

Money Matters

A Publication of the House Fiscal Analysis Department on Government Finance Issues

Tools for Increasing and Preserving the Current Supply of Affordable Rental Housing

ABSTRACT: This paper is intended to be used as a reference document. It provides an overview of state and federally funded rental housing production and rehabilitation programs available in Minnesota. Affordable rental housing programs offered by local units of government and non profits organizations are also briefly described in this paper.

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Introduction

This paper summarizes affordable rental housing fiscal issues and provides an overview of major state, federal and local programs providing funds for the development and/or rehabilitation of affordable rental housing in Minnesota.

Background

Recently, the supply of affordable housing in Minnesota has come to the attention of lawmakers. Governor Arne Carlson's 1995 Economic Vitality and Housing Budget Initiative and the Metropolitan Livable Communities Act of 1995 were introduced to help increase the supply of Minnesota's affordable housing stock.¹ Such factors as a decline in workers' real wages, an increase in the number of entry level jobs and an increase in the median cost of rental housing per unit may be contributing to an affordable housing shortage in Minnesota. The increase in the number of entry level jobs being created is positive for the economy but the income generated from this employment is often not adequate to support the cost of housing. From 1974 to 1993, the Family Housing Fund reported in 1996 that the median cost of a rental unit rose by 8 percent when adjusted for inflation, while the median income of a rental household declined by 13 percent when adjusted for inflation.

In addition to these economic issues, an increasing number of federally assisted rental housing properties with U.S. Department of Housing and Urban Development (HUD) subsidized mortgages have the option to start prepaying this mortgage. If an owner prepays the mortgage, they can lift the rent restrictions required by the federally assisted housing program and offer rental housing at market rate. Statewide, there are approximately 515 developments or 30,000 federally assisted housing units. In 1998, 40 rental housing developments or 1,800 federally assisted units were faced with the mortgage prepayment option. The supply of affordable housing could shrink if owners opt out of the federally assisted housing program and begin to prepay the mortgage. Past federal budget instability and recent organizational restructuring by HUD have also contributed to additional affordable housing stock woes.

Affordable rental housing assistance may be provided to individuals or organizations such as housing developers. Public agencies frequently provide rental subsidies, such as Section 8 vouchers, directly to low-income individuals to ensure that they pay no more than 30 percent of their income on rent. This paper will focus on issues related to the *supply* of affordable rental housing and on various assistance provided to developers for the creation or rehabilitation of affordable housing in Minnesota. State, federal and local treasuries finance most of these public intervention strategies but private foundations have become increasingly active participants in the production and preservation of affordable rental housing.

Characteristics of Minnesota's Housing Stock

The composition of Minnesota's housing stock is made up of single-family units and multi-family units. Occupants of single-family units are typically homeowners and occupants of multi-family housing units are typically renters under common management.

In general, single family housing units (or owner-occupied units) are defined as having one housing unit per structure and multi-family housing units, in comparison, are defined as having more than one unit of housing per structure. Multi-family housing developments are categorized as being either small or large. Small multi-family housing developments have 2-9 housing units per structure and larger multi-family housing developments have 10 or more housing units per structure².

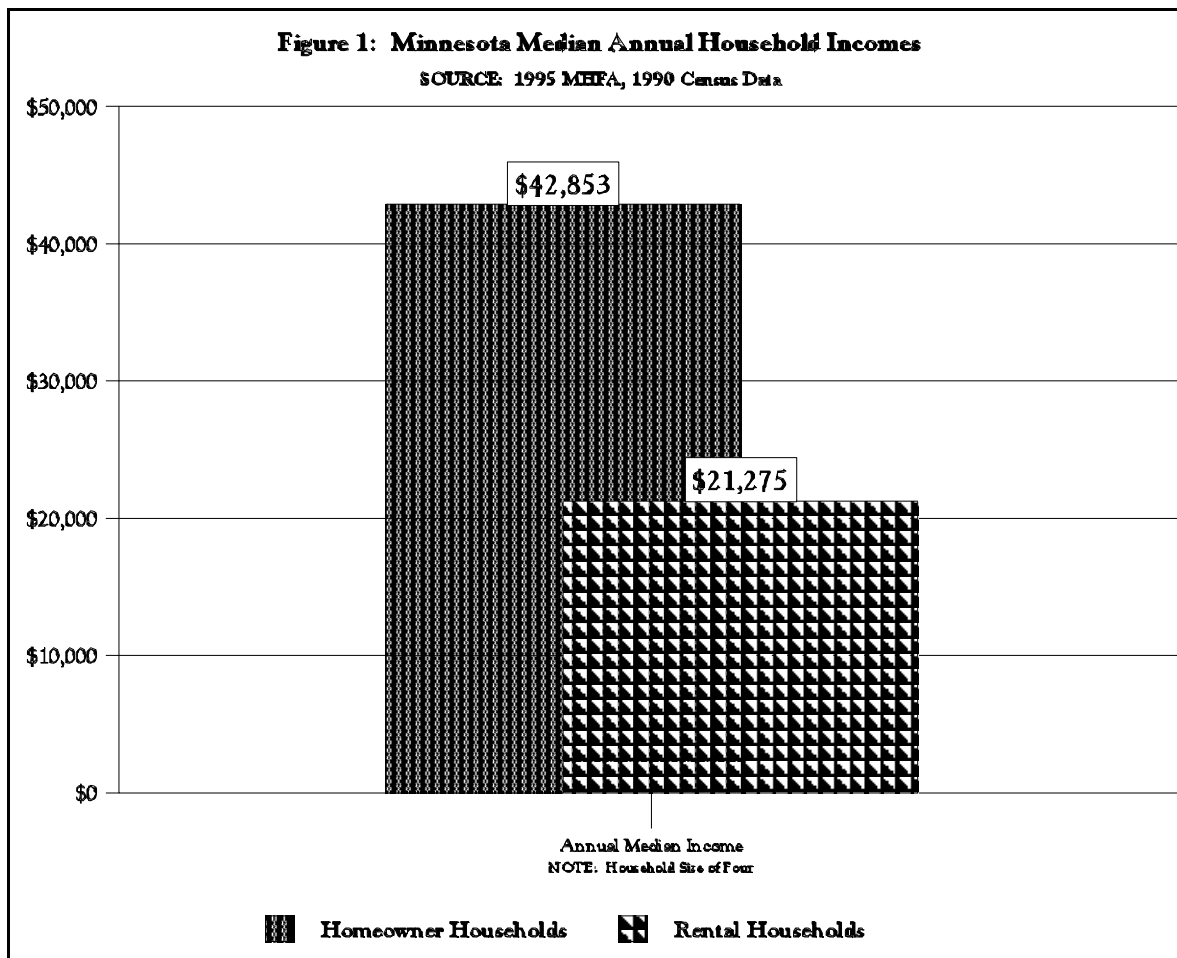
¹ The Minnesota Legislature approved an additional \$12 million for the Minnesota Housing Finance Agency's Affordable Rental Investment Fund and the Community Rehabilitation Fund in FY 1995 as a part of the Governor's Economic Vitality and Housing Budget Initiative.

² An Assessment of Minnesota's Housing Needs, Minnesota Housing Finance Agency, July 1995

In the Minnesota Housing Finance Agency's 1995 Housing Needs Assessment, only 20 to 25 percent of the housing stock in the Greater Minnesota region and 33 percent of the housing stock in the 7 County Metro region consisted of rental housing units.³ A year later, the State Demographer's numbers reflect a similar proportion. In 1996, rental units made up 29 percent of the housing stock in Greater Minnesota and 29 percent of the housing stock in seven county metro region. This data illustrates how the housing stock in Minnesota is predominantly composed of single family units in both the metro and the non metro area.

Who lives in Multi-Family Housing Units?

Homeowners and renters in Minnesota do not share many similar characteristics. Several characteristics such as age, income, and marital status differ. A household's income significantly impacts their likelihood to be a homeowner or a renter. The higher the income, the greater the likelihood that the household will own the unit in which he/she lives. The lower the income, the greater the likelihood the household will rent the unit in which he/she lives. In Minnesota, there is a significant gap between the median household incomes of owner and renter households. Homeowner households have twice the median income (\$42,853) of renter households (\$21,275). In fact, twenty-three percent of all renter households have incomes at or below poverty thresholds for their household unit.⁴ Figure 1 illustrates the size of the difference in annual median household incomes.



³ Data from MHFA's, An Assessment of Minnesota's Housing Needs (July 1995), is from the 1990 Census.

⁴ Ibid, p. 1-9

As a point of comparison, the median cost of owning a home is 1.2 times greater than the median monthly cost of renting. The median household income of homeowners, however, is twice as great as the median income of renters. Renters are, therefore, less likely than homeowners to find affordable housing because renters typically spend a comparable amount on housing as homeowners despite having less financial resources.

Finally, rental housing units are most frequently occupied by single-parent or single-person households. Most single-parent households consist of a parent (between the ages of 25 and 44 years) and a child but a growing share of single-parent households are also elderly individuals (between the ages of 65 and 84 years). The median age of rental households is under the age of 39 years. Single-family housing units, on the other hand, are more frequently occupied by married couples. The median age of a married couple living in single-family units is 44 years.⁵

The stock of affordable rental housing in Minnesota.

Rehabilitating and/or creating affordable rental housing is an activity that is financially and procedurally complex. There are many stakeholders involved in the process including developers, lenders and the public sector. The key stakeholder and risk-taker in the process is the developer. Developers must often overcome several barriers to make the creation or rehabilitation of an affordable rental housing development take place.

From the perspective of the developer, one barrier to creating or rehabilitating affordable housing is the possibility of only a limited total return on their investment. A developer's opportunity to obtain a significant return on affordable rental housing development projects maybe limited by area market considerations restricting rent levels. The developer's revenue from rents collected minus operating expenses and debt determine the overall cashflow from the development. If an affordable housing development restricts rents it also affects the developer's opportunity to attract equity or outside investment to a development project.

Another related barrier, from the perspective of the developer, to creating or rehabilitating affordable housing is that the amount of monthly income received from market and government restricted rents may not be sufficient to finance building maintenance and new construction. In other words, building and maintaining an affordable housing development may cost more than it is worth. High construction costs and property taxes versus low rental revenue may be a disincentive for any rehabilitation or new construction of an affordable housing development.

Current apartment vacancy rates also influence the total number of affordable rental units in Minnesota's housing stock. From the first quarter of 1998, HUD's Rental Market Conditions reports that the demand for rental housing is quite strong. Apartment surveys in Minnesota show vacancy rates of 2 percent or less. Since the demand for rental housing is strong, developers maybe reluctant to invest in affordable rental housing and be more inclined to produce market rate housing because market rate rental housing units may ensure a better return on their investment with less risk.

Public Intervention Tools for Affordable Rental Housing

Public sector funds play an important role in affordable housing development and may be catalytic to increasing and/or rehabilitating the current supply of multi-family rental housing. Affordable housing is often defined as 30 percent or less of a household's monthly income spent on housing. For example, if the median renter household income equals \$21,275 an affordable monthly rent would be \$531 per/month $[(\$21,275 \times .3)/12]$. To assist low-

⁵ Ibid, p. 1-4

income renters, federal, state and local units of government provide subsidies or other incentives to lure developers into affordable housing development projects. As discussed earlier, public agencies may also provide rental subsidies directly to individuals to ensure that they pay no more than 30 percent of their income on rent. Often both a subsidy to the renter and to the developer is needed to keep rents at an affordable level.

There are three approaches commonly offered by public agencies to lure developers to increase and/or preserve the supply of affordable rental housing. These approaches range from low-interest loans, cost-offsets to gap financing. One of the most common public sector approaches is to reduce the cost of capital investment for the developer. Public sector assistance, to put it in another way, may help make the cost of borrowing money cheaper for those interested in the production or rehabilitation of affordable rental housing. Affordable housing developments are often financed with loans. Typically, developers will borrow 15 to 75 percent of the total cost of production or rehabilitation and repay this loan over several years⁶. The lower the interest rate on the loan, the more able the developer will be to service their debt (repay the loan) and provide rental housing with affordable rents. Below market-interest loans, interest-free loans or deferred loans are examples of the type of public assistance provided to help the reduce the cost of capital for the developer.

Another common approach for increasing and preserving the current supply of housing is to help reduce the actual development costs incurred by the developer. This cost-offset approach includes any fees or costs that a developer may get waived or reduced such as impact fees, property taxes, infrastructure improvements and zoning restrictions. The net impact of this approach is that to some extent it neutralizes or reduces the additional costs developers incur in providing affordable housing and enables them to keep rents at an affordable level. In 1997, this approach was employed during the flood recovery efforts in the Red River Valley to facilitate the construction and rehabilitation of new housing. See Table 1 for a description of the impact of tax rates on the development or rehabilitation of rental housing.

Finally, gap financing is another important incentive used by the public sector for the development of affordable rental housing. Public sector financing may help fill in any financial gaps that may occur when the total cost of a development project is larger than the amount of debt that can be assumed by the project and any amount the private sector will provide for it in the form of equity. For example, an affordable rental housing project may cost \$800,000 but can only support \$400,000 in loans and attract \$200,000 in equity, leaving a financing gap of \$200,000 that may be filled by the public sector in the form of gap loans, grants and credits.

Major state, federal and locally financed tools for affordable rental housing rehabilitation and development will be described in the following section. One should keep in mind that some of the financial tools described are not exclusively for rental housing programs but may also be used for homeownership programs and may be combined with other tools to leverage additional investments for rental housing development projects.

⁶ According to MHFA underwriting standards, 90 percent of the approved loan to developers is deferred until the end of the term and the remaining 10 percent of the loan is amortized debt.

Table 1:
Affordable Rental Housing Finance
Impact of Tax Rates on Rental Housing

Tax Rate	2.3%	1% (Current Law)
Estimated Market Value Per Unit	\$30,000	\$30,000
Community Rate	1.335	1.335
Total Taxes Due Per Unit	\$921	\$401

Calculation of Debt Supported by Rents

Annual Rent Per Unit (\$400/monthly rent)	\$4,800	\$4,800
Gross Annual Rent Revenue Per Unit	\$4,800	\$4,800
Adjustment (7% vacancy rate)	-\$336	-\$336
Adjustment (operating expenses)	-\$3,150	-\$3,150
Net Operating Income before Taxes	\$1,314	\$1,314
Taxes	\$921	\$401
Net Operating Income after Taxes	\$393	\$913
Cash Available for Debt Payment (Using 1.15 Debt Coverage Ratio)	\$393	\$913
Debt (6.9%, 24 year term)	\$3,855	\$8,958

Production of Housing Units

Total Development Cost Per Unit	\$45,000	\$45,000
Owner Equity	-\$2,250	-\$2,250
Debt	-\$3,855	-\$8,958
Subsidy Needed	\$38,895	\$33,792
Units Produced Per \$10 million of Public Subsidy	257 Units	296 Units

SOURCES : Minnesota Housing Partnership (March 1997) and updated using MHFA underwriting assumptions (August 1998).

State Tools for the Development/Rehabilitation of Affordable Rental Housing

The following *state* funded programs provide affordable rental housing production or rehabilitation assistance. A portion of these programs are funded by state legislative appropriations or from revolving funds and recycled funds from a state agency.

Affordable Rental Investment Fund (ARIF)

A program, set-up by the Minnesota Housing Finance Agency (MHFA), to award first mortgages or deferred loans to help cover the costs of acquisition and rehabilitation or new permanent construction of low-income rental housing. ARIF loan finance terms require zero-to-one percent interest rate for the construction or rehabilitation of rental units affordable to households at 80 percent of statewide median income (\$41,440 in FY 1998). Properties receiving ARIF loans must collect rent at a level not to exceed 30 percent of 50 percent of the median income. Entities eligible for these loans include housing and redevelopment authorities (HRA), cities, non profits and for profit organizations. ARIF Loans are often used by developers to help fill the gap in a multi-family development project between the amount of equity raised by an owner/developer and the total debt assumed by an owner/developer. From July 1995-1997, the ARIF program made approximately \$18 million in loans facilitating the rehabilitation or development of 2,550 units of housing in forty Minnesota counties⁷. For the 1998-99 biennium, the Legislature appropriated \$15.7 million for regular, non-disaster related, ARIF loans.

ARIF Equity Take-Out & Preservation Loans

The Legislature appropriated additional ARIF funds specifically for the preservation of federally assisted housing during the 1998 session. These ARIF loans are targeted to all owners of federally assisted properties contemplating prepaying their federally subsidized mortgage in order to exit the affordable housing industry.

- An equity take-out and preservation loan may provide the greater of the difference between what the owner/developer is projected to earn from market rent levels and what the owner/developer actually earns under their Section 8 or other federally assisted rental housing contract terms. This loan may be offered at zero percent interest and the loan may be deferred as long as the Section 8 contract or any other federally assisted affordable housing program remains in place through the end of their mortgage term, which ever is greater.

To developers/owners of federally assisted properties, these loans are incentives to preserve the affordability of the rental housing developments as well as increase their cashflow without having to increase rents. The Legislature approved \$10 million of base funding in state fiscal year 1999 for these loans.

Housing Trust Fund

A program by MHFA awarding deferred loans without interest for the development, construction, acquisition, preservation and rehabilitation of low income rental housing, limited equity cooperative housing and homes for homeownership. The Housing Trust Fund program targets the development or rehabilitation of rental housing for those with very low incomes. On a per project basis, at least 75 percent of the rental units must be rented to persons/families whose income is at or below 30 percent of the Minneapolis/St. Paul area median (\$18,240 in FY 1997). Finance terms for these loans require the loan to be repaid in full if the housing fails to operate as low income housing during the first ten years after the loan is made. Entities eligible for housing trust fund loans include individuals, for-profit entities, non profit entities, HRA's, cities or joint power boards established by two or more cities. Due to the income restrictions of these loans for property developments, most developers awarded Housing Trust Fund Loans provide housing to the very low-income. In 1997, the median annual household income for persons assisted by this program was \$10,400. For the FY 1998-1999 biennium, the Legislature appropriated \$4.7

⁷ State of Minnesota Affordable Housing. Commitment Summary for: Affordable Rental Investment Fund, July 1995-1997.

million to the Housing Trust Fund.

Low and Moderate Income Rental Program (LMIR)

Another MHFA program offering mortgage funds for the acquisition, rehabilitation or refinancing of existing rental housing or new construction/conversion of rental housing for low and moderate-income Minnesotans. To qualify for a LMIR loan, the property must comply with specified rent and income restrictions whereby 40 percent of the units must be affordable to persons at 60 percent of median income; or 20 percent of the units are affordable to persons at 50 percent of median income; and the balance of units with rents at or less than 1.2 times the fair market rent. Entities eligible for this program include limited dividend and non-profit sponsors. This statewide program operated by MHFA is not funded by state legislative appropriations but rather from MHFA bond proceeds, the housing affordability fund and recycled payments. In state fiscal year 1998, \$8 million was made available in LMIR loans.

Capacity Building Revolving Loan Fund

With an appropriation of \$1.150 million in 1989, the Minnesota Legislature created a revolving loan program to assist non-profit organizations and local units of government engaged in the construction or rehabilitation of low income housing. This program offers zero percent interest loans, payable at the initial closing of the project, for pre-development activities such as architectural, engineering and legal services, and options on land and buildings. Both MHFA and Local Initiatives Support Corporation (LISC) – St. Paul and LISC – Duluth, help administer this program. Entities eligible for these loans include HRA's, regional development commissions, Minnesota towns and cities. Capacity building loans awarded to developers may help "jumpstart" or facilitate the initiation of low-income housing development proposals. On average, capacity building loans typical cover 50-70 percent of total pre-development costs. Tribal governments may also be awarded these funds. Approximately \$581,000 is available for capacity building loans from this revolving fund.

Rental Rehabilitation Loan Program

An MHFA program offering property improvement loans to residential rental property owners with low income families as tenants. Finance terms for these loans require a simple interest rate of 6 percent, 15 year term. Up to \$10,000 is available per unit and a maximum loan of up to \$100,000 for multi-family developments. In 1997, the rental rehabilitation loan program assisted multi-family developments inhabited by families with an average annual median household income of \$18,000. This is a statewide program funded by MHFA's Housing Affordability Fund. In state fiscal year 1998, MHFA allocated \$3.3 million for rental rehabilitation loans.

New Construction Tax Credit First Mortgage/Bridge Loan

An MHFA program awarding first mortgage loans and bridge loans for the construction or substantial rehabilitation of units to be rented to families or individuals with incomes of up to 60 percent of the median income. Rents are to be affordable to families with incomes equal to 50 percent of the median income. New Construction Tax Credit First Mortgage or Bridge Loans are used in conjunction with the federal low income housing tax credits. Approximately \$5.2 million for Bridge loans and \$6.5 million for First Mortgage loans is available during the 1998-99 biennium from MHFA's Housing Affordability Fund.

Neighborhood Land Trust

Loans with or without interest may be made by MHFA for the purpose of funding a neighborhood land trust. Neighborhood land trusts are created to assure the long-term affordability of housing for persons and families with

low and moderate incomes. A neighborhood land trust owns the land acquired in whole or in part with a loan from MHFA using general obligation bonds or other sources. In 1997, the Legislature appropriated \$100,000 to develop projects under the neighborhood land trust program and four grants were awarded in state fiscal year 1998.

Property Tax Classifications

The 1997 Minnesota Legislature created the 4(d) rental property tax rate classification and reduced the property tax rate from 2.3 percent to 1 percent effective tax year 1999. In order to be eligible for this tax rate, the rent on a property's units must be no higher than 30 percent of 60 percent of the area or statewide median income (adjusted for family size) and occupied by tenants with an income of less than 60 percent of area or statewide median. In the *metro* area, 20 percent of the units receiving a 1 percent tax rate must be made available to Section 8 certificate and voucher holders and 10 percent of the units in the *non-metro* area receiving a reduced property tax rate must be made available to Section 8 certificate and voucher holders. MHFA reports that approximately 69,000 units applied for the 4(D) class rate for 1999. Low property tax rates are desirable to owners and developers because low tax rates help reduce their total operating costs and the need to increase rents.

Federal Tools for the Rehabilitation/Development of Affordable Rental Housing

The following *federally* funded programs provide affordable rental housing production and/or rehabilitation assistance. The extent to which these federal funded programs are managed by state agencies varies. Some state agencies simply facilitate the "pass through" of federal program funds to subgrantees while other state agencies are required to establish rules and criteria to administer, implement and monitor a federal program. In some instances, the Legislature may have influence on the type of rules and criteria established for federal programs by state agencies.

HOME Rental Rehabilitation Program

This federal program administered by MHFA provides grants to rehabilitate privately-owned rental properties to support affordable and safe housing for low income families. Rehabilitation work must be done on existing rental property. HOME Rental Rehabilitation loans finance terms require a three-to-one match basis. Grants may range from \$3,000 to \$14,000 per unit, with a minimum of \$10,000 per development project. This program is administered by Community Action Program Agencies (CAP's) and HRA's in conjunction with MHFA. Entities eligible for grants include private individuals, corporations, partnerships, nonprofit organizations and community housing development organizations (CHDO's). In federal fiscal year 1998, MHFA received \$12.8 million from HUD for the HOME program and elected to allocate to CAP's and HRA's in HOME non-entitlement regions only. For federal HOME Rental Rehabilitation allocations to entitlement regions, see Table 3.

Targeted HOME Fund

Targeted HOME funds, is a federal program administered by MHFA, that provide loans for affordable rental or single family supportive housing. Eligibility requirements for this program mirror the federal HOME Rental Rehabilitation program requirements. The median annual household income of families whose housing units were assisted by the program was \$21,240 in 1997. In federal fiscal year 1998, MHFA received \$1.5 million from HUD for this program.

Small Cities Community Development Block Grants (Small Cities CDBG)

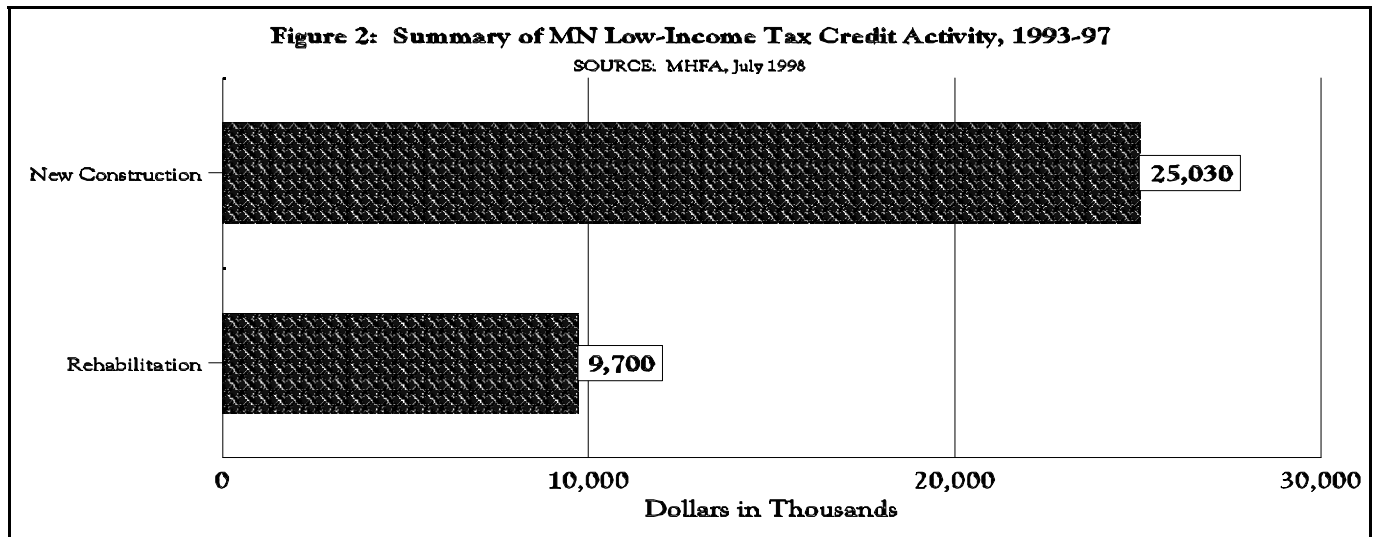
This program administered by Minnesota's Department of Trade and Economic Development (DTED) allocates federal grants from HUD to local units of government on a competitive basis for a variety of community development projects. When CDBG funds are granted to local governments, local governments may award funds for gap financing of housing developments, to rehabilitate the housing stock for rental, single-family or multiple family housing units. CDBG funds may also be used for public facilities or comprehensive projects combining both

housing and public facilities. In all cases, CDBG housing funds must benefit low and moderate income persons⁸. Local governments awarded these funds may sub-allocate these funds to grantees in the form of loan agreements for deferred payments or immediate monthly payments. Interest rates may vary and loan repayments may also be determined by local governments administering these funds for the purpose of making additional rehabilitation loans. Approximately, \$21.2 million in federal funds was awarded to DTED in FY 1998 to distribute to CDBG non-entitlement cities on a competitive basis (See Table 3 for information about allocations to CDBG entitlement regions).

Low Income Housing Tax Credits, “LHTC” (Section 42 of the Internal Revenue Code)

The Low Income Housing Tax Credit Program is a product of the Federal Tax Reform Act of 1986. The LHTC offers a reduction in tax liability to owners/developers of eligible low income rental housing properties for ten years. To qualify for any LHTC, each project must meet the following criteria:

- **Income Limits** – A development project must have either 20 percent of the units occupied by tenants with incomes below 50 percent of median or 40 percent of the units occupied by the tenants with incomes below 60 percent of median. The amount of housing credits received by the owner is based on the number of low-income units in the development.
- **Rent Restrictions** – Gross rents are based on 30 percent of the imputed income limitations and the number of bedrooms in the unit.
- **State Approval** – Under the Low Income Tax Credit program, each state receives \$1.25 in low income tax credits per resident. MHFA has been designated as the primary allocating agency of LHTC in Minnesota. MHFA



awards LHTC’s through a competitive process in which they solicit proposals, rank them according to a set of criteria, and then award credits to the highest ranking proposals. In addition to MHFA, certain large cities and counties are also authorized to allocate and administer LHTC.⁹

Developers/owners find LHTC appealing because they can trade the value of the tax credits with a limited partners

⁸ CDBG projects must meet one of the three national objectives: (1) Benefit to low and moderate income persons, (2) elimination of slum and blight conditions, and (3) elimination of an urgent threat to public health.

⁹ In Federal FY 1998, LHTC sub-allocators include Dakota County, Duluth, Minneapolis, St. Cloud, St. Paul, and Rochester. Ten percent of the low-income housing credits in Minnesota are also set-aside for projects sponsored by non-profits.

investor in exchange for additional equity and ownership in the project. The LHTC, therefore, helps attract additional investments to affordable housing rental projects. From 1993-1997, a total of \$34.7 million was allocated statewide in low-income tax credits for new low-income housing construction and rehabilitation (\$25 million to \$9.7 million respectively). In FY 1998, MHFA approved the allocation of \$5.8 million LHTC. See *Figure 2* for a breakdown of how housing credits have been used from 1993-1997.

Local Tools for the Development/Rehabilitation of Affordable Rental Housing

The following affordable rental housing production and rehabilitation programs are financed by local units of government. Recently, local units of governments have turned to tax increment financing, tax exempt bonds and grants/loans as strategies for producing/rehabilitating affordable rental housing.

Housing Tax Increment Financing Districts (Housing TIF)

Housing tax increment financing districts may be created by local government units for the purpose of financing the development or improvement of an affordable rental housing property. (M.S. 469.174, subd. 11, M.S. 469.176, subd. 4D) Fifty percent of the rental units in a Housing TIF development must be affordable to households with incomes less than 80 percent of area median income. The additional revenue generated from the tax increment is captured and applied to the costs associated with the affordable housing development over a period of years until all the project costs of that district are reimbursed through the receipt of tax increments. In 1997, there were 252 housing TIF districts still certified and 11 decertified throughout Minnesota¹⁰. A housing TIF district is decertified when the maximum life of the district as defined in law and/or TIF plan has been reached. Housing TIF districts may be decertified early if all project costs and bonds have been paid.

Tax Exempt Bonds

Tax exempt bonds may be issued by local units of government to finance the construction and/or rehabilitation of low-income rental housing. The interest rate on a bond may be 1-2 percent less than a bank loan depending on how a bond issue is credit enhanced (with a rating, bond insurance, FHA insurance and /or general obligation pledge from local unit of government entity). See Table 2 for a description of the three different kinds of tax exempt bonds that may be issued by local units of government to finance affordable housing.¹¹

Table 2: Bonds used by Local Units of Government for Affordable Housing

Type of Bond	Allowable uses of bond proceeds	Income Restrictions for Multi-Family Development Projects?	Allocation of state's limited bonding authority needed?	May be combined with Low Income Housing Tax Credits for project financing?
<i>Revenue</i>	Private activity multi-family rental housing	Yes: low-income	Yes	Yes
<i>Essential Function</i>	Publicly owned multi-family rental housing	Yes: low to moderate income	No	No
<i>501 c3 (non-profits)</i>	Privately owned multi-family rental housing	Must be consistent with the mission of the 501 c3 organization	No	No

¹⁰ The Office of the State Auditor tracks TIF housing districts. The State Auditor holds current financial data on TIF housing districts but it is not available in an automated format.

¹¹ Jessica Cook. Using Tax Exempt Bonds to Finance Multi-Family Housing. Dakota County Housing and Redevelopment Authority. July 6, 1998.

SOURCE: Dakota County Housing and Redevelopment Authority, July 1998

HOME & CDBG Funds

In FY 1998, thirteen HOME and CDBG entitlement cities and counties receive HUD and CDBG funds directly each year. Entitlement cities and counties may use these federal funds for such activities as rental housing production and rehabilitation.

Table 3: Federal CDBG & HOME Entitlement Grantees

1998 Grantee	CDBG	HOME	Total CDBG & HOME Funds
Anoka County	\$1,831,000.00	None	\$1,831,000.00
City of Bloomington	\$511,000.00	None	\$511,000.00
Dakota County	\$1,989,000.00	\$1,949,000.00	\$3,938,000.00
City of Duluth	\$3,495,000.00	\$688,000.00	\$4,183,000.00
Hennepin County	\$3,462,000.00	\$1,594,000.00	\$5,056,000.00
City of Minneapolis	\$16,835,000.00	\$3,402,000.00	\$20,237,000.00
City of Moorhead	\$451,000.00	None	\$451,000.00
City of Plymouth	\$309,000.00	None	\$309,000.00
Ramsey County	\$1,422,000.00	None	\$1,422,000.00
City of Rochester	\$601,000.00	None	\$601,000.00
City of Saint Cloud	\$671,000.00	None	\$671,000.00
Saint Louis County	\$3,072,000.00	\$651,000.00	\$3,723,000.00
City of Saint Paul	\$9,934,000.00	\$2,150,000.00	\$12,084,000.00

SOURCE: Minnesota Office of the U.S. Department of Housing and Urban Development, July 1998

Local Housing Incentives Account (LHIA)

This Metropolitan Council program provides grants for acquisition, construction, preservation, and rehabilitation of permanent affordable and life cycle housing to eligible metro area municipalities. Grants must be matched on a dollar for dollar basis by the municipality receiving the funds. In 1997, \$625,000 was awarded from Metropolitan Council levies for these grants.

Other Assistance for the Development/Rehabilitation of Affordable Rental Housing

The Family Housing Fund

The Family Housing Fund is a nonprofit organization created in 1980 by the cities of Minneapolis and St. Paul in

partnership with the McKnight Foundation. In 1996, the Family Housing Fund allocated \$1.43 million for the development of new rental housing programs and the rehabilitation of existing housing in the metro area. The Fund created the Metropolitan Housing Interagency Group (MHIG). MHIG, with funds from the Metropolitan Council, the Minneapolis Public Housing Agency and the fund, has financed 13 rental housing developments. In 1996, the Fund has also provided a total of \$527,941 to help preserve the livability of 7 low-income housing projects.

Greater Minnesota Housing Fund

The Greater Minnesota Housing Fund, funded by the McKnight and Blandin Foundation, to support the creation of affordable housing in economic growth centers outside of the 7 county Twin Cities area. In 1996, the Greater Minnesota Housing Fund received a one-time \$25 million grant to provide equity investment, subordinated debt, loan guarantees or revolving loans for affordable housing projects.

Federal Home Loan Bank

Federal Home Loan Banks are privately capitalized, cooperative government-sponsored enterprises that were created by Congress in 1931. In addition to being the single largest supplier of home mortgage credit, Federal Home Loan Banks also competitively award affordable housing program grants twice a year. AHP grants are targeted for families and individuals at or below 80 percent of the median income. In 1998, the Home Loan Bank of Des Moines awarded \$4.6 million in affordable housing program grants throughout its five state district of Iowa, Minnesota, Missouri North Dakota and South Dakota. Minnesota received approximately \$2 million in affordable housing program (AHP) grants for the rehabilitation or construction of 12 multi-family rental projects.

Other Non-Fiscal Considerations

The supply of affordable housing is strongly influenced by the amount of federal, state and local resources available to developers and investors. Another factor that is as equally influential as public funds to the supply of affordable housing is the community. Some communities have opposed the proliferation of low-income rental housing within their boundaries. This opposition is called “NIMBY” (for, *Not in My Backyard*). Inclusionary housing policies, comprehensive planning, and fair share housing policies are strategies that may help mitigate barriers, such as NIMBY, in neighborhoods and communities. To combat NIMBY, Minnesota non-profits and coalitions continue to work on public education strategies directed toward local governments, businesses, and religious communities.

For more information about state funding for housing, contact: Cynthia Coronado at 651/695-1762.

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