

Minnesota NAHRO

CAPITAL NEEDS ASSESSMENT OF PUBLICLY OWNED HOUSING
IN MINNESOTA AND SURVEY FINDINGS

MARCH 2019

Kirstin Barsness
ECONOMIC DEVELOPMENT CONSULTANT

*THANKS TO THE GENEROUS SUPPORT OF THE GREATER MINNESOTA HOUSING FUND
WHICH HELPED MAKE THIS REPORT POSSIBLE*

Minnesota NAHRO’s interest in the rehabilitation and preservation of publicly owned housing as a resource is encapsulated in its ongoing support of funding for the Publicly Owned Housing Program (POHP) administered by the Minnesota Housing Finance Agency (MHFA). As an advocate for public housing throughout the State, Minnesota NAHRO authorized a survey of its membership to determine the level of critical need and future investment necessary to preserve publicly owned housing units as a resource for residents and their families.

This report outlines past funding practices for the POHP, offers documentation of the outstanding critical needs investment required to maintain publicly owned housing options, and details findings that support increased and continued funding for the POHP.

Past POHP Funding Trends

Publicly owned housing is a vital resource and its preservation is paramount. A 2008 Minnesota Housing Partnership (MHP) report found that the insured replacement value of public housing properties totaled nearly \$2 billion. In the ensuing decade, inflation has increased this valuation. The POHP’s mission to preserve and maintain the existing publicly owned units needs to be supported because replacing these units with new construction isn’t financially feasible.

Since inception, the POHP has funded \$45.5 million in improvements, assisting 76 projects representing 5,232 publicly owned units (source MHFA). These numbers represent total funds committed, but they don’t account for the number of projects or units for the 2019 cycle, since the award has not been given at the time of this report.

Upon request, MHFA supplied additional information related to the number of applications and the total amount requested in each funding cycle. The table below demonstrates that the need outpaces the level of funding available through the POHP.

POHP Funding History			
	2012	2014	2017
Applications Submitted	21	79	40
Number of Projects Funded	14	35	27
Total Funding Requests	\$9.2M	\$60M	\$19.7M
Amount of POHP Funds Used	\$5.5M	\$20M	\$10M

Critical Needs Assessment Survey

The key factor for completing a member survey was determining the amount of critical need improvements necessary to maintain the current inventory of publicly owned housing. Minnesota NAHRO wanted to demonstrate that the demand for POHP funding far outstrips the supply provided by the biennium allocation. To determine the level of need, two different strategies were deployed.

Housing Units Included in Survey

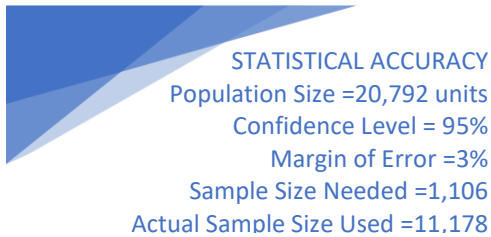
Minneapolis 5,945
 St. Paul 4,262
 St. Cloud 291
 Virginia 275
 Red Wing 119
 SEMMCHRA 110
 Itasca 40
 Worthington 136

TOTAL 11,178

First, a survey was developed for the general Minnesota NAHRO membership. This survey was formulated to collect both factual data and anecdotal information. It focused on geographic location statistics, critical investment for both current needs and future ones, and feedback on the POHP program. The primary goal of the survey was to identify the level and type of investment member organizations were facing within the next 10 years.

Unfortunately, member response was minimal (4 respondents), due to the timing of the survey. At the time the survey was sent, members were impacted by the anticipated nonpayment of HUD funds due to the Federal government shutdown. Given the small sample the data can't be considered statistically significant. However, the comments are valuable for their individual insight and relevancy to POHP use. A copy of the survey results is included as Exhibit A at the end of this report.

The second prong of the survey was to solicit data directly from key members of Minnesota NAHRO, allowing for a statistically viable cross section. Participating in the collection were Minneapolis, St. Paul, St. Cloud, Virginia, Red Wing, SEMCCHRA, Itasca, and Worthington. Together these agencies represent 11,178 of the total 20,792 publicly owned housing units statewide. Their geographic and demographic diversity provides for a survey sample that is defensible.



Utilizing the entire sample gathered through the individual survey data collected provided a high level of statistical accuracy. In fact, the sample size exceeded what was needed to be viable. This size of sample actually resulted in a 99% Confidence Level and 1% Margin of Error, allowing for a foundation to extrapolate and project finding using the base data.

To evaluate the impact of Minneapolis and St. Paul, which represents 49% of the total statewide publicly owned units, the same statistical viability standard was applied to the remaining sample units. The units from the Minneapolis and St. Paul were removed from the population size to provide an accurate comparison, resulting in a sample size of 10,585. Both samplings (20,792 units and 10,585 units) proved to be statistically viable and therefore the corresponding data is representative of the trend and patterns of the whole. The inclusion of the Minneapolis and St. Paul housing units doesn't skew the findings.



STATISTICAL ACCURACY (exclusion)
Population Size =10,585
Confidence Level =95%
Margin of Error =3%
Sample Size Needed =970
Sample Size Used = 971

Data Collection and Organization

Each of the participating Agencies submitted their raw data for evaluation. The information came in different formats: Capital Improvement Programs, Physical Needs Assessments, Capital Renewal Planning, Critical Needs Assessments. All the data was organized differently according to each Agency's own methods, however there was sufficient detail to divide the information into overarching categories that fit each submission's raw figures.

The categories are all capital in nature and correspond to the Eligible Use(s) of Funds criteria that's specified in the Guidelines for the MHFA POHP. The categories include:

Site: parking and repairs, utility systems, corresponding lighting, concrete aprons, etc.

Building Exteriors: Roof replacement, window repair and replacement, exterior doors, etc.

Building Interiors: Unit upgrades, common area improvements, interior walls, etc.

Building Systems: mechanical, electrical, plumbing, fire suppression, elevators, etc.

Demolition: removal of sheds, deteriorating on-site buildings, etc.

Once the categories were identified the raw data was distributed into three different timelines: Immediate Need, 1 to 5 years, and 6 to 10 years. The table below depicts the totals for the Agencies that participated in the survey.

Critical Needs Assessment				
	Immediate	5 years	10 years	Total
Site	9,521,486	3,251,515	3,120,263	15,893,264
Building Exteriors	25,594,913	14,561,254	23,837,288	63,993,455
Building Interiors	55,275,597	49,524,048	58,730,449	163,530,094
Building Systems	97,284,849	35,385,988	50,218,414	182,889,251
Demolition	12,585	183,531	52,438	248,554
Total	187,689,430	102,906,336	135,958,852	426,554,618

Given the statistical viability of the sample, several extrapolations can be made using the data.

The Total Immediate Critical Needs of \$187,689,430 or \$16,790 per unit in the above table, represents only 53.76% of the total number of publicly owned housing units in the State. To determine a more accurate representation, a few calculations are required.

Minneapolis and St. Paul represent 91% of the total number of the units used in the sample survey and 49% of the publicly owned units statewide. Any additional critical needs investment will come from outside these two Agencies, so their influence is removed from the calculation.

- $\$187,689,430 \times .09$ (percent of other Agencies) = $\$16,892,049$
- $\$16,892,049$ represents the investment needed by the other 971 publicly owned units
- 10,585 units of publicly owned housing exist outside of Minneapolis/St. Paul
- $10,585 - 971 = 9,614$ units that didn't participate in the survey
- If 971 units require $\$16,892,049$ of immediate investment, then the average investment per unit is $\$17,397$ per unit
- The additional Immediate Critical Need investment can be estimated at $\$17,397 \times 9,614$ units = $\$167,250,418$
- Added to the Immediate Critical Need identified through the survey the total for 2019 is more accurately depicted as **$\$354,952,433$**

Projected Public Housing Critical Needs				
	Immediate	5 years	10 years	Total
Survey	187,702,015	103,089,867	136,011,290	426,803,172
Extrapolation	167,250,418	91,700,037	121,153,199	380,103,654
Total	354,952,433	194,789,904	257,164,489	806,906,826

Findings and Notables

Using only the data that was provided through the survey process the following findings can be made:

1. In the last four funding cycles of the POHP, $\$45.5$ million has been granted for the rehabilitation and renewal of 5,232 publicly owned units. This represents 24.2% of the Immediate Critical Needs investment identified through the survey and 12.8% through the extrapolation.
2. Although $\$45.5$ million has been contributed to the POHP, assisting about 12.8% of the needs, the reinvestment in these same units is on-going. Investment today doesn't address useful life concerns related to unit maintenance for preservation of public housing. For example, interior improvements covered by the POHP in 2019, doesn't resolve a new roof needed in 2026. The same unit maybe eligible for multiple POHP funding cycles.
3. If the Immediate Critical Needs are not address (funded), they'll be deferred, and their costs incurred in subsequent years. Unmet and unfunded needs that are deferred could result in higher costs due to future inflation.
4. Unlike the Immediate Critical Needs costs, those projected in years 1 to 10 are estimates. These may increase as construction bids are let and awarded. Additional critical needs could be

identified and added in these years as housing authorities move from projecting costs and maintenance to addressing the building issues once they become more immediate.

- The greatest need for investment in publicly owned housing is interior to the units. The table on the next page demonstrates that the greatest need, both immediate and future, is related to Building Interiors and Building Systems.

Percentage of Total Investment Needed			
	Immediate	5 Years	10 years
Site	0.050730006	0.03159684	0.022950054
Building Exteriors	0.136368431	0.141500072	0.175327223
Building Systems	0.518328864	0.343865979	0.369364799
Building Interior	0.294505647	0.481253632	0.431972234

- Site and Building Exteriors infrastructure is relatively stable, however upgrades to Building Interiors required a higher level of on-going maintenance. Additionally, Building Systems (electrical and mechanical) are expensive especially in hi-rise multifamily buildings. The table below represents the range each type of investment costs based on data submitted by the survey participants.

Furnace	Boiler	Elevator	Plumbing	Fire Suppression
\$225,00-\$516,000	\$1.6 - \$1.75M	\$750,000	\$1.9-\$4.1M	\$200,000-\$500,000

- Building System failures can occur before the useful life of the asset is reached. These unexpected expenditures can cripple the budget of the Agency. A failure in a heating system or necessary elevator upgrade can wipe out reserves, leaving the Agency vulnerable and unable to sustain its necessary maintenance.
- The level of funding to successfully address both the Immediate and Future Critical Needs for publicly owned housing significantly exceeds the current POHP levels. Since the POHP's creation in 2012, \$45.5 million has been contributed by the Legislature. This represents \$5,687,500 annually. Comparing the annual average funding pool of \$5,687,500 to the projected Immediate Need of \$354,952,433, the POHP contribution would address 1.6% of the Critical Immediate Needs.
- Investment in critical needs identified by the survey participants of \$187,689,430 represents only 9% of the nearly \$2 billion of insured replacement value detailed in the 2008 MHP report.

Anecdotal Comments on the POHP

As part of the overall individual membership survey, respondents were asked ***“Is there any additional information or stories that you feel adds to the need for increased funding for the POHP?”*** The direct responses are quoted below.

“We have already spent more than \$100K in stop gap measures to keep our elevators running. If appropriate funding had been available, that \$ could have been used more wisely and would have been contributed to an overhaul.”

“The POHP program has directly and positively impacted the quality of life for our residents. The ability to complete larger projects that are critical to health and safety is significant. The decreased consumption of water as a result of a plumbing and bathroom project, will result in lower utility costs and reduce the use of natural resources greatly.”

“Many PHAs need the money to make a number of repairs or replacements. The POHP should have a different criteria than high performer status since some that need this money are not high performers. In some cases, like ours, if we replace the plumbing that was installed with the building, we will need to move tenants off site and there are not places for them to live if we do this, so the logistical pieces prevent us from looking at upgrading.”

Conclusion

The POHP has been a valuable resource in the rehabilitation and preservation of publicly owned housing throughout the State of Minnesota. Communities have utilized these funds to help meet the reinvestment needed to assist this critical housing sector. However, the need far exceeds the level of POHP funding available each biennium.

Public Housing Agencies are faced with significant investments, which if left unfunded will compound and further erode this vital resource for many Minnesota residents. With little investment being made in constructing new publicly owned housing, reinvestment in the existing infrastructure is the main avenue to provide diverse and necessary housing to this targeted audience, many of whom are elderly or handicapped.

The Agencies that own and manage public housing are limited in their ability to raise funds to meet costly repair and on-going property maintenance issues. An elevator repair in a publicly owned hi-rise costs the same as an elevator repair in a market rate hi-rise. The difference being the level of rent charged by the publicly owned facility is significantly lower, causing a gap between revenues and costs.

Increasing the POHP biennium allocation, allows for publicly owned housing agencies to meet their mission of providing safe, affordable housing for residents. It preserves these units for the future, ensuring that publicly owned housing is a viable resource throughout the State of Minnesota.

MINNESOTA NAHRO
555 NORTH WABASHA ST SUITE 245 ST PAUL MN 55102

THIS REPORT WAS MADE POSSIBLE WITH THE GENEROUS SUPPORT
OF THE GREATER MINNESOTA HOUSING FUND