mhp

MHP and HAVEN

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This memo is being written to inform our affordable housing partners that MHP supports the HAVEN proposal to amend Minnesota bond statute. Below we will provide our reasoning for this support and identify issues and possible modifications that we believe should be considered as the HAVEN concept progresses. We encourage questions and reactions to what is written here.

What is the HAVEN Bond Allocation Proposal?

The HAVEN[1] proposal amends the state's statute that governs use of Minnesota's allocation of the federally authorized tax-exempt bonds known as Private Activity Bonds. Currently Minnesota is allowed to issue approximately $550 million in these tax-exempt bonds annually.

Under Minnesota statute, $238 million (or 43%) of this authorized amount of bonding is allocated to four Entitlement Issuers: Minnesota Housing, St. Paul, Minneapolis and Dakota County. The HAVEN proposal does not affect these bond allocations.

The HAVEN proposal primarily modifies the Housing Pool, which is the part of the remaining bond authority for local governments that are not Entitlement Issuers. In 2016, the Housing Pool amounted to $182 million. HAVEN would make the following amendments to the statute concerning use of the Housing Pool.

- **Create a new bond-allocation priority structure to maximize use of housing tax credits.**

  The HAVEN proposal would create a new priority structure regarding where and how bonds are awarded through the Housing Pool. Currently, 31% of the Housing Pool ($56 million in 2016) is set aside for bonds financing home ownership mortgages. For bonds supporting rental units, preservation of federally assisted housing is given first priority, general occupancy rental housing is second priority, and housing restricted to persons 55 age of years or older is given third priority.

[1] Background on HAVEN: Housing Advocates for Vitality and Equality Now (HAVEN) is a newly formed Minnesota non-profit association that has applied for status as a 501(c)(4) organization. The group was conceived in late 2016, as both affordable housing developers and other stakeholders grappled with the current affordable rental housing crisis. HAVEN emerged, with the purpose of promoting a full and public discussion of how best to support Minnesota's urgent demand for affordable multifamily housing by making most efficient use of tax-exempt bonds and 4% low-income housing tax credits, through education, issue advocacy and, potentially, lobbying on behalf of the group.

Under HAVEN these priorities would shift in the following way:

1. Projects that preserve federally assisted housing and restrict the issuance of bonds to no more than 55% of the reasonably expected eligible basis (this is a tax credit term for an amount that approximates 90% of a project's development costs).
2. General occupancy and senior tax credit housing where (i) 80% of the units are at or below 60% AMI affordable, (ii) uses federal housing tax credits, and (iii) restricts the issuance of bonds to no more than 55% of the reasonably expected eligible basis.
3. All other rental housing projects utilizing federal tax credits.
4. Home ownership mortgage loans.
5. All other rental projects not using federal tax credits.

With this structure, bonds are first awarded to developments at the highest priority level. If there is additional bond authority after first-priority project bond requests are met, all projects at the next highest level would be funded, and so on until all requests are met or the allocation of bonds is exhausted.

Under existing law and continuing under HAVEN all rental housing developed with tax exempt financing must meet minimum rent and income restrictions of at least 20% of the units affordable at 50% AMI, or 40% at 60% AMI, and have a minimum 15-year affordability period. Minnesota also requires that at least 20% of the units be restricted to rents at or below HUD determined Fair Market Rents. Home mortgage recipients would typically need to have incomes under 80% of AMI.

- **Use a lottery system for awarding bonds within a given priority level.**

  Currently, if requests exceed available bonding within a given priority level, the State of Minnesota allocates tax-exempt bonds on a pro rata basis among all requests. Recently this has resulted in many projects being stalled because the bond award is inadequate to finance development.

  A lottery process proposed by HAVEN would ensure that, within the applicable priority level for which there are insufficient available bond amounts, projects either receive adequate awards to move to development or do not receive any bond allocation.

- **Restrict the amount of bonds to no more than 55% of eligible project cost for Priority 1 and Priority 2 projects.**

  Under current law a developer can apply for tax-exempt bonds to provide full project funding. HAVEN limits the amount to 55% of project eligible basis for Priority 1 and Priority 2 projects. For 4% tax credit eligibility, federal law only requires that 50% of eligible basis be paid from tax-exempt bonds. By using tax-exempt bonds to fully fund a project Minnesota is essentiality wasting scarce bonding authority. By conserving bonds the state could finance additional affordable housing. Those projects requesting bonds in excess of 55% of eligible basis would still be eligible to receive bonds, but would have a lower priority.

Why MHP Supports the HAVEN Proposal

1. More bonds would be available for rental housing, and with the new priorities, the rental housing developed would benefit those with lower incomes than is now taking place. With the vacancy rates at extremely low levels, Minnesota metro areas desperately need new non-luxury rental housing at a variety of price points. Certainly creating new deeply affordable apartments should be the highest priority. But also needed are units affordable to those workers and retirees with incomes at 60% AMI, the maximum income for those occupying tax credit financed apartments.

2. More federal tax credit resources would be brought to Minnesota, and there would be a significant benefit to the state's economy. After maintaining the first priority of preserving federally assisted housing, the HAVEN proposal prioritizes using bonds to develop tax credit housing. Currently, every dollar of tax-exempt bonding used for this rental housing is leveraging 50 to 75 cents in federal tax credit equity and two-dollars in total development costs. Under HAVEN hundreds of millions of dollars in new development would occur and tens of millions of additional federal subsidy dollars would be invested in Minnesota's rental housing and economy annually. In addition, permanent and construction jobs would be created, and sales, income and property taxes would be generated for local and state government.

3. Housing for seniors would no longer be penalized. Seniors lack modestly priced rental options in many communities. In addition, local governments are hoping to move seniors from single-family homes into apartments and have young families move into homes the seniors once occupied. Because Minnesota Housing's priorities for use of 9% tax credits make it very difficult to use that resource for senior housing it is important that the bonding/4% credit allocations do not also discourage affordable senior housing development.

4. Limited federal bond resources would be used more efficiently. The lottery allocation and the 55% maximum bond usage priority would help ensure that bonds are not wasted, and that projects are not stalled because they receive bond amounts that are less than is needed for development.

Issues Requiring More Consideration

While MHP believes HAVEN sets the right direction for an improved use of the state's bond allocation there are a number of issues that should be vetted with the possible result of modifications being made to improve the current proposal.

A. Should there be a level of greater affordability added to the HAVEN priority structure?

While the 80% tax credit priority, the second priority under HAVEN, is an improvement over current law, why not create a new, higher level priority that would bring greater affordability (e.g., 20% at 30% AMI, and 30-year affordability requirement)? To reach a deeper level of affordability developers would need more project subsidies, so for this priority to be meaningful new sources of development subsidy should be identified.

B. Will there be a healthy balance between the development of general occupancy and senior rental housing?

Although the current statute is punitive with respect to senior housing development, going too far in the other direction might create an imbalance in development. There is a possibility that developers and communities would *only* want to develop new rental housing for seniors and not general occupancy rental housing, which is more controversial within many communities.

C. Will homebuyers, particularly those in rural communities, maintain their access to lowest cost mortgage financing if home ownership housing falls to a lower priority than rental for Housing Pool bonds?

Currently there is little difference between tax-exempt bond funded mortgage interest rates and other mortgage rates found in the marketplace, meaning that there is little benefit to the homebuyer whether a mortgage loan is funded with tax-exempt or taxable debt. But if interest rates increase and the spread widens between taxable and tax-exempt interest rates, the benefit to homebuyers receiving tax-exempt financed mortgage loans becomes more pronounced.

D. Will state progress in helping households of color become homeowners be sustained under HAVEN?

To its credit, Minnesota Housing has made significant strides in helping households of color become homeowners, and thereby incrementally reduce the racial disparity in homeownership rates. It is important that efforts to address this disparity are not impeded by amendments to bond law.

E. Will Minnesota Housing stay financially strong?

Minnesota Housing earns a substantial portion of its total revenue through the mortgage program interest and fees it collects. In addition to covering its own operating expenses, the Agency commits net earnings back into its programs (from addressing homelessness to providing down payment assistance to lower income home purchasers). For many affordable housing reasons it is important that Minnesota Housing continue to be financially strong.