonding bill. The agency defined a legislative strategy that included the following elements:

- 1) Position investment in housing as investment in infrastructure;
- 2) Create a unified voice in partnership with affordable housing advocates.
- 3) Define common key messages to support the strategy for multiple stakeholders to utilize;
- 4) Facilitate meetings throughout the legislative session to keep advocates supporting the legislative strategy informed and in the loop on latest developments;
- 5) Create uniform supporting document outlining the request and the need that Minnesota Housing and all housing advocates who were supporting the legislation could use to educate legislators and the public on the rationale behind the funding request;
- 6) Create a detailed FAQ to support discussion and make sure that everyone was communicating accurate information.

As a result, Minnesota Housing was successful in securing \$35.5 million in Housing Infrastructure Bonds and General Obligation bonds for public housing rehabilitation. Unlike previous years when housing advocates often lobbied for competing resources with sometimes unrealistic goals (just a year ago, housing advocates sought \$100 million to fix housing in a year with a \$6 billion state budget deficit), the agency spent a great deal of time and effort to explain the strategy and get people on board with a unified housing request.

Position investment in housing as investment in infrastructure

The Minnesota Housing Commissioner and policy staff worked tirelessly, mostly behind the scenes, with legislators, legislative staff, Minnesota Management and Budget staff, and the Governor's staff to make sure Minnesota Housing received the critical resources to fund the affordable housing that is so badly needed based on the idea that investing in housing is just as important as investing in traditional infrastructure projects like road and bridges.

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The agency gathered advocates last fall and worked together on one single proposal that all of the disparate advocacy groups could solidly support. It was remarkable to watch advocates for the homeless working and testifying side by side with for-profit housing developers, community land trusts and public housing authorities -- all putting aside their differences and working for one single proposal. It was great to see so many people telling the story to their legislators about what a difference affordable housing makes for peoples' lives.

The final legislation includes three elements:

- a) **\$30 million for housing infrastructure bonds** to address affordable housing infrastructure needs. These are similar to nonprofit housing bonds, first authorized in 2008, which are also appropriation bonds. Funds will be used to preserve existing federally subsidized rental housing; stabilize communities impacted by the foreclosure crisis by creating new affordable housing opportunities through rental units and community land trusts; and construct or acquire and rehabilitate supportive housing, particularly for persons experiencing or at risk of experiencing long-term homelessness. The agency will issue the bonds; a standing appropriation for 20 years was made to pay the debt service.
- b) **\$5.5 million in General Obligation (G.O.) bond proceeds to Minnesota Housing for public housing preservation.**
- c) **\$2 million for Harriet Tubman Center** - In addition to the bond proceeds awarded to Minnesota Housing, \$2 million in GO bond proceeds was directed to the MN Department of Human Services for the capital costs of the Harriet Tubman Center in Washington County for a domestic violence shelter and other services.

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Visual Aid: Matrix of what worked well and what could be improved

2012 Legislative De-Brief

MAJOR OBSERVATIONS

	WHAT WENT WELL	WHERE WE GOT STUCK	WHAT WE COULD DO DIFFERENTLY
Legislative Priorities - Progress	Stayed on message Collectively decided on message		Educate key legislative staff early and often. Possibly use brown bag lunches or a group volunteer project to educate them about housing issues. Partner with Minnesota Housing in setting agenda.
Environmental influences New majority, very divided	Didn't make assumptions about Republicans. Developed relationships with new lawmakers. Didn't stick with Governor's \$32M.	Didn't think through what we would do if Governor included less than our ask for housing.	Plan for alternatives
Housing Lobbyists Strategy/ Decision Making	Coordinating info sharing, built new relationships. This helped working with lawmakers.	Share weekly meeting information	How best to share weekly meeting info with those who can't be there? Phone calls, conference call?
Advocacy Partners/Supporters H4A Alliance MHFA Other constituencies	Built new partners including JRLC and unions. Tuesday meetings make joining easy.		ID new potential partners this summer including: Realtors - invite to a monthly meeting businesses communities with a high affordable housing need

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			market rate affordable housing Bring new partners to MHFA summer meetings.
Legislators Champions Those we Influenced To do (will be ongoing)	New champions created!		
Mobilization Events: Session Preview, Lobby Days Grassroots action (action alerts, phone calls, letters, etc.) Speed lobbying Social media Other (i.e. Bill Ding)	Partnership at Days on the Hill Mini lobby days one-on-one lawmaker meetings, coordination and constituent involvement Fun! Bill Ding and videos Action Alerts - concise and involved new people in the process		Increase and improve the media strategy. Increase constituent involvement and engagement in lawmaker visits.
Media advocacy News articles Opinion Editorials, Letters to the Editors TPT Documentary Lit drops	Positive use of the 2x4 report, district profiles and graphics		Create a media team to improve reporting on housing issues and act as a rapid response to stories. Visual graphics - will help with media
Materials/Research 2012 Housing Facts for			

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Advocates	Combined fact sheets		
Factsheets	consistent and clear messaging		
Talking Points	TPT documentary		
Communications to Partners			
Weekly meetings @ Capital	Weekly meetings were key to keeping everyone on point.		See above about sharing meeting information.
Monthly H4A Meetings			
Other			

2012 Capital Investment Request for Housing Frequently Asked Questions

1. What are appropriation bonds?

- Appropriation bonds are bonds issued by the state or other governmental entity for which there is enough money in the state budget to cover the debt service (principal and interest) payments to bondholders for each year the bonds are outstanding.
- Housing Infrastructure bonds are appropriation bonds for the public purpose of providing housing for low- and moderate-income families who are unable to afford adequate housing without assistance and to improve substandard housing conditions. Minn. Stat. §462A.02, subd. 6.

2. Why both appropriation bonds and General Obligation (GO) bonds?

- Under Minnesota's constitution, General Obligation bonds may only be issued for publicly owned properties.
 - Private ownership of affordable and supportive housing is more acceptable in many communities than public ownership – 72,000 privately owned, subsidized units compared to 21,000 public housing units.
 - In small communities, the public entity is inexperienced in developing and owning housing and is sometimes hesitant to take on the task. The GO bond process becomes a barrier.
 - Important federal housing resources - notably the Housing Tax Credit – require private ownership of properties.
- Financing for housing through GO bond proceeds is an impediment to leveraging other resources available for affordable housing.
 - Combining GO bond proceeds with other funding sources adds costs to projects, both in terms of construction and legal fees. These projects have to have a project within a project with separate elevators, heating systems and other elements required only because of the source of financing.
 - For smaller projects, the complexities almost outweigh the benefits.
- Appropriation bonds will reduce the legal and administrative costs associated with GO bond funded projects, and ease the challenge of blending resources.

3. What are the main differences between GO bonds and appropriation bonds?

- The full faith and credit of the state and its taxing power are irrevocably placed behind the issuance of GO bonds, but not appropriation bonds.
- The appropriations are pledged to bondholders with appropriation bonds rather than the state's taxing authority.
- Future legislatures may rescind the commitment to pay the debt service on appropriation bonds and the state has no legal obligation to continue to appropriate funds to pay the debt service on appropriation bonds.

4. Is there any precedent for appropriation bonds?

- Yes. In 2008, the legislature authorized Minnesota Housing to issue \$30 million in appropriation bonds that were known as Non-profit Housing Bonds.
- In 2006, the legislature authorized appropriation bonds for the University of Minnesota football stadium.
- In 2008, the legislature also authorized appropriation bonds for biomedical science research facilities.
- In each of these instances, the appropriation bonds were used for public purposes.

5. What were the Non-Profit Housing Bond proceeds used for?

- 397 units of supportive housing were created or rehabilitated with bond proceeds
- Seven projects were funded. The projects were located in Owatonna, Nett Lake, St. Cloud, Minneapolis and St. Paul.
- Six of the seven projects are completed and occupied. The seventh, and largest, project is expected to be completed in the spring of 2012.

6. In the last 10 years, has the bonding bill contained appropriations for housing?

- Yes. Housing has been included as follows:
 - 2002 - \$16.2 million in GO bonds
 - 2005 - \$12 million in GO bonds
 - 2006 - \$19.5 million in GO bonds
 - 2008 - \$30 million in non-profit housing bonds
 - 2009 - \$2 million in GO bonds
 - 2010 - \$6 million was added to the bonding authority granted in 2008. Due to lower than estimated interest rates, the additional authority did not increase the existing debt service.
 - 2011 - \$0

7. Where is the money coming from to pay the bondholders?

- The general fund. This is similar to GO bonds; Minn. Stat. §16A.641, subd. 10 provides for an annual appropriation from the general fund to the state bond fund in an amount sufficient to pay the principal and interest on all state bonds due through the next fiscal year.
- For appropriation bonds, the legislature must appropriate the money to pay the bondholders for each of the 20 years the bonds are outstanding. The appropriation is made as a standing appropriation.

8. Why are these bonds described as housing infrastructure bonds?

- Affordable, well-maintained housing is a critical element of a community's infrastructure to support economic development and a good quality of life.
- Affordable housing, similar to other infrastructure systems such as roads, bridges or sewers, requires periodic reinvestment to maintain an adequate system.
- Affordable housing generates revenue (property taxes) for the counties and cities in which the projects are located.

9. How much is the debt service?

- The estimated annual debt service on \$25 million of housing infrastructure bonds is \$1.85 million.

10. What are the assumptions used to calculate the debt service?

- 20 year term for the bonds
- Equal annual payments of principle and interest
- The bonds bear interest at an average annual rate of 4%

11. Does the annual debt service on appropriation bonds need to be treated differently than the debt service on GO bonds in legislation?

Yes. Because the full faith and credit and taxing authority of the state cannot be pledged to the payment of the appropriation bonds, specific appropriations must be made separate and apart from the appropriation made in Minn. Stat. §16A.641, subd. 10 for GO bonds.

12. Will the debt service appropriation come from the agency's general fund base budget?

No. Historically, the costs of bonding for projects are not taken from an agency's base budget.

13. Who issues the bonds?

- Minnesota Housing will issue the bonds.

14. How will the bond proceeds be awarded?

- Bond proceeds will be awarded on a competitive basis.
- Projects will be assessed under existing program rules.

15. How many housing units will be improved or constructed with this funding?

- It is estimated that \$32 million in bonding authority will result in approximately 1,000 units of affordable housing rehabilitated or constructed. The estimate is based on assumptions about the allocation of funding between the various allowable activities and historic per unit cost averages for each activity.

16. Will private resources be leveraged for the activities funded with the bond proceeds?

- Yes. In the case of preservation of federally assisted housing, the acquisition and rehabilitation of projects will be partially funded with a mortgage paid by the owner and with equity from tax credit investors. The bond proceeds will be used to fill the financing gaps that remain.
- With respect to foreclosure recovery efforts, owners of homes held in a land trust will have a mortgage for the purchase of the structure.
- Based on experience with the bonds authorized in 2008, it is likely that supportive housing projects will attract additional private and public dollars as well.

17. Will for-profit entities be able to access the bond proceeds?

- Yes, so long as the bond proceeds are used to provide affordable housing.

18. Why do we need more affordable housing?

- The rental housing vacancy rate is declining and in many parts of the state is well below 5%. The supply and demand for rental housing is considered to be in balance when the vacancy rate is about 5%.
- As vacancy rates tighten, rents increase; however, incomes have been either flat or declining.
- The foreclosure crisis has increased the need for rental housing as families who have lost their homes will be unable to purchase a new home for a number of years.
- Even with the existing supply of federally assisted housing, the percentage of Minnesota renters who are cost burdened (pay more than 30% of their income for housing) has increased from 37% in 2000 to 50% in 2009.
- Sixty-four percent (64%) of renter households with incomes below \$50,000 are cost burdened.
- Deteriorating, vacant housing has a negative impact on property values of surrounding homes and the community's sense of safety and well-being.

19. Who will be eligible to live in the affordable housing created or rehabilitated with this funding?

- Income limits vary by activity funded. The maximum income allowable is 80% of area median income for a four person household. For 2012, for a family of four, 80% of area median income is \$67,200 in the Twin Cities Metro area, \$65,000 in the Rochester Metro area and \$59,200 in the remaining areas of the state.
- Historically, the housing funded by Minnesota Housing serves households with incomes well below the program maximum.
- In Fiscal Year 2010, 50% of the households served with Minnesota Housing funding had incomes at or below \$36,550.
- 65% of households living in public housing have annual incomes of less than \$15,000.
- The median income of households served by community land trusts is about \$31,000.

20. Will the bonding request help to produce or retain any jobs?

- Yes. The most recent analysis of the economic impact of Minnesota Housing's investment finds that Minnesota Housing's jobs-to-spending ratio is 11.8 jobs per million dollars of investment; the bonding request (\$32 million total) is likely to support between 380 and 440 jobs.
- The economic activity and employment generated by Minnesota Housing's spending includes construction workers and the purchase of building materials as well as the indirect effects such as employment generated by the production of lumber, windows, shingles and other materials used in the housing industry and the indirect effects of employment generated as a result of spending on goods and services by people employed directly and indirectly as a result of Minnesota Housing's investment.

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2012 Bonding Requests

Improve and Augment Statewide Affordable Housing Infrastructure

- \$25 million in housing infrastructure bonds to address affordable housing infrastructure needs in communities throughout the state. The housing infrastructure bonds are appropriations bonds. Funds will be used to:
 - preserve existing federally subsidized rental housing,
 - stabilize communities impacted by the foreclosure crisis by creating new affordable housing opportunities through rental units and community land trusts, and
 - construct or acquire and rehabilitate supportive housing, particularly for persons experiencing or at risk of experiencing long-term homelessness.
- \$7 million in General Obligation (GO) bonds for public housing preservation.

- Proceeds from the housing infrastructure bonds will be used to rehabilitate, stabilize or construct privately owned affordable housing.
- Proceeds from the GO bonds will be used to address health and safety issues, to replace and repair major systems and for energy conservation measures to reduce operating costs of public housing units owned by one of the 124 local housing authorities across the state.
- Funding will be provided to the extent that the property, due to the occupants' low incomes, cannot support debt and no other resources are available.
- Housing must be affordable to and occupied by low- and moderate-income households.
- Affordability must be maintained for at least the term of the bonds (20 years).
- Annual debt service on \$25 million is budgeted at \$1.85 million; a standing appropriation for the term of the bonds must be made. Costs to state of appropriation bonds are not materially different from costs of GO bonds. Debt service costs for the GO bonds portion of the request is calculated by Minnesota Management and Budget.
- Approximately 1,000 housing units will be constructed or rehabilitated with the total funding.

Need and Impact

Preservation

- Federally assisted, privately owned rental housing provides affordable housing to 31,000 low- and moderate-income Minnesota households.
- Public housing provides quality affordable housing for 21,000 very low-income Minnesota households; over 65% of the residents have household incomes under \$15,000.
- In the next 5 years, owners of nearly 10,000 units of the federally assisted housing could choose to convert the housing to market rate housing.
- Due to the age of the federally assisted and public housing properties, many are in need of substantial rehabilitation and updating. The income from these properties is insufficient to make needed improvements.
- Bond proceeds will preserve these important community resources. Gap financing will be provided to owners of federally assisted housing for the rehabilitation costs so that owners can afford to continue to participate in the federal program and to provide very affordable, quality housing. Public housing authorities will be able to address major systems repairs and improvements so that required property standards are met and operating costs are reduced.
- \$1 in state funding for gap financing can leverage \$2 in private funding: \$1 from amortizing debt paid by the owner and \$1 in private equity from housing tax credit investors. In addition, for every \$1 in state funding for the preservation of federally assisted housing, \$5.50 in federal funding is secured.

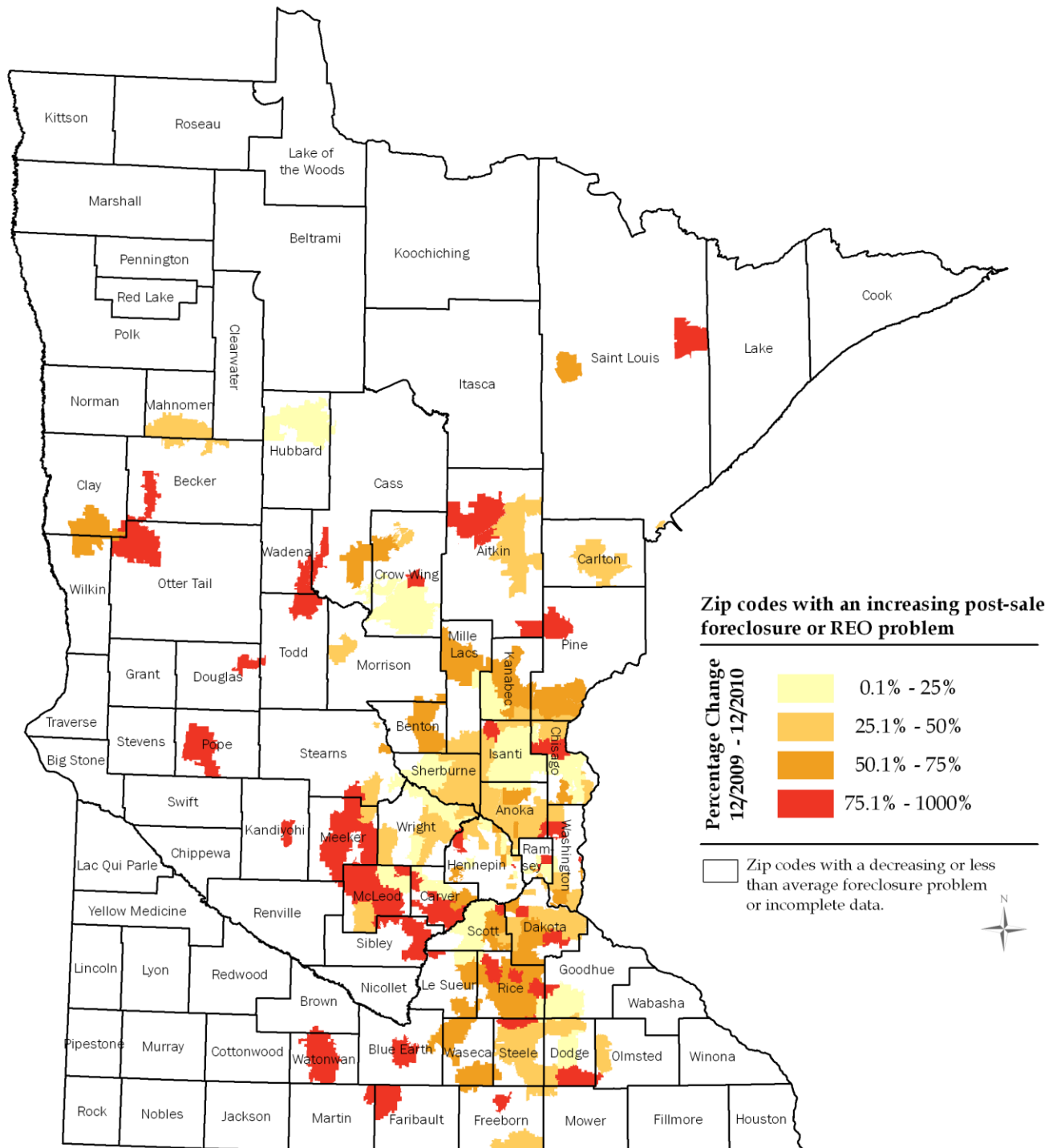
Foreclosure

- The annual number of Minnesota foreclosures has increased nearly 300% since 2005. Although the annual number of foreclosures is beginning to decrease, this crisis has left tens of thousands of vacant homes. Vacant homes destabilize communities, lowering surrounding property values and making it hard to attract new residents and businesses.
- Due to their damaged credit, former homeowners are now renters. The demand for affordable rental properties far exceeds supply in nearly every Minnesota community. Large families and those with disabilities face even greater affordable housing challenges.
- Post-foreclosure, vacant homes typically require substantial rehabilitation due to deferred maintenance and neglect. The tightening of credit has made it difficult to finance both the purchase of a foreclosed home and the needed rehabilitation.
- Bond proceeds would be used by affordable housing developers to acquire and rehabilitate foreclosed property or replace substandard, foreclosed properties and provide affordable housing opportunities for individuals and families for at least 20 years.
- Bond proceeds would also assist community land trusts in acquiring foreclosed properties and leasing the land for the long term to low- and moderate-income homeowners. By placing the land in a community land trust, the cost to the homebuyer is lowered and the affordability of the housing is maintained for the long-term.

Supportive Housing

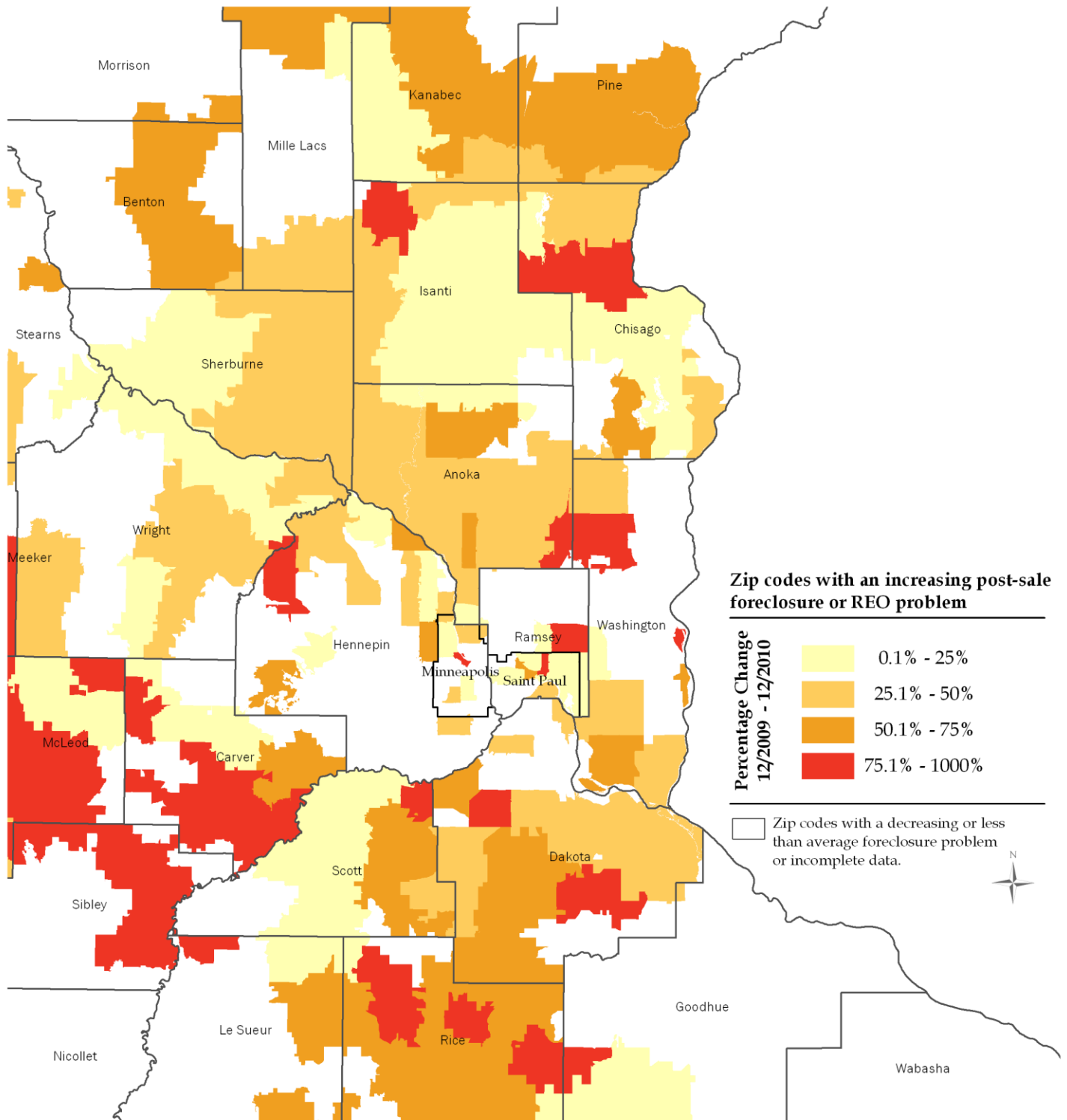
- An estimated 46,400 persons were homeless at least once during 2009, the last year for which the Wilder Research Center made estimates based on their statewide survey. 13,100 persons were homeless on any given night.
- Children comprise one-third (1/3) of the homeless population. The number of young adults (18-21) who were homeless increased by 57% between 2006 and 2009.
- Persons experiencing homelessness face serious barriers to stable housing, including serious mental illness, chronic health conditions, and domestic abuse.
- Bond proceeds would assist with the construction and acquisition/rehabilitation of supportive housing. Supportive housing combines affordable housing with needed support services.
- Supportive housing is proving to be a successful strategy to end long-term homelessness. Persons housed are maintaining housing stability. The costs are offset by the reductions in emergency expenditures due to reduced usage of jails, emergency rooms, and detox facilities.
- Fewer than 500 additional permanent supportive housing opportunities are needed to meet the goal of 4,000 housing opportunities established in Minnesota's Business Plan to End Long-term Homelessness.

Percentage Change in Loans in Post-Sale Foreclosure or REO December 2009 - December 2010



Source: Minnesota Housing analysis of data from LPS Applied Analytics.

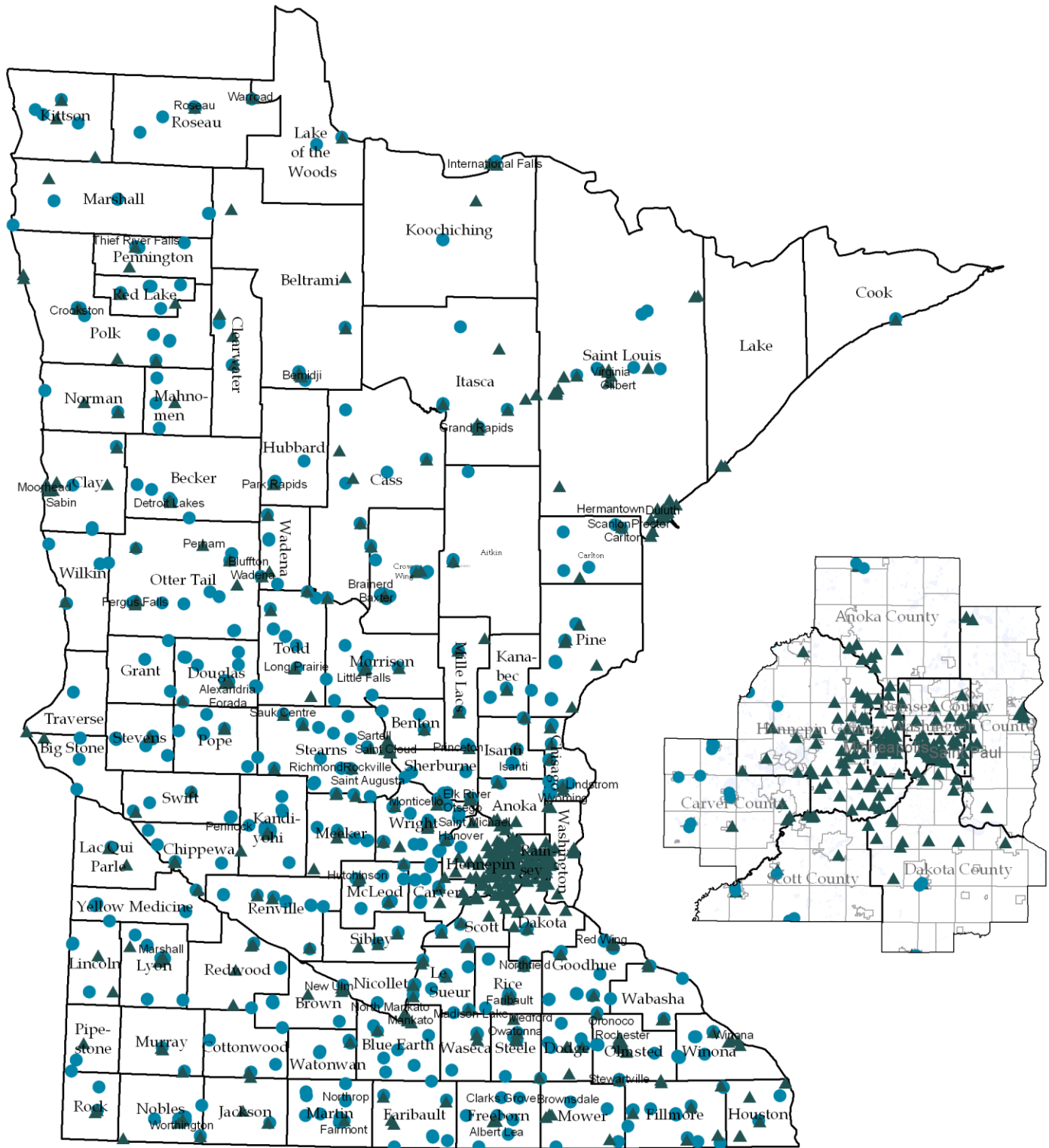
Percentage Change in Loans in Post-Sale Foreclosure or REO December 2009 - December 2010



Source: Minnesota Housing analysis of data from LPS Applied Analytics.

Locations of Federally Subsidized Programs

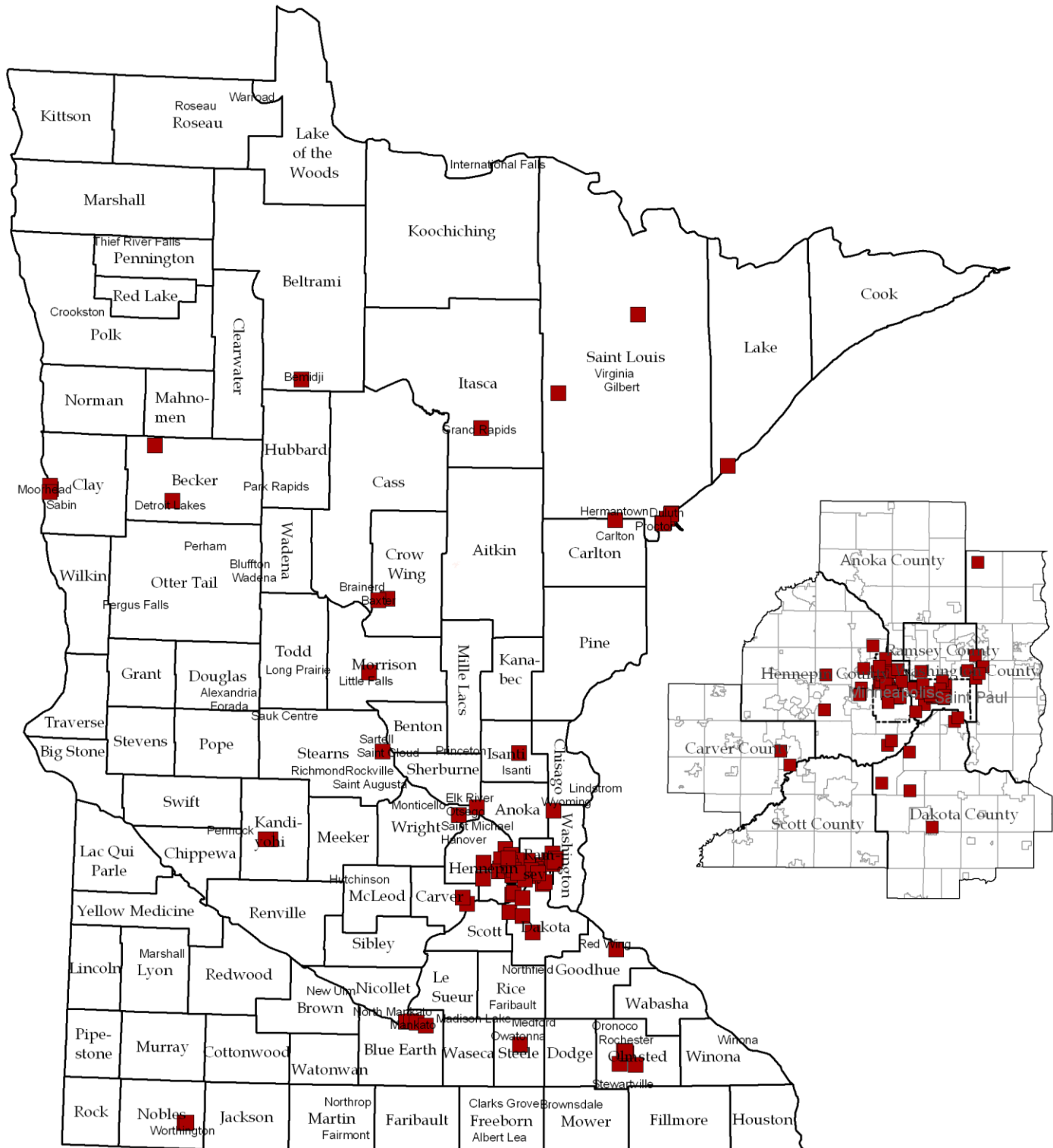
- ▲ Section 8 Properties
- USDA Rural Development Properties



Locations of Supportive Housing

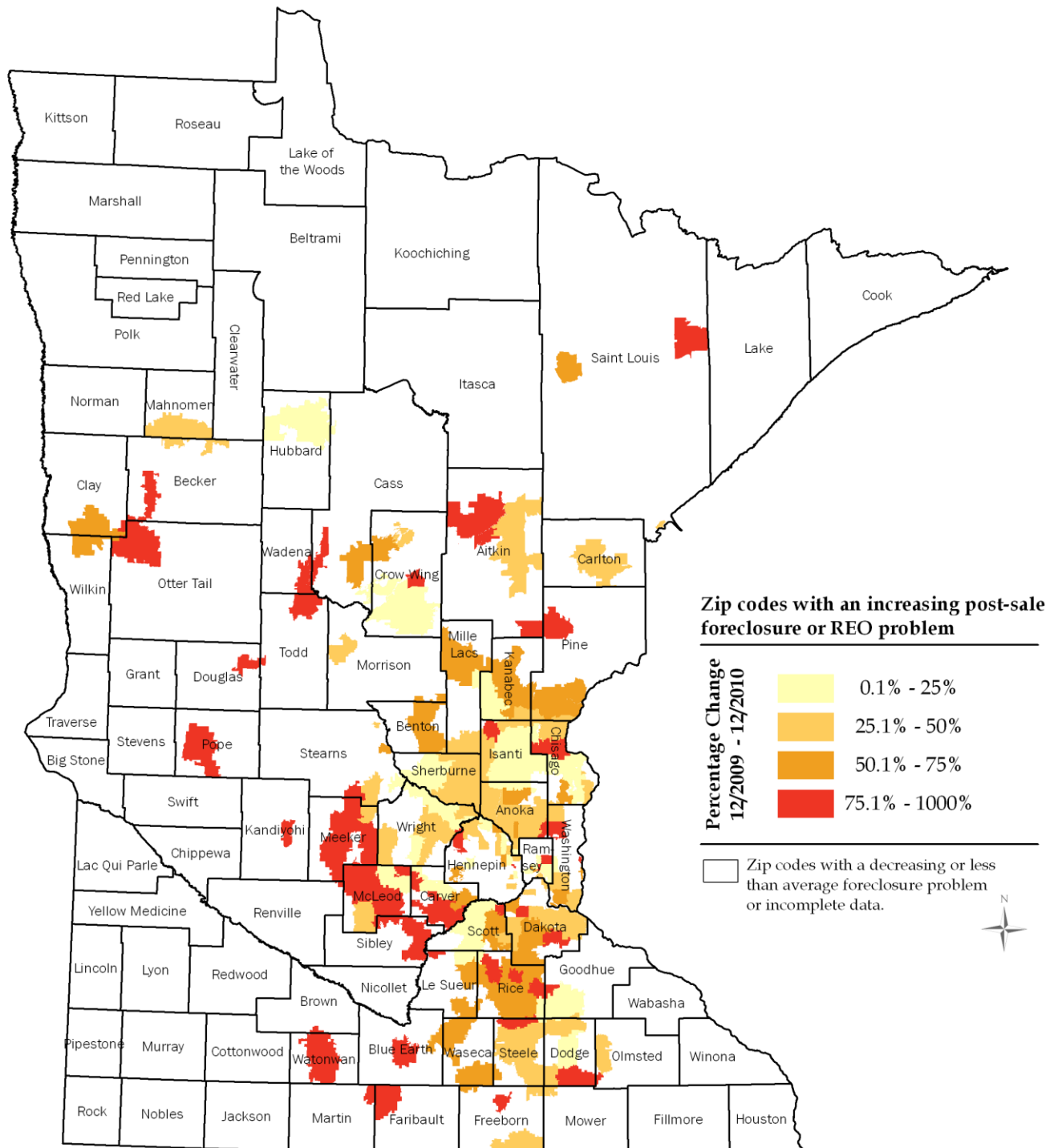
Supportive Housing

■ 120 developments (1,341 Long Term Homeless units)



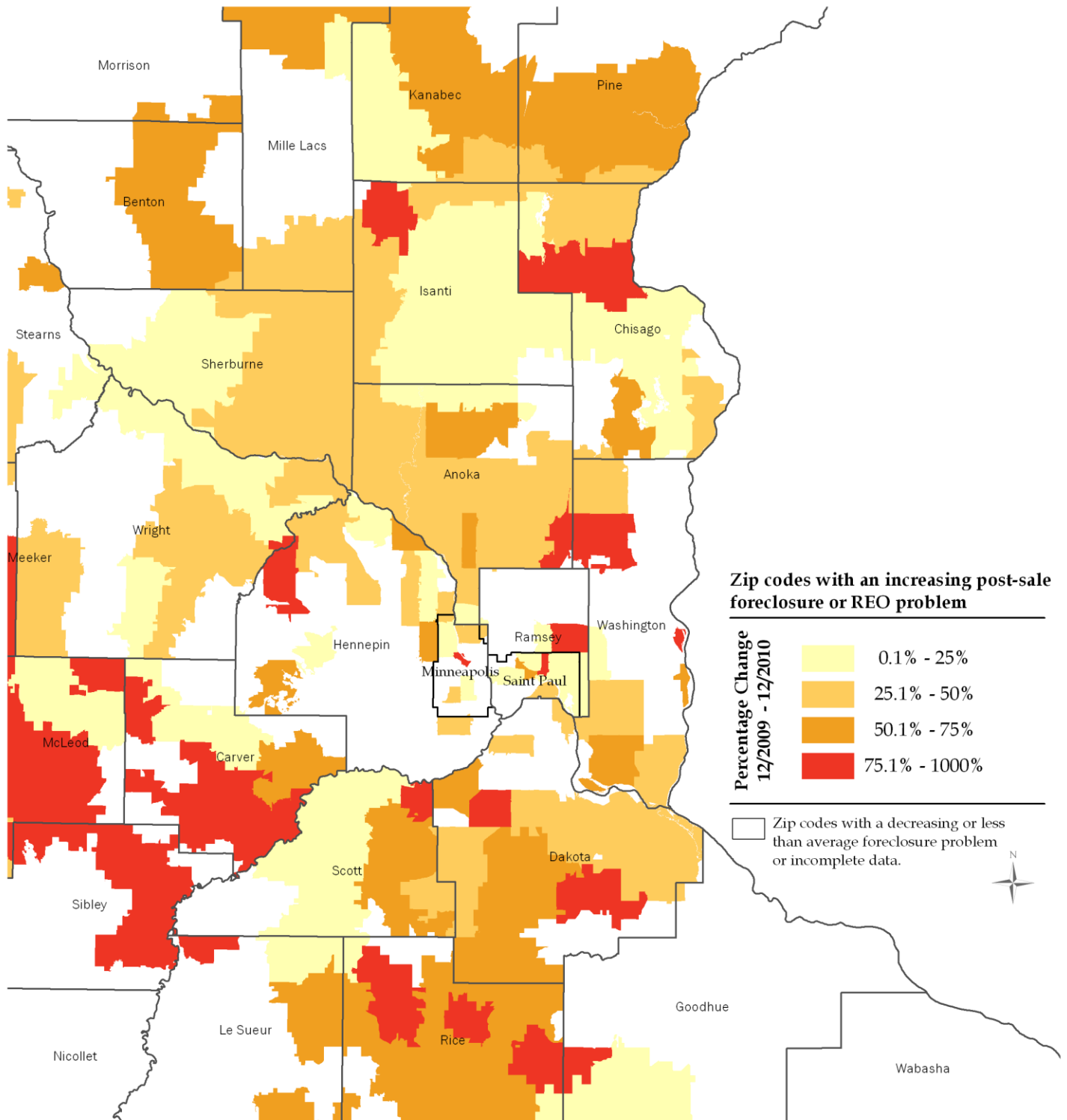
Source: Supportive Housing with Long Term-Homeless Units (not including transitional or shelters) – October, 2011

Percentage Change in Loans in Post-Sale Foreclosure or REO December 2009 - December 2010



Source: Minnesota Housing analysis of data from LPS Applied Analytics.

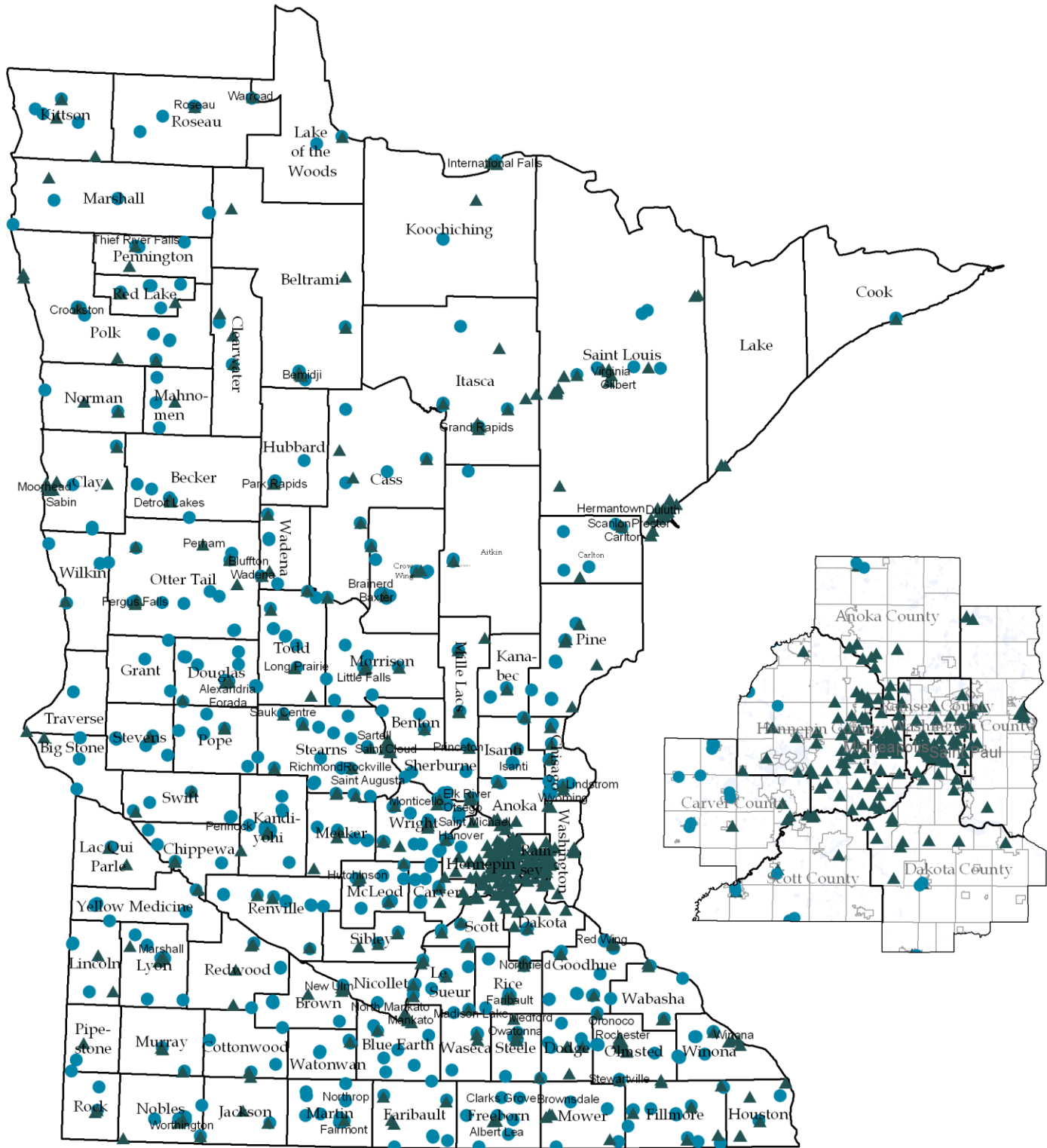
Percentage Change in Loans in Post-Sale Foreclosure or REO December 2009 - December 2010



Source: Minnesota Housing analysis of data from LPS Applied Analytics.

Locations of Federally Subsidized Programs

- ▲ Section 8 Properties
- USDA Rural Development Properties

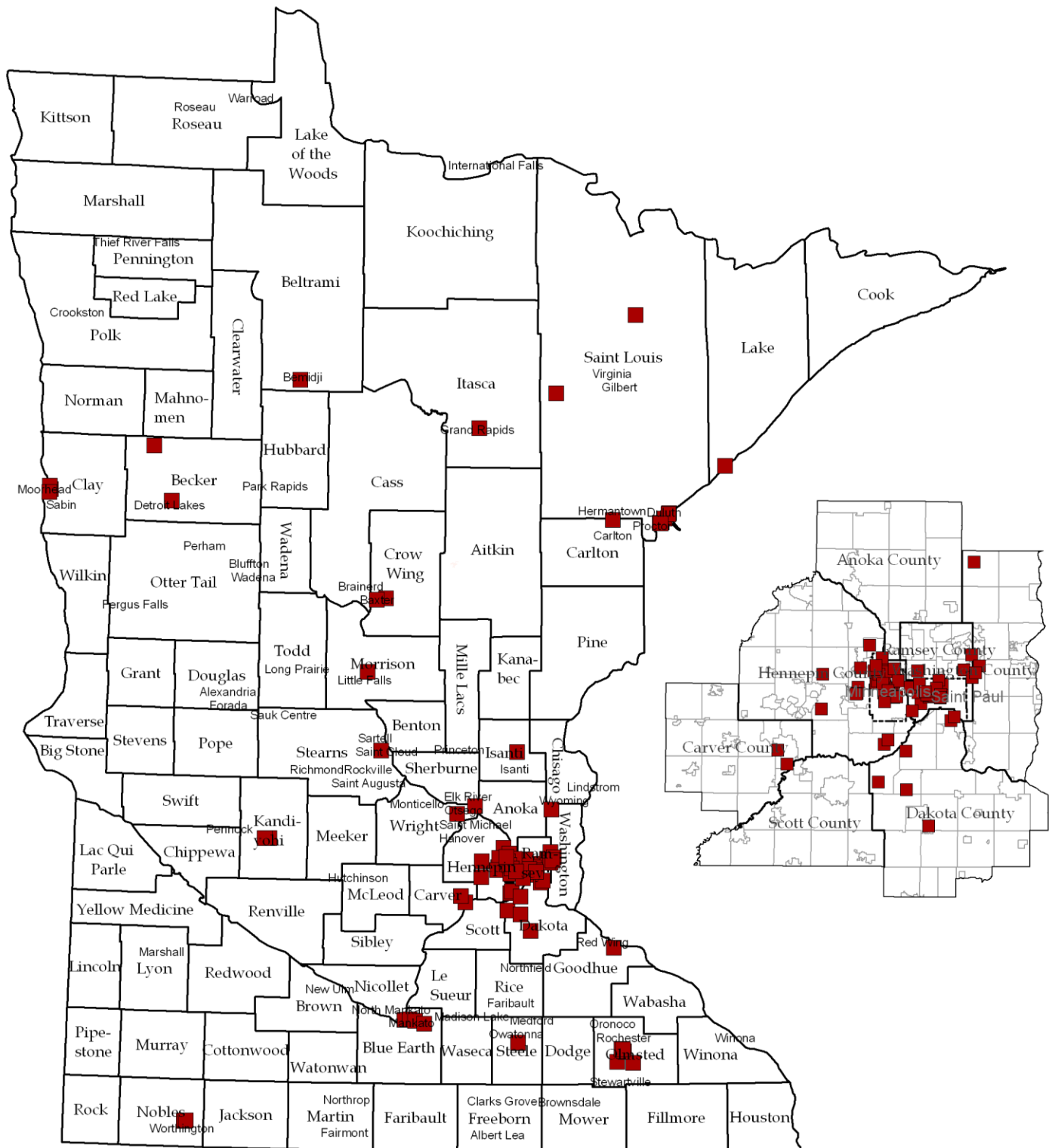


Source: Minnesota Housing Section 8 Portfolio (July, 2011), USDA Rural Development (March, 2011).

Locations of Supportive Housing

Supportive Housing

■ 120 developments (1,341 Long Term Homeless units)



Source: Supportive Housing with Long Term-Homeless Units (not including transitional or shelters) – October, 2011