

Minnesota Housing Finance Agency

2006-2007 Affordable Housing Plan Summary

Introduction

Every two years the Board adopts the Affordable Housing Plan (AHP), setting forth the funding sources and amounts for housing programs for the biennium. The current AHP began October 1, 2005 and ends on September 30, 2007, as the Agency's program budget year coincides with the fiscal year of the federal government. This summary addresses the following topics:

- Financial summary and comparison to the 2004-2005 AHP
- Sources of resources to fund the AHP
- Strategies for use of Agency Resources (as later defined) in the AHP
- Policy and program highlights

Financial Summary and Comparison to Current AHP

The proposed AHP is for \$1.3 billion of new housing activity, which is \$148,661,745 or 13% more than the original 2004-05 AHP and \$140,740,615 or 9% less than the 2004-05 AHP as amended. The AHP is amended when additional funds become available. The following table compares the 2004-2005 AHP, original and amended, with the 2006-2007 AHP.

	2004-2005 Biennium Original	2004-2005 Biennium, as amended	2005-2006 Biennium Proposed
Single Family Home Ownership Programs	\$ 617,652,237	\$ 877,796,548	\$ 767,700,649
Multifamily Production Programs	244,792,441	241,461,510	212,628,926
Multifamily Portfolio Management	291,129,206	318,225,905	318,410,389
Other	2,645,658	8,137,989	6,141,373
Totals	\$ 1,156,219,542	\$ 1,445,621,952	\$ 1,304,881,337

The primary reason for the increase in new program activity in the 2005-2006 AHP from the original 2004-2005 AHP is the large increase in debt funded activities. Funds from debt issuance are expected to increase by \$166 million during the next biennium. New and recycled federal resources and state appropriations will increase to partially offset the declining availability of Agency Resources.

Sources of Resources to Fund AHP

Identifying the sources of funding for the AHP involves a projection of the resources that will be available to the Minnesota Housing Finance Agency (MHFA) to invest in housing programs during the biennium. The AHP allocates funds from four primary categories of resources. The precise amounts of some funding sources are known at the time the AHP is developed; others are estimates of the resources that will become available during the biennium. The Risk-Based Capital Study and other analytical approaches, all of which identify the resources available for housing programs, supplements staff management of the cash flow in these funds.

Federal Resources. There are two types of federal resources: HUD appropriations and housing credits. For purposes of the AHP, current funding levels are used for the HUD appropriations – Section 8, HOME and Housing Opportunities for Persons with AIDS - and adjusted once Congress has adopted each year's budget. The amount of federal Housing Credits is based on a per capita formula and may vary slightly each year.

State Appropriations. The amount of funding and the programs funded are based on the 2006-2007 general fund budget adopted by the Legislature. In 2005 the state adopted both a general fund operating budget and a capital budget. The Agency received appropriations in both budgets which are reflected in this AHP. Another state capital budget is anticipated during the course of this AHP, and any additional appropriations will be reflected as a proposed AHP amendment.

Bond Proceeds. Bond proceeds are generated by the issuance of tax-exempt and taxable bonds. Tax-exempt bond proceeds available to the AHP are the sum of the amount of new bonding authority, the projected amount of debt refundings over the next two years, and the estimated amount of bonding authority contributed by cities and counties for issuance on their behalf. Taxable bond proceeds available to the AHP are determined by identifying opportunities to use debt financing for activities that do not qualify for use of tax-exempt financing (e.g., general obligation borrowings for home improvement or to leverage existing rental loans) and matching the expected cash flows from those activities with the cash flow needs of the desired amount of taxable bonds.

Agency Resources. The Agency has resources generated from its bond funds which are available for investment in housing programs. Agency resources are currently categorized as follows:

- Endowment Funds. The Endowment Funds (multifamily, single family homeownership, and home improvement) were established by the Board in 1995. Staff monitors the expenditures and repayments and estimates repayments over the next two years to determine the amount available for new activity.

- Housing Investment Fund (also known as “Pool 2”). The Housing Investment Fund’s balance is set according to a formula adopted by the Board in 1988 and subsequently reviewed and confirmed with the rating agencies and the Agency’s cash flow projections. According to Board policy, use of these funds is limited to investment grade loans as defined by the Agency. Staff monitors the liquidity in this fund and estimates liquidity over the next two years to determine the amount available for the AHP.
- Housing Affordability Fund (also known as “Pool 3”). The Housing Affordability Fund is set pursuant to the same Board policy as the Housing Investment Fund (above) and its balance is the remainder of all non-bond restricted Agency resources not dedicated to the Housing Investment Fund. This fund is more flexible than the Housing Investment Fund because its use is not limited to investment grade loans. Staff monitors the liquidity in this fund and estimates liquidity over the next two years to determine the amount available for the AHP.

The following table sets forth the sources of funds from each source for both the FY 2004-05 AHP and the proposed FY 2006-07 AHP.

Sources of funds	Original	Proposed
	2004-2005 AHP	2006-2007 AHP
Federal Resources		
Grants and Subsidies	\$313,289,932	\$337,891,946
Housing Tax Credits	\$14,882,635	\$15,000,000
	\$328,172,567	\$352,891,946
State Appropriations	\$92,228,775	\$105,755,413
	\$92,228,775	\$105,755,413
Bond Proceeds		
Tax-exempt single family	\$440,000,000	\$602,611,265
Tax-exempt multifamily	\$40,000,000	\$25,000,000
Taxable single family/home improvement	\$20,000,000	\$26,430,000
Taxable multifamily	\$0	\$15,000,000
	\$500,000,000	\$669,041,265
Agency Resources		
Endowment funds	\$101,362,200	\$112,108,113
Pool 2	\$0	\$19,900,000
Pool 3	\$134,456,000	\$45,184,600
	\$235,818,200	\$177,192,713
Total AHP	\$1,156,219,542	\$1,304,881,337

Strategy for Use of Agency Resources

The quadrennial Risk Based Capital Study completed in the spring of 2005 projected that the Agency would increase its net assets but at a rate more slowly than in the past. The Study also noted that increased demand for and allocation of “soft” or “deferred” funds to housing programs from the Agency would have an impact on the Agency’s ability to generate and invest Agency Resources in housing programs in the near future. As a result, the Study recommended that the Agency explore methods to decrease and become more efficient in its use of Agency Resources.

Policy and Program Highlights

Under this proposed AHP, the Agency intends to advance aggressively the four program goals set forth in the Agency Strategic Plan. As it does so, it will advance the Agency’s status as a housing partner of choice, which is our fifth goal. The attached chart reflects anticipated expenditure of funds under this AHP by strategic goal.

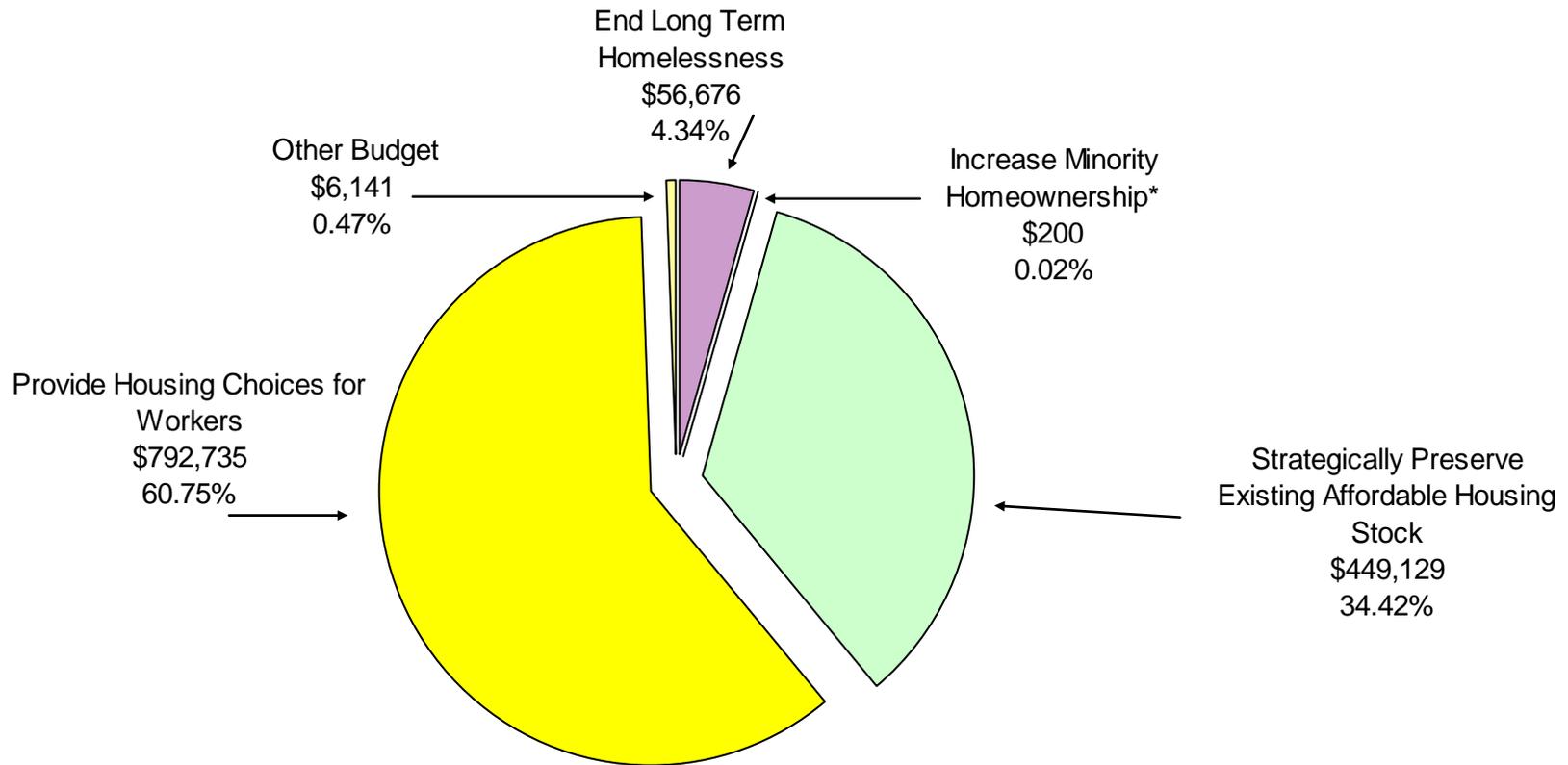
- *End long-term homelessness.* The Agency will continue its leadership role in implementing the business plan to end long-term homelessness. The primary AHP resources utilized for this purpose include Bridges, the Ending Long-Term Homelessness Initiative Fund (ELHIF), Family Homeless Prevention and Assistance Program (FHPAP), the Publicly Owned Housing Account, Housing Opportunities for Persons with Aids (HOPWA), the Housing Tax Credit Program, and the Housing Trust Fund (HTF).
- *Increase minority homeownership.* The Agency will increase minority homeownership by continuing to provide leadership to the homeownership industry’s implementation of the Emerging Markets Homeownership Initiative (EMHI). All of the Agency’s homeownership programs will be a source of resources to assist in this initiative. The specific item identified for EMHI implementation is to support the EMHI director that will be engaged.
- *Strategically preserve the existing affordable housing stock.* The Agency, along with other stakeholders, will develop and begin implementation of a business plan on housing preservation during the course of this AHP. Currently, several Agency programs in both the Multifamily and Single Family Homeownership divisions contribute to housing preservation including the Fix Up Fund (FUF), Community Fix Up Fund (CFUF), Minnesota Urban and Rural Homesteading (MURL), the Rehabilitation Loan Program, Affordable Rental Investment Fund-Preservation (PARIF), HOME rental rehabilitation, Rental Rehabilitation Loans, and all of the Portfolio Management Programs in the Multifamily division.

- *Increase Housing Choices for Workers.* The Agency will continue to finance a significant amount of housing for workers or “work force housing.” As it does so the Agency will pursue strategies to make its investments cost-effective. In addition, the Agency will pursue policy initiatives and work with stakeholders to increase housing choices and control costs through complementary land-use, transportation, economic development, and tax policies. The primary specific line items in the AHP that fund work force housing are Economic Development and Housing Challenge (Challenge Fund), Entry Cost Homeownership (ECHO), Habitat for Humanity, the Minnesota Mortgage Program and Homeownership Assistance, the Housing Tax Credit Program, and the Low and Moderate Income Rental Program (LMIR) and related funding from the Multifamily Endowment.

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**Minnesota Housing Finance Agency
06-07 AHP Program Resources by Strategic Goal
New Activity Only
(in thousands)
10/1/05-9/30/07**

Tab B-2 FINAL

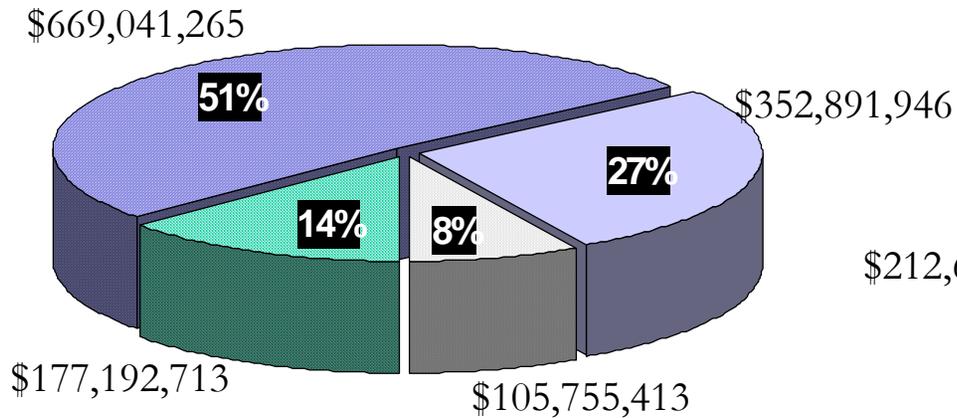


* This is for EMHI Operations only. The substance of the EMHI initiative is integrated into the Agency's homeownership programs under the "Provide Housing Choices for Workers" category.

MHFA Affordable Housing Plan

10/1/05 - 9/30/07

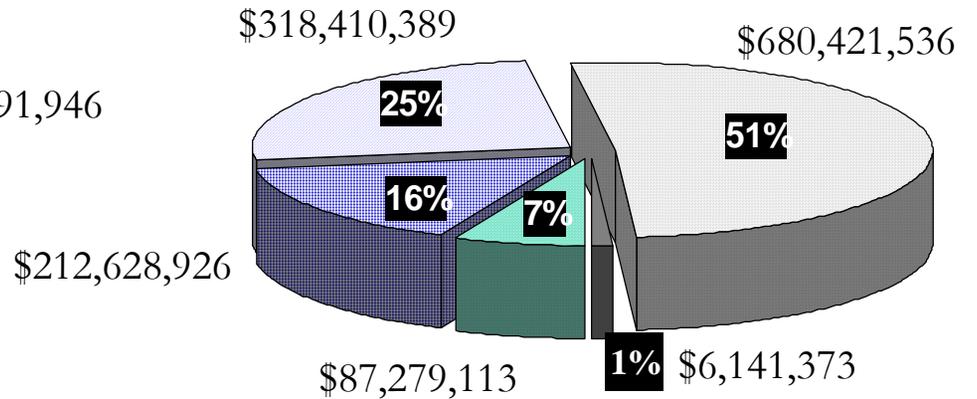
Sources of Funds



Total: \$ 1,304,881,337

- Revenue Bond Sales
- Agency Resources
- Federal Funds
- State Appropriations

Uses of Funds



Total: \$1,304,881,337

- Home Improvement Program
- Rental Programs
- Rental Portfolio Management
- Homeownership Programs
- Other **

** Other includes: Federal HOME Funds Administrative Expenses, Agency Technical Assistance Fund, Disaster Relief Contingency Fund and the Organizational Support Program.