Appendix C: Task Force on Long-Term Sustainability of Affordable Housing: 8-28-2024 Mural Summary

Topic 1: Input on current understanding of key terminology and concepts in the enabling statute.

Section 1: Affordable housing

Suggested themes: income restrictions for homes/units; rent cost thresholds for residents; subsidy/assistance tied to homes/units.

- Housing with dedicated rental assistance
- Housing costs that adjusts with one's income needs
- Housing that is affordable for households earning at or below 60 percent Area Median Income (AMI)
- Housing that is affordable to the people living there (differentiating between the technical definitions and lived experience).
- Housing for individuals and families that make below 60 percent AMI.
- Income restricted housing
- Housing where households pay no more than 30 percent of their income.
- Housing affordable to household earning below area median incomes.
- Housing that is income restricted 60 percent or below AMI.
- Housing that is affordable enough to meet every day needs.
- Housing that is affordable to households earning at or below 60 percent AMI
- An ecosystem of housing options for which all community members have a place to call home.
- Technically 60 percent [AMI] or lower

Section 2: Affordable housing providers

Suggested themes: owners, managers, developers, and service providers. One entity may hold multiple roles/responsibilities. Entities may be nonprofit, for-profit, or public/governmental. Varying sizes.

- Can be formal or informal housing providers/owners
- Owner/operators of housing primarily for individuals earning less than 60 [percent] AMI
- HRA's [Housing and Redevelopment Authority]
- Owners/property managers that provide units that are income and rent restricted
- Developers and owners of affordable housing
- Owners that provide housing that is income restricted
- Providers that have it as part of their mission/goal to provide affordable housing.

- Developers, operators, and/or service providers of affordable housing
- Owners, Operators and Developers of housing serving at or below 60 percent AMI Households. For Profit, Non-Profit, Public Housing Authorities
- Non-for-profit, market-rate, and public housing providers.
- Small to large operators and developers

Section 3: Preservation

Suggested themes: reinvestment in existing affordable units/homes; preventing displacement; risk identification; specific attention/approaches for publicly-funded/financed affordable housing

- Reinvestment and extending the viability of current affordable housing, creating more affordable housing, and preventing displacement of residents
- Refurbishment, reinvestment, and rehabilitation of current affordable housing
- Preservation of federally subsidized and other state or publicly-funded affordable housing
- Preventing displacement of residents
- Keeping affordable housing as a long-term community resource
- Using tools including rehabilitation and reinvestment to ensure aging affordable buildings can remain viable.
- Resourcing a property that is in disrepair to not lose it as an affordable unit/building.
- Preventing displacement of residents
- The process of refurbishment of older units to keep them affordable as they age
- Affordable housing that is at risk of being lost if is not preserved
- There is not uniform agreement/understanding of what types of affordable housing are included in the definition of "preservation"
- We need BOTH AND - more supply AND preserve what we have. Preservation is more cost effective than new construction. We cannot lose affordable units in our system and spend 2x as much or more on creating new units to replace them. We must protect yesterday's investments while we make new investments in supply.
- Important to distinguish between "classic" preservation of federally-subsidized housing and the need to also preserve other state/LIHTC/other publicly funded regulated affordable housing, perhaps in ways that are more streamlined, "right-sized", and "pipeline" based.
- Supporting projects that were funded years ago that now longer cash flow and yet have many restrictions
- Keeping affordable housing as a long-term community resource
- Original financing used to secure affordable units are either expiring or changes in the financing sources that no longer require the units to be affordable. Preservation of affordable units may attempt to seek refinancing to secure future affordability.

- Reinvesting in affordable housing to keep the existing housing stock
- Reinvesting in housing that currently is affordable (both restrictive and [naturally occurring affordable] (NOA) and extending the commitment (whether formally or informally) to maintain the affordability

Section 4: Financing/financial tools and financial management practices

Suggested themes: varied financing and tools by kind of use/need (property development; construction/capital; operating; supportive services); varied funders, including local, state, and federal government, financial institutions, and intermediaries; leveraging resources.

- All of the different funding streams have different requirements, can be costly and unintended consequence create instability
- What entities financial management practice
- Financing includes capital, operating and supportive services funds that are woven together to support a project. These can include competing regulations
- The funding pieces that are necessary to make a project work, that can come from several sources that don't always have the same requirements or goals
- We need financing tools that work for preservation - including funding and replenishing reserves
- All of the different resources that support affordable housing
- I have no clarity on what these tools are and how state policy interacts with them
- Inclusive of financing tools and mechanisms that Minnesota Housing or financial institutions utilize to finance the production, rehab, or refinancing of affordable housing.
- Financial resources, i.e. LIHTC, Block grants financing etc., policy and compliance
- Optimizing/leveraging private investment alongside local, county, state and federal resources and tools (HUD insured financing, LIHTC, Historic, 4d tax rate, HAP Contracts, etc.) to minimize the long-term cost to the taxpayer while delivering high-quality long-term housing for households at or below 60 percent AMI
- The funding tools that are available to support the development, operations, and services in affordable housing, including LIHTC, HIB, TIF, trust funds, service funding, housing vouchers, etc.

Section 5: Financing programs (public and private), and the availability of funding

Suggested themes: need exceeds availability/levels of funding; different and sometimes incompatible requirements by financing/funding types (e.g., construction; services).

- Supportive services funding - that is critical to helping some tenants maintain housing stability is not committed at the same time that housing development finance $ is committed, creating challenges for owners who are obligated to provide supportive services, per housing development funding commitments. In short, the timing does not align.

- How much public funding is currently allocated and how much funding would be needed to fully fund
- These include and are different for capital, operating and supportive services
- It is great to have access to a variety of different funding sources, but each source often comes with its own set of eligible uses, compliance requirements and regulations. Each source adds time, cost and complexity and many projects require multiple sources.
- City, county, state, federal capital sources
- The constraints of public funding presents challenges in prioritization
- Most of the public resources are cost prohibitive and in short supply
- The collection of federal, state, and local programs to fund the construction and preservation of affordable rental homes including, the federal low-income housing tax credit; various resources structured as deferred loans to fill gaps; payable first mortgages; and rent/operating support. The layering/leveraging of resources to complete a single project adds complexity and cost.
- Need a new approach to "preservation" or "conversation" of regulated affordable housing that does not require full recapitalization, but rather a targeted approach to maintain quality, affordability, and feasibility in operations.
- Current funding programs cover only a small subset of the need
- Just not enough to address the need
- Complex, making it too expensive to produce, maintain, and get deep affordability

Section 6: Administrative tools-including underwriting standards

Suggested themes: evaluating risk; request for flexibility/consideration of evolving changes/assumptions

- Assumptions and guidelines used by funders to underwrite a project under development
- The application (underwriting) process is expensive and uncertain
- Need a mechanism, possibly through Interagency Stabilization Group (ISG) to intervene early when projects do not meet underwriting assumptions to support project success
- It seems like there are opportunities to have a shared understanding/agreement about the underwriting and asset management practices to position a development for long-term success.
- There are administrative rules that funding entities set, based on assumptions(old), these rules could be changed to reflect the current environment
- The process of evaluating risk

- Underwriting changes need to adjust to ensure projects are set up for success
- AHIC guidelines (investor guide)
- Qualified allocation plan
- Need to develop policies that allow/require processes and underwriting standards to evolve as conditions change (i.e. assumptions don't always pan out)

Section 7: Insurance

Suggested themes: greater uncertainty; increasing costs and market volatility adversely affect budgets of new development and existing properties.

- The price someone pays relative to their risk. The higher their risk, the higher their premium.
- Carrier underwriting, pricing, and loss control
- Market Conditions - Healthy, competitive market in this space needed
- Finding insurance for new development was challenging
- Volatile market for which housing providers lack much control over the cost.
- Cost prohibitive - Not considered as a new inflated cost when financing
- Property insurance for properties that are both under development and currently operating
- The spread of risk from a single entity to a large group.
- The type of affordable housing product we preserve, convert or build has become more and more impacted by insurance coverage. Concrete vs. Stick Frame.

Section 8: Asset management practices

Suggested themes: stable operations; financial health; considering both physical and service needs.

- Managing the physical, financial, and service needs of an operating building to best position the building for long-term stable operations and to provide quality housing.
- The rules, practices that are needed to maintain, dignified housing. Compliance, maintenance
- Tending to the long-term financial health of the property

Section 9: Other

Suggested themes: supportive housing and supportive services; new costs in relation to current tools; considering varied kinds of housing; new potential tools.

- Supportive housing-a critical model for moving individuals from homelessness to housing, that hasn't been properly resourced from an integrated housing and services lens
- Housing that is technically defined as affordable and meets the regulatory requirements may not actually be affordable to the household living there or looking

for housing. The "affordable rents" can still be hard for a household to reach without extremely scarce rental assistance but charging lower rents leaves a project with an operating gaps to keep the building operational.

- Articulating a shared vision or preservation plan for the affordable housing developments that have been financed with public (state) resources is important to have a clear picture of our (the housing community -- including govt funders) priorities -- which in turn, drives funding
- Owner - occupied single family affordability also needs attention
- Articulation of the new costs to housing, and does it match the current tools.
- Supportive services are highly needed and not often fully covered.
- The impacts and opportunities of increasing demand for racial diversity with the affordable housing development community
- Understanding of the units being lost private and nonprofit of affordable units and the cost/impact on community
- Need policy framework to guide preservation funding, strategies, prioritization, and set up mechanisms to implement - This policy does not exist, preservation tools are limited and need to be expanded, and mechanisms need to be used (like ISG - already in existence) or created.

Topic 2: What are the issues and challenges that you see for the work of the Task Force on the Long-Term Sustainability of Affordable Housing?

Section 1: Affordable housing

- Not enough deeply affordable or permanent supportive housing available, and the service funding is not commensurate with the acuity of needs.
- Not enough affordable housing.
- Finding efficiency in development production to avoid the added costs of time.
- Not enough rental assistance.
- Costs are outpacing income.
- 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.
- Staffing is difficult to find and retain.
- Quality of aging affordable housing is in jeopardy due to lack of resources.
- 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.
- Pro-formas that are based on 2 percent income and 3 percent costs no longer works.

- Significant increase in operating costs.
- Unit turns are taking longer.
- 60 percent AMI is generally still not affordable to many of our community members.
- Create and agree upon a new narrative for what "affordable housing" will look like. Who will it truly serve and what will affordability really look like for residents and owners.
- 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.
- An overall financial model that is not sustainable for housing providers.

Section 2: Affordable housing providers

- Restrictions in funding, are restricting the providers ability to fund the most needed things.
- 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.
- 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.
- Not enough mechanisms in place to address unprecedented challenges that outstrip the capacity of affordable operators to respond to.
- 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.
- The system is asking more of affordable housing providers than is realistic given current funding/capacity.
- Historically MN has enjoyed a high percentage of local owner/operators - we must capitalize on this resource in solving these issues.
- 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.
- Housing providers face unprecedented headwinds: dramatic operating costs; rising debt costs; & unintended consequences of policy.
- Affordable housing providers are struggling. It is even more difficult the more 30% or lower units they have.
- Imposing prevailing wage requirements on rent-restricted building make development and rehab difficult.
- Lack of production of housing in St Paul following rent control is an example.

- Is there equal support for stabilizing organizations / providers AND preserving properties?

Section 3: Preservation

- 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.
- Further expansion of the tools available to support long term preservation.
- 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.
- The approval of the 4d tax rate reduction WILL have a big positive impact on preservation.
- Balancing resource allocation between new production and preservation.
- 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.
- Recapitalization is needed for many providers.
- The definition needs to be broader and find funding to respond to properties that need to be recapitalized.
- 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.
- Generally, funding sources for preservation are the same resources for new construction, which creates prioritization challenges.
- If housing providers do not have sustainable finances, they will be forced to sell properties.
- Distinguish between preservation of affordable units vs. deferred maintenance.
- We need a funding source for existing projects that do not meet the QAP definition. These projects need re-capitalization and re-financing but are difficult to re-syndicate and do not point for other deferred loan sources.
- 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.

Section 4: Financing/financial tools and financial management practices

- General affordable housing underwriting standards are not working for supportive housing.
- Current underwriting standards are not flexible enough to address major economic disruptions (pandemic/high inflation environment).

- Should be able to be a tool for local developers/owners/providers to create and maintain housing based on local unique needs and not be so prescriptive that they can't be used or create a project that won't really fill the need- especially in greater Minnesota.
- There is a need to align underwriting/financial assumptions of [housing tax credit] HTC allocators, public funders, investors, and lenders
- Funders need to consider themselves as partners to create affordable housing and not dictators in crafting one size fits all solutions.
- 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
- Need clarity on what financial management practices organizations are using and what oversight exists. Then, need to understand how the state can interact with those practices
- Expectations of operators during extended use period (after 15 years) aren't generally sustainable for most properties without reinvestment or recapitalization
- Exploring leverage AND simplifying financial stacks. The two don't always go hand and hand. 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

Section 5: Financing programs (public and private), and the availability of funding

- PSH projects need full services funding.
- Is there a way of reducing the number of funders needed to produce affordable housing? This could create some cost savings.
- There's a need for a process to create clarity around what the total funding needs are and what we are providing each year.
- Program guidelines exceed state building code and make project more expensive.
- Because the amount of state resources can change dramatically from year to year, more predictability/reliability in funding streams would be extremely helpful.
- Rural communities are at a greater disadvantage when competing for funds.
- Various financing programs with different rules make it hard and cumbersome for private developers to pursue and meet the demands for affordable housing units.
- Where feasible, focus on existing programs. Each new program adds new requirements (and, by extension, cost).
- The cost and uncertainty of pursuing state funding programs is prohibitive for small/new developers.

- Prevailing wage requirements are prohibitive for affordable housing development.
- Funding programs set up as "all or nothing" there are no "right sized" funding programs to help stabilize properties in real time.
- Available public funds are extremely limited to meet the demands of growing communities.

Section 6: Administrative tools-including underwriting standards

- Is there a legislative role in oversight of underwriting standards, and if so, how would that work?
- Underwriting assumptions do not tie to current trends. projects are underfunded and set up for failure.
- "Static" underwriting standards and practices that don't consider when assumptions are not met (like in the case of a pandemic).
- Vacancy for supportive housing needs to reflect what's really happening. i.e., the systems that slow unit turns down and finding tenants.
- Funding applications for preservation projects need to have a path to being funded without adding supportive housing units.
- Increase reserves and funding
- Currently there are a lack of administrative tools, processes, procedures, policy framework, to address challenges in properties as they come up.
- Underwriting standards need to allow for flexibility to withstand long term financial shifts (insurance, public safety, general inflation now, property taxes previous decade).
- Realistic vacancy underwriting
- Preservation projects compete against new projects in funding processes.

Section 7: Insurance

- 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.
- Really complicated topic, but we need our best thinking/expertise to address a crisis in insurance with no easy answers.
- Climate change, community safety, increases in mental/chemical health acuity are all factors that where we have limited control as operators.
- There are also some signs of "redlining" cropping up around affordable housing that should be investigated/evaluated.
- The affordable housing property insurance system is at a breaking point, and we need quick solutions to help preserve the affordable housing industry.
- How do we draw more insurers to the state to improve competition and ultimately help drive premiums down?

- Dramatic increase in costs with little control for containment.
- 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.
- Finding insurance for new properties is challenging.
- 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.
- What role can the state play in helping to curb increases in the new reality of more severe weather creating huge insurance increases.
- What role, if any, does the state have in this area?

Section 8: Asset management practices

- 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.
- With older properties with no cash flow, it is not clear how asset management can help as there are few resources.
- There is little room after the benefit period to maintain units when the rents and incomes are fixed.
- Unclear how finance partners value (i.e. financially support) proactive asset management practices.
- There are few funds available to support asset management.
- 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.

Section 9: Other

- 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.
- 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.
- Supportive services need to match the target population.
- 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.

- Policymakers and elected officials often lack a full understanding of the impact of actions on creating and preserving housing.