

LCC Task Force on the Long-Term Sustainability of Affordable Housing

The content in this document is from the task force meeting on September 18, 2024.

Terminology review:

Members reviewed key terminology and concepts in the enabling statute at the initial task force meeting on August 28. At the September 18 task force meeting, members reviewed the notes from the discussion. They determined that they wanted to drill down to more specifics on the terms of preservation and affordable housing. The notes below capture the additional input from members on these two terms.

Preservation:

- The need to address issues of older properties that do not cash flow and have significant deferred maintenance and (no additional wording on comment)
- Mutual understanding and continued financial investment between the rental property owner and the financing partners that the original terms / conditions of the initial investment should continue or "be preserved."
- For our purposes, I think we want a broad definition of preservation, but the primary type of buildings we are talking about are older buildings in need of repair and also causing financial stress on the operators.
- Affordable properties are not set up for financial success after year 15, and there aren't enough resources/programs currently available to create a viable path for preservation.
- Very limited funding streams to support preservation
- The current set up of Preservation isn't addressing the current needs.
- primary issue to focus on is how to preserve projects that are 15, 16, 17, 18 years old, that aren't competitive for funding. The current funding priorities don't align to the building typology that needs preserved without drastically changing to structure of the building.
- we need to look at some subsidy sources attached to older distressed properties that do not have enough subsidy. IE McKinney Vento and project-based vouchers.
- It is much more cost effective and sustainable (reusing material) to preserve existing tax credit affordable or naturally occurring affordable then produce newly constructed affordable housing. Preservation is a focus on extending the long-term affordability and useful life through physical improvements of both Naturally Occurring Affordable Housing and Tax Credit Affordable Housing

Types of Affordable Housing

- Service enriched
- Market-Rate N.O.A.H. [Naturally Occurring Affordable Housing]
- Permanent supportive housing

- Mission-Driven, Non-Profit Housing Providers
- Housing with requirements for affordability that is set by the financing
- Where households don't spend more than 30% of their income on rent/mortgage
- Where people pay 30% or less of their income
- I second the definition of people pay 30% or less
- Multi-family structures subsidized
- Emphasis on long-term affordable. Extend use restrictions.
- The type of affordable housing we should focus on is that with income/affordability requirements established by funder with a particular focus on that serving the lowest income, highest need populations
- Housing with a rental subsidy
- Regulated affordable housing and unregulated affordable housing where households are paying 30% or less of their income
- For the purposes of narrowing the scope, there are broadly two categories:
 - Regulated affordable housing that includes agreements with one or more local, state and/or federal program with specific rent and income limits. This would include any form of publicly funded rental assistance.
 - Unregulated affordable housing that is affordable by nature of the building or market. This is often referred to as Naturally Occurring Affordable Housing (NOAH).

Prioritizing exercise: What are the issues and challenges that you see for the work of the Task Force on the Long-Term Sustainability of Affordable Housing?

At the initial task force meeting on August 28, members provided responses to: What are the issues and challenges that you see for the work of the Task Force on Long-Term Sustainability of Affordable Housing? Members identified at least three issues/challenges. At the task force meeting on September 18 members indicated the most important or significant challenges or issues to them. They received ten “votes” per member to indicate their preferences and which items are priorities. Members were able to give an item more than one “vote” if that item was particular important to them. Members could also assign a vote or votes to an overall topic rather than a specific challenge or issue. The results of members’ work to indicate their preferences on the challenges/issues is listed in the tables below by topic.

Topic 1: Affordable housing

| Challenge/Issue | Votes |
|---|--------------|
| Not enough deeply affordable or permanent supportive housing available, and the service funding is not commensurate with the acuity of needs. | 6 |
| Not enough rental assistance. | 4 |
| Quality of aging affordable housing is in jeopardy due to lack of resources. | 4 |
| Significant increase in operating costs. | 4 |

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| Costs are outpacing income. | 3 |
| There are a large group of households that are above the income guidelines for most "affordable" tools that still can't access housing affordable to them. | 3 |
| An overall financial model that is not sustainable for housing providers. | 3 |
| Not enough affordable housing. | 1 |
| Staffing is difficult to find and retain. | 1 |
| Pro-formas that are based on 2 percent income and 3 percent costs no longer works. | 1 |
| 60 percent AMI is generally still not affordable to many of our community members. | 1 |
| We are losing affordable units now that are 30 percent or lower, it is more challenging to get those units. Is there a will and tools that will address the deep affordability and supportive services needed. | 1 |
| The State and public partners have articulated strong commitments to ending homelessness and providing housing solutions yet there continues to be a disconnect between service and operating support that matches the needs of these tenant populations. | 0 |
| Unit turns are taking longer. | 0 |

Topic 2: Affordable Housing Providers

| Challenge/Issue | Votes |
|---|-------|
| These providers really need more equitable supports to ensure viability of projects. We can't just focus on building housing without focusing on the ongoing sustainability of operating the developments and servicing those who live there. | 7 |
| Housing providers face unprecedented headwinds: dramatic operating costs; rising debt costs; & unintended consequences of policy. | 7 |
| Imposing prevailing wage requirements on rent-restricted buildings make development and rehab difficult. | 7 |
| The system is asking more of affordable housing providers than is realistic given current funding/capacity. | 5 |
| Providers that are serving the individuals in our communities with the highest needs, are taking on tons of risk, and without swift interventions won't be resources in our communities any longer. | 3 |
| Affordable housing providers are struggling. It is even more difficult the more 30% or lower units they have. | 3 |
| Restrictions in funding are restricting the providers ability to fund the most needed things. | 2 |
| Not enough mechanisms in place to address unprecedented challenges that outstrip the capacity of affordable operators to respond to. | 2 |
| Lack of production of housing in St Paul following rent control is an example. | 2 |
| Non-profit providers are facing a critical moment, and I am concerned some may collapse or have to sell properties to maintain, creating a larger regional challenge. | 1 |
| Historically MN has enjoyed a high percentage of local owner/operators - we must capitalize on this resource in solving these issues. | 1 |

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| There is a challenge in addressing the spectrum of developers who are attempting to address the spectrum of affordability and housing needs. A provider of 60 percent to 80 percent [AMI-level] units has different needs from providers of deeply affordable and/or supportive units. | 0 |
| Is there equal support for stabilizing organizations / providers AND preserving properties? | 0 |

Topic 3: Preservation and asset management (3 votes)

| Challenge/Issue | Votes |
|---|-------|
| Current definition and prioritization of preservation is too limited. We are losing properties unnecessarily because we lack the tools, policy framework, and financial resources, and public will to support stabilization of existing regulated affordable housing. | 8 |
| New construction of affordable is very important, however preservation and reinvestment of existing affordable can be justifiably more important and cost effective to deliver long term sustainability. | 6 |
| Generally, funding sources for preservation are the same resources for new construction, which creates prioritization challenges. | 4 |
| <i>As more and more government funded affordable properties age, we need to expand our thinking around what preservation means and what is possible/realistic to accomplish within the constraints of public resources/government regulation</i> | 4 |
| If housing providers do not have sustainable finances, they will be forced to sell properties. | 3 |
| With an increasing number of aging buildings and insufficient resources for all preservation needs, there is an increasing awareness and focus on the importance of asset management. | 3 |
| Preservation can be substantial and comprehensive rehabilitation projects or smaller and more targeted. There should be funding and a path for both to be more efficient based on the actual needs. | 2 |
| The definition needs to be broader and find funding to respond to properties that need to be recapitalized. | 1 |
| With older properties with no cash flow, it is not clear how asset management can help as there are few resources. | 1 |
| There is little room after the benefit period to maintain units when the rents and incomes are fixed. | 1 |
| Unclear how finance partners value (i.e. financially support) proactive asset management practices. | 1 |
| There are few funds available to support asset management. | 1 |
| Providers are not fully resourced to do this as well as they should. Faced with the decision of being a "bad landlord" by not having dignified housing and having to lose affordable units. | 1 |
| Preservation is a concern for owner-occupied units (MURL) properties, the incomes for RFP are too low if we don't maintain our existing housing, including single family [homes], we will never be able to build ourselves out of the shortage. | 0 |

Topic 4: Financing/financial tools; financial management practices; financing programs (public and private); availability of funding

| Challenge/Issue | Votes |
|---|-------|
| Expectations of operators during extended use period (after 15 years) aren't generally sustainable for most properties without reinvestment or recapitalization | 6 |
| General affordable housing underwriting standards are not working for supportive housing. | 5 |
| Current underwriting standards are not flexible enough to address major economic disruptions (pandemic/high inflation environment). | 5 |
| Leverage of private and federal resources is very important to the state, counties, and cities. A few suggestions: 1) HUD insured financing is very competitive from a pricing and leverage standpoint right now; 2) We are in a unique point in time where adaptive reuses of existing buildings have great potential to deliver affordable housing, tax base stabilization/growth, and investment in labor while sustaining material; 3) Expanding section 8 availability for deeply affordable to maximize private financing | 4 |
| Rural communities are at a greater disadvantage when competing for funds. | 2 |
| Various financing programs with different rules make it hard and cumbersome for private developers to pursue and meet the demands for affordable housing units. | 2 |
| Prevailing wage requirements are prohibitive for affordable housing development. | 2 |
| Available public funds are extremely limited to meet the demands of growing communities. | 2 |
| Funding for affordable housing is not braided with public safety and fentanyl enforcement(?). The impact of fentanyl in our communities is having a significant impact on affordable housing and we aren't talking about it | 1 |
| Because the amount of state resources can change dramatically from year to year, more predictability/reliability in funding streams would be extremely helpful. | 1 |
| The cost and uncertainty of pursuing state funding programs is prohibitive for small/new developers. | 1 |
| Funding programs set up as "all or nothing" there are no "right sized" funding programs to help stabilize properties in real time. | 1 |
| Program guidelines exceed state building code and make project more expensive. | 0 |

Topic 5: Administrative tools including underwriting standards

| Challenge/Issue | Votes |
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| Underwriting assumptions do not tie to current trends. projects are underfunded and set up for failure. | 7 |
| Currently there are a lack of administrative tools, processes, procedures, policy framework, to address challenges in properties as they come up. | 4 |
| "Static" underwriting standards and practices that don't consider when assumptions are not met (like in the case of a pandemic). | 2 |
| Is there a legislative role in oversight of underwriting standards, and if so, how would that work? | 1 |

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| Preservation projects compete against new projects in funding processes. | 1 |
| <i>Underwriting standards need to allow for flexibility to withstand long term financial shifts (insurance, public safety, general inflation now, property taxes previous decade.)</i> | 1 |
| Realistic vacancy underwriting | 0 |

Topic 6: Insurance (4 votes)

| Challenge/Issue | Votes |
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| The affordable housing property insurance system is at a breaking point, and we need quick solutions to help preserve the affordable housing industry. | 3 |
| Minnesota is seeing more severe storms than ever before as a result of climate change. What role does the state have in fortifying these buildings to prevent further losses which drive up premiums. | 2 |
| Dramatic increase in costs with little control for containment. | 2 |
| Really complicated topic, but we need our best thinking/expertise to address a crisis in insurance with no easy answers. | 1 |
| Climate change, community safety, increases in mental/chemical health acuity are all factors that where we have limited control as operators. | 1 |
| There are also some signs of "redlining" cropping up around affordable housing that should be investigated/evaluated. | 1 |
| How do we draw more insurers to the state to improve competition and ultimately help drive premiums down? | 1 |
| What role, if any, does the state have in this area? | 1 |
| How do we keep insurers from leaving the market? Insurers paid out \$1.92 for every dollar collected in premium in 2022. Trying to artificially drive premiums down only forces companies to leave. | 0 |
| Finding insurance for new properties is challenging. | 0 |
| Lack of adequate public safety response in Minneapolis and St. Paul and some other areas is creating huge challenges for affordable housing residents and providers. Insurers look at crime stats in the neighborhood and burden of lack of public response puts onus on providers to fund private security. | 0 |
| What role can the state play in helping to curb increases in the new reality of more severe weather creating huge insurance increases. | 0 |

Topic 7: Other

| Challenge/Issue | Votes |
|---|-------|
| Expectations of policymakers and advocates on supportive housing is a challenge. It's relatively easy to build the asset, but the long-term services resources to ensure those residents can be stability housed is woefully fragmented and underfunded. Deeply affordable units are desperately needed, but those buildings are not currently set up for long term success due to ongoing funding needs. | 5 |

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| <p>Affordable housing owners/operators carry disproportionate risk within the broader housing system, which has become more evident in the current environment. Examples: Cash flow is tightly underwritten at the front end, land use restrictions for 30+ years, without a financial model that is robust enough to ensure buildings have the resources to operate well without recapitalization, partnership agreements are often tilted in favor of tax credit investors, etc.</p> | <p>3</p> |
| <p>Housing should be a continuum with options for movement, too much focus on one area means there are less options overall and those with the lowest incomes suffer the most. But only building for the lowest won't solve the problem.</p> | <p>2</p> |
| <p>Policymakers and elected officials often lack a full understanding of the impact of actions on creating and preserving housing.</p> | |