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Date: February 17, 2025

To: Representative Igo, Chair, Housing Finance and Policy
Representative Howard, DFL Lead, Housing Finance and Policy
Senator Port, Chair, Senate Housing and Homelessness Prevention
Senator Lucero, Ranking Minority Member, Housing and Homelessness Prevention

From: Jennifer Lemaile Ho, Commissioner, Minnesota Housing

Subject: Community Stabilization Funding Progress and Implementation

The Community Stabilization Program was established pursuant to Minnesota Laws 2023, chapter 37, article 1, section 2, subdivision 29 and Minnesota Laws 2023, chapter 37, article 2, section 6 as a one-time program with $90 million of state appropriations. Of this amount, $80 million was designated to preserve naturally occurring affordable housing (NOAH), while $10 million provided a one-time grant to Aeon for Huntington Place apartments in Brooklyn Park.

During the 2024 legislative session, Minnesota Laws 2024, ch. 127, art. 14, sec. 11 amended the program by restructuring it into three distinct initiatives and increasing total appropriations from $90 million to $115 million. The legislation also introduced a second legislatively named grant. As a result, the original NOAH allocation was revised to $51.75 million, now split between multifamily rental preservation and single-family homeownership preservation. Section 43 of that legislation also required program updates on the new programmatic structure.

The three new programs and two legislatively named grantees include:

- NOAH Multifamily Rental Preservation ($41.75 million)
- NOAH Single Family Home Ownership Preservation ($10 million)
- Recapitalization of Distressed Buildings ($50 million), with $15 million set aside for supportive housing
- Legislatively Named Grant to Aeon for Huntington Place in Brooklyn Park ($10 million)
- Legislatively Named Grant to Wilder Park Association in St. Paul ($3.25 million)

Progress on Legislatively Named Grants

Both legislatively named grants are executed with a majority of the work complete. The Wilder Park Association grant has been fully disbursed, providing $3.25 million for capital repairs at the 17-story senior high-rise with 230 units in St. Paul. The funded repairs are now complete, helping to provide long-term stability for the building and its residents.

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At Huntington Place in Brooklyn Park, Aeon continues its efforts to stabilize the 834-unit rental property, which was significantly impacted by the COVID-19 pandemic. The $10 million grant is supporting both physical improvements and financial stabilization. As of February 12, 2025, approximately $8.97 million has been disbursed, with the remaining funds allocated primarily for property improvements. These funds are disbursed on a reimbursement basis as work progresses. Aeon has shared that they are actively working to transition ownership of the building to another entity. In the event of a sale, the property is expected to retain rents affordable to households at or below 60% of area median income.

Implementation of New Structure Established in 2024

Following the 2024 legislative changes, the Community Stabilization Program now operates as three distinct initiatives, each with its own statutorily established eligibility criteria, permitted uses, affordability requirements, and funding priorities. As a result, Minnesota Housing is developing individual program guides and competitive selection processes for each.

To inform program design, Minnesota Housing conducted a stakeholder survey prior to the 2024 legislative changes, gathering insights from multifamily rental and single-family homeownership partners. This feedback helped shape early design elements and key priorities for the funding.

1. **NOAH Multifamily Rental Preservation Program**

The NOAH Multifamily Rental Preservation program is scheduled for review by the Minnesota Housing board of directors in February 2025. The competitive request for proposals (RFP) will be issued in early spring. Many of the program parameters were defined in the Community Stabilization legislation. The legislation requires priority be given to applications with projects that serve lower-income households and maintain longer periods of affordability.

Statutory requirements around eligible properties, eligible recipients and eligible expenses for the NOAH Multifamily Rental Preservation program are detailed below.

Eligible Properties

In order to be eligible, properties must be considered Naturally Occurring Affordable Housing (NOAH) and must be Multifamily Rental Housing. To meet the definition of NOAH Multifamily Rental Housing, a property must fulfill each of the following requirements:

- Have four or more rental units

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- Be at least 20 years old
- Have rents in a majority of the units that are affordable to households at or below 60% of the greater of state or area median income (AMI) as determined by the United States Department of Housing and Urban Development (HUD)
- Not currently have federal or state financing or tax credits that require income or rent restrictions, except for public housing, as defined in section 9 of the Housing Act of 1937, that is part of a mixed-finance community

Eligible Recipients

An eligible recipient is one of the following:

- Local unit of government
- Federally recognized American Indian Tribe located in Minnesota or its Tribally Designated Housing Entity
- Private developer
- Limited equity cooperative
- Cooperative created under Minnesota Statutes Chapter 308A or Minn. Stat. Chapter 308B
- Nonprofit Organization

The eligible recipient must own or control the property.

Eligible Expenses

Program funds are for the following purposes to support the preservation of NOAH:

- Acquisition costs – Includes costs related to the purpose of acquisition, such as title, survey, legal fees and other fees related to acquisition financing;
- Rehabilitation – Includes costs related to the purpose of rehabilitation, such as:
  - Architecture and design costs, general contractor costs, and permits;
  - Environmental reviews and remediation, including lead-based paint, asbestos, and radon mitigation;
  - Closing costs, including legal, title, survey, loan fees;
  - Temporary relocation expenses incurred as a result of the rehabilitation;
  - Reasonable developer fees in accordance with the applicable underwriting standards; and
  - Capitalizing replacement reserves in accordance with the applicable underwriting standards;

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- Interest rate reduction subject to Minnesota Housing review.

Rental properties that receive funds under the NOAH Multifamily Rental Preservation program, may not reject an applicant based solely on their status as a holder of a rental subsidy, including but not limited to vouchers under section 8 of the United States Housing Act of 1937, as amended. Besides these eligibility details there are other program considerations detailed in the program guide.

2. NOAH Single Family Home Ownership Preservation Program

For the NOAH Single Family Home Ownership Preservation program, the 2024 legislation introduced a specific set-aside for owner-occupied housing and expanded eligibility to include single-family rental conversions to homeownership opportunities. Minnesota Housing staff have been engaging with community partners to shape the program guide and upcoming RFP process. For this program, single-family housing is one to four unit that is located in communities where market pressures or significant deferred rehabilitation needs, as defined by the agency, create opportunities for displacement or the loss of owner-occupied or single-family rental housing. The housing must be affordable to owner-occupied households at or below 115 percent or rental households at or below 80 percent of the greater of state or area median income as determined by the United States Department of Housing and Urban Development. Funding may be used to acquire single-family rental housing that is intended to be converted to affordable homeownership.

3. **Recapitalization of Distressed Buildings Program**

The Recapitalization of Distressed Buildings program requires a tailored approach due to the complexity of eligible uses and financing structures. In fall 2024, Minnesota Housing, with support from the Family Housing Fund, initiated an engagement process with nonprofit and for-profit affordable rental housing owners. On January 9, 2025, a roundtable engagement session was held with rental housing owners to refine the program's structure to help ensure it effectively supports property stabilization efforts. Based on this input, the program guide is in development and is expected to be presented to the Minnesota Housing board of directors by April, with the RFP process to follow shortly thereafter. The statute defines distressed buildings as an existing rental housing building in which the units are restricted to households at or below 60% of the area median income and that meet one of the following criteria:

- Is at imminent risk of foreclosure, closure, or sale that would result in permanent loss of affordability;

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- Has two or more years of negative net operating income, exclusive of financial or in-kind operating support from the owner of the property;
- Has two or more years with a debt service coverage ratio less than one; or
- Has necessary costs of repair, replacement, or maintenance that exceed the project reserves available for those purposes.

The statute defines recapitalization as financing for the physical and financial needs of a distressed building, including restructuring and forgiveness of amortizing and deferred debt, principal and interest paydown, interest rate write-down, deferral of debt payments, mortgage payment forbearance, deferred maintenance and rehabilitation, funding of reserves, and property operating costs including but not limited to supportive services, security services, and property insurance. Recapitalization may include financing to sell or transfer ownership of a property to a qualified owner that will commit to long-term affordability as determined by the commissioner.

The agency may establish funding limits per eligible recipient and require priority rankings of eligible recipient proposals. When awarding resources to distressed buildings, to the extent practicable, priority in funding will be given to the following:

- Buildings where residents are at or below 30 percent of the area median income;
- Buildings at imminent risk of foreclosure, closure, or sale that would result in permanent loss of affordability;
- Operators who have a path to achieve neutral or positive net operating income within five years;
- Operators who keep subject properties affordable; and
- Buildings that are not eligible or not prioritized for other agency programs.

Based on the feedback from the engagement sessions, Minnesota Housing anticipates setting a maximum amount that can be awarded to any single owner as well as a maximum per unit amount. The purpose is to serve as many different owners and buildings as possible with the available funding.

Looking Ahead

Minnesota Housing anticipates strong demand and needs that exceed resources across all three programs. Based on survey responses, engagement efforts, and demonstrated interest from partners, the programs are expected to be highly competitive and oversubscribed. As implementation moves forward, Minnesota Housing remains committed to efficiently deploying these funds to stabilize, preserve, and expand affordable housing across the state.