

## 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;
- ◆ strategically preserve the existing affordable housing stock;
- ◆ increase housing choice for low and moderate income workers to support economic vitality; and
- ◆ enhance MHFA's role as a housing partner 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 Existing Housing Programs.** These programs seek to preserve the existing affordable housing stock including 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 areas: housing finance and operations; housing programs; and 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 \$2.95 billion, \$2 billion of which are financed by mortgage revenue bonds. They manage the process of raising capital through periodic debt issuances. In this area, operations staff also prepares financial forecasts, budgets, and fiscal year-end audited financial reports for all funds and accounts. They are responsible for the accurate and timely reporting of all accounting and financial information necessary to comply with disclosure requirements and board policies. Operational staff also manage the agency's information systems and human resources functions.
- ⇒ The staff of the multifamily portion of the housing programs area 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. Multifamily staff is

## At A Glance

### Two-Year Budget:

- ◆ \$1.3 billion - all funds
- ◆ four sources:
  - ⇒ 48% bond sales
  - ⇒ 23% federal funds
  - ⇒ 18% agency resources
  - ⇒ 11% state appropriations

### Annual Assistance:

- ◆ Provided \$637 million in housing assistance in FFY 2005.
- ◆ Served 57,990 households.
- ◆ 69% of all households served had annual incomes under \$20,000;
- ◆ 41% of the households served who did not receive Section 8 assistance had incomes below \$20,000.

also responsible for the oversight of the management of the agency's portfolio of rental housing, monitoring 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).

- ⇒ Housing programs homeownership staff manage programs to assist with the financing of home purchases and home improvements. They also manage the process of assisting in the financing of new home construction for ownership and neighborhood revitalization. These people oversee the provision of homeownership education services. This staff also administers programs that provide post-purchase support and foreclosure prevention for homeowners.
- ⇒ The housing policy area 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 nonprofit 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 48% 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 23% of MHFA funds. In the 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 11% of the total program funds expected to be distributed in 2006-2007. State appropriations for the 2006-2007 biennium total \$70.47 million from the General Fund.

### **Contact**

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

The MHFA web site at [www.mhfa.state.mn.us](http://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		Forecast Base		Biennium 2008-09
	FY2006	FY2007	FY2008	FY2009	
<b><u>Direct Appropriations by Fund</u></b>					
<b>General</b>					
Current Appropriation	35,235	35,235	35,235	35,235	70,470
<b>Forecast Base</b>	<b>35,235</b>	<b>35,235</b>	<b>39,438</b>	<b>39,438</b>	<b>78,876</b>
Change		0	4,203	4,203	8,406
% Biennial Change from 2006-07					11.9%
<b><u>Expenditures by Fund</u></b>					
<b>Direct Appropriations</b>					
General	0	0	39,438	39,438	78,876
<b>Statutory Appropriations</b>					
Housing Finance Agency	238,641	251,106	205,792	205,354	411,146
<b>Total</b>	<b>238,641</b>	<b>251,106</b>	<b>245,230</b>	<b>244,792</b>	<b>490,022</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	14,077	15,855	16,467	17,046	33,513
Other Operating Expenses	7,413	7,688	7,463	6,446	13,909
Payments To Individuals	176,935	175,883	174,200	175,200	349,400
Local Assistance	2,342	2,757	2,498	2,498	4,996
Other Financial Transactions	37,874	48,923	44,602	43,602	88,204
<b>Total</b>	<b>238,641</b>	<b>251,106</b>	<b>245,230</b>	<b>244,792</b>	<b>490,022</b>
<b><u>Expenditures by Program</u></b>					
Appropriated Programs	45,968	58,137	55,287	55,287	110,574
Non Appropriated Programs	192,673	192,969	189,943	189,505	379,448
<b>Total</b>	<b>238,641</b>	<b>251,106</b>	<b>245,230</b>	<b>244,792</b>	<b>490,022</b>
<b>Full-Time Equivalents (FTE)</b>	<b>182.0</b>	<b>198.8</b>	<b>198.8</b>	<b>198.8</b>	

# HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Narrative

## Program Description

Appropriated programs fund affordable housing activities in five broad areas. These include

- ⇒ **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.
- ⇒ **Homeless Prevention and 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.

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, Minnesota Housing Finance Agency (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

	FY 2006	FY 2007	Biennial
<b>Development and Redevelopment Programs</b>			
Economic Development and Housing Challenge Fund	\$10,907,000	\$10,907,000	\$21,814,000
<b>Homeless Prevention and Supportive Housing Programs</b>			
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
<b>Homeownership Loan Programs</b>			
Homeownership Assistance Fund	\$0	\$0	\$0
<b>Preservation of Federally Assisted Housing Programs</b>			
Affordable Rental Investment Fund (ARIF- Preservation)	\$8,996,000	\$8,996,000	\$17,992,000
Rehabilitation Loan	\$2,654,000	\$2,654,000	\$5,308,000
<b>Resident and Organizational Support</b>			
Homeownership Education, Counseling, and Training (HECAT)	\$770,000	\$770,000	\$1,540,000
Non-Profit Capacity Building Grants	\$250,000	\$250,000	\$500,000
<b>Totals</b>	<b>\$35,235,000</b>	<b>\$35,235,000</b>	<b>\$70,470,000</b>

Although state appropriations are only 11% of the total MHFA biennial budget, these funds make an important difference, enabling the MHFA to meet the housing needs of families and individuals of lower income than would be otherwise possible. These programs often supplement non-appropriated programs that use amortizing debt and other sources of funds. Approximately 73% of the state appropriation is used for rental housing because providing affordable rental housing requires relatively more subsidy than homeownership.

**HOUSING FINANCE AGENCY**  
 Program: APPROPRIATED PROGRAMS

Program Summary

<i>Dollars in Thousands</i>					
	Current		Forecast Base		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<b><u>Direct Appropriations by Fund</u></b>					
<b>General</b>					
Current Appropriation	35,235	35,235	35,235	35,235	70,470
<b>Technical Adjustments</b>					
Current Law Base Change			4,203	4,203	8,406
<b>Forecast Base</b>	<b>35,235</b>	<b>35,235</b>	<b>39,438</b>	<b>39,438</b>	<b>78,876</b>
<b><u>Expenditures by Fund</u></b>					
<b>Direct Appropriations</b>					
General	0	0	39,438	39,438	78,876
<b>Statutory Appropriations</b>					
Housing Finance Agency	45,968	58,137	15,849	15,849	31,698
<b>Total</b>	<b>45,968</b>	<b>58,137</b>	<b>55,287</b>	<b>55,287</b>	<b>110,574</b>
<b><u>Expenditures by Category</u></b>					
Other Operating Expenses	0	0	170	170	340
Payments To Individuals	12,091	15,307	15,366	16,366	31,732
Local Assistance	1,177	1,749	1,495	1,495	2,990
Other Financial Transactions	32,700	41,081	38,256	37,256	75,512
<b>Total</b>	<b>45,968</b>	<b>58,137</b>	<b>55,287</b>	<b>55,287</b>	<b>110,574</b>
<b><u>Expenditures by Activity</u></b>					
Re/Development	12,466	15,642	13,250	13,250	26,500
Supportive Housing	13,428	15,340	15,708	15,708	31,416
Homeownership Loan	3,732	6,805	5,083	5,083	10,166
Preservation	13,902	17,500	18,945	18,945	37,890
Resident & Organizational Supp	2,440	2,850	2,301	2,301	4,602
<b>Total</b>	<b>45,968</b>	<b>58,137</b>	<b>55,287</b>	<b>55,287</b>	<b>110,574</b>

# 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.

This program funds 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.

## Activity at a Glance

In FFY 2005:

- ◆ 241 housing units were rehabilitated;
- ◆ 491 new housing units were financed; and
- ◆ Requests have typically exceeded funds available by a five to one ratio.

## 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.

**The Economic Development and Housing Challenge Program** (M.S. 462A.33) 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 (\$90,275 in the Twin Cities metro area for 2006). The income maximum for the rental housing funded under this program is set at 80% of greater of state or area median income (\$62,280 in the Twin Cities metro area for 2006). The income maximums allow a range of workforce housing to be developed or rehabilitated.

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. Projects that show cost reduction or avoidance as a result of local regulatory relief are given a priority in selection for funding. 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 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.

In 2005, a further consideration occurred with funding for the Tribal Indian Housing and the Urban Indian Housing programs being added to the the Challenge program; an amount equal to the historical funding levels for those two programs is set-aside exclusively for use for Indian housing for the first eight months of each fiscal year.

# HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

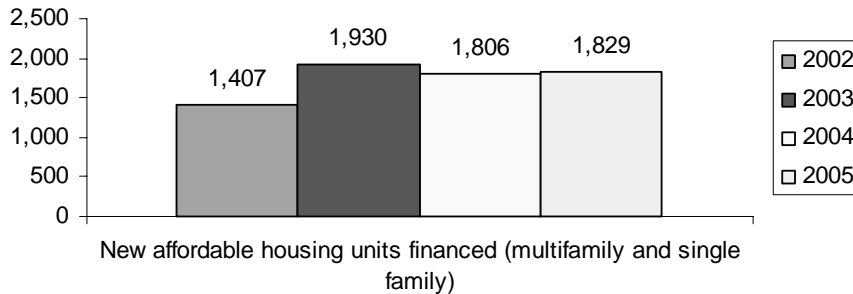
Activity: RE/DEVELOPMENT

Narrative

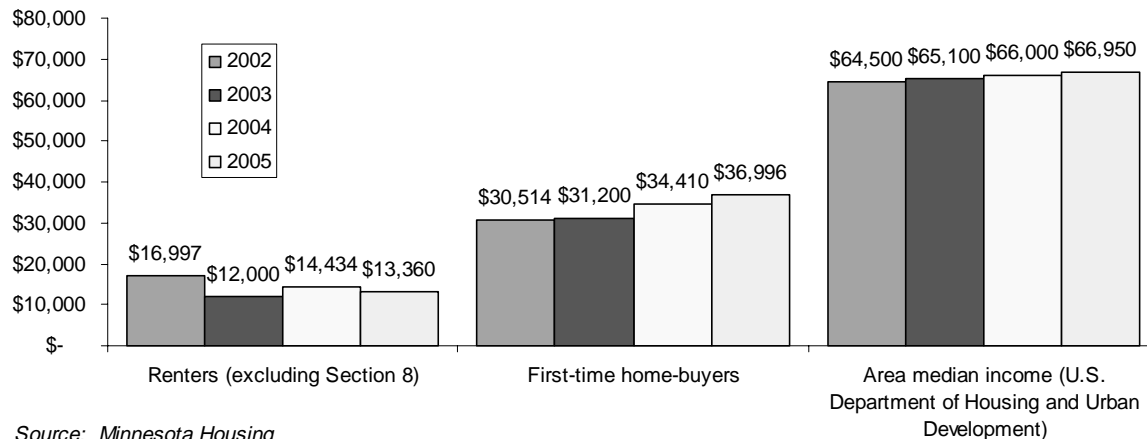
## Key Measures

The Next Decade of Housing study commissioned by MHFA, Family Housing Fund, and Greater Minnesota Housing Fund estimated that by 2010 there will be a shortfall of 33,000 affordable housing units for low-income households statewide if production is maintained at historic levels.

### Minnesota Housing financing of affordable housing



### Median income of households assisted by Minnesota Housing



Source: Minnesota Housing  
Note: Not adjusted for inflation.

## Budget

State appropriations for this activity were approximately \$21.8 million in the 2006-2007 biennium.

## Contact

Tonja M. Orr, Assistant Commissioner  
Phone: (651) 296-9820  
Fax: (651) 296-8139  
E-mail: [tonja.orr@state.mn.us](mailto:tonja.orr@state.mn.us)

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

Budget Activity Summary

<i>Dollars in Thousands</i>					
	<b>Current</b>		<b>Forecast Base</b>		<b>Biennium</b>
	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>2008-09</b>
<b><u>Expenditures by Fund</u></b>					
<b>Direct Appropriations</b>					
General	0	0	10,907	10,907	21,814
<b>Statutory Appropriations</b>					
Housing Finance Agency	12,466	15,642	2,343	2,343	4,686
<b>Total</b>	<b>12,466</b>	<b>15,642</b>	<b>13,250</b>	<b>13,250</b>	<b>26,500</b>
<b><u>Expenditures by Category</u></b>					
Payments To Individuals	2,587	3,000	2,593	2,593	5,186
Other Financial Transactions	9,879	12,642	10,657	10,657	21,314
<b>Total</b>	<b>12,466</b>	<b>15,642</b>	<b>13,250</b>	<b>13,250</b>	<b>26,500</b>



# HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Activity: SUPPORTIVE HOUSING

Narrative

## Activity Description

Homeless prevention activities provide housing and other assistance to households who are at risk of becoming homeless due to a crisis situation, extremely low-incomes, physical or mental health problems. These activities also assist households in moving out of emergency shelters and other temporary settings so that they do not become long-term homeless.

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. For some households, providing both housing and services is essential to success; one without the other does not lead to success.

## Activity at a Glance

For FFY 2005:

- ◆ 484 households received Bridges assistance;
- ◆ 604 households received other state funded rental assistance;
- ◆ 467 housing units for very low-income households were constructed or rehabbed with Housing Trust Fund (HTF) monies;
- ◆ 5,885 households received homeless prevention assistance;
- ◆ Average assistance per household under the Family Homeless Prevention and Assistance Program (FHPAP) - \$568; and
- ◆ Nearly half of the households served under FHPAP are single-parent families.

## Population Served

Households facing a crisis that may result or has resulted in the loss of permanent housing and those who cannot afford basic, permanent housing without a substantial subsidy. 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:

**The Housing Trust Fund Program** (M.S. 462A.201) 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 (\$47,100 for 2006); 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 (\$23,550 for 2006). Nonprofit and for-profit organizations as well as local units of government are eligible to receive funds under this program.

**The Bridges Program** (M.S. 462A.2097 - 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.

The **Family Homeless Prevention and Assistance Program** (M.S. 462A.204), or 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.

# HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Activity: SUPPORTIVE HOUSING

Narrative

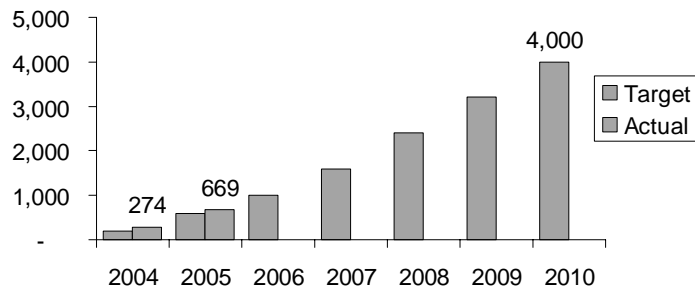
## Historical Perspective

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 budget for the Housing Trust Fund was \$4.6 million prior to consolidation.

## Key Measures

MHFA, along with the Departments of Human Services and Corrections, is a key partner in implementing the Business Plan to End Long-Term Homelessness in Minnesota. Developed by a working group of public and private stakeholders, the Business Plan aims to provide permanent supportive housing to an additional 4,000 long-term homeless households by 2010.

**Supportive housing opportunities funded for persons experiencing long-term homelessness**



## Budget

Total state appropriations for this activity were approximately \$23.3 million in the 2006-2007 biennium.

## Contact

Tonja M. Orr, Assistant Commissioner  
Phone: (651) 296-9820  
Fax: (651) 296-8139  
E-mail: [tonja.orr@state.mn.us](mailto:tonja.orr@state.mn.us)

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HOUSING FINANCE AGENCY  
 Program: APPROPRIATED PROGRAMS  
 Activity: SUPPORTIVE HOUSING

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Forecast Base		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<b><u>Expenditures by Fund</u></b>					
<b>Direct Appropriations</b>					
General	0	0	13,658	13,658	27,316
<b>Statutory Appropriations</b>					
Housing Finance Agency	13,428	15,340	2,050	2,050	4,100
<b>Total</b>	<b>13,428</b>	<b>15,340</b>	<b>15,708</b>	<b>15,708</b>	<b>31,416</b>
<b><u>Expenditures by Category</u></b>					
Payments To Individuals	8,494	11,045	11,753	12,753	24,506
Other Financial Transactions	4,934	4,295	3,955	2,955	6,910
<b>Total</b>	<b>13,428</b>	<b>15,340</b>	<b>15,708</b>	<b>15,708</b>	<b>31,416</b>

# HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Activity: HOMEOWNERSHIP LOAN

Narrative

## Activity Description

The homeownership loan program combines state appropriations with bond proceeds 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.

## Activity at a Glance

In FFY 2005:

- ◆ 1,335 households received HAF assistance;
- ◆ 51% of first-time homebuyers with a MHFA mortgage received HAF assistance; and
- ◆ Average assistance under the HAF program - \$10,839.

## Population Served

The homeownership loan programs serve low and moderate-income first-time homebuyers, and very low-income homeowners.

## Services Provided

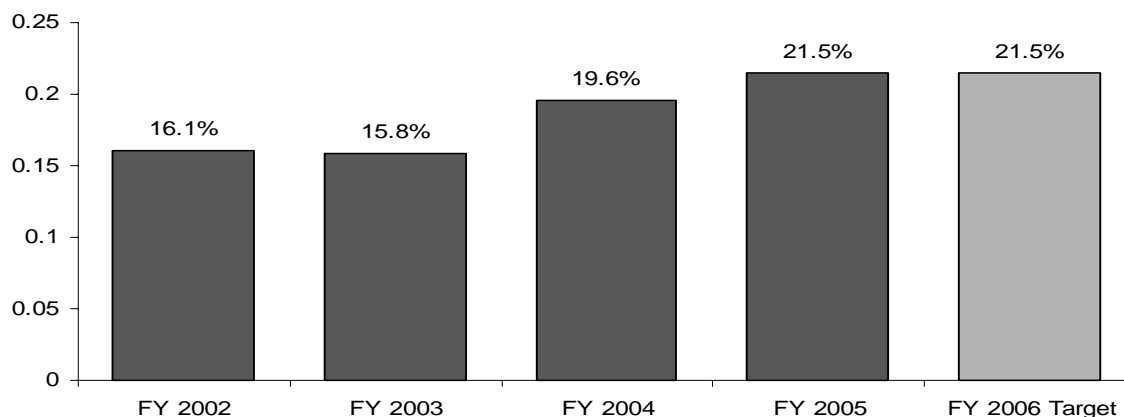
Minnesota Housing Finance Agency's (MHFA's) appropriated homeownership loan program is the **Homeownership Assistance Fund** (M.S 462A.21, Subd. 8), or HAF. It provides entry costs and monthly assistance to more modest income homebuyers who are purchasing their first home through one of MHFA's mortgage 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 delivers this assistance.

## Historical Perspective

The 2003 legislature directed that for the 2006-2007 biennium, that funding for the HAF program be restored to \$1.77 million. Previously, funding for that program had been suspended for FY 2004-2005 and 2006-2007.

## Key Measures

Percentage of Minnesota Housing-assisted first-time home buyers from communities of color and/or Hispanic ethnicity



Source: Minnesota Housing; includes CASA, MMP, MCPP and ECHO.

Minnesota Housing estimates that the homeownership gap between white-headed households and households of color and/or Hispanic ethnicity in 2004 was 33 percentage points, placing Minnesota in the top ten states for the largest homeownership gap.

## HOUSING FINANCE AGENCY

**Program:** APPROPRIATED PROGRAMS

**Activity:** HOMEOWNERSHIP LOAN

Narrative

There are six principal barriers to homeownership for emerging markets that can be successfully addressed by the homeownership industry and community partners: wealth and down payment; credit lending policies; cultural factors; preferences and immigration; information, marketing, outreach; discrimination; homebuyer counseling and financial education.

### **Budget**

This program received no state appropriations for the 2004-05 or the 2006-2007 biennium. It has operated on repayments and agency resources since July 2003.

### **Contact**

Tonja M. Orr, Assistant Commissioner

Phone: (651) 296-9820

Fax: (651) 296-8139

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

Budget Activity Summary

<i>Dollars in Thousands</i>					
	<b>Current</b>		<b>Forecast Base</b>		<b>Biennium</b>
	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>2008-09</b>
<b><u>Expenditures by Fund</u></b>					
<b>Direct Appropriations</b>					
General	0	0	885	885	1,770
<b>Statutory Appropriations</b>					
Housing Finance Agency	3,732	6,805	4,198	4,198	8,396
<b>Total</b>	<b>3,732</b>	<b>6,805</b>	<b>5,083</b>	<b>5,083</b>	<b>10,166</b>
<b><u>Expenditures by Category</u></b>					
Local Assistance	0	150	150	150	300
Other Financial Transactions	3,732	6,655	4,933	4,933	9,866
<b>Total</b>	<b>3,732</b>	<b>6,805</b>	<b>5,083</b>	<b>5,083</b>	<b>10,166</b>

# 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.

Nearly 40% of Minnesota's housing stock was built before 1959. For many low-income homeowners, the lack of funds to maintain their housing is the greatest threat to continued homeownership.

## Population Served

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

## Services Provided

**The Rehabilitation Loan Program** (M.S. 462A.05, Subd. 14a) 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 million per year. Loans are distributed through local administrators who are familiar with the local area's needs.

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

## 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

### Activity at a Glance

- ◆ There are approximately 53,000 units of privately owned, federally assisted rental housing in Minnesota;
- ◆ Of those, 12,278 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;
- ◆ 417 households received assistance to rehab or preserve their home; and
- ◆ Average assistance under the Rehabilitation Loan Program - \$9,019.

# HOUSING FINANCE AGENCY

**Program:** APPROPRIATED PROGRAMS

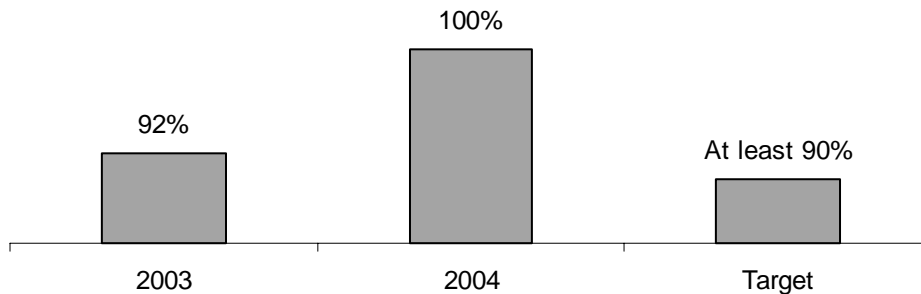
**Activity:** PRESERVATION

Narrative

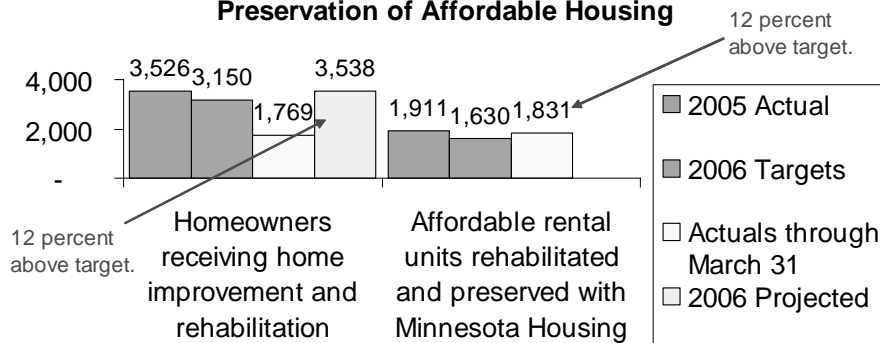
physical condition of the aging building. In 2005, the program was expanded to include the preservation of supportive housing.

## Key Measures

**Percent of federally assisted units determined to be at risk for termination of their federal assistance program that are preserved as affordable**



## Minnesota Housing Preservation of Affordable Housing



## Budget

Total state appropriations for this activity were approximately \$23.3 million in the 2006-2007 biennium.

## Contact

Tonja M. Orr, Assistant Commissioner  
 Phone: (651) 296-9820  
 Fax: (651) 296-8139  
 E-mail: [tonja.orr@state.mn.us](mailto:tonja.orr@state.mn.us)

For further information, visit MHFA's web site at: [www.mhfa.state.mn.us](http://www.mhfa.state.mn.us)



**HOUSING FINANCE AGENCY**  
**Program: APPROPRIATED PROGRAMS**  
**Activity: PRESERVATION**

Budget Activity Summary

<i>Dollars in Thousands</i>					
	<b>Current</b>		<b>Forecast Base</b>		<b>Biennium</b>
	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>2008-09</b>
<b><u>Expenditures by Fund</u></b>					
<b>Direct Appropriations</b>					
General	0	0	12,968	12,968	25,936
<b>Statutory Appropriations</b>					
Housing Finance Agency	13,902	17,500	5,977	5,977	11,954
<b>Total</b>	<b>13,902</b>	<b>17,500</b>	<b>18,945</b>	<b>18,945</b>	<b>37,890</b>
<b><u>Expenditures by Category</u></b>					
Other Operating Expenses	0	0	170	170	340
Local Assistance	425	715	664	664	1,328
Other Financial Transactions	13,477	16,785	18,111	18,111	36,222
<b>Total</b>	<b>13,902</b>	<b>17,500</b>	<b>18,945</b>	<b>18,945</b>	<b>37,890</b>

# 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 maintaining or building 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 Program** (M.S. 462A.209), or HECAT. 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 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.

## Activity at a Glance

In FFY 2005:

- ◆ 9,278 households received foreclosure prevention assistance or homebuyer training services;
- ◆ For every \$1 of state funding, an additional \$9 was provided to Twin Cities non-profit housing and economic development organizations from private resources; and
- ◆ Continued funding of six regional advisory groups to promote coordination of planning on a regional basis.

# HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Activity: RESIDENT & ORGANIZATIONAL SUPP

Narrative

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.

## Historical Perspective

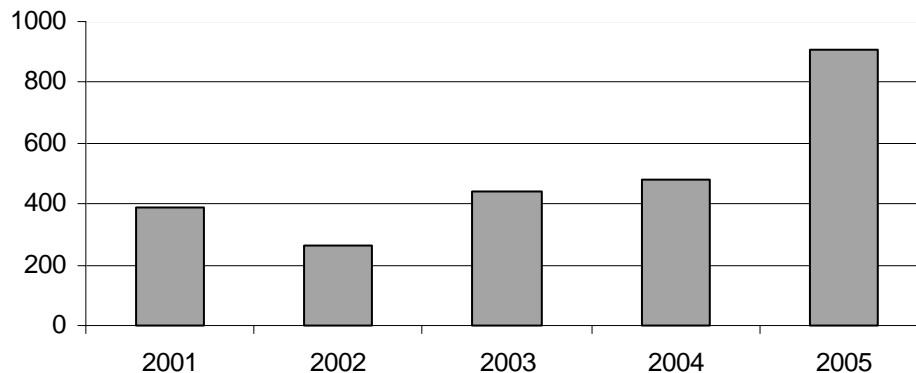
In 2000, the Minnesota Legislature combined the Full-Cycle Homeownership Services program, and the Foreclosure Prevention, and Assistance program to form a new program called the HECAT program. Since many administrators participated in both programs, the merger achieved administrative simplicity.

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 provides one forum through which a variety of issues can be considered.

## Key Measures

Strong nonprofit developers play an important role in meeting Minnesotan's affordable housing needs. Nonprofit developers more heavily emphasize community involvement and take on projects that the private sector finds less viable. One measurement of the strength of the nonprofit developer community is the number of affordable housing units developed. The number of affordable housing units produced by the 16 nonprofits participating in the Twin Cities operating support and capacity building programs increased from 2003 to 2005.

**Number of Units Produced by Assisted Twin City Non-profits**



# HOUSING FINANCE AGENCY

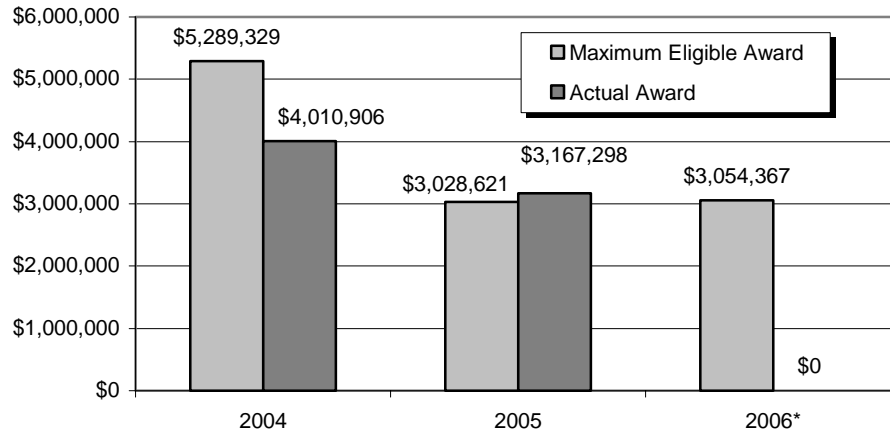
Program: APPROPRIATED PROGRAMS

Activity: RESIDENT & ORGANIZATIONAL SUPP

Narrative

Regional Continuum of Care planning is an essential component of the process of applying for federal McKinney-Vento Act funds. These funds assist with the provision of housing and services for homeless households. MHFA, through its financial support of the Regional Continuum of Care planning process in greater Minnesota, increases the likelihood that federal funding opportunities are maximized. In FFY 2005, applications were so strong that bonus funding was awarded in five of the six regions.

## McKinney Vento Funding for Greater Minnesota



\*NOTE: 2006 Actual - decision pending

### Budget

Total state appropriations for this activity were approximately \$2.0 million in the 2006-2007 biennium.

### Contact

Tonja M. Orr, Assistant Commissioner

Phone: 651) 296-9820

Fax: 651) 296-8139

E-mail: [tonja.orr@state.mn.us](mailto:tonja.orr@state.mn.us)

For further information, visit MHFA's web site at: [www.mhfa.state.mn.us](http://www.mhfa.state.mn.us)

# HOUSING FINANCE AGENCY

## Program: APPROPRIATED PROGRAMS

Activity: RESIDENT & ORGANIZATIONAL SUPP

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Forecast Base		Biennium 2008-09
	FY2006	FY2007	FY2008	FY2009	
<b><u>Expenditures by Fund</u></b>					
<b>Direct Appropriations</b>					
General	0	0	1,020	1,020	2,040
<b>Statutory Appropriations</b>					
Housing Finance Agency	2,440	2,850	1,281	1,281	2,562
<b>Total</b>	<b>2,440</b>	<b>2,850</b>	<b>2,301</b>	<b>2,301</b>	<b>4,602</b>
<b><u>Expenditures by Category</u></b>					
Payments To Individuals	1,010	1,262	1,020	1,020	2,040
Local Assistance	752	884	681	681	1,362
Other Financial Transactions	678	704	600	600	1,200
<b>Total</b>	<b>2,440</b>	<b>2,850</b>	<b>2,301</b>	<b>2,301</b>	<b>4,602</b>

**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. In this context, “Non-appropriated” means funded with federal funds. MHFA also uses tax-exempt and taxable bond proceeds and agency resources to fund housing activities.

**Budget Activities**

- ⇒ **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.
- ⇒ **Homeless Prevention and 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.

**Budget**

	<b>FY 2006</b>	<b>FY 2007</b>	<b>Biennial</b>
<b>Development and Redevelopment Programs</b>			
HOME Rental Rehabilitation Program	\$5,400,000	\$5,400,000	\$10,800,000
Minnesota Urban Rural Homesteading Program (HOME-MURL)	\$2,900,000	\$2,900,000	\$5,800,000
<b>Homeless Prevention and Supportive Housing Programs</b>			
Housing Opportunities for Persons with AIDS (HOPWA)	\$112,000	\$112,000	\$224,000
Economic Development Special Projects Grant		\$248,000	\$248,000
Economic Development Initiative Special Project – Homeless Youth		\$99,000	\$99,000
Neighborhood Initiative Grant – Homeless Youth		\$198,000	\$198,000
<b>Homeownership Loan Programs</b>			
American Dream Downpayment Assistance	\$145,000	\$145,000	\$290,000
<b>Preservation of Federally Assisted Housing Programs</b>			
Section 8 Housing Assistance Payments	\$76,000,000	\$76,000,000	\$152,000,000
HUD Contract Administration	\$72,000,000	\$72,000,000	\$144,000,000
Section 236 Interest Rate Reduction	\$1,600,000	\$1,600,000	\$3,200,000
<b>Resident and Organizational Support</b>			
Community Housing Development Corporation (CHDO) Operating Grants	\$485,000	\$485,000	\$970,000
HOME Administration Costs	\$970,000	\$970,000	\$1,940,000
<b>Totals</b>	<b>\$159,612,00</b>	<b>\$160,157,000</b>	<b>\$319,769,000</b>

# HOUSING FINANCE AGENCY

Program: NON APPROPRIATED PROGRAMS

Program Summary

*Dollars in Thousands*

	Current		Forecast Base		Biennium 2008-09
	FY2006	FY2007	FY2008	FY2009	
<b><u>Expenditures by Fund</u></b>					
<b>Statutory Appropriations</b>					
Housing Finance Agency	192,673	192,969	189,943	189,505	379,448
<b>Total</b>	<b>192,673</b>	<b>192,969</b>	<b>189,943</b>	<b>189,505</b>	<b>379,448</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	14,077	15,855	16,467	17,046	33,513
Other Operating Expenses	7,413	7,688	7,293	6,276	13,569
Payments To Individuals	164,844	160,576	158,834	158,834	317,668
Local Assistance	1,165	1,008	1,003	1,003	2,006
Other Financial Transactions	5,174	7,842	6,346	6,346	12,692
<b>Total</b>	<b>192,673</b>	<b>192,969</b>	<b>189,943</b>	<b>189,505</b>	<b>379,448</b>
<b><u>Expenditures by Activity</u></b>					
Re/Development	9,076	9,700	9,700	9,700	19,400
Supportive Housing	5,256	3,419	1,937	1,937	3,874
Homeownership Loan	20	1,363	146	146	292
Preservation	155,457	153,544	153,000	153,000	306,000
Resident & Organizational Supp	1,408	1,420	1,420	1,420	2,840
Administration	21,456	23,523	23,740	23,302	47,042
<b>Total</b>	<b>192,673</b>	<b>192,969</b>	<b>189,943</b>	<b>189,505</b>	<b>379,448</b>
<b>Full-Time Equivalent (FTE)</b>	<b>182.0</b>	<b>198.8</b>	<b>198.8</b>	<b>198.8</b>	

# HOUSING FINANCE AGENCY

Program: NON 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.

This program funds 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.

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:

- ⇒ 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.
- ⇒ The **Urban and Rural HOMEsteading Program (HOME-MURL)** is modeled closely after a previously state funded 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 Housing and Urban Development (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.

## Activity at a Glance

In FFY 2005:

- ◆ 365 rental units in greater Minnesota were rehabbed under the HOME program;
- ◆ The median income of the tenants was \$9,867; and
- ◆ 30 extremely low-income households became homeowners under MURL.



# HOUSING FINANCE AGENCY

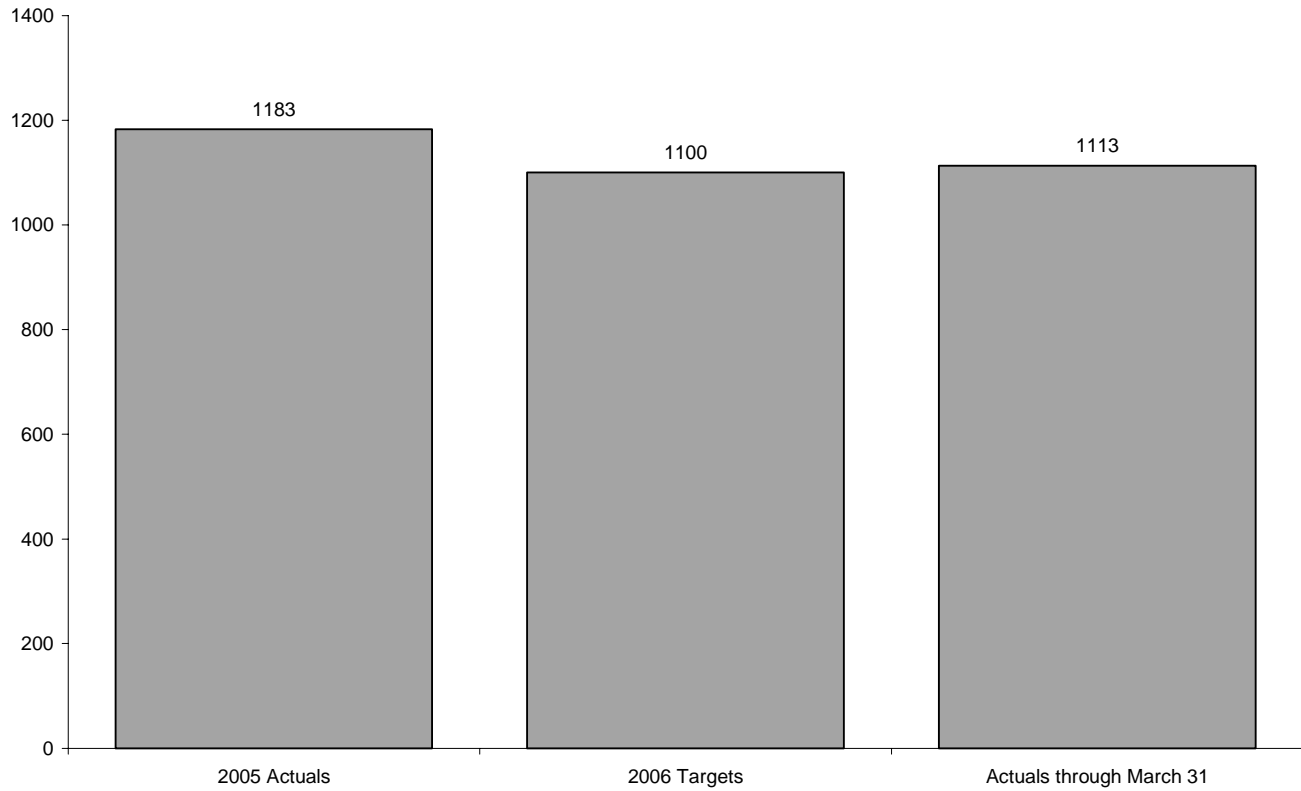
Program: NON APPROPRIATED PROGRAMS

Activity: RE/DEVELOPMENT

Narrative

## Key Measures

New affordable rental units constructed or rehabbed



## Budget

The non-state budget for this activity was approximately \$16.4 million in the 2006-2007 biennium.

## Contact

Tonja M. Orr, Assistant Commissioner

Phone: (651) 296-9820

Fax: (651) 296-8139

E-mail: [tonja.orr@state.mn.us](mailto:tonja.orr@state.mn.us)

For further information, visit MHFA's web site at: [www.mhfa.state.mn.us](http://www.mhfa.state.mn.us)

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

Budget Activity Summary

<i>Dollars in Thousands</i>					
	<b>Current</b>		<b>Forecast Base</b>		<b>Biennium</b>
	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>2008-09</b>
<b><u>Expenditures by Fund</u></b>					
<b>Statutory Appropriations</b>					
Housing Finance Agency	9,076	9,700	9,700	9,700	19,400
<b>Total</b>	<b>9,076</b>	<b>9,700</b>	<b>9,700</b>	<b>9,700</b>	<b>19,400</b>
<b><u>Expenditures by Category</u></b>					
Payments To Individuals	3,919	3,300	3,300	3,300	6,600
Local Assistance	120	200	200	200	400
Other Financial Transactions	5,037	6,200	6,200	6,200	12,400
<b>Total</b>	<b>9,076</b>	<b>9,700</b>	<b>9,700</b>	<b>9,700</b>	<b>19,400</b>

# HOUSING FINANCE AGENCY

Program: NON APPROPRIATED PROGRAMS

Activity: SUPPORTIVE HOUSING

Narrative

## Activity Description

Homeless prevention activities provide housing and other assistance to households who are at risk of becoming homeless due to a crisis situation, extremely low-incomes, physical or mental health problems. These activities also assist households in moving out of emergency shelters and other temporary settings so that they do not become long-term homeless.

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. For some households, providing both housing and services is essential to success; one without the other does not lead to success.

## 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
- ◆ 171 households in greater Minnesota received HOPWA funds in FFY 2005 for emergency assistance of rental, mortgage, and utility payments to assist in housing search and referral services.

## Population Served

Households facing a crisis that may or has resulted in the loss of permanent housing and those who cannot afford basic, permanent housing without a substantial subsidy. 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

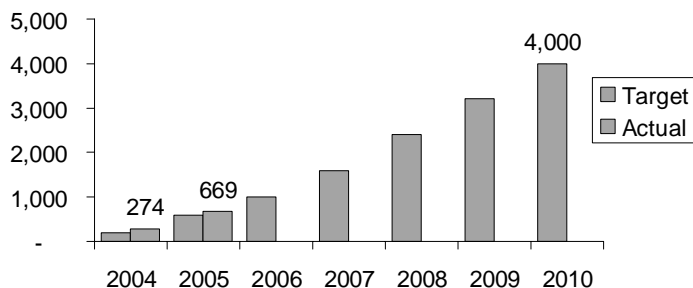
Minnesota Housing Finance Agency's (MHFA's) non-appropriated program in the area of supportive housing has four components:

- ⇒ The **Housing Opportunities for Persons with AIDS (HOPWA)** program is a federally funded program that is administered by the MHFA. It provides resources to devise long-term and comprehensive strategies for meeting the housing needs of persons with AIDS or other related diseases. MHFA's HOPWA funds are used for rental subsidies.
- ⇒ **Economic Development Special Services Grants**
- ⇒ **Economic Development Initiative Special Project – Homeless Youth**
- ⇒ **Neighborhood Initiative Grant – Homeless Youth**

## Key Measures

MHFA, along with the Departments of Human Services and Corrections, is a key partner in implementing the Business Plan to End Long-Term Homelessness in Minnesota. Developed by a working group of public and private stakeholders, the Business Plan aims to provide permanent supportive housing to an additional 4,000 long-term homeless households by 2010.

Supportive housing opportunities funded for persons experiencing long-term homelessness



## HOUSING FINANCE AGENCY

**Program:** NON APPROPRIATED PROGRAMS

**Activity:** SUPPORTIVE HOUSING

Narrative

### **Budget**

The non-state budget for this activity was approximately \$860,000 in the 2006-2007 biennium.

### **Contact**

Tonja M. Orr, Assistant Commissioner

Phone (651) 296-9820

Fax: (651) 296-8139

E-mail: [tonja.orr@state.mn.us](mailto:tonja.orr@state.mn.us)

For further information, visit MHFA's web site at: [www.mhfa.state.mn.us](http://www.mhfa.state.mn.us)

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

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Forecast Base		Biennium 2008-09
	FY2006	FY2007	FY2008	FY2009	
<b><u>Expenditures by Fund</u></b>					
<b>Statutory Appropriations</b>					
Housing Finance Agency	5,256	3,419	1,937	1,937	3,874
<b>Total</b>	<b>5,256</b>	<b>3,419</b>	<b>1,937</b>	<b>1,937</b>	<b>3,874</b>
<b><u>Expenditures by Category</u></b>					
Payments To Individuals	5,230	3,166	1,934	1,934	3,868
Local Assistance	26	3	3	3	6
Other Financial Transactions	0	250	0	0	0
<b>Total</b>	<b>5,256</b>	<b>3,419</b>	<b>1,937</b>	<b>1,937</b>	<b>3,874</b>

# 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 –2005:

- ◆ A total of \$12,372.40 was appropriated for downpayment assistance program.
- ◆ FFY 2006 funding: \$145,605.

The homeownership loan program assists in achieving the strategic goal of increasing the homeownership rate of households of color.

## Population Served

The homeownership loan programs serve first-time homebuyers.

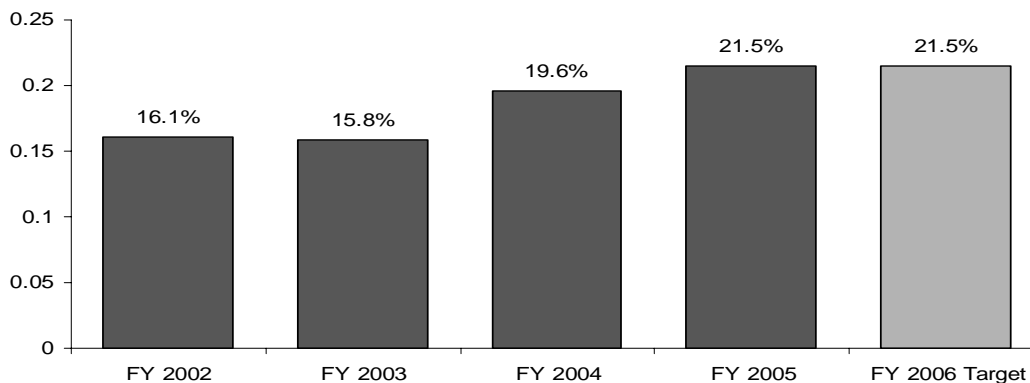
## Services Provided

The non-appropriated homeownership loan program is the **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. This program has only recently been implemented; the first loans were closed in June of 2006. Federal funding for the program is significantly reduced compared to the initial years.

## Key Measures

MHFA estimates that the homeownership gap between white-headed households and households of color and/or Hispanic ethnicity in 2004 was 33 percentage points, placing Minnesota in the top ten states for the largest homeownership gap.

Percentage of Minnesota Housing-assisted first-time home buyers from communities of color and/or Hispanic ethnicity



Source: Minnesota Housing; includes CASA, MMP, MCPP and ECHO.

## Budget

The non-appropriated budget for this activity was approximately \$290,000 in the 2006-2007 biennium.

## Contact

Tonja M. Orr, Assistant Commissioner  
Phone: (651) 296-9820  
Fax: (651) 296-8139  
E-mail: [tonja.orr@state.mn.us](mailto:tonja.orr@state.mn.us)

For further information, visit MHFA's web site at: [www.mhfa.state.mn.us](http://www.mhfa.state.mn.us)

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

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Forecast Base		Biennium 2008-09
	FY2006	FY2007	FY2008	FY2009	
<b><u>Expenditures by Fund</u></b>					
<b>Statutory Appropriations</b>					
Housing Finance Agency	20	1,363	146	146	292
<b>Total</b>	<b>20</b>	<b>1,363</b>	<b>146</b>	<b>146</b>	<b>292</b>
<b><u>Expenditures by Category</u></b>					
Other Financial Transactions	20	1,363	146	146	292
<b>Total</b>	<b>20</b>	<b>1,363</b>	<b>146</b>	<b>146</b>	<b>292</b>

# 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).

**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

## Activity at a Glance

For FFY 2005:

- ◆ \$73,457,189 in Section 8 Housing Assistance payments was disbursed for 13,023 units of rental housing;
- ◆ \$86,049,915 in Section 8 Housing Assistance payments was disbursed for 18,145 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

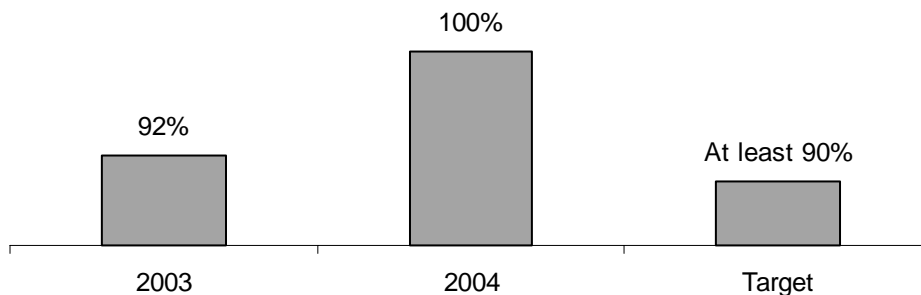
to extremely low income tenants (incomes at or below 30% of area median income). Sixty percent of the turnover units may be rented to households with incomes below 50% of area median income. For developments with Housing Assistance Payments contracts executed after 10-01-81, no more than 15% of the turn-over 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.

## 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.

**Percent of federally assisted units determined to be at risk for termination of their federal assistance program that are preserved as affordable**



## Budget

The non-state budget for this activity was approximately \$300 million in the 2006-2007 biennium.

## Contact

Tonja M. Orr, Assistant Commissioner  
Phone: (651) 296-9820  
Fax: (651) 296-8139  
E-mail: [tonja.orr@state.mn.us](mailto:tonja.orr@state.mn.us)

For further information, visit MHFA's web site at: [www.mhfa.state.mn.us](http://www.mhfa.state.mn.us)

**HOUSING FINANCE AGENCY**  
**Program: NON APPROPRIATED PROGRAMS**  
**Activity: PRESERVATION**

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Forecast Base		Biennium 2008-09
	FY2006	FY2007	FY2008	FY2009	
<b><u>Expenditures by Fund</u></b>					
<b>Statutory Appropriations</b>					
Housing Finance Agency	155,457	153,544	153,000	153,000	306,000
<b>Total</b>	<b>155,457</b>	<b>153,544</b>	<b>153,000</b>	<b>153,000</b>	<b>306,000</b>
<b><u>Expenditures by Category</u></b>					
Other Operating Expenses	34	20	20	20	40
Payments To Individuals	155,298	153,490	152,980	152,980	305,960
Local Assistance	8	5	0	0	0
Other Financial Transactions	117	29	0	0	0
<b>Total</b>	<b>155,457</b>	<b>153,544</b>	<b>153,000</b>	<b>153,000</b>	<b>306,000</b>

# HOUSING FINANCE AGENCY

Program: NON 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.

## Activity at a Glance

In FFY 2005:

- ◆ 10 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 HOMEsteading Program (HOME).

## Services Provided

The MHFA non-appropriated programs resident and organizational support programs are as follows:

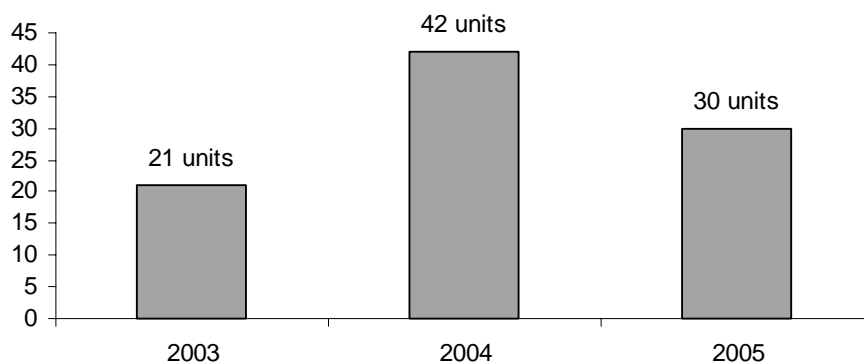
**Community Housing Development Corporation (CHDO) Operating Grants:** The CHDO Operating Grants program used up to 5% of the annual HOME Investment Partnerships Program appropriation to support nonprofit organizations meeting federal standards on structure and purpose that own, sponsor, or develop affordable 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.

## Key Measures

Strong nonprofit developers play an important role in meeting Minnesotan's affordable housing needs. Nonprofit developers more heavily emphasize community involvement and take on projects that the private sector finds less viable. One measurement of the strength of the nonprofit developer community is the number of affordable housing units developed.

Number of Units Produced with CHDO Operating Grants



## HOUSING FINANCE AGENCY

**Program:** NON APPROPRIATED PROGRAMS

**Activity:** RESIDENT & ORGANIZATIONAL SUPP

Narrative

### **Budget**

Non-state funds for this activity were approximately \$2.9 million in the 2006-2007 biennium.

### **Contact**

Tonja M. Orr, Assistant Commissioner

Phone: (651) 296-9820

Fax: (651) 296-8139

E-mail: [tonja.orr@state.mn.us](mailto:tonja.orr@state.mn.us)

For further information, visit MHFA's web site at: [www.mhfa.state.mn.us](http://www.mhfa.state.mn.us)

# HOUSING FINANCE AGENCY

## Program: NON APPROPRIATED PROGRAMS

Activity: RESIDENT & ORGANIZATIONAL SUPP

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Forecast Base		Biennium 2008-09
	FY2006	FY2007	FY2008	FY2009	
<b><u>Expenditures by Fund</u></b>					
<b>Statutory Appropriations</b>					
Housing Finance Agency	1,408	1,420	1,420	1,420	2,840
<b>Total</b>	<b>1,408</b>	<b>1,420</b>	<b>1,420</b>	<b>1,420</b>	<b>2,840</b>
<b><u>Expenditures by Category</u></b>					
Payments To Individuals	397	620	620	620	1,240
Local Assistance	1,011	800	800	800	1,600
<b>Total</b>	<b>1,408</b>	<b>1,420</b>	<b>1,420</b>	<b>1,420</b>	<b>2,840</b>

# HOUSING FINANCE AGENCY

Program: NON APPROPRIATED PROGRAMS

Activity: ADMINISTRATION

Narrative

## Activity Description

Through this budget activity, Minnesota Housing Finance Agency (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 MHFA 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. The 2005 goal under the plan for permanent supportive housing was surpassed. In June 2005, an initiative regarding work on the goal of increasing the homeownership rate on emerging markets was launched in June 2004 a business plan for this initiative was delivered to Governor Pawlenty.

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. 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. This is a continued improvement process that includes surveying of customers as part of every request for purchase (RFP) process.

Major information technology improvement efforts continue during the FY 2006-2007 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 in calendar year 2007.

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 6-30-2005, MHFA has approximately \$2.84 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 HOMEsteading Program

## Activity at a Glance

For FY 2005:

- ◆ Disbursed \$349.9 million for homeownership programs;
- ◆ Disbursed \$48 million for home improvement and rehabilitation programs;
- ◆ Disbursed \$238 million for rental housing programs;
- ◆ Administered \$6.3 million in housing tax credits for 906 units of rental housing;
- ◆ Oversaw a portfolio of more than 1,205 first mortgages and deferred loans for rental housing; and
- ◆ Issued an aggregate of \$798 million in 25 series of bonds.

# HOUSING FINANCE AGENCY

**Program:** NON APPROPRIATED PROGRAMS

**Activity:** ADMINISTRATION

Narrative

(HOME) programs must be performed as well as monitoring for compliance with imposed rent and income restrictions.

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

In setting an administrative budget, the agency seeks to strike an appropriate balance between maximizing Agency resources available for housing needs and investing in adequate staff and technology to ensure efficient operations, appropriate oversight, and quality housing.

(Dollars in Thousands)

Assistance Provided	Year Ended 9/30/2000	Year Ended 9/30/2001	Year Ended 9/30/2002	Year Ended 9/30/2003	Year Ended 9/30/2004	Year Ended 9/30/2005	Year Ended 9/30/2006	Year Ended 9/30/2007
Total Assistance Provided by the Agency	\$346,020	\$383,016	\$520,956	\$466,806	\$533,983	\$637,314		
Actual Operating Costs	\$15,600	\$16,321	\$18,222	\$19,089	\$20,186	\$20,124	\$19,558	\$23,523 (budgeted)
Operating Costs as a % of Assistance Provided	4.51%	4.26%	3.50%	4.09%	3.78%	3.16%		

## Budget

The cost of operating the MHFA in FY 2006 was approximately \$19.6 million. The agency pays for the costs of operation from agency earnings, primarily the spread on revenue bonds. 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.

## Contact

Tonja M. Orr, Assistant Commissioner

Phone: (651) 296-9820

Fax: (651) 296-8139

E-mail: [tonja.orr@state.mn.us](mailto:tonja.orr@state.mn.us)

For further information, visit MHFA's web site at: [www.mhfa.state.mn.us](http://www.mhfa.state.mn.us)

**HOUSING FINANCE AGENCY**  
**Program: NON APPROPRIATED PROGRAMS**  
**Activity: ADMINISTRATION**

Budget Activity Summary

<i>Dollars in Thousands</i>					
	<b>Current</b>		<b>Forecast Base</b>		<b>Biennium</b>
	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>2008-09</b>
<b><u>Expenditures by Fund</u></b>					
<b>Statutory Appropriations</b>					
Housing Finance Agency	21,456	23,523	23,740	23,302	47,042
<b>Total</b>	<b>21,456</b>	<b>23,523</b>	<b>23,740</b>	<b>23,302</b>	<b>47,042</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	14,077	15,855	16,467	17,046	33,513
Other Operating Expenses	7,379	7,668	7,273	6,256	13,529
<b>Total</b>	<b>21,456</b>	<b>23,523</b>	<b>23,740</b>	<b>23,302</b>	<b>47,042</b>
<b>Full-Time Equivalents (FTE)</b>	<b>182.0</b>	<b>198.8</b>	<b>198.8</b>	<b>198.8</b>	



# HOUSING FINANCE AGENCY

# Agency Revenue Summary

*Dollars in Thousands*

	Actual FY2006	Budgeted FY2007	Current Law		Biennium 2008-09
			FY2008	FY2009	
<b><u>Non Dedicated Revenue:</u></b>					
<b>Total Non-Dedicated Receipts</b>	0	0	0	0	0
<b><u>Dedicated Receipts:</u></b>					
<b>Grants:</b>					
Housing Finance Agency	172,353	167,437	166,003	166,003	332,006
<b>Other Revenues:</b>					
Housing Finance Agency	8,665	10,430	9,955	10,055	20,010
<b>Other Sources:</b>					
Housing Finance Agency	26,154	21,562	22,184	23,577	45,761
<b>Total Dedicated Receipts</b>	<b>207,172</b>	<b>199,429</b>	<b>198,142</b>	<b>199,635</b>	<b>397,777</b>
<b>Agency Total Revenue</b>	<b>207,172</b>	<b>199,429</b>	<b>198,142</b>	<b>199,635</b>	<b>397,777</b>