

Project Title	Agency Priority	Strategic Score	Funding Source	Agency Request			Governor's Rec	Governor's Planning Estimates	
				2004	2006	2008	2004	2006	2008
Permanent Supportive Housing Loans	1	332	GO	\$20,000	\$25,000	\$30,000	\$20,000	\$25,000	\$30,000
Project Total				\$20,000	\$25,000	\$30,000	\$20,000	\$25,000	\$30,000
General Obligation Bonding (GO)				\$20,000	\$25,000	\$30,000	\$20,000	\$25,000	\$30,000

Funding Sources:	GF = General Fund	THF = Trunk Highway Fund	OTH = Other Funding Sources
	GO = General Obligation Bonds	THB = Trunk Highway Fund Bonding	UF = User Financed Bonding

Agency Profile At A Glance

Two-Year State Budget:

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

Annual Business Processes:

- ◆ Provided \$466.8 million in housing assistance FFY 2003.
- ◆ Served 51,000 households.
- ◆ 74% of all households served had annual incomes under \$20,000; 51% of the households served did not receive section 8 assistance and had incomes below \$20,000.

Agency Purpose

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

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

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

Core Functions

MHFA funds housing activity in five broad areas:

- ⇒ **Development and Redevelopment Programs.** These programs fund the new construction and rehabilitation of rental housing and homes for ownership for families with a range of incomes.
- ⇒ **Homeownership Loan Programs.** These programs fund home purchase and home improvement loans for families and individuals with a range of incomes not served by the private sector alone.
- ⇒ **Supportive Housing Programs.** These programs fund housing development and rental assistance for very low-income families and individuals who often face other barriers to stability, economic self-sufficiency, and independent living.
- ⇒ **Preservation of Federally Assisted Housing Programs.** These programs seek to preserve the stock of federally assisted rental housing that is in danger of being lost due to op-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 five citizen members appointed by the governor and two ex-officio members: the commissioner of Employment and Economic Development and 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 197 full-time equivalent employees in three major divisions: 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 \$2.8 billion, \$1.8 billion of which are financed by mortgage revenue bonds.

The staff manages the process of raising capital through periodic debt issuances. The staff in this division also prepares financial forecasts, budgets, and fiscal year-end audited financial reports for all funds and accounts. Staff is responsible for the accurate and timely reporting of all accounting and financial information necessary to comply with disclosure requirements and board policies. This division also includes the staff managing the agency's information systems and human resources staff.

- ⇒ The staff of the multifamily portion of the housing division manages the process of assisting in the financing of new construction and rehabilitation and preservation of rental housing. This staff oversees the provision of tenant support services and rental assistance and homeless prevention activities. The staff is also responsible for the oversight of the management of the agency's portfolio of rental housing, monitoring compliance with state and federal requirements, and administering the Section 8 contracts of 32,000 units of rental housing that include the contracts on 18,000 units previously administered by Housing and Urban Development (HUD).
- ⇒ The homeownership portion of the housing program division staff manages programs to assist with the financing of home purchases and home improvements. It also manages the process of assisting in the financing of new home construction for ownership and neighborhood revitalization. The staff oversees the provision of homeownership education services. The staff also administers programs that provide post-purchase support and foreclosure prevention for homeowners.
- ⇒ The housing policy division includes governmental affairs, and research and policy.

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

Budget

MHFA's largest source of financing is the sale of tax-exempt and taxable bonds that totals approximately 46% of the agency's budget. Proceeds from the sale of these bonds provide mortgage loans to first-time homebuyers and

rental housing developments. Repayments made to programs funded by mortgage revenue bonds are made available for the same activities.

Agency resources constitute 18% of the agency's budget. Agency resources are earnings over the years in excess of funds needed to cover loan loss and self-insurance.

Federal funds constitute 28% of MHFA financing. In FY 2002-03 biennium, the two largest programs receiving federally appropriated funds were the Section 8 Housing Assistance payments program and the Home Investment Partnership Program (HOME). In the past, the agency has received federal funding for a number of smaller programs as well.

State appropriations constitute 8% of the total program funds expected to be distributed in 2004-05. State appropriations for the 2004-05 biennium total \$70,270,000 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 provides information about Agency programs, application forms and procedures, and other useful information for persons seeking assistance with the financing of affordable housing.

At A Glance: Agency Long-Range Strategic Goals

- ◆ End long-term homelessness
- ◆ Increase homeownership for underserved populations
- ◆ Preserve existing affordable housing
- ◆ Increase housing choices for low and moderate-income workers to support economic vitality
- ◆ The Minnesota Housing Finance Agency (MHFA) should be viewed as a housing resource of choice

Trends, Policies and Other Issues Affecting the Demand for Services, Facilities, or Capital Programs

MHFA capital bonding request for permanent supportive housing is a major component of the agency's plan to achieve its goal of ending long-term homelessness.

Thirty-five percent (35%) of the adults and unaccompanied youth represented in the most recent Wilder Research Center's Statewide Survey on Homelessness have been homeless for more than 12 months. It is estimated that about 3,100 adults are chronically homeless in Minnesota.

Conservative estimates find that 44% of the chronically homeless suffer from a serious or persistent mental illness and 30% report a chemical dependency problem. Twenty percent (20%) of the chronically homeless adults and unaccompanied juveniles report a dual diagnosis of both mental illness and chemical dependency. Research has found that those persons who chronically experience homelessness and who suffer from a mental illness or substance abuse consume a disproportionate share of the funds and services for homeless persons.

Supportive housing has the potential to either reduce costs to health care, mental health, chemical health, corrections, law enforcement, education, housing and child welfare systems, and usage of crisis services and out-of-home placement for children.

At least four studies in the last 15 months have examined the effectiveness of supportive housing in reducing costs to other systems, including health care, corrections, and chemical dependency services. All of the studies have found significant savings to one or more systems.

In April 2003 Hennepin County issued a summary of research findings on two supportive housing projects funded in part by the Hennepin County Children, Family and Adult Services Department (CFASD). These projects are being evaluated to whether supportive housing reduces residents' use of high cost crisis services and whether the overall service usage shows a shift towards long-term stability. The early findings show a reduction in crisis costs of an average of \$6,200 per family, primarily because of reduced chemical health treatment and children's staff in foster care. During the first six months of residence in supportive housing, there was a significant shift in CFASD funding from crisis services to supportive/preventive services. At this point in the study, supportive housing for chronically homeless families is essentially cost-neutral, but CFASD expects that over the long-term, as families achieve self-sufficiency, there will be savings from all types of CFASD interventions.

The Supportive Housing and Managed Care Pilot, which operates in Blue Earth and Ramsey counties, recently underwent a one-year evaluation. The pilot targets single adults and families whose homelessness is exacerbated by other difficulties such as medical problems, mental illness, chemical dependency, and histories of trauma. Many of the participants are high service utilizers, substantially driving up the costs of care across multiple service systems. The February 2003 report found that the pilot is having a positive impact on the participants even though change for these participants is incremental. More than half of the Ramsey County participants have been in their current housing for more than 13 months; all of the participants were either living in a shelter, on the streets, or were doubled up at the time of application. The Blue Earth County participants experienced a 57% decrease in child protection incidents after enrollment.

Hennepin County's Housing for Chronic Inebriates admits individuals with lengthy history of alcohol abuse and detox and emergency room encounters related to acute intoxication. The March 2003 analysis examined whether the residents of the two housing projects reduced their usage of detox and other emergency services while living in the residence. Both facilities say a

statistically significant decline in detox usage for its residents while they were in the program. While there was no statistically significant change in emergency room usage, the median cost of health care declined by \$4,000 per year.

Positive results were also shown by the Connecticut Supportive Housing Demonstration Program, which was initiated in 1992 to provide affordable, service-enriched rental housing for homeless and at-risk populations. The 2002 independent program evaluation found that supportive housing creates positive outcomes for tenants while decreasing their use of acute and expensive health services. Of the tenants who stayed in housing for three years, there was a 71% *decrease* in the average Medicaid cost per tenant using medical inpatient services. Two-thirds of the tenants reported being employed or in education and training programs.

Provide a Self-Assessment of the Condition, Suitability, and Functionality of Present Facilities, Capital Projects, or Assets

Funds for supportive housing have been included in the last seven major capital bonding bills. Demand for funding for permanent supportive housing is strong. There are currently twenty-seven applications pending at MHFA for funding totaling over \$15 million for permanent supportive housing projects. These requests far exceed the resources currently available for the development of permanent supportive housing.

Agency Process Used to Arrive at These Capital Requests

At the administration's request, the 2003 Minnesota Legislature directed the MHFA and the departments of Human Services and Corrections to convene a working group on supportive housing for persons experiencing chronic homelessness. The working group is charged with the responsibility of developing a "business plan" that included capital and operating cost estimates. The business plan being developed by the working group will refine the capital bonding request.

The U.S. Department of Housing and Urban Development requires the state to engage in a continuum of care planning process as part of the funding process for homeless programs. Development of continuum of care plans involves the participation of various interest groups and individuals in the

community or region. The Interagency Task Force on Homelessness supports the regional continuum of care planning in greater Minnesota by assigning members of the task force to work with the continuum of care planning communities in each region. The task force also provides resources to pay staff in regions to complete the continuum of care plans and sponsored training sessions to provide technical assistance for regional staff.

The continuum of care plan assigns relative priority to the different components of the continuum. Permanent supportive housing consistently ranks as a high priority.

Major Capital Projects Authorized in 2002 and 2003

MHFA has committed all of the \$16.2 million appropriated in the 2002 capital bonding legislation to two projects for permanent supportive and transitional housing for veterans and single adults who are homeless and at-risk of becoming homeless to be located on land owned by the U.S. Department of Veterans Affairs. One project will be located in Hennepin County and will provide 141 units of housing; the other project will be located in St. Cloud and will provide 60 units of housing.

Permanent Supportive Housing Loans

2004 STATE APPROPRIATION REQUEST: \$20,000,000

AGENCY PROJECT PRIORITY: 1 of 1

PROJECT LOCATION:

Project At A Glance
<ul style="list-style-type: none"> ◆ Construct or acquire and/or rehabilitate 267-534 units of permanent supportive housing for families with children and individuals who experience long-term homelessness. ◆ Expected leveraging of funds from philanthropic organizations, federal government, the private sector, and other units of government for both projects financed with and without state bond funds. ◆ Improved outcomes for individuals and families with children.

Project Description

This request for \$20 million in bond funds is to construct, acquire, and rehabilitate, approximately 267-534 units of permanent supportive housing for families with children and individuals who experience long-term homelessness. These developments will be located in communities throughout the state with approximately half of the funds used for housing in greater Minnesota and half in the Twin Cities metropolitan area. Permanent supportive housing is the keystone of efforts to reform the way that various systems address problems of homelessness by moving from a band-aid approach to more cost-effective prevention and long-term solutions. The appropriation would be to the Local Government Unit Housing Account program (M.S. 462A.202, subd. 3a).

The total number of units to be funded with this request depends on several factors, the extent to which other resources are leveraged, whether the development is new construction or rehabilitation, and the distribution among family and single adult units. Funds will be awarded to developments that implement the strategies for cost effective delivery of housing, services, and

improved outcomes for individuals that are being developed by the Working Group on Supportive Housing for Persons Experiencing Long-Term Homelessness.

The 2003 Minnesota Legislature directed the commissioners of the Housing Finance Agency, and the departments of Human Services, Corrections, and Employment and Economic Development, to convene a Work Group on Supportive Housing for Persons Experiencing Long-Term Homelessness. This group's mission was to develop and implement strategies to make the various systems more cost effective and to increase the employability and self-sufficiency of families with children and individuals who experience long-term homelessness. (Laws of Minnesota 2003, Chapter 128, article 15, section 9.) This Working Group will report to the legislature in February 2004.

This request focuses on the small subset of individuals and families with children that experience long-term homelessness. Based on estimates from the 2001 Wilder Survey, it is estimated that at least 4,000 units of supportive housing will be needed to meet the goal of ending long-term homelessness. Approximately 25% of the homeless adults surveyed in the 2001 Wilder Survey lived in Greater Minnesota, the remainder lived in the Twin Cities metropolitan area. This proposal demonstrates the state's commitment to assisting in the goal of ending long-term homelessness.

Families and individuals who experience long-term homelessness disproportionately use available health, corrections, and other social service resources. One recent report found that although people who experience long-term homelessness make-up only 10% of the homeless population, they consume about 50% of available resources. More than 40% of the adults who are experiencing a second episode of homelessness that has lasted more than 12 months report suffering from a major mental illness, having used the emergency room in the last 12 months, having been admitted into detox in the last 12 months, or suffering from chronic alcoholism.

Permanent supportive housing is affordable rental housing with links to the services necessary to enable tenants to live in the community and lead successful lives. It has demonstrated it's cost effectiveness. Evaluations of permanent supportive housing programs across the country and in Minnesota have found that it can be provided without adding to the long-term

Permanent Supportive Housing Loans

costs currently incurred for this population by reducing the use of hospitals, jails, treatment centers, emergency rooms, shelters, and crisis services. Permanent supportive housing has the potential to improve the outcomes for homeless households, including increased employment and improved school attendance and educational achievement for the children.

The Local Government Unit Housing Account program provides deferred loans to local units of government for the development, construction, acquisition, improvement, or rehabilitation of housing properties for low or moderate income persons. Local units of government that own and manage the property, or contract with a service provider to operate the property for a minimum of 20 years, are eligible to receive program assistance. After 20 years, the loan is deemed paid in full and all the restrictions regarding ownership and operation of the property cease.

Impact on Agency Operating Budgets (Facilities Notes)

Funding this program will have no impact on the agency's operating budget. This project funds only the capital costs of supportive housing. The ongoing operating costs for supportive services will be provided from other sources, including resident contributions, and federal, state, and local government services. Further analysis will be needed to determine the impact this initiative has on the ongoing costs of supportive services.

Previous Appropriations for this Project

No state appropriations have been made to the projects contemplated in this request. Since 1990, each biennium, the legislature has appropriated capital bonding funds to the local government housing account for transitional housing.

Other Considerations

Nearly 800 supportive housing units are currently in the pre-development or pipeline stage. These projects vary in size and in targeted population. It is estimated that for about one-third of the units, public ownership is a viable option. This subset of projects have identified locations, and are in the pre-development stage. Most have pre-development funding, but will not move forward until all the capital funds are secured. Other supportive housing

development opportunities are expected over the next two years. Continued state leadership on this issue could leverage additional resources for more supportive housing units well beyond what would be developed by this request.

The state will not be undertaking this commitment alone. The philanthropic and nonprofit sectors and many local governments have already identified permanent supportive housing as a top priority. Hennepin and Ramsey counties and the cities of Minneapolis and St. Paul have already established goals for the creation of permanent supportive housing and have committed their own resources to helping achieve these goals. President Bush has also initiated a 10-year effort to end chronic homelessness, and although no additional funds have yet been appropriated, supportive housing is a key part of the effort being led and funded by the department of Housing and Urban Development (HUD).

Project Contact Person

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Governor's Recommendations

The Governor recommends general obligation bonding of \$20 million for this project. Also included are budget planning estimates of \$25 million in 2006 and \$30 million in 2008.

TOTAL PROJECT COSTS All Years and Funding Sources	Prior Years	FY 2004-05	FY 2006-07	FY 2008-09	TOTAL
1. Property Acquisition	0	0	0	0	0
2. Predesign Fees	0	0	0	0	0
3. Design Fees	0	0	0	0	0
4. Project Management	0	0	0	0	0
5. Construction Costs	0	0	0	0	0
6. One Percent for Art	0	0	0	0	0
7. Relocation Expenses	0	0	0	0	0
8. Occupancy	0	0	0	0	0
9. Inflation	0	0	0	0	0
TOTAL	0	0	0	0	0

CAPITAL FUNDING SOURCES	Prior Years	FY 2004-05	FY 2006-07	FY 2008-09	TOTAL
State Funds :					
G.O Bonds/State Bldgs	0	20,000	25,000	30,000	75,000
State Funds Subtotal	0	20,000	25,000	30,000	75,000
Agency Operating Budget Funds	0	0	0	0	0
Federal Funds	3,267	2,400	3,000	3,600	12,267
Local Government Funds	4,211	4,400	5,500	6,600	20,711
Private Funds	6,772	4,600	5,750	6,900	24,022
Other	0	0	0	0	0
TOTAL	14,250	31,400	39,250	47,100	132,000

CHANGES IN STATE OPERATING COSTS	Changes in State Operating Costs (Without Inflation)			
	FY 2004-05	FY 2006-07	FY 2008-09	TOTAL
Compensation -- Program and Building Operation	0	0	0	0
Other Program Related Expenses	0	0	0	0
Building Operating Expenses	0	0	0	0
Building Repair and Replacement Expenses	0	0	0	0
State-Owned Lease Expenses	0	0	0	0
Nonstate-Owned Lease Expenses	0	0	0	0
Expenditure Subtotal	0	0	0	0
Revenue Offsets	0	0	0	0
TOTAL	0	0	0	0
Change in F.T.E. Personnel	0.0	0.0	0.0	0.0

SOURCE OF FUNDS FOR DEBT SERVICE PAYMENTS (for bond-financed projects)	Amount	Percent of Total
General Fund	20,000	100.0%
User Financing	0	0.0%

STATUTORY AND OTHER REQUIREMENTS	
Project applicants should be aware that the following requirements will apply to their projects after adoption of the bonding bill.	
No	MS 16B.335 (1a): Construction/Major Remodeling Review (by Legislature)
No	MS 16B.335 (3): Predesign Review Required (by Administration Dept)
Yes	MS 16B.335 and MS 16B.325 (4): Energy Conservation Requirements
No	MS 16B.335 (5): Information Technology Review (by Office of Technology)
Yes	MS 16A.695: Public Ownership Required
No	MS 16A.695 (2): Use Agreement Required
No	MS 16A.695 (4): Program Funding Review Required (by granting agency)
Yes	Matching Funds Required (as per agency request)
Yes	MS 16A.642: Project Cancellation in 2009

Permanent Supportive Housing Loans

STATEWIDE STRATEGIC SCORE		
Criteria	Values	Points
Critical Life Safety Emergency - Existing Hazards	0/700	0
Critical Legal Liability - Existing Liability	0/700	0
Prior Binding Commitment	0/700	0
Strategic Linkage - Agency Six Year Plan	0/40/80/120	80
Safety/Code Concerns	0/35/70/105	0
Customer Service/Statewide Significance	0/35/70/105	70
Agency Priority	0/25/50/75/100	100
User and Non-State Financing	0-100	57
State Asset Management	0/20/40/60	0
State Operating Savings or Operating Efficiencies	0/20/40/60	0
Contained in State Six-Year Planning Estimates	0/25/50	25
Total	700 Maximum	332