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January 25, 2005

The 2005 Minnesota Legislature:

On behalf of Governor Pawlenty, I am pleased to submit recommendations for the FY 2006-2007 budget for the Minnesota Housing Finance Agency (MHFA). This budget includes a total of \$56,540,000 in expenditures from the General Fund. State appropriations currently constitute 8% of the total MHFA program budget. MHFA revenue bond proceeds represent the largest source of funding for MHFA activities and comprise approximately 46% of the total MHFA program budget. Federal funds and Agency resources make up the balance of the budget. The MHFA does not use state appropriations for its operating budget, but self-funds operations.

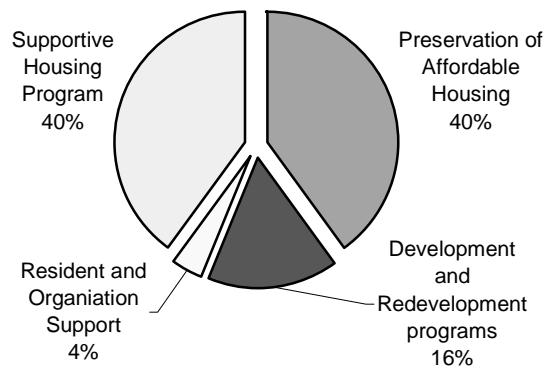
With the Governor's budget recommendations, the Agency will continue its efforts to strategically target its housing resources consistent with the Agency's mission of meeting Minnesotans' needs for decent, safe, affordable homes and stronger communities. Due to the state's strong commitment to housing, the state currently enjoys the highest homeownership rate in the nation at nearly 77% and the second lowest percentage of households with critical housing needs (paying more than 50% for housing).

Under the proposed budget, the Agency will maintain all current activities, although some activities will continue at a lower volume. The primary activities of the MHFA fall into five broad categories. The graphic indicates how state appropriations are proportioned among four of the activities. The fifth activity, homeownership loan programs, will be funded primarily through repayments of loans made with previous state appropriations and mortgage revenue bond proceeds. Other programs, such as the Rehabilitation Loan program, similarly are able to operate in the short-term with a smaller investment of new state monies due to repayment or prepayment of previously made loans.

The proposed budget was guided by the following principles:

- 1) Priority should be given to programs that serve the most vulnerable populations.
- 2) Priority should be given to activities that directly assist the Agency in achieving its five strategic goals: ending long-term homelessness, preserving affordable housing, increasing minority homeownership, increasing housing choices for workers, and establishing the Agency as a housing partner of choice.
- 3) Priority should be given to activities that optimize the contribution of non-state resources to affordable housing.

**Minnesota Housing Finance Agency
\$56.5 Million FY 2006-07 General Fund**



- 4) Priority should be given to activities for which there is little or no other funds to support the same or very similar activity.
- 5) Lower priority should be given to programs to the extent that non-financial tools are available to help accomplish the program objectives.

The Agency will fulfill its commitment under the state's Business Plan to End Long-Term Homelessness by increasing funding for the Housing Trust Fund program by \$4 million for FY 2006-2007. This increase is accomplished by a reallocation of appropriated funds. The Agency is continuing to develop strategies to make progress on all of its strategic goals with reduced resources. Enhanced alignment of housing resources and strategies, increased targeting of resources, and authority for additional financing tools will assist the Agency to advance its strategic goals with fewer state funds.

Please feel free to contact me via telephone at (651) 296-5738 or e-mail at tim.marx@state.mn.us or Tonja Orr via telephone at (651) 296-9820 or e-mail at tonja.orr@state.mn.us if you have any questions or would like to discuss these proposals with us.

Sincerely,



Timothy E. Marx
Commissioner

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	35,385	34,885	34,885	34,885	69,770
Recommended	35,385	34,885	28,270	28,270	56,540
Change		0	(6,615)	(6,615)	(13,230)
% Biennial Change from 2004-05					-19.5%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	0	0	28,270	28,270	56,540
Statutory Appropriations					
Housing Finance Agency	255,557	251,730	197,753	198,064	395,817
Total	255,557	251,730	226,023	226,334	452,357
<u>Expenditures by Category</u>					
Total Compensation	13,129	14,107	14,596	15,083	29,679
Other Operating Expenses	7,415	7,752	6,292	6,116	12,408
Payments To Individuals	168,400	168,362	165,889	165,889	331,778
Local Assistance	3,835	4,423	4,118	4,118	8,236
Other Financial Transactions	62,778	57,086	35,118	35,118	70,236
Transfers	0	0	10	10	20
Total	255,557	251,730	226,023	226,334	452,357
<u>Expenditures by Program</u>					
Appropriated Programs	81,055	65,773	41,418	41,418	82,836
Non Appropriated Programs	174,502	185,957	184,605	184,916	369,521
Total	255,557	251,730	226,023	226,334	452,357
Full-Time Equivalents (FTE)	182.9	190.4	190.4	190.4	

HOUSING FINANCE AGENCY

Change Summary

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
<i>Fund: GENERAL</i>				
FY 2005 Appropriations	34,885	34,885	34,885	69,770
Technical Adjustments				
Current Law Base Change		885	885	1,770
Subtotal - Forecast Base	34,885	35,770	35,770	71,540
Change Items				
Budget Reductions	0	(3,000)	(3,000)	(6,000)
Challenge Budget Cut & Consolidation	0	(6,500)	(6,500)	(13,000)
HTF-Ending Long-Term Homeless Initiative	0	2,000	2,000	4,000
Total Governor's Recommendations	34,885	28,270	28,270	56,540
<i>Fund: HOUSING FINANCE AGENCY</i>				
Planned Statutory Spending	251,730	197,753	198,064	395,817
Total Governor's Recommendations	251,730	197,753	198,064	395,817

HOUSING FINANCE AGENCY

Change Item: Budget Reductions

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$3,000)	(\$3,000)	(\$2,115)	(\$2,115)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$3,000)	(\$3,000)	(\$2,115)	(\$2,115)

Recommendation

The Governor recommends a reduction in state General Fund appropriations totaling \$6 million to the following programs:

Affordable Rental Investment Fund – Preservation (PARIF) -- \$1,484,000
Rehabilitation Loan Program - \$2,636,000
Homeownership Assistance Fund (HAF) - \$1,770,000
Non-Profit Capacity Building Program - \$110,000

These reductions are 40% of the total reductions proposed for MHFA. The reductions are consistent with the 5 principles that MHFA developed to guide budget decisions. These principles are:

- ◆ Priority should be given to programs that serve the most vulnerable populations.
- ◆ Priority should be given to activities that directly assist the Agency in achieving its five strategic goals.
- ◆ Priority should be given to activities that optimize the contribution of non-state resources to affordable housing.
- ◆ Priority should be given to activities for which there is little or no other funds to support the same or very similar activity.
- ◆ Lower priority should be given to programs to the extent non-financial tools (such as land use planning) are available to help accomplish the program objectives.

Background

Preservation Programs:

The PARIF program leverages considerable federal funds. On average, \$1 of PARIF funds secures future federal expenditures of \$5. The rental housing being preserved serves the very lowest income households and the elderly.

Unless other strategies are employed, approximately 150 fewer units of federally assisted housing or supportive housing will be preserved as compared to the previous biennium. Repayments of earlier loans may offset approximately one-third of the reduction.

The Rehabilitation Loan program receives approximately \$2.5 million in repayments each biennium. These repayments are reinvested in the new deferred loans. Combining the reduced level of state appropriations and expected repayments will allow the program to operate at a level equivalent to the previous base level. The long-term consequences of reduced funding for this program is that repayments will dwindle resulting in an even smaller amount of assistance available in the future.

Approximately 132 fewer low-income homeowners will receive a deferred loan to address needed repairs to their home.

Homeownership Loan Programs:

The Homeownership Assistance Fund program provides deferred loans to first time homebuyers to help with the down payment and entry costs. The activity is expected to be one of the primary focuses of efforts to increase the homeownership rate among emerging markets. In the last three years, the program has experienced unprecedented levels of repayments due to high levels of refinancing. As a consequence, the program is able to sustain a level of activity comparable to that of a base level funding even when no appropriations are made. It is expected that repayment levels will be returning to normal levels over the next two years. If funding is not restored for the FY 2008-09 biennium, a substantial reduction in activities will occur. Approximately 327 fewer first-time homebuyers will be assisted as a result of the base not being restored for the FY 2006-07 biennium.

Resident and Organizational Support Programs:

The Non-Profit Capacity Building Program funds are used for a variety of activities including increasing or developing the capacity of non-profit organizations to provide housing for low- and moderate-income households that is not being provided by the for-profit sector. Some of the activities are necessary in order to draw down federal funds to support housing and services for the homeless. Activities that leverage other resources will be prioritized for the remaining funding.

Relationship to Base Budget

PARIF will be reduced by 8%; the program would be funded at \$17,062,000 for the FY 2006-07 biennium.

Rehabilitation Loan Program – This program will be reduced by 33% to \$5,308,000 for the biennium.

Homeownership Assistance Fund (HAF) – State appropriations for this program would be temporarily suspended for the next biennium. The funding for this program was suspended for the FY 2004-05 biennium and scheduled to be restored in the upcoming biennium. Suspended funding is proposed in order to accommodate the increase in the Housing Trust Fund and avoid even deeper cuts to the Challenge program.

Non-Profit Capacity Building Program – Funding for this program will be reduced by 18%; program funding would be \$500,000 for the biennium.

Key Measures

See key measures for the relevant budget activity under Appropriated Programs.

Alternatives Considered

Smaller reductions were considered for the homeownership loan programs; however, adherence to the principles directs the proposed distribution of reductions.

HOUSING FINANCE AGENCY

Change Item: Challenge Program Budget Reduction and Consolidation

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$6,500)	(\$6,500)	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$6,500)	(\$6,500)	\$0	\$0

Recommendation

The Governor recommends that the appropriations to the Economic Development and Housing Challenge (Challenge) program be reduced to \$8,814,000 for FY 2006-07. In addition, it is recommended that the Challenge program and the Tribal Indian Housing and Urban Indian programs be consolidated. The impact of this recommendation on the consolidated program is a nearly 60% reduction in state appropriations. In FY 2004, Challenge program funds were awarded to 50 separate housing projects. Approximately half as many workforce housing projects will be assisted in the next biennium compared to the last biennium due to the reduced state appropriations.

Background

The following principles were used to guide the development of the state appropriations budget. Principles were ranked in descending order of importance as follows:

- ◆ Priority should be given to programs that serve the most vulnerable populations.
- ◆ Priority should be given to activities that directly assist the Agency in achieving its five strategic goals.
- ◆ Priority should be given to activities that optimize the contribution of non-state resources to affordable housing.
- ◆ Priority should be given to activities for which there is little or no other funds to support the same or very similar activity.
- ◆ Lower priority should be given to programs to the extent non-financial tools (such as land use planning) are available to help accomplish the program objectives.

The Challenge program provides funds for a wide variety of housing activities including gap financing for new construction and rehabilitation of both rental and owner-occupied housing. The Challenge program is the primary state appropriated program that assists in increasing the housing choices for low and moderate-income working Minnesotans. The deferred loan funds available through the Challenge program are frequently used in combination with the federal housing tax-credit program to assist properties in setting rents that are affordable to workers in the area.

The MHFA is exploring strategies for mitigating the impact of the reduction to the program. These strategies may include improved coordination of housing resources appropriated to other state agencies with the MHFA's strategic goals, incenting efficient land use, other local regulatory actions that reduce costs, and increased private sector contribution to the development and redevelopment of affordable housing.

The two state funded programs designed to assist American Indians with their housing needs – the Tribal Indian program, and the Urban Indian program - have existed in essentially the same form for more than 25 years. The types of housing assistance needed by American Indians has changed, as have the lending practices on tribal land. The proposed consolidation is consistent with MHFA's efforts over the last five years to consolidate programs into a fewer number of flexible programs.

MHFA proposes to consolidate the two programs and the Challenge program. The consolidation of the two American Indian housing programs into the Challenge program has the potential to increase the level of activity for American Indians. It will also encourage more innovative uses of state appropriations.

Relationship to Base Budget

In FY 2004-05 the base of the Challenge program was \$19,244,000, the base from the Tribal Housing program was \$2,210,000, and for the Urban Indian Housing program was \$360,000. For the last three biennia, the Challenge program has been the largest state-appropriated MHFA program. The recommended reduction represents a 60% decrease in funding for the consolidated program. The reduction to the Challenge program reflects the higher priority given to efforts to end long-term homelessness and serve the most vulnerable populations.

Key Measures

See Key Measures for the Challenge program under Appropriated programs.

Alternatives Considered

Smaller reductions were considered for this program; however, given the extent of the total reductions and the principles developed to guide budget decisions, the proposed distributions of reductions is appropriate.

Statutory Change: M. S. 462A.33; 462A.07, subds. 14 and 15.

HOUSING FINANCE AGENCY

Change Item: Housing Trust Fund (HTF) - Ending Long-Term Homeless Initiative

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$2,000	\$2,000	\$4,000	\$4,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$2,000	\$2,000	\$4,000	\$4,000

Recommendation

The Governor recommends that the Housing Trust Fund (HTF) program be increased by \$4 million in order to assist with the capital costs and operating costs of supportive housing units for families and individuals experiencing long-term homelessness. The increase fulfills the commitment made in the Business Plan to End Long-Term Homelessness. The goal to provide 4,000 housing opportunities by the end of the decade. The increased funding results from a reallocation of state appropriations from other housing programs.

Background

The Business Plan to End Long-Term Homelessness recognized that additional resources would need to be identified for the services component of supportive housing. Among the strategies identified in the Business Plan were: 1) exploring opportunities to increase the use of mainstream services; and 2) targeting resources to the needs of persons experiencing long-term homelessness. The reductions proposed to MHFA's budget will help alleviate some pressures on and leverage additional resources of the Department of Human Services so that one or more strategies for filling the services gap in supportive housing can be implemented. The Business Plan to End Long-Term Homelessness can be found at: www.mhfa.state.mn.us/multifamily/LTH.htm.

Relationship to Base Budget

The recommended increase will bring the base for the HTF program to \$12,610,000 or a 46.5% increase to the base of this program. The \$4 million in new money will be targeted to persons and households who have experienced long-term homelessness.

Key Measures

See Key Measures for the relevant budget activity under Appropriated Programs.

Alternatives Considered

Preserving the supportive housing programs which serve the most vulnerable populations and implementing the Business Plan to End Long-Term Homelessness are the agency's highest priority. Since no new funds are available to provide an increase to this program, a reallocation of other program funds was the only action considered.

Agency Purpose

The Minnesota Housing Finance Agency (MHFA) is committed to meeting Minnesotans' needs for decent, safe, affordable housing, and stronger communities.

The agency's strategic plan sets forth the following policy objectives:

- ◆ end long-term homelessness
- ◆ increase homeownership for underserved populations
- ◆ preserve existing affordable housing
- ◆ increase housing choice for low and moderate income workers to support economic vitality
- ◆ the MHFA should be viewed as a housing resource of choice

Core Functions

MHFA funds housing activity in five broad areas:

- ⇒ **Development and Redevelopment Programs.** These programs fund the new construction and rehabilitation of rental housing, and homes for ownership for families with a range of incomes.
- ⇒ **Homeownership Loan Programs.** These programs fund home purchase and home improvement loans for families and individuals with a range of incomes not served by the private sector alone.
- ⇒ **Supportive Housing Programs.** These programs fund housing development, rental assistance, and homeless prevention activities for very low-income families and individuals who often face other barriers to stability, economic self-sufficiency, and independent living.
- ⇒ **Preservation of Federally Assisted Housing Programs.** These programs seek to preserve the stock of federally assisted rental housing that is in danger of being lost due to opt-outs for market reasons, physical deterioration, or both.
- ⇒ **Resident and Organization Support.** These programs provide operating funds for organizations that develop affordable housing, offer homebuyer training, education, and foreclosure prevention assistance, or coordinate regional planning efforts.

Operations

Management and control of the agency is vested in the board of directors. The board is comprised of six citizen members appointed by the governor and one ex-officio member: the state auditor. The board directs the policies of the agency and adopts an affordable housing plan, approves funding decisions, adopts finance policies, and selects the finance team.

The agency staff includes 190 full-time equivalent employees in three major divisions: housing finance and operations; housing programs; housing policy. Over half of all the employees are professional level employees.

- ⇒ The housing finance and operations staff are responsible for the management of the assets and liabilities of the agency which includes a portfolio of housing related loans and other investments totaling \$2.8 billion, \$1.8 billion of which are financed by mortgage revenue bonds. The staff manages the process of raising capital through periodic debt issuances. The staff in this division also prepares financial forecasts, budgets, and fiscal year-end audited financial reports for all funds and accounts. Staff is responsible for the accurate and timely reporting of all accounting and financial information necessary to comply with disclosure requirements and board policies. This division also includes the staff managing the agency's information systems and human resources staff.
- ⇒ The staff of the multifamily portion of the housing programs division manages the process of assisting in the financing of new construction, rehabilitation, and preservation of rental housing. This staff oversees the provision of tenant support services, rental assistance, and homeless prevention activities. The staff is also responsible for the oversight of the management of the agency's portfolio of rental housing, monitoring

At A Glance

Two-Year State Budget:

- ◆ \$1.14 billion all funds
- ◆ 4 Sources:
- ◆ 46% bond sales
- ◆ 28% federal funds
- ◆ 18% agency resources
- ◆ 8% state appropriations

Annual Business Processes:

- ◆ Provided \$534 million in housing assistance in FFY 2004.
- ◆ Served 55,600 households.
- ◆ 72% of all households served had annual incomes under \$20,000; 45% of the households served did not receive section 8 assistance and had incomes below \$20,000.

compliance with state and federal requirements, and administering the Section 8 contracts of 32,000 units of rental housing that include the contracts on 18,000 units previously administered by Housing and Urban Development (HUD).

- ⇒ The homeownership portion of the housing programs division staff manages programs to assist with the financing of home purchases and home improvements. It also manages the process of assisting in the financing of new home construction for ownership and neighborhood revitalization. The staff oversees the provision of homeownership education services. The staff also administers programs that provide post-purchase support and foreclosure prevention for homeowners.
- ⇒ The housing policy division includes governmental affairs, research, and policy.

The agency's assistance is delivered through local lenders, community action programs, local housing and redevelopment authorities, and for-profit and non-profit developers. MHFA joins with other public and private funders to make available development and redevelopment funds in a comprehensive, single application, one-stop selection process.

Budget

MHFA's largest source of financing is the sale of tax-exempt and taxable bonds that totals approximately 46% of the agency's budget. Proceeds from the sale of these bonds provide mortgage loans to first-time homebuyers and rental housing developments. Repayments made to programs funded by mortgage revenue bonds are made available for the same activities.

Agency resources constitute 18% of the agency's budget. Agency resources are earnings over the years in excess of funds needed to cover loan loss and self-insurance. Agency resources are used for a variety of housing activities including entry cost assistance, activities related to the initiative to end long-term homelessness, first mortgage financing of rental properties, and preservation of MHFA financed rental properties.

Federal funds constitute 28% of MHFA funds. In FY 2004-05 biennium, the two largest programs receiving federally appropriated funds were the Section 8 Housing Assistance payments program and the Home Investment Partnership Program (HOME). In the past, the agency has received federal funding for a number of smaller programs as well.

State appropriations constitute 8% of the total program funds expected to be distributed in 2004-05. State appropriations for the 2004-2005 biennium total \$70,270,000 from the General Fund including \$300,000 in the one-time only funds for flood recovery assistance to Roseau.

Contact

For more information, contact: Tonja M. Orr, Assistant Commissioner
(651) 296-9820.

The MHFA web site at www.mhfa.state.mn.us provides information about Agency programs, application forms and procedures, and other useful information for persons seeking assistance with the financing of affordable housing.

Dollars in Thousands

	Current		Governor Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	35,385	34,885	34,885	34,885	69,770
Recommended	35,385	34,885	28,270	28,270	56,540
Change		0	(6,615)	(6,615)	(13,230)
% Biennial Change from 2004-05					-19.5%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	0	0	28,270	28,270	56,540
Statutory Appropriations					
Housing Finance Agency	255,557	251,730	197,753	198,064	395,817
Total	255,557	251,730	226,023	226,334	452,357
<u>Expenditures by Category</u>					
Total Compensation	13,129	14,107	14,596	15,083	29,679
Other Operating Expenses	7,415	7,752	6,292	6,116	12,408
Payments To Individuals	168,400	168,362	165,889	165,889	331,778
Local Assistance	3,835	4,423	4,118	4,118	8,236
Other Financial Transactions	62,778	57,086	35,118	35,118	70,236
Transfers	0	0	10	10	20
Total	255,557	251,730	226,023	226,334	452,357
<u>Expenditures by Program</u>					
Appropriated Programs	81,055	65,773	41,418	41,418	82,836
Non Appropriated Programs	174,502	185,957	184,605	184,916	369,521
Total	255,557	251,730	226,023	226,334	452,357
Full-Time Equivalent (FTE)	182.9	190.4	190.4	190.4	

Program Description

Appropriated programs fund affordable housing activities in five broad areas. Although state appropriations are only 8% of the total Minnesota Housing Finance Agency (MHFA) biennial budget, these funds make a critical difference, enabling the MHFA to meet the housing needs of lower income families and individuals than would be otherwise possible. Appropriated programs often supplement nonappropriated programs that use amortizing debt and other sources of funds. Approximately 65% of the state appropriation is used for rental housing since providing affordable rental housing requires relatively more subsidy than homeownership.

The MHFA meets regularly with regional advisory groups across the state to receive input about agency goals, policies, and programs. In making funding decisions in competitive selection processes, MHFA uses jointly developed investment guidelines for projects in the Twin Cities metropolitan area, and Continuum of Care plans developed at the regional level to assure consistency with regional priorities. The agency utilizes a joint application and review process in conjunction with the Family Housing Fund, the Greater Minnesota Housing Fund, and the Metropolitan Council for significant portions of its funding. Other state agencies and local units of government are consulted in making funding awards in order to better coordinate government resources.

Budget Activities Included:

- ⇒ **Development and Redevelopment Programs.** These programs fund the new construction and rehabilitation of rental housing and homes for ownership for families with a range of incomes.
- ⇒ **Supportive Housing Programs.** These programs fund housing development, rent assistance, and homeless prevention activities for very low-income families and individuals who often face other barriers to stability, economic self-sufficiency, and independent living.
- ⇒ **Homeownership Loan Programs.** These programs fund home purchase and home improvement loans for families and individuals with a range of incomes not well served by the private sector alone.
- ⇒ **Preservation of Federally Assisted Housing Programs.** These programs seek to preserve the stock of federally assisted rental housing that is in danger of being lost due to opt-outs for market reasons, physical deterioration, or both.
- ⇒ **Resident and Organizational Support.** These programs provide operating funds for organizations that develop affordable housing, offer homebuyer training, education, and foreclosure prevention assistance, or coordinate regional planning efforts.

	FY 2006	FY 2007	Biennial
Development and Redevelopment Programs			
Economic Development and Housing Challenge Fund	\$4,407,000	\$4,407,000	\$8,814,000
Supportive Housing Programs			
Housing Trust Fund	\$6,305,000	\$6,305,000	\$12,610,000
Bridges	\$1,638,000	\$1,638,000	\$3,276,000
Family Homeless Prevention and Assistance	\$3,715,000	\$3,715,000	\$7,430,000
Homeownership Loan Programs			
Homeownership Assistance Fund	\$0	\$0	\$0
Preservation of Federally Assisted Housing Programs			
Affordable Rental Investment Fund (ARIF- Preservation)	\$8,531,000	\$8,531,000	\$17,062,000
Rehabilitation Loan	\$2,654,000	\$2,654,000	\$5,308,000
Resident and Organizational Support			
Homeownership Education, Counseling, and Training (HECAT)	\$770,000	\$770,000	\$1,540,000
Non-Profit Capacity Building Grants	\$250,000	\$250,000	\$500,000
Totals	\$28,270,000	\$28,270,000	\$56,540,000

HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
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Governor's Recommendations					
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Challenge Budget Cut & Consolidation		0	(6,500)	(6,500)	(13,000)
HTF-Ending Long-Term Homeless Initiative		0	2,000	2,000	4,000
Total	35,385	34,885	28,270	28,270	56,540
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	0	0	28,270	28,270	56,540
Statutory Appropriations					
Housing Finance Agency	81,055	65,773	13,148	13,148	26,296
Total	81,055	65,773	41,418	41,418	82,836
<u>Expenditures by Category</u>					
Payments To Individuals	20,710	12,808	10,543	10,543	21,086
Local Assistance	2,836	2,832	2,357	2,357	4,714
Other Financial Transactions	57,509	50,133	28,518	28,518	57,036
Total	81,055	65,773	41,418	41,418	82,836
<u>Expenditures by Activity</u>					
Re/Development	39,342	24,122	7,247	7,247	14,494
Supportive Housing	16,012	13,020	12,651	12,651	25,302
Homeownership Loan	9,556	8,345	4,745	4,745	9,490
Preservation	13,606	17,823	14,555	14,555	29,110
Resident & Organizational Supp	2,539	2,463	2,220	2,220	4,440
Total	81,055	65,773	41,418	41,418	82,836

HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Activity: RE/DEVELOPMENT

Narrative

Activity Description

The Minnesota Housing Finance Agency's (MHFA) re/development program is instrumental to achieving the Agency's strategic goals of:

- ◆ increasing housing choices for low and moderate-income workers to support economic vitality; and
- ◆ preserving existing affordable housing.

Activity at a Glance

In FY 2004:

- ◆ 5,479 housing units were rehabilitated;
- ◆ 1,700 new housing units were financed; and
- ◆ Requests typically exceed funds available by a five to one ratio.

These programs fund the new construction and rehabilitation of housing, both rental and homes for ownership, needed to sustain economic growth and vitality. In some communities, new housing is needed due to significant net employment growth. New construction is financed for affordable units in mixed income developments, rental housing, and affordable units in single-family subdivisions. In other communities, rehabilitating the existing stock is an important strategy for retaining existing employers and related economic activity.

Population Served

Homeowners, homebuyers, and tenants of rental housing are served by this budget activity. Additionally, communities receive assistance in their stabilization and revitalization efforts through this budget activity.

Services Provided

Re/development Program funds are made available primarily through a competitive, comprehensive, one-stop, single application process sponsored by MHFA, the Family Housing Fund, the Greater Minnesota Housing Fund, the Metropolitan Council, and others.

⇒ Economic Development and Housing Challenge Program (M.S. 462A.33)

The Economic Development and Housing Challenge program is the primary program to fund development and redevelopment activities. It funds a wide variety of development and redevelopment activities, including new construction, acquisition, and rehabilitation of both rental housing and homes for ownership. Assistance is provided generally in the form of no-interest, deferred loans and grants to local units of government, and for-profit and nonprofit developers. The income maximum for the owner-occupied housing funded under this program is set at 115% of greater of state or area median income (\$87,860 in the Twin Cities metro area for 2004). The income maximum for the rental housing funded under this program is set at 80% of greater of state or area median income (\$61,120 in the Twin Cities metro area for 2004). The income maximums allow a range of workforce housing to be developed or rehabilitated.

Projects that show cost reduction or avoidance as a result of local regulatory relief are given a priority in selection for funding. At least 50% of the funds must be used only for projects in which an employer has made some sort of financial contribution to the housing as well as there being a contribution from either a local unit of government or a charitable organization. These requirements have helped to increase the amount of monies from non-state resources that are invested in affordable housing projects.

Historical Perspective

In 2000, the Minnesota Legislature approved a major consolidation of the funding for four programs that all supported re/development activities. The programs were consolidated into the Economic Development and Housing Challenge program, and this program was made a permanent base program. The two primary reasons for the consolidation were:

- ◆ To increase capital investment from non-state sources; and
- ◆ To increase private development and contain cost increases by promoting the removal of governmental barriers to affordable housing development.

HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Activity: RE/DEVELOPMENT

Narrative

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HOUSING FINANCE AGENCY
Program: APPROPRIATED PROGRAMS
Activity: RE/DEVELOPMENT

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	0	0	4,407	4,407	8,814
Statutory Appropriations					
Housing Finance Agency	39,342	24,122	2,840	2,840	5,680
Total	39,342	24,122	7,247	7,247	14,494
<u>Expenditures by Category</u>					
Payments To Individuals	6,792	4,141	1,547	1,547	3,094
Other Financial Transactions	32,550	19,981	5,700	5,700	11,400
Total	39,342	24,122	7,247	7,247	14,494

Activity Description

Supportive housing is permanent housing with support services. Supportive housing is an essential element of efforts to achieve the strategic goal of ending long-term homelessness. Supportive housing stabilizes housing for the poorest households or households with special needs so they can successfully address barriers to employment, complete school or training, and/or achieve independent living. Housing providers understand that providing affordable housing alone does not ensure success for these populations. Service providers increasingly understand that delivering services alone to a family or individual with no stable, affordable housing does not work either.

Population Served

Supportive housing programs serve individuals and families with multiple barriers to obtaining and maintaining housing, including persons who are homeless or at risk of becoming homeless, and persons with mental illness, substance abuse disorders, or persons with HIV/AIDS.

Services Provided

Three Minnesota Housing Finance Agency (MHFA) appropriated programs assist in meeting the goal of ending long-term homelessness by funding elements of supportive housing activities that help prevent homelessness:

⇒ Housing Trust Fund Program (M.S. 462A.201)

The Housing Trust Fund program is the largest of the programs in this budget activity. The Housing Trust Fund provides 0% interest deferred loans for the financing of affordable permanent and supportive rental housing and limited equity cooperative housing for very low-income households. It also provides grants and loans for the costs of operating rental housing that are unique to the operation of low-income rental housing and for rental assistance. Housing assisted under this program must serve households with incomes that do not exceed 60% of metropolitan area median income (\$45,840 for 2004); 75% of the program funds must be used for housing for households with incomes that do not exceed 30% of the metropolitan area median income (\$22,920 for 2004). Nonprofit and for-profit organizations as well as local units of government are eligible to receive funds under this program.

⇒ Bridges (M.S. 462A.2097)

The Bridges program (statutorily known as the Rent Assistance for Persons with Mental Illness Program) provides rent assistance for households in which at least one adult member has a serious and persistent mental illness. Eligibility for the program is limited to households with incomes below 50% area median income. This activity links housing with social services through a partnership between a housing agency and a social service agency. The rental assistance is intended to stabilize the household in the community until a Section 8 certificate voucher becomes available.

⇒ Family Homeless Prevention and Assistance Program (M.S. 462A.204)

The Family Homeless Prevention and Assistance Program (FHPAP) provides flexible grants to counties and nonprofit organizations to use to assist families or youth who are homeless or at imminent risk of homelessness. Grant recipients are required to design or redesign an emergency response system to shift the focus to prevention of homelessness and a more rapid move to transitional or permanent housing. Fifty-seven counties are now served by FHPAP.

Activity at a Glance

For FFY 2004:

- ◆ 429 households received Bridges assistance;
- ◆ 734 households received other state funded rental assistance;
- ◆ 479 housing units for very low-income households were constructed or rehabbed with Housing Trust Fund (HTF) monies;
- ◆ 6,657 households received homeless prevention assistance;
- ◆ Average assistance per household under the Family Homeless Prevention and Assistance Program (FHPAP) - \$530; and
- ◆ Nearly half of the households served under FHPAP are single-parent families.

HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Activity: SUPPORTIVE HOUSING

Narrative

Historical Perspective

In 2000, the Minnesota Legislature approved a consolidation of funding from several programs into the Housing Trust Fund to better facilitate the development and operation of supportive housing. Prior to 2001, the Housing Trust Fund could only be used for bricks and mortar, and there was no source of funding for operating cost support; the biennial base for the Housing Trust Fund was \$4.6 million prior to consolidation.

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HOUSING FINANCE AGENCY
Program: APPROPRIATED PROGRAMS
Activity: SUPPORTIVE HOUSING

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	0	0	11,658	11,658	23,316
Statutory Appropriations					
Housing Finance Agency	16,012	13,020	993	993	1,986
Total	16,012	13,020	12,651	12,651	25,302
<u>Expenditures by Category</u>					
Payments To Individuals	13,918	8,667	8,996	8,996	17,992
Other Financial Transactions	2,094	4,353	3,655	3,655	7,310
Total	16,012	13,020	12,651	12,651	25,302

HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Activity: HOMEOWNERSHIP LOAN

Narrative

Activity Description

The homeownership loan programs combine state appropriations with bond proceeds and Minnesota Housing Finance Agency (MHFA) resources to provide affordable loans. Homeownership loan programs also conduct marketing and outreach aimed at reaching underserved populations.

The state appropriated homeownership loan program assists in achieving the strategic goal:

- ◆ increasing the homeownership rate of households of color

Population Served

The homeownership loan programs serve low and moderate-income first-time homebuyers, and very low-income homeowners, including Native Americans living on tribal lands.

Services Provided

MHFA's appropriated homeownership loan programs include:

- ⇒ Homeownership Assistance Fund (M.S 462A.21, Subd. 8)

The Homeownership Assistance Fund (HAF) provides entry costs and monthly assistance to more modest income homebuyers who are purchasing their first home through one of MHFA's mortgage revenue bond programs. Assistance is in the form of a 0% interest second mortgage loan. Repayment of the loan is deferred until the home is sold, the mortgage is refinanced, or the borrower no longer occupies the home as his or her principal residence. Eligible homebuyers must have income that does not exceed 80% of the greater of state or area median income; income limits may be adjusted for family size. Repayments and prepayments of loans are invested in new loans. A network of participating lenders deliver this assistance. This program received no state appropriations for the 2004-05 biennium. It has operated on repayments and agency resources since July, 2003.

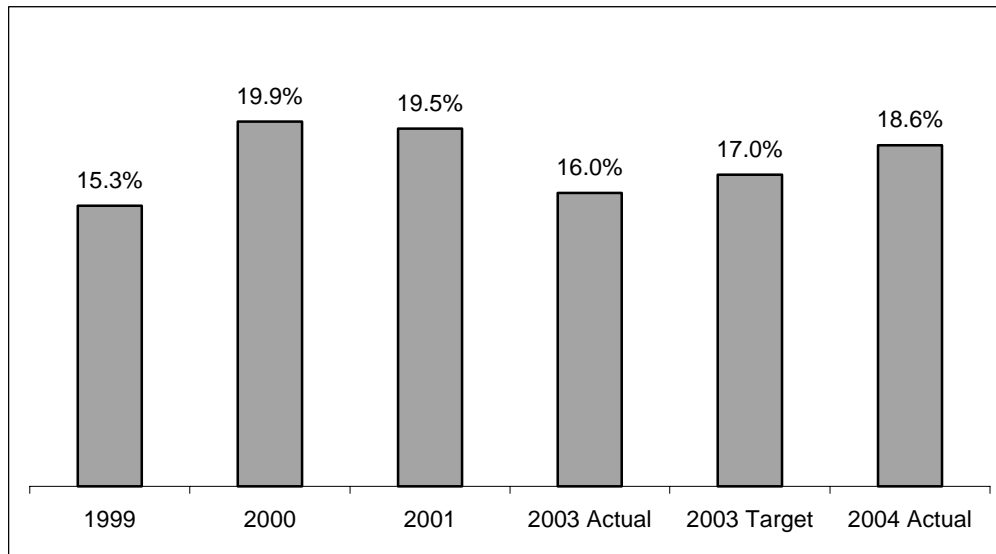
Activity at a Glance

In FFY 2004:

- ◆ 1,105 households received Homeownership Assistance Fund (HAF) assistance;
- ◆ 49.1% of first-time homebuyers with a MHFA mortgage received HAF assistance; and
- ◆ Average assistance under the HAF program - \$7,584.

Key Measures

Percent of homebuyers served by MHFA who are households of color



HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

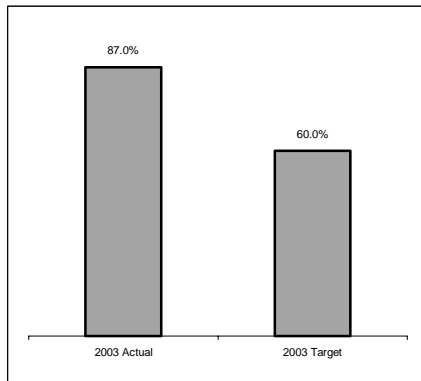
Activity: HOMEOWNERSHIP LOAN

Narrative

This indicator measures the extent to which MHFA serves homebuyers of color. MHFA targets its resources to groups historically underserved by the private market, including households of color. Homeownership rates among households of color are adversely affected by a variety of factors including significant increases in house prices.

In June, 2004, MHFA launched an initiative to develop a business plan for increasing the homeownership rate for communities of color. The business plan will contain strategies for how MHFA and others can achieve the goal that the homeownership rate for all emerging markets will be at least 50% by 2010.

Percent of home improvement loans used for properties built before 1979 with a value of less than \$200,000



This indicator measures the extent to which MHFA strategically targets its home improvement loans. Homes that are valued at under \$200,000 and built before 1979 are considered to be the most likely to be in need of improvements.

Historical Perspective

The 2003 Legislature directed that for the 2006-2007 biennium, the base for the Homeownership Assistance Fund (HAF) program be restored to \$1,770,000. Funding for that program had been temporarily suspended for FY 2004-2005.

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HOUSING FINANCE AGENCY
 Program: APPROPRIATED PROGRAMS
 Activity: HOMEOWNERSHIP LOAN

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Expenditures by Fund</u>					
Statutory Appropriations					
Housing Finance Agency	9,556	8,345	4,745	4,745	9,490
Total	9,556	8,345	4,745	4,745	9,490
<u>Expenditures by Category</u>					
Local Assistance	317	180	180	180	360
Other Financial Transactions	9,239	8,165	4,565	4,565	9,130
Total	9,556	8,345	4,745	4,745	9,490

HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Activity: PRESERVATION

Narrative

Activity Description

This budget activity is one of the key means by which the Minnesota Housing Finance Agency (MHFA) achieves its strategic goal of strategically preserving the existing housing stock.

In order to preserve every unit of federally assisted rental housing as is economically feasible, the MHFA provides incentive or rehabilitation loans, or both, for new or existing owners who will commit to staying in the federal assistance program for a longer term. This housing was financed originally with Housing and Urban Development (HUD), MHFA, or United States Department of Agriculture (USDA) Rural Development programs. No existing development program – federal, state, or local - can produce housing that is as affordable to residents as the existing stock of federally assisted housing. Preserving this housing costs substantially less per unit than new construction and, in many cases, leverages federal rent or mortgage subsidies well into the future.

This housing stock is threatened for three reasons:

- ◆ half of Minnesota's Section 8 housing stock was financed with 20-year mortgages that either have or soon will expire;
- ◆ federal policies and requirements and the increasingly frequent changes in these policies and requirements makes continued participation in any publicly funded rental housing program less attractive to owners. An increasing number of owners are choosing to opt-out of the programs for estate planning reasons; and
- ◆ physical deterioration threatens a significant portion of federally assisted housing.

Population Served

Tenants of federally subsidized housing are generally the among the lowest income households served by MHFA.

Services Provided

⇒ Rehabilitation Loan Program (M.S. 462A.05, Subd. 14a)

The Rehabilitation Loan Program provides deferred loans of up to \$15,000 to very low-income homeowners with annual incomes of \$18,000 or less for the purpose of correcting health and safety hazards within their homes and improving their homes and improving their habitability, accessibility, and energy efficiency. Loans are deferred until the home is sold, the borrower no longer lives in the home, or 30 years, whichever occurs first. Repayments are recycled into new loans. Historically, repayments under this program have averaged about \$1,000,000 per year. Loans are distributed through local administrators who are familiar with the local area's needs.

⇒ Affordable Rental Investment Fund (M.S. 462A.21, Subd. 8b)

The Affordable Rental Investment Fund (ARIF Preservation) provides 0% deferred loans. The loans are most commonly in the form of preservation loans or loans to cover the costs of rehabilitation. Preservation loans are provided in situations where the development could, in MHFA's estimation, produce significantly greater revenues from market rents than it does under the federal program.

Activity at a Glance

- ◆ There are approximately 53,000 units of privately owned, federally assisted rental housing in Minnesota;
- ◆ Of those, 11,050 units have received preservation funding to date;
- ◆ Only 15 federally assisted housing units in MHFA's portfolio have been lost to date;
- ◆ Preservation funds increasingly are being used to address the physical deterioration of federally assisted housing;
- ◆ 461 households received assistance to rehab or preserve their home; and
- ◆ Average assistance under the Rehabilitation Loan Program - \$11,049.

HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Activity: PRESERVATION

Narrative

Historical Perspective

The ARIF Preservation program has been funded since 1998. The focus of activities has shifted from projects at risk of conversion to market rate housing to projects that are at risk of losing federal assistance due to the physical condition of the aging building.

Key Measures

MHFA has established a performance measure that at least 90% of federally assisted units determined to be at risk for termination of their federal assistance program will be preserved as affordable housing. In FFY 2003, actual performance achieved preservation of 92% of all at risk units.

The following chart reflects the location, number of developments, and the number of units for which the owner has agreed to preserve the federally assisted housing program for a specified period of time under a Declaration of Covenants running with the land. The MHFA subsidy source of funds include primarily PARIF, but also ARIF, FAF Savings and HTF:

PRESERVATION OF FEDERALLY ASSISTED HOUSING

	# of Developments	Total Units	Total Assisted Units	MHFA Subsidy per Unit	Remaining Term of Federal Assistance	Benefit (Return) on Preservation Effort
Metro	53	5,357	4,738	\$11,105	13	5.7
Conversion	22	2,642	2,050	\$10,789	12	5.2
Physical Deterioration	15	1,202	1,202	\$10,613	14	5.9
Combination	16	1,513	1,486	\$11,726	14	6.1
Greater Minnesota	50	2,592	2,432	\$11,008	16	3.6
Conversion	7	479	459	\$8,499	15	4.1
Physical Deterioration	31	1,174	1,140	\$12,215	18	3.4
Combination	12	939	833	\$10,741	15	3.8
Total	103	7,949	7,170	11,072	15	5.0

HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Activity: PRESERVATION

Narrative

The following chart reflects additional developments where only rehabilitation was performed. These developments were preserved prior to MHFA's requirement to file a Declaration:

REHABILITATION OF FEDERALLY ASSISTED HOUSING (HOME Funded)

	Developments	Total Units	Assisted Units	MHFA Subsidy per Unit
Metro	15	808	808	\$1,009
Greater Minnesota	49	1,633	1,633	\$4,418
Total	64	2,441	2,441	\$3,289

PRESERVATION THROUGH MHFA'S REDEFINED EQUITY PROGRAM

	# of Developments	Total Units	Total Assisted Units	MHFA Subsidy per Unit*	Minimum Rent Subsidy Period	PV of Fed Assistance Preserved
Metro	15	687	687	\$0	14	\$45,889,191
Greater Minnesota	16	752	752	\$0	12	\$51,996,589
Total	31		1,439		13	\$97,885,780

*The MHFA's Redefined Equity II Program provides an opportunity for an increased partnership distribution in exchange for a longer term commitment from the owner to remain in the Section 8 program. This is at no cost to MHFA.

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HOUSING FINANCE AGENCY
Program: APPROPRIATED PROGRAMS
Activity: PRESERVATION

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	0	0	11,185	11,185	22,370
Statutory Appropriations					
Housing Finance Agency	13,606	17,823	3,370	3,370	6,740
Total	13,606	17,823	14,555	14,555	29,110
<u>Expenditures by Category</u>					
Local Assistance	534	789	557	557	1,114
Other Financial Transactions	13,072	17,034	13,998	13,998	27,996
Total	13,606	17,823	14,555	14,555	29,110

HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Activity: RESIDENT & ORGANIZATIONAL SUPP

Narrative

Activity Description

This budget activity contributes to Minnesota Housing Finance Agency (MHFA) achieving its strategic goal of being a housing resource of choice.

The resident and organizational support programs provide support for some of the organizational infrastructure necessary to effectively deliver affordable housing throughout the state.

These programs fund:

- ◆ homebuyer education and foreclosure prevention;
- ◆ regional planning and coordinating activities; and
- ◆ nonprofit operating costs.

Citizen input sessions around the state and over the years consistently identify the lack of capacity as a barrier to producing more affordable housing.

Population Served

- ⇒ Homeowners faced with foreclosure and low and moderate-income first-time homebuyers are served by the resident support activities.
- ⇒ Nonprofit development organizations are assisted with the building of their capacity to develop affordable housing.
- ⇒ Regional networks that work on issues of regional planning and coordination.

Services Provided

There are two appropriated programs that provide support for some of the organizational infrastructure necessary to effectively deliver affordable housing throughout the state:

- ⇒ Homeownership Education, Counseling, and Training (HECAT) program (M.S. 462A.209).

The MHFA, in collaboration with many other organizations, has brought together groups throughout the state, and designed a comprehensive statewide delivery network for homebuyer training and education overseen by the Homeownership Center in St. Paul. Experienced nonprofit organizations receive grants to provide comprehensive homebuyer training, and support on either a pre- or post-purchase basis for low and moderate-income first-time homebuyers. Funds may be used for either administrative support or program support.

Nonprofit and community based organizations provide interest-free loans for homeowners who are faced with foreclosure due to a temporary financial hardship; nonfinancial assistance in the form of financial counseling services, screening and assessment, referrals, case management and advocacy is also provided. These services are now available in every county.

- ⇒ Nonprofit Capacity Building Grant program (M.S. 462A.21, Subd. 3b). Two primary activities are funded through this program.
 - ◆ Regional planning and coordination.

MHFA funds regional planning and coordination using the six Minnesota Initiative Fund regions and the metropolitan area. MHFA provides minimal funding for each region to convene Regional Housing Advisory Groups for the purpose of maintaining good communication between MHFA and the region; enabling an effective network within the region between economic development and housing efforts, and

Activity at a Glance

In FFY 2004:

- ◆ 7,388 households received foreclosure prevention assistance or homebuyer training services;
- ◆ 24 administrators, covering 61 counties in greater Minnesota and two counties in the metro area (Scott and Carver), receive HOME administrative costs funds; and
- ◆ Continued funding of regional advisory groups to promote coordination of planning on a regional basis.

HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Activity: RESIDENT & ORGANIZATIONAL SUPP

Narrative

facilitating the development of regional Continuum of Care Plans that identify: existing homeless prevention, and assistance programs and services, funding and service gaps, and priorities for state and federal funding. All state agency members of the Interagency Task Force on Homelessness use Continuum of Care Plans when making funding decisions.

- ◆ Operating support for nonprofit developers.

Using both state appropriations and federal funds, MHFA now funds an operating support program in cooperation with the Minnesota Housing Partnership and the Local Initiatives Support Corporation to provide multi-year ongoing operating funds to build nonprofit capacity.

In addition, approximately \$20,000 is available for training.

Historical Perspective

In 2000, the Minnesota Legislature combined the Full-Cycle Homeownership Services program, and the Foreclosure Prevention, and Assistance program to form a new program called the HECAT program. Since many administrators participated in both programs, the merger achieved administrative simplicity.

In late 2003, the MHFA merged two regional advisory groups: the Economic Vitality and Housing advisory groups and the Continuum of Care planning groups into the Regional Housing Advisory Groups. The merger will assure one forum through which a variety of issues can be considered.

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HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Activity: RESIDENT & ORGANIZATIONAL SUPP

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	0	0	1,020	1,020	2,040
Statutory Appropriations					
Housing Finance Agency	2,539	2,463	1,200	1,200	2,400
Total	2,539	2,463	2,220	2,220	4,440
<u>Expenditures by Category</u>					
Local Assistance	1,985	1,863	1,620	1,620	3,240
Other Financial Transactions	554	600	600	600	1,200
Total	2,539	2,463	2,220	2,220	4,440

HOUSING FINANCE AGENCY

Program: NON APPROPRIATED PROGRAMS

Narrative

Program Description

The Minnesota Housing Finance Agency (MHFA) funds affordable housing activities in five broad areas using “non-appropriated” funds in all five activity areas. “Non-appropriated” programs in the state budgeting system are funded with federal funds. MHFA also uses tax-exempt and taxable bond proceeds and agency resources to fund housing activities.

Budget Activities Included:

- ⇒ **Development and Redevelopment Programs.** These programs fund the new construction and rehabilitation of rental housing and homes for ownership for families with a range of incomes.
- ⇒ **Supportive Housing Programs.** These programs fund housing development and rent assistance for very low-income families and individuals who often face other barriers to stability, economic self-sufficiency, and independent living.
- ⇒ **Homeownership Loan Programs.** These programs fund home purchase and home improvement loans for families and individuals with a range of incomes not well served by the private sector alone.
- ⇒ **Preservation of Federally Assisted Housing Programs.** These programs seek to preserve the stock of federally assisted rental housing that is in danger of being lost due to opt-outs for market reasons, physical deterioration, or both.
- ⇒ **Resident and Organizational Support.** These programs provide operating funds for organizations that develop affordable housing, offer homebuyer training, education, and foreclosure prevention assistance, or coordinate regional planning efforts.

	FY 2006	FY 2007	Biennial
Development and Redevelopment Programs			
HOME Rental Rehabilitation Program	\$5,928,000	\$5,928,000	\$11,856,000
Minnesota Urban Rural Homesteading Program (HOME-MURL)	\$3,130,000	\$3,130,000	\$6,260,000
Supportive Housing Programs			
Housing Opportunities for Persons with AIDS (HOPWA)	\$1,250,000	\$1,250,000	\$2,500,000
Shelter Plus Care	\$1,400,000	\$1,400,000	\$2,800,000
Homeownership Loan Programs			
HOME Downpayment Assistance	\$472,500	\$472,500	\$945,000
Preservation of Federally Assisted Housing Programs			
Section 8 Housing Assistance Payments	\$64,000,000	\$64,000,000	\$128,000,000
HUD Contract Administration	\$73,000,000	\$73,000,000	\$146,000,000
Section 236 Interest Rate Reduction	\$1,053,000	\$1,053,000	\$2,106,000
Resident and Organizational Support			
Community Housing Development Corporation (CHDO) Operating Grants	\$519,000	\$519,000	\$1,038,000
HOME Administration Costs	\$811,000	\$811,000	\$1,622,000
HOME Chronic Homelessness	\$500,000	\$0	\$500,000
Totals	\$152,063,500	\$151,563,500	\$303,627,000

HOUSING FINANCE AGENCY

Program: NON APPROPRIATED PROGRAMS

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Expenditures by Fund</u>					
Statutory Appropriations					
Housing Finance Agency	174,502	185,957	184,605	184,916	369,521
Total	174,502	185,957	184,605	184,916	369,521
<u>Expenditures by Category</u>					
Total Compensation	13,129	14,107	14,596	15,083	29,679
Other Operating Expenses	7,415	7,752	6,292	6,116	12,408
Payments To Individuals	147,690	155,554	155,346	155,346	310,692
Local Assistance	999	1,591	1,761	1,761	3,522
Other Financial Transactions	5,269	6,953	6,600	6,600	13,200
Transfers	0	0	10	10	20
Total	174,502	185,957	184,605	184,916	369,521
<u>Expenditures by Activity</u>					
Re/Development	9,002	9,950	9,950	9,950	19,900
Supportive Housing	792	1,350	1,450	1,450	2,900
Homeownership Loan	0	345	300	300	600
Preservation	143,291	151,102	150,456	150,456	300,912
Resident & Organizational Supp	880	1,361	1,561	1,561	3,122
Administration	20,537	21,849	20,888	21,199	42,087
Total	174,502	185,957	184,605	184,916	369,521
Full-Time Equivalentents (FTE)	182.9	190.4	190.4	190.4	

HOUSING FINANCE AGENCY

Program: NON APPROPRIATED PROGRAMS

Activity: RE/DEVELOPMENT

Narrative

Activity Description

The Minnesota Housing Finance Agency's (MHFA) re/development programs are instrumental to achieving the Agency's strategic goals of increasing housing choices for low and moderate-income workers to support economic vitality and of preserving existing affordable housing. These programs fund the new construction and rehabilitation of housing, both rental and homes for ownership, needed to sustain economic growth and vitality. In some communities, new housing is needed due to significant net employment growth. In other communities, rehabilitating the existing stock is an important strategy for retaining existing employers and related economic activity.

Activity at a Glance

In FFY 2003:

- ◆ 255 rental units in greater Minnesota were rehabbed under the HOME program;
- ◆ The median income of the tenants was \$10,578; and
- ◆ 19 extremely low-income households became homeowners under MURL.

MHFA's re/development program funds have been used to finance both rental and homeownership units in new, mixed income developments, new rental housing, and affordable units in new single-family subdivisions.

Population Served

Homeowners, homebuyers, and tenants of rental housing are served by this budget activity. Additionally, communities receive assistance in their stabilization and revitalization efforts through this budget activity.

Services Provided

The following are the MHFA's non-appropriated re/development programs:

⇒ HOME Rental Rehabilitation Program

The HOME Rental Rehabilitation Program is a federally funded program that provides deferred loans to rehabilitate privately owned rental property to support affordable, decent, safe, and energy efficient housing for lower income households. Assistance ranges from \$3,000 to \$14,000 per unit. Owners are required to match program assistance on a one to three basis. A network of local administrators assists in administering this program.

⇒ Minnesota Urban Rural Homesteading Program (HOME-MURL)

The Urban and Rural HOMEsteading Program is modeled closely after the state MURL program. It uses federal HOME block grant funds to provide grants to nonprofit housing providers or cities to acquire single-family residences that are vacant, condemned, or abandoned, rehabilitate those properties and then sell them on a contract for deed to first-time low and moderate-income homebuyers who are defined as "at risk". This program also strengthens communities by assisting in providing homeownership opportunities. Local units of government and nonprofits deliver this assistance.

Historical Perspective

The HOME funding had previously been used for the rehabilitation of owner-occupied homes as well as the Rental Rehabilitation program and the MURL program. HOME funds were reallocated in 2001 to the MURL program to simplify that program and better meet the new administrative requirements imposed by HUD on the HOME program.

In 2003, the Minnesota Legislature expanded the authority under the MURL program to new construction in those instances where the costs of demolition and new construction are less than the costs of acquisition and rehabilitation.

HOUSING FINANCE AGENCY

Program: NON APPROPRIATED PROGRAMS

Activity: RE/DEVELOPMENT

Narrative

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HOUSING FINANCE AGENCY
Program: NON APPROPRIATED PROGRAMS
Activity: RE/DEVELOPMENT

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Expenditures by Fund</u>					
Statutory Appropriations					
Housing Finance Agency	9,002	9,950	9,950	9,950	19,900
Total	9,002	9,950	9,950	9,950	19,900
<u>Expenditures by Category</u>					
Payments To Individuals	3,973	3,550	3,550	3,550	7,100
Local Assistance	94	200	200	200	400
Other Financial Transactions	4,935	6,200	6,200	6,200	12,400
Total	9,002	9,950	9,950	9,950	19,900

HOUSING FINANCE AGENCY

Program: NON APPROPRIATED PROGRAMS

Activity: SUPPORTIVE HOUSING

Narrative

Activity Description

Supportive housing is permanent housing with support services. Supportive housing is an essential element of efforts to achieve the strategic goal of ending long-term homelessness. Supportive housing stabilizes housing for the poorest households or households with special needs so they can successfully address barriers to employment, complete school or training, and/or achieve independent living. Housing providers understand that providing affordable housing alone does not ensure success for these populations. Service providers increasingly understand that delivering services alone to a family or individual with no stable, affordable housing does not work either.

Activity at a Glance

- ◆ To date, 65 units of rental housing have been developed or rehabilitated or are in the process of re/development to house persons with HIV/AIDS; and
- ◆ 226 households in Greater Minnesota received HOPWA funds in FFY 2004 for emergency assistance of rental, mortgage and utility payments to assist in housing search and referral services.

Population Served

Supportive housing programs serve individuals and families with multiple barriers to obtaining and maintaining housing, including persons who are homeless or at risk of becoming homeless, and persons with mental illness, substance abuse disorders, or persons with HIV/AIDS.

Services Provided

MHFA's non-appropriated program in the area of supportive housing is:

Housing Opportunities for Persons with AIDS (HOPWA)

The HOPWA program is a federally funded program that is administered by the Minnesota Housing Finance Agency. It provides resources to devise long-term and comprehensive strategies for meeting the housing needs of persons with AIDS or other related diseases. It can fund capital costs, emergency services, operating costs, or rental subsidies.

Key Measures

See Key Measures for this same budget activity under Appropriated Programs.

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HOUSING FINANCE AGENCY
 Program: NON APPROPRIATED PROGRAMS
 Activity: SUPPORTIVE HOUSING

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Expenditures by Fund</u>					
Statutory Appropriations					
Housing Finance Agency	792	1,350	1,450	1,450	2,900
Total	792	1,350	1,450	1,450	2,900
<u>Expenditures by Category</u>					
Payments To Individuals	792	1,300	1,350	1,350	2,700
Other Financial Transactions	0	50	100	100	200
Total	792	1,350	1,450	1,450	2,900

HOUSING FINANCE AGENCY

Program: NON APPROPRIATED PROGRAMS

Activity: HOMEOWNERSHIP LOAN

Narrative

Activity Description

The homeownership loan programs combine state appropriations with bond proceeds and Minnesota Housing Finance Agency (MHFA) resources to provide affordable loans. Homeownership loan programs also conduct marketing and outreach aimed at reaching underserved populations.

Activity at a Glance

In FFY 2003 and FY 04:

- ◆ A total of \$945,441 was appropriated for downpayment assistance program.

The state appropriated homeownership loan program assists in achieving two strategic goals:

- ◆ increasing the homeownership rate of households of color; and
- ◆ preserving existing affordable housing.

Population Served

The homeownership loan programs serve first-time homebuyers.

Services Provided

The non-appropriated homeownership loan program is:

American Dream Downpayment Initiative (ADDI).

This program uses federal block grant funds to provide downpayment assistance towards the purchase of single-family housing by low-income families who are first-time homebuyers. Funds have not yet been disbursed for this program.

Key Measures

See Key Measures for this same budget activity under Appropriated Programs.

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HOUSING FINANCE AGENCY
 Program: NON APPROPRIATED PROGRAMS
 Activity: HOMEOWNERSHIP LOAN

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Expenditures by Fund</u>					
Statutory Appropriations					
Housing Finance Agency	0	345	300	300	600
Total	0	345	300	300	600
<u>Expenditures by Category</u>					
Other Financial Transactions	0	345	300	300	600
Total	0	345	300	300	600

HOUSING FINANCE AGENCY

Program: NON APPROPRIATED PROGRAMS

Activity: PRESERVATION

Narrative

Activity Description

This budget activity is one of the key means by which the MHFA achieves its strategic goal of strategically preserving the existing housing stock.

In order to preserve every unit of federally assisted rental housing as is economically feasible, the Minnesota Housing Finance Agency (MHFA) provides incentive or rehabilitation loans, or both, for new or existing owners who will commit to staying in the federal assistance program for a longer term. This housing was financed originally with Housing and Urban Development (HUD), MHFA, or United States Department of Agriculture (USDA) Rural Development programs. No existing development program - federal, state, or local - can produce housing that is as affordable to residents as the existing stock of federally assisted housing. Preserving this housing costs substantially less per unit than new construction and, in many cases, leverages federal rent or mortgage subsidies well into the future.

This housing stock is threatened for three reasons:

- ⇒ Half of Minnesota's Section 8 housing stock was financed with 20-year mortgages that either have expired or will soon expire.
- ⇒ Federal policies and requirements and the increasingly frequent changes in these policies and requirements make continued participation in any publicly funded rental housing program less attractive to owners. An increasing number of owners are choosing to opt-out of the programs for estate planning reasons.
- ⇒ Physical deterioration threatens a significant portion of federally assisted housing.

Effective administration of housing assistance payment contracts on approximately 32,000 units of Section 8 housing is the other strategy employed by MHFA to preserve federally assisted housing.

Population Served

Tenants of federally subsidized housing are generally among the lowest income households served by MHFA.

Services Provided

MHFA's non-appropriated programs in the area of preservation of federally-assisted housing are as follows:

- ⇒ Section 8 Housing Assistance Payments

MHFA administers the federal Section 8 Housing Assistance Payments for developments that have contracted with MHFA. The assistance is in the form of rental subsidies to low and moderate-income tenants. The tenant pays no more than 30% of his or her income for rent and HUD pays the difference between the tenant's contribution and a rent amount set by contract between HUD and the owner. Tenants must have incomes less than 80% of area median income. For developments with Housing Assistance Payments contracts executed after 10-01-81, 100% of the units must be occupied by households with incomes below 50% of area median income; developments with contracts executed before that date must rent at least 30% of the units to households with incomes below 50% of area median income. The Housing Assistance Payments are committed for the remainder of the mortgage term (30 or 40 years).

Activity at a Glance

For FFY 2003:

- ◆ \$73,992,013 in Section 8 Housing Assistance payments was disbursed for 12,927 units of rental housing;
- ◆ \$68,783,348 in Section 8 Housing Assistance payments was disbursed for 17,607 units of housing for which MHFA is the contract administrator;
- ◆ The median income of the households living in the Section 8 units was about \$10,000; and
- ◆ Every Minnesota county has at least one federally assisted rental project.

HOUSING FINANCE AGENCY

Program: NON APPROPRIATED PROGRAMS

Activity: PRESERVATION

Narrative

⇒ HUD Contract Administration

MHFA is the contract administrator for HUD developments with project-based Section 8. The assistance is in the form of rental subsidies to extremely low to moderate-income tenants. The tenant pays no more than 30% of his or her income for rent, until their income exceeds the income limits and HUD pays the difference between the tenant's contribution and a rent amount set by contract between HUD and the owner. Tenants must have incomes less than 80% of area median income. Owners must rent 40% of their units to extremely low income tenants (incomes at or below 30% of area median income). Sixty percent of the turnover units may be rented to households with incomes below 50% of area median income. For developments with Housing Assistance Payments contracts executed after 10-01-81, no more than 15% of the turn-over units may be rented to households with incomes between 50% and 80% of the area median income; developments with contracts executed before that date may not rent more than 15% of the turnover units to tenants with incomes at that level. The Housing Assistance Payments are committed for between one and five years.

⇒ Section 236 Interest Rate Reduction Program

The agency administers Section 236 interest rate reduction payments for 13 rental housing developments throughout Minnesota. The assistance is in the form of a shallow subsidy provided by HUD to lenders to cover the difference between a 1% interest rate and the market rate on a mortgage loan. Tenants must pay a basic rent, which is calculated on the basis of the reduced interest mortgage, or 30% of the tenant's income, not to exceed a market rent, whichever is greater. Tenants of the units covered by the interest-rate subsidy must have incomes at or below 80% of area median income. In general, the low-income use restrictions apply for at least 20 years.

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HOUSING FINANCE AGENCY
Program: NON APPROPRIATED PROGRAMS
Activity: PRESERVATION

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Expenditures by Fund</u>					
Statutory Appropriations					
Housing Finance Agency	143,291	151,102	150,456	150,456	300,912
Total	143,291	151,102	150,456	150,456	300,912
<u>Expenditures by Category</u>					
Other Operating Expenses	7	10	10	10	20
Payments To Individuals	142,925	150,704	150,446	150,446	300,892
Local Assistance	25	30	0	0	0
Other Financial Transactions	334	358	0	0	0
Total	143,291	151,102	150,456	150,456	300,912

HOUSING FINANCE AGENCY

Program: NON APPROPRIATED PROGRAMS

Activity: RESIDENT & ORGANIZATIONAL SUPP

Narrative

Activity Description

This budget activity contributes to MHFA achieving its strategic goal of being a housing resource of choice.

The resident and organizational support programs provide support for some of the organizational infrastructure necessary to effectively deliver affordable housing throughout the state. These programs fund homebuyer education and foreclosure prevention, regional planning and coordinating activities, and nonprofit operating costs. Citizen input sessions around the state and over the years consistently identify the lack of capacity as a barrier to producing more affordable housing.

Activity at a Glance

In FFY 2004:

- ◆ 8 CHDO's received operating assistance;
- ◆ 24 HOME administrators serve 61 counties in greater Minnesota and two metro area counties; and
- ◆ All of the organizations receiving CHDO operating grants are actively engaged in the development of affordable housing.

Population Served

- ⇒ Nonprofit development organizations are assisted with the building of their capacity to develop affordable housing; and
- ⇒ Local administrators of the Urban and Rural HOMEstaying Program (HOME).

Services Provided

The Minnesota Housing Finance Agency's (MHFA) non-appropriated programs resident and organizational support programs are as follows:

- ⇒ Community Housing Development Corporation (CHDO) Operating Grants

The CHDO Operating Grants program used up to 5% of the annual HOME Investment Partnerships Program appropriation to support nonprofit organizations meeting federal standards on structure and purpose that own, sponsor, or develop affordable housing for low-income families.

- ⇒ HOME Administrative Costs

HOME Administrative Costs up to 10% of the annual HOME Investment Partnerships Program appropriation may be used for the costs of administering the HOME program.

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HOUSING FINANCE AGENCY

Program: NON APPROPRIATED PROGRAMS

Activity: RESIDENT & ORGANIZATIONAL SUPP

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Expenditures by Fund</u>					
Statutory Appropriations					
Housing Finance Agency	880	1,361	1,561	1,561	3,122
Total	880	1,361	1,561	1,561	3,122
<u>Expenditures by Category</u>					
Local Assistance	880	1,361	1,561	1,561	3,122
Total	880	1,361	1,561	1,561	3,122

Activity Description

Through this budget activity, MHFA works to achieve its strategic goal of being a housing resource of choice.

In April, 2003 the Governor appointed Tim Marx to be the fourth Commissioner of the Minnesota Housing Finance Agency since its inception in 1971.

During the FY 2004-2005 biennium, the MHFA developed five strategic goals and began implementing a new strategic plan. A business plan to achieve the strategic goals of ending long-term homelessness was developed and a report delivered to the Minnesota Legislature in March, 2004. An initiative regarding work on the goal of increasing the homeownership rate on emerging markets was launched in June, 2004 and work is well underway on developing a business plan for this initiative.

In response, in part, to a customer survey conducted in late 2002, the Multifamily division is engaged in efforts to improve customer service that includes eight specific activities to be undertaken over the course of the next 18 to 24 months. These actions are intended to streamline processes and make doing business with the MHFA easier and faster while retaining the ability to produce quality, affordable rental housing for those households not being served by the private sector.

Major information technology improvement efforts continue during the FY 2004-2005 biennium. A new centralized database for Multifamily projects is under development and will result in a web-based application and increased electronic interfaces for sharing and providing data between MHFA and its customers. A single-family mortgage online system is being developed that allows lenders to submit loans for approval and purchase via a web-based system. This will decrease costs and increase efficiency. Both systems are scheduled for completion by the end of the calendar year.

A Housing Resource Advisory Committee was established to review the policies and practices adopted by the MHFA in allocating resources and to explore alternative allocations of resources in Minnesota so as to best advance the Agency's mission of meeting Minnesotans' needs for decent, safe, affordable housing and stronger communities.

As of 6-30-03, MHFA has approximately \$2.79 billion in assets.

Population Served

Low and moderate-income tenants, homebuyers, and homeowners benefit from the administration of agency programs.

Services Provided

Agency staff engages in a number of activities to ensure that both appropriated and non-appropriated funds are well invested and the investments are well managed.

For multifamily properties, one of the major activities is management monitoring with five major components that require review and oversight: 1) underwriting; 2) construction; 3) marketing/initial rent-up; 4) long-term management; and 5) additional oversight for troubled properties. In addition, monitoring for compliance with the federal Section 8, Section 236, Low-Income Housing Tax Credits, and Urban and Rural HOMEstaying Program (HOME) programs must be performed as well as monitoring for compliance with imposed rent and income restrictions.

Activity at a Glance

For FY 2004:

- ◆ Disbursed \$275 million for homeownership programs;
- ◆ Disbursed \$41 million for home improvement and rehabilitation programs;
- ◆ Disbursed \$217 million for rental housing programs;
- ◆ Administered \$5.6 million in housing tax credits for 906 units of rental housing;
- ◆ Oversaw a portfolio of more than 1,200 first mortgages and deferred loans for rental housing; and
- ◆ Issued an aggregate of \$761 million in 26 series of bonds.

HOUSING FINANCE AGENCY

Program: NON APPROPRIATED PROGRAMS

Activity: ADMINISTRATION

Narrative

Activities surrounding the various homeownership assistance provided by MHFA include processing loan reservations and disbursements, compliance monitoring of funds used for homeownership assistance, monitoring of loan services, and provision of delinquency assistance and loss mitigation tools.

The agency's portfolio grows as additional funds are appropriated for housing. A concomitant increase in the responsibilities for loan portfolio management, investment and debt management, and property management results from a larger portfolio.

The portfolio of federal housing tax credit is growing by approximately 1,200 units per year. Federal law requires that a portion of tax credit units be monitored every year.

Key Measures

By February 15 of each year, MHFA presents the following information on its administrative budget to the Jobs and Economic Development Finance Committee of the House and the Jobs, Energy and Economic Development Division of the Senate Finance Committee for review:

- ◆ A comparison of budgeted and actual administrative costs from the previous state fiscal year;
- ◆ A budget plan for the current fiscal year; and
- ◆ A comparison of the budgeted and actual-to-date administrative expenses from the current fiscal year.

The agency is required to explain any materially significant differences in any line items.

Activity Funding

The cost of operating the MHFA in FY 2004 was \$20,537,000. The agency pays for the costs of operation from agency earnings. The administrative costs of operating state-appropriated programs are recovered to the extent that there are interest earnings on state appropriations. No core state appropriation is used to fund agency operations.

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HOUSING FINANCE AGENCY
Program: NON APPROPRIATED PROGRAMS
Activity: ADMINISTRATION

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Expenditures by Fund</u>					
Statutory Appropriations					
Housing Finance Agency	20,537	21,849	20,888	21,199	42,087
Total	20,537	21,849	20,888	21,199	42,087
<u>Expenditures by Category</u>					
Total Compensation	13,129	14,107	14,596	15,083	29,679
Other Operating Expenses	7,408	7,742	6,282	6,106	12,388
Transfers	0	0	10	10	20
Total	20,537	21,849	20,888	21,199	42,087
Full-Time Equivalents (FTE)	182.9	190.4	190.4	190.4	

HOUSING FINANCE AGENCY

Agency Revenue Summary

Dollars in Thousands

	Actual FY2004	Budgeted FY2005	Governor's Recomm. FY2006 FY2007		Biennium 2006-07
<u>Non Dedicated Revenue:</u>					
Total Non-Dedicated Receipts	0	0	0	0	0
<u>Dedicated Receipts:</u>					
Grants:					
Housing Finance Agency	161,287	170,926	171,182	171,268	342,450
Other Revenues:					
Housing Finance Agency	12,529	16,268	16,737	16,961	33,698
Other Sources:					
Housing Finance Agency	11,778	7,119	6,831	6,832	13,663
Total Dedicated Receipts	185,594	194,313	194,750	195,061	389,811
Agency Total Revenue	185,594	194,313	194,750	195,061	389,811