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Dear Members of the Omnibus Agriculture, Broadband and Housing Conference Committee:

I want to thank each of you for your willingness to serve on this important conference committee. As many of you may know, this was the first biennium that housing had a stand-alone finance committee in both the House and Senate. This gave the issue of housing the attention it truly deserves. Since every Minnesotan deserves to have a place to call home, and because of the strong tradition of bipartisanship for both agriculture and housing, I am optimistic about the prospects of reaching a strong agreement in the remaining time we have together this session.

I especially want to thank Chair Draheim and Chair Hausman and their staff for leading engaging and broad-ranging hearings throughout this session, and for the deep personal commitment you both hold to solving Minnesota's biggest housing challenges.

It took years to get to the point where we face a multitude of housing challenges as a state, in both rental and ownership, and it's going to take years and sustained investments from both the public and private sectors to address these challenges. The budget surplus provides a generational opportunity to invest in programs that meet a variety of Minnesota's housing needs, both in the near-term and into the future. The Governor recognized this and recommended historic ongoing investments in everything from homelessness prevention to affordable homeownership development, in both existing programs and new initiatives. As we worked with our community partners and stakeholders to develop the supplemental budget, the message was clear: the pandemic laid bare and exacerbated Minnesota's housing challenges, particularly for those who earn the least. Now, more than ever, is the time to go big. I'd like to provide my thoughts on both positions as we begin our work together of reaching compromise.

House Position
There is a significant amount of overlap between the House position and the Governor's recommendations, in both policy and budget items. I am especially glad to see the strong ongoing funding commitments made in many of the same agency programs recommended by the Governor. I am also grateful that our agency technical bill was incorporated in its entirety, and that nearly all the Governor's tenant protection recommendations were incorporated.

There are a few key differences in language that we look forward to working on together. First, the Community Stabilization proposal is a new initiative recommended by the Governor that would provide acquisition and rehabilitation capital to preserve unsubsidized rental housing throughout the state. While we are excited that the House included significant funding for this program, there are language differences that we would need to work through especially if the amount appropriated for this program decreases. One example is the language in the House's bill that would require the agency to use an intermediary to deploy the resources.

The second item I'd like to discuss more with members of the committee is the new first generation downpayment assistance proposal. The Governor shares the commitment to significant resources for moving more Minnesota renter households into affordable homeownership, as well as the work to target resources toward Indigenous Households and Households of Color. We know downpayment assistance is successful in helping low- and moderate-income households reach homeownership. Minnesota Housing lends to Indigenous Households and Households of Color at more than twice the rate of the broader industry, with some agency first mortgage and downpayment programs reaching as high as 75% last quarter. However, our limited appropriated and agency resources are structured to meet what homeowners need while the new program is structured with fixed amounts. We are concerned that as currently proposed, this program would serve many households that would typically receive agency assistance when the goal is to serve more households with more available resources. I would also like to better understand the role for Midwest Minnesota CDC in deploying the resources across the entire state and how we can continue the work of closing the homeownership gap after the three-year period has ended and the funding exhausted.

Senate Position

I want to thank Chair Draheim for carrying the Senate Housing Omnibus Finance and Policy Bill. The areas of overlap in priorities between this bill and the Governor's budget recommendations are encouraging. It's clear we share the priorities of working toward closing racial disparities in homeownership by preserving and developing new opportunities. One-time funding is helpful but on-going commitments would signal to developers the time to go big is now.

I'm grateful for several policy provisions from the agency's technical policy bill that were included in this bill. While some changes were merely grammatical, others will expand and clarify eligibility, make processes easier, and potentially save the state money on the debt Minnesota Housing issues for Housing Infrastructure Bonds. I'm encouraged to see the Senate's commitment to ensuring that our programs function as intended and are responsive to our partners' needs and input. There were several provisions of the agency policy bill that are not included. This includes our request to clarify outstanding bonds and notes, financing for accessory dwelling units, technical changes to Housing Infrastructure Bond statutes and allowing the agency to use preservation funding to replace units. These are not controversial changes and I hope the Senate is able to articulate their specific concerns so we can address them.

While we share many priorities, the Senate position focuses almost entirely on homeownership needs, includes only one of the Governor's budget eleven recommendations, provides only one-time funding, and funds a limited number of community organizations to perform activities already funded by agency programs. Whether it is workforce housing in Greater Minnesota or additional emergency housing assistance to pay landlords, there are significant housing needs that are not addressed in the Senate's bill.

The following are some specific comments on provisions in the bill:

New Activities in Pool 3

During a time of historic surplus, it seems unnecessary to redirect agency resources away from current activities. Since agency earnings have remained relatively flat recently, adding new activities will force us to reduce or stop activities that we currently do, such as supplementing state appropriations for downpayment assistance, Rehabilitation Loan Program, and Homeownership Capacity. Helping households get into homeownership, helping extremely low-income households stay in their homes, and helping households of color prepare for homeownership are all important initiatives to our partners, the Governor and Lieutenant Governor, and the legislature. We have the resources as a state to continue and expand these efforts through additional investments in state appropriated programs.

Homeownership Investment Grants Program

This is an area of the bill where we have common goals and should be expanding efforts. Many of these activities align with current agency programs that are underfunded. I'd like to better understand the rationale for only allowing nonprofit CDFIs to be eligible for this funding. There are many other entities, both in the public and private sectors, who successfully perform these activities and we want to ensure that not only is the entire state, served, but that communities are served by organizations that understand their needs. It also isn't clear why it is necessary to fund each of these activities separately from the existing programs the agency operates. Lastly, we share the concerns of our partner organizations of limiting acquisition/rehabilitation/resale activities and homeownership counseling.

Housing Policy

Limitation of Powers; Eviction Proceedings

The Governor's Executive Order halting evictions saved lives and kept people in their homes during the pandemic. This provision was not heard this year and we're concerned that the limits in this section go too far and could have unintended consequences.

Rehabilitation Loan Program

The loan limit for the Rehabilitation Loan Program was just increased last session from $27,000 to $37,500. We're concerned about any additional increases without more funding this soon after a significant increase occurred.

Housing Disparities

We are glad to see the Senate's focused commitment to addressing the state's unacceptable racial disparities in homeownership, and we share it. However, we are concerned that the new language that was not heard prior to the omnibus bill being released and appears to require programs with multiple uses, such as Economic Development and Housing Challenge Program, to only be used for homeownership. Since racial disparities in housing existing throughout the housing continuum, from overrepresentation of people of color in the homeless population to one of the worst in the nation racial disparities in homeownership, the Governor thinks it is important that we are intentional about directing appropriated resources to address housing disparities wherever they may exist. We hope we can find agreement with the legislature on this provision.

Requires points in all programs for how quickly a project can be constructed

While we agree that we need to find ways to increase the speed of production, we are concerned this provision wouldn't be feasible to implement as the legislature intends, and that compliance would be difficult for developers. For example, Minnesota's weather is a key factor in construction timelines. Even if we award points for a proposal under these criteria and the developer has every intention of meeting their proposed timeline, the timing of closing on the financing and the seasons may not align. Additionally, current market factors such as shortages and/or delays of materials, as well as a tight labor market, will only add to the complexity of including this in scoring.

Changes to Greater MN Workforce Housing Development Program

An adequate supply of rental housing continues to be an important component for growing the industries unique to Greater Minnesota. This program was designed to be responsive to the unique challenges that can arise when developing multifamily housing outside of the metro area. Adding owner-occupied housing would increase pressure on a program in which interest has grown rapidly in recent years. However, funding has not grown in a way that meets the increased demand. In fact, we said “no” to more than 10 applications for the first time this year. Rather than forcing multifamily and owner-occupied housing to compete with one another, we need new investments into both, like the Governor’s budget.

Manufactured Housing Lending/DPA Program
While we share the goal of adding lending products for manufactured homes, there are several marketplace factors that are beyond Minnesota Housing’s and Fannie Mae’s control. We attempted a USDA Rural Development pilot in the past with very limited success due to the current barriers. We are concerned about setting up a program and building expectations while lenders, or other housing industry-related professionals such as appraisers, decide not to participate.

Sections 30-31
This language impacts Minnesota Management and Budget’s allocation of tax-exempt private activity bonds and has implementation challenges. This process saw recent statutory changes that were agreed to by community stakeholders in 2019 and neither they, or Minnesota Management and Budget, have been consulted regarding the impact and implementation of these changes.

New Agency Reports
The Senate includes 6 new reporting requirements in the bill. We’re concerned about this significant level of new reporting that does not seem to consider our current level of reporting. We’re most concerned about the reports on Homeownership Opportunities and Rent Control. The required scope of these reports would be a significant undertaking and, at a time when we need to do more faster throughout the entire state. Additionally, prohibiting funds from being awarded in cities that have adopted a rent control ordinance would likely lead to funds being left uncommitted.

In closing, we have an opportunity before us to confront our state’s housing challenges head on and in a comprehensive way. While we perhaps aren’t dealing with irreparably broken housing markets like on the coasts, it isn’t hard to see where we are now and how we’re likely on a similar trajectory if we don’t do something big and sustained to intervene while we have the resources to do so. I am hopeful given the numerous shared priorities between the Governor’s recommendations and the Senate’s bill, we can find agreement early on key issues and use that momentum to find compromise where differences remain. Our state’s health, education, economy, and safety depend on it.

I look forward to working with all of you in the remaining days of session. Please do not hesitate to contact me.

Sincerely,

Jennifer Leimaile Ho