



MEETINGS SCHEDULED FOR JUNE

Minnesota Housing
400 Wabasha Street N. Suite 400
St. Paul, MN 55102

THURSDAY, JUNE 23, 2022

Regular Board Meeting
1:00 p.m.

Conference Call

Toll-free dial-in number (U.S. and Canada):
1-877-309-2074

Access code:
985-687-928

NOTE: The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on Thursday, June 23, 2022.

Items requiring approval are neither effective nor final until voted on and approved by the Minnesota Housing Board.

The Agency may conduct a meeting by telephone or other electronic means, provided the conditions of Minn. Stat. §462A.041 or Minn. Stat. 13D.021 are met. The Agency shall, to the extent practical, allow a person to monitor the meeting electronically and may require the person making a connection to pay for documented marginal costs that the Agency incurs as a result of the additional connection.

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Mission

Housing is the foundation for success, so we collaborate with individuals, communities and partners to create, preserve and finance housing that is affordable.

Vision

All Minnesotans live and thrive in a safe, stable home they can afford in a community of their choice.

AGENDA

Minnesota Housing Board Meeting

Thursday June 23, 2022

1:00 p.m.

- 1. Call to Order**
- 2. Roll Call**
- 3. Agenda Review**
- 4. Approval of Minutes**
 - A. (page 5) Regular Meeting of May 26, 2022
- 5. Reports**
 - A. Chair
 - B. Commissioner
 - C. Committee
- 6. Consent Agenda**
 - A. (page 11) Waiver of the Predictive Cost Model 25% Threshold
-Restoring Waters f.k.a Emma Norton Residence 2.0, D8313, St. Paul, MN
 - B. (page 13) Risk Management and Internal Control Framework
- 7. Action Items**
 - A. (page 39) Approval, Home Improvement Loan Programs Changes
 - B. (page 43) Request for Updated Delegated Authority Related to Extensions of Single Family Loans
 - C. (page 45) Approval, Selection and Commitment 2022 Housing Tax Credit (HTC) Round 2 and Deferred Loan Selection

- D. (page 63) Commitment, Low and Moderate Income Rental Loan (LMIR),
Modification, Housing Infrastructure Bond Loan (HIB) and Waiver of the Predictive
Cost Model 25% Threshold
 - Windwood Townhomes, D2959, Duluth, MN
- E. (page 79) Commitment, Low and Moderate Income Rental Loan (LMIR)
 - Balsam Apartments II, D8307, Dayton, MN

8. Discussion Items

- A. (page 91) 3rd Quarter FY 2022 Financial Reporting Package
- B. (page 101) Minnesota Housing Administrative Budget, State Fiscal Year 2023

9. Information Items

- A. (page 105) 2021 Conflict of Interest Disclosure Reporting
- B. (page 107) Post-Sale Report, Residential Housing Finance Bonds 2022 Series EF

10. Other Business

None.

11. Adjournment

DRAFT Minutes
Minnesota Housing Board Meeting
Thursday, May 26, 2022
1:00 p.m.
Via Conference Call

1. Call to Order.

Chair DeCramer called to order the regular meeting of the Board of Minnesota Housing Finance Agency at 1:02 p.m.

2. Roll Call.

Members Present via conference call: Auditor Blaha, Chair John DeCramer, Craig Klausung, Stephanie Klinzing, Stephen Spears and Terri Thao.

Minnesota Housing Staff present via conference call: Tal Anderson, Tom Anderson, Ryan Baumtrog, Vi Bergquist, Sondra Breneman, Ibtisam Brown, Jessica Deegan, Matt Dieveney, Shanna Doerfle, Graydon Francis, Rachel Franco, Vanessa Haight, Anna Heitz, Darryl Hennen, Adam Himmel, Jennifer Ho, Summer Jefferson, Hannah Jirak, Ayo Jones, Anjanet Kalinowski, Katey Kinley, Dan Kitzberger, Greg Krenz, Janine Langsjoen, Tresa Larkin, James Lehnhoff, Rachel Lochner, Nira Ly, Sarah Matala, Don McCabe, Leighann McKenzie, Amy Melmer, John Patterson, Caryn Polito, Brittany Rice, Paula Rindels, Cheryl Rivinius, Rachel Robinson, Kate Rodrigues, Danielle Salus, Joel Salzer, Kayla Schuchman, Anne Smetak, Corey Strong, Kim Stuart, Jodell Swenson, Susan Thompson, Mike Thone, Nancy Urbanski, Kayla Vang, Teresa Vaplon, Nicola Viana, David Wahlroos, Carrie Weisman, Amanda Welliver, Tyler Wenande, Alyssa Wetzels-Moore, Jennifer Willette, Kelly Winter, and Kristy Zack.

Others present via conference call: Michelle Adams, Kutak Rock; Ramona Advani, Minnesota Office of the State Auditor; Melanie Johnson, Piper Sandler & Co.; Gene Slater, CSG Advisors.

3. Agenda Review

Discussion Item 8A was removed from the agenda.

4. Approval

A. Regular Meeting Minutes April 21, 2022

Motion: Stephanie Klinzing moved to approve the April 21, 2022, Regular Meeting Minutes. Seconded by Terri Thao. Roll call was taken. Motion carries 5-0. Stephen Spears was not present for the vote. All were in favor.

5. Reports

A. Chair

None.

B. Commissioner

Commissioner Ho shared the following with the Board:

- Welcome new employees

- Meetings: Twin Cities Habitat for Humanity and Homeownership Center; BuildWealth; Affordable Housing Summit; 2022 Dorothy Day Community Breakfast; Nawal Noor and Congresswoman Omar; USDA Rural Development; Minnesota Engagement on Shelter & Housing (MESH); GroundBreak Coalition Launch.
- Visits/Speaking Engagements: Woodlawn Terrace Cooperative Celebration; Opening of Endeavors Residence; Travel to Northfield and Cannon Falls
- RentHelpMN Update
- Risk Management Update
- Legislative Update
- 2022 Consolidated RFP Intent to Apply Update
- HomeHelpMN Update

C. Committee

None.

6. Consent Agenda

- A. **Grant Contract Modification, Workforce and Affordable Homeownership Development, Habitat for Humanity of Minnesota, Inc.**
- B. **Community Housing Development Organization Capacity Building Grant Extensions**
- C. **Interim Loan Contract Modification, Impact Fund Award, United Community Action Partnership, Inc.**

Motion: Terri Thao moved to approve the Consent Agenda Items. Seconded by Stephanie Klinzing. Roll call was taken. Chair DeCramer abstained. Motion carries 5-0. All were in favor.

7. Action Items

- A. **Commitment, Low and Moderate Income Rental Loan (LMIR) and Low and Moderate Income Rental Bridge Loans (LMIRBL) - The Lumin at Highland Bridge, D8319, St. Paul, MN**

Carrie Weisman presented to the board a request for adoption of three resolutions.

1. Adoption of a resolution authorizing the issuance of a LMIR program commitment in the amount of up to \$10,602,000;
2. Adoption of a resolution authorizing the issuance of a LMIRBL product financed by tax-exempt volume limited bonds in an amount up to \$10,495,000; and
3. Adoption of a resolution authorizing the issuance of a second LMIRBL product from Pool 2 resources in the amount up to \$3,541,000.

All commitments are subject to the terms and conditions of the Agency term letter. Chair DeCramer opened up the discussion. There were no questions from board members.

Motion: Craig Klausing moved Commitment, Low and Moderate Income Rental Loan and Low and Moderate Income Rental Bridge Loans - The Lumin at Highland Bridge, D8319, St. Paul, MN. Seconded by Stephanie Klinzing. Roll call was taken. Motion carries 6-0. All were in favor.

B. Funding Modification, Rental Rehabilitation Deferred Loan (RRDL) - Peace Villa Apartments, D2791, Norwood Young America, MN

Janine Langsjoen presented to the board a request for adoption of a resolution authorizing a modification to increase the RRDL commitment from \$500,000 to the program maximum of \$700,000 for the proposed development. Chair DeCramer opened up the discussion. There were no questions from board members.

Motion: Auditor Blaha moved Funding Modification, Rental Rehabilitation Deferred Loan - Peace Villa Apartments, D2791, Norwood Young America. Seconded by Stephen Spears. Roll call was taken. Motion carries 6-0. All were in favor.

C. End Loan Commitment Extension, Economic Development and Housing Challenge (EDHC) Loan - Fire Station One, D8133, St. Paul, MN

Susan Thompson presented to the board a request for approval to extend the term of the End Loan Commitment from the standard 18 months to approximately 42 months to align with anticipated permanent loan closing and bridge loan expirations.

Chair DeCramer opened up the discussion. There were no questions from board members.

Motion: Terri Thao moved End Loan Commitment Extension, Economic Development and Housing Challenge Loan - Fire Station One, D8133, St. Paul. Seconded by Craig Klausing. Roll call was taken. Motion carries 6-0. All were in favor.

D. Modification, Preservation Affordable Rental Investment Fund (PARIF) Loan Commitment - Stearns County HRA Portfolio Rehab, D8308, various, MN

Tom Anderson presented to the board a request for the adoption of a resolution to increase the loan amount by \$400,000 for a total PARIF loan of \$5,605,000. Chair DeCramer opened up the discussion. There were no questions from board members.

Motion: Stephanie Klinzing moved Modification, Preservation Affordable Rental Investment Fund (PARIF) Loan Commitment - Stearns County HRA Portfolio Rehab, D8308, various, MN. Seconded by Auditor Blaha. Roll call was taken. Motion carries 6-0. All were in favor.

E. Adoption, Resolution Authorizing the issuance and Sale of Rental Housing Bonds 2022 Series C (Lumin Highland Bridge) and Amending Resolution Nos. MHFA 22-018 and 22-022.

Rachel Robinson presented to the board a request authorization to issue short-term fixed rate tax-exempt bonds under the existing Rental Housing bond indenture. The bonds will be issued in an amount not to exceed \$10,495,000 and will be used for the acquisition and construction of a 60-unit housing development located in St. Paul, Minnesota. The Agency currently anticipates pricing and issuing these Rental Housing

bonds in the summer; the Preliminary Official Statement describes the entire transaction. Staff is also requesting increasing the maximum allowable interest rate on bonds yet to be issued under the same bond indenture authorized by the Board in February and in March. Michelle Adams, Kutak Rock joined the meeting to review the resolution. Chair DeCramer opened up the discussion. There were no questions from board members.

Motion: Terri Thao moved Adoption, Resolution Authorizing the issuance and Sale of Rental Housing Bonds 2022 Series C (Lumin Highland Bridge) and Amending Resolution Nos. MHFA 22-018 and 22-022. Seconded by Stephanie Klinzing. Roll call was taken. Motion carries 6-0. All were in favor.

F. Adoption, Series Resolution authorizing the Issuance and Sale of Minnesota Housing Finance Agency Variable Rate Residential Finance Housing Bonds (RHFB)

Rachel Robinson presented to the board a request for adoption of a series resolution authorizing the issuance and sale of Minnesota Housing Finance Agency variable rate Residential Finance Housing Bonds. Michelle Adams, Kutak Rock reviewed the resolution. Chair DeCramer opened up the discussion. Board members asked questions and staff provided answers.

Motion: Stephanie Klinzing moved Adoption, Series Resolution authorizing the Issuance and Sale of Minnesota Housing Finance Agency Variable Rate Residential Finance Housing Bonds. Seconded by Stephen Spears. Roll call was taken. Motion carries 6-0.

G. Extend the 2020-2022 Strategic Plan one year to become the 2020-2023 Strategic Plan

John Patterson presented to the board a request for approval to extend the current 2020-2022 Strategic Plan (which is a three-year plan) one additional year to include 2023 and become a four-year plan. Chair DeCramer opened up the discussion. Board members asked questions and staff provided answers.

Motion: Auditor Blaha moved to Extend the 2020-2022 Strategic Plan one year to become the 2020-2023 Strategic Plan. Seconded by Terri Thao. Roll call was taken. Motion carries 6-0.

8. Discussion Items

A. Proposed Changes to the State of Minnesota 2024-2025 Housing Tax Credit Qualified Allocation Plan and Self-Scoring Worksheet for Public Comment Release

9. Information Items

A. Second Quarter 2022 Progress Report: 2020-2022 Strategic Plan and 2022-2023 Affordable Housing Plan

10. Other Business

None.

11. Adjournment

The meeting was adjourned at 2:56 p.m.

John DeCramer, Chair

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Item: Waiver of the Predictive Cost Model 25% Threshold

- Restoring Waters f.k.a. Emma Norton Residence 2.0, D8313, St. Paul, MN

Staff Contact(s):

Sarah Woodward, 651.297.5145, sarah.woodward@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

At the December 17, 2020 board meeting, the proposed development was selected for deferred funding under the HOME Investment Partnerships (HOME) program in the amount of \$2,416,070 and National Housing Trust Fund (NHTF) in the amount of \$4,209,369 under Resolution No. 20-064.

Agency staff completed the underwriting and technical review of the proposed development, and staff recommends approval of a waiver to the predictive cost model. The total development costs per unit is \$393,386 and now exceeds the predictive cost model by 30%. Since the percentage is over the predictive cost model threshold of 25%, the increase requires a board approved waiver.

Fiscal Impact:

N/A

Meeting Agency Priorities:

- Improve the Housing System
- Preserve and Create Housing Opportunities
- Make Homeownership More Accessible
- Support People Needing Services
- Strengthen Communities

Attachment(s):

- Background

Background:

At the December 17, 2020 board meeting, the proposed development was selected for deferred funding under the HOME Investment Partnerships (HOME) program in the amount of \$2,416,070 and National Housing Trust Fund (NHTF) in the amount of \$4,209,369 under Resolution No. 20-064.

Minnesota Housing staff completed the underwriting and technical review of the proposed development and final Mortgage Credit Committee approval was received on June 8, 2022.

The project involves the new construction of 60 units in a five-story elevator building. The development will provide permanent supportive housing for single adults and family households. All 60 households benefit from Housing Support income supplement. Thirty units will serve high priority homeless and nine units will serve people with disabilities.

At the time of selection, project costs were estimated at \$302,076 per unit, or 0.51% above the predictive cost model. Upon completion of a full underwriting analysis, the total construction costs increased by 29%, primarily due to market volatility of construction material prices and demand for labor. Increased financing costs, including higher construction loan interest rates, also affected project costs. As a result, the proposed total development cost per unit is now \$393,386, which exceeds the predictive cost model by approximately 30%.

The predictive cost model is a tool that Minnesota Housing uses to identify, from a statistical perspective, proposed rental developments with unusually high costs. The model predicts the costs of a proposed development based on building characteristics and cost data from developments that Minnesota Housing has previously financed or for which tax credits were issued and is benchmarked against industry-wide construction data. While the model is statistically robust, explaining 64% to 79% of the variation in historical costs, it cannot capture all components of every proposed project. The predictive cost model calculation is based on the model used for the 2020 Consolidated RFP selections, which does not account for the faster than average construction cost increases experienced over the last two years.

In accordance with Board Policy #15, if a project's proposed total development cost (TDC) is more than 25% over the predictive model costs, staff must conduct additional due diligence and determine that the costs are still reasonable before seeking a cost waiver from the board. With respect to Restoring Waters, the assigned Minnesota Housing architect and the underwriting and research teams have concluded that the TDC for the subject property is reasonable given the circumstances previously outlined and seek approval for a board waiver from the predictive cost model 25% threshold limit.

The deferred loan amounts are otherwise unchanged from the original selection. The project gap was addressed through securing other funding sources.

The agency must enter into the NHTF written agreement related to this development by the end of the day on June 23, 2022 to comply with statutory NHTF timing requirements and avoid the NHTF funds reverting back to HUD. Agency staff are prepared to complete all necessary steps to timely meet this requirement.



Item: Risk Management and Internal Control Framework

Staff Contact(s):

Rachel Robinson, Deputy Commissioner, 651.297.3125, Rachel.Robinson@state.mn.us
Mike Thone, Chief Risk Officer, 651.296.9813, Mike.Thone@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

- 1) The Risk Management Committee approved several minor edits to the Risk Management and Internal Control Framework (Framework), last approved by the Board October 22, 2020. Staff requests Board approval of an updated Framework document to be made effective June 23, 2022.
- 2) The Chief Risk Officer identified three instances of non-compliance with Framework requirements for discussion with the Board/Finance and Audit Committee.

Fiscal Impact:

None

Meeting Agency Priorities:

- Improve the Housing System
- Preserve and Create Housing Opportunities
- Make Homeownership More Accessible
- Support People Needing Services
- Strengthen Communities

Attachment(s):

- Background, including Framework compliance review results
- Risk Management and Internal Control Framework (marked-up draft)
- Risk Management and Internal Control Framework (clean draft)

Background:

MHFA Board Resolution #20-039 requires, in part, that Agency staff review at least annually with the Board/Finance and Audit Committee:

1. The Agency's Risk Management and Internal Control Framework.
2. Agency compliance with the Risk Management and Internal Control Framework.

The Risk Management Committee (RMC) reviewed the Risk Management and Internal Control Framework document at its January 11, 2022 meeting and identified several minor edits and updates. Additional updates were identified at the May 10, 2022 RMC meeting. The updated Framework document is presented below for Board review and consideration. Staff requests Board approval of the updated Framework to be made effective June 23, 2022.

The Framework outlines many specific actions that must be completed by Agency staff, some within specific timeframes. The Chief Risk Officer reviewed the Framework to identify those specific compliance requirements and determine if staff completed those tasks within required timeframes. The following compliance exceptions were noted:

- Agency Risk Profile (heat map report): The Framework requires this project be completed biennially. The last Agency Risk Profile was completed in 2019, with the report presented to the Board at the February 27, 2020 Finance and Audit Committee meeting. Staff was scheduled to complete the Agency Risk Profile in 2021 but capacity limitations prevented completion of the project. Agency management is uncertain if the project will be completed in 2022 because of continued capacity constraints.
- Risk Assessment Projects: The Framework states, "The Chief Risk Officer will collaborate with management and staff to complete the risk assessment projects as scheduled in the Agency Risk Assessment Plan." The 2021 Risk Assessment Plan submitted to Minnesota Management and Budget as part of the annual Internal Control System Certification requirements process identified two risk assessment projects to be completed by July 31, 2021: 1) Agency Risk Profile (see previous bullet point); and 2) Multifamily Deferred Loans (PARIF). Neither risk assessment was completed due to unavailable capacity.
- Chief Risk Officer Report (presents status of fraud, misuse of funds, and conflict of interest investigations): The Framework requires this report be provided to the Board semi-annually. The last report was presented to the Board on August 26, 2021, which included activity for the six-month period ending June 30, 2021. The report for the period July 1, 2021 – December 31, 2021 was not prepared/presented to the board because of difficulties assembling information relating to the RentHelpMN program. Management intends to present the next Chief Risk Officer Report at the August 25, 2022 Board or Finance and Audit Committee meeting. That report will include activity for the twelve-month period, July 1, 2021 – June 30, 2022.



Risk Management and Internal Control Framework

(Effective June 23, 2022)

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Chapter 1 – Introduction and Overview

Minnesota Housing Risk Management and Internal Control Framework

Minnesota Housing (Agency) has adopted a formal Risk Management and Internal Control Framework (Framework) for managing its risks and internal controls. The Framework was established by the Agency's Board of Directors, Commissioner, and Risk Management Committee for the purpose of documenting how the Board and management will identify and respond to potential events (risks) that may impact achievement of the Agency's objectives and overall mission.

This Framework document establishes the Agency's Risk Management Policy (Chapter 2), emphasizes that managing risks and internal controls is an essential part of the management process, and outlines the Agency's key risk management and internal control strategies and processes designed to promote:

- Efficient and effective operations;
- Reliable reporting for internal and external use;
- Compliance with applicable laws and regulations;
- Safeguarding of assets, including protection of the Agency's reputation.

Terms and Definitions

Risk: The chance of something happening that may have a material impact on the Agency's achievement of its mission, Strategic Plan, Affordable Housing Plan, and other goals and objectives.

Risk Management: The Agency's coordinated activities to identify, analyze, evaluate, and respond to risks.

Internal Control: A process effected by the Minnesota Housing Board, management and staff that provides reasonable assurance that the objectives of the Agency will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the Agency's mission, Strategic Plan, Affordable Housing Plan, and other goals and objectives.

Risk Responses: Possible responses to identified risks are listed below.

- Acceptance - No action is taken to respond to the risk.
- Avoidance - Action is taken to stop or modify the operational process or the part of the operational process causing the risk
- Reduction/mitigation – Internal control actions are taken to reduce the likelihood or magnitude of the risk
- Sharing - Action is taken to transfer or share risks across the entity or with external parties, such as insuring against losses

Principles of the Risk Management and Internal Control Framework

The Framework is based on the following key principles. Risk management and internal control is:

- The responsibility of all appointees, managers, employees and contractors
- Part of all organizational processes
- Part of decision making
- Explicit in addressing uncertainty

- Structured, timely and cost effective
- Based on the best available information
- Transparent and inclusive
- Responsive to change

Categories of Risk

The risks facing the Agency can result from both internally and externally driven factors. Within four broad categories the following list identifies the risks that may be relevant to the Agency (this list is not exhaustive or all-encompassing). Furthermore, certain of the risk categories intersect with each other:

1. Strategic Risk	2. Financial Risk	3. Operational Risk	4. Legal Risk
<ul style="list-style-type: none"> • Reputation • Business Model • Organizational Structure • Resource Allocation • Planning / Execution • Competition / Industry Changes • Legislative 	<ul style="list-style-type: none"> • Federal Resources • State Appropriations • Bond Markets • Interest Rates • Counterparties, such as: <ul style="list-style-type: none"> ○ GSEs ○ Credit Rating Agencies ○ Non-profit Partners ○ Sponsors and Developers ○ Correspondent Lenders ○ Brokers ○ Realtors® 	<ul style="list-style-type: none"> • Program Management • Budgeting • Human Resources • Information Technology • Integrity • Culture • Counterparties_ such as: <ul style="list-style-type: none"> ○ Grantees ○ Sub-Grantees ○ Borrowers ○ Brokers and Realtors • Vendors • Business Continuity 	<ul style="list-style-type: none"> • Regulatory Compliance • Fraud/Misuse of Funds/Conflict of Interest

Chapter 2 – Risk Management and Internal Control Policy

In support of its mission and objectives, Minnesota Housing is committed to, and places a high priority on managing its risks and internal controls strategically and systematically.

Risk management and internal control is an integral part of the Agency’s approach to decision making and accountability. Implementation begins with the Board of Directors and Commissioner, and is applied through all levels of the Agency. All Agency management and staff are required to integrate sound risk management and internal control procedures and practices into their daily activities.

Risk is a fundamental component in Agency activities and is managed to produce the best outcomes for the Agency over time. The intent of risk management is not to eliminate risk but rather to assist Agency staff to manage the risks related to their responsibilities so that the Agency mission and objectives are achieved. Minnesota Housing’s risk management and

internal control program is managed by the Risk Management Committee (RMC) with day-to-day activities coordinated by the Chief Risk Officer (CRO) and other senior staff. The RMC, together with the Finance and Audit Committee of the Board, is authorized to implement all actions necessary to ensure the Agency maintains effective risk management and internal control systems.

This Framework adopts the United States Government Accountability Office, *Standards for Internal Control in the Federal Government*, also known as the *Green Book*, as the model and criteria the Agency will use to design, implement, and operate an effective risk management and internal control system. The Green Book identifies five internal control components and 17 principles necessary for an effective risk management and internal control system. This Framework serves as a companion to the Minnesota Management and Budget (MMB) Statewide Operating Policy 0102-01, *Internal Control System*.

Chapter 3 - Responsibilities for Agency Risk Management and Internal Control

Board of Directors

- Demonstrate a commitment to integrity and ethical values (i.e., provide strong “Tone at the Top”)
- Approve the Minnesota Housing Risk Management and Internal Control Framework
- Oversee management’s resource allocation and implementation and operation of the Agency’s risk management and internal control processes
- If necessary, sign the annual Internal Control System Certification for submission to Minnesota Management and Budget
- Periodically review the Agency’s compliance with the Risk Management and Internal Control Framework’s policy requirements
- Other functions, as necessary, and as outlined in Resolution No. MHFA-12-06120-039: Resolution - Establishing a Finance and Audit Committee (See Appendix 1)

Commissioner and Deputy Commissioner

- Demonstrate a commitment to integrity and ethical values (i.e., provide strong “Tone at the Top”) and require that management and staff do the same
- Establish an organizational structure, assign responsibility, and delegate authority to achieve the Agency’s objectives and mission
- Establish and maintain a culture of risk awareness and support for internal controls
- Chair the Risk Management Committee
- If necessary, sign the annual Internal Control System Certification for submission to MMB
- Provide managers and staff with support and training to effectively fulfill their risk management and internal control responsibilities

Risk Management Committee

The Risk Management Committee (RMC) meets periodically to address matters as needed. A

majority of the members must be present for the purpose of conducting RMC business. Consensus decision making is the goal for the RMC. The RMC is comprised of the following members:

- Commissioner - Chair
- Deputy Commissioner –Co-Chair
- Chief Risk Officer – RMC coordinator and meeting facilitator
- General Counsel
- Chief Information Officer
- Chief Financial Officer
- Assistant Commissioner – Single Family Division
- Assistant Commissioner – Multifamily Division
- Assistant Commissioner – Policy
- Director of Human Resources

RMC responsibilities include, but are not limited to:

- Develop the Agency Risk Management and Internal Control Framework, and update as needed
- Evaluate, prioritize and approve the Agency’s risk management and internal control activities
- Complete the Agency Risk Profile, including review and approval of the Agency Risk Profile report for presentation to the Board
- Complete the annual Internal Control System Certification; approve certification supporting documentation (i.e., Control Self-Assessment Tool, Risk Assessment Plan) for presentation to the Board Chair for review and execution of the certification form
- Provide input for and approval of risk assessment project scopes and strategies; review risk assessment project results; approve process improvement and corrective action measures, as applicable
- Periodically examine the Agency’s risk tolerances (i.e., the amounts and types of risk the Agency is willing to pursue or retain)

Chief Risk Officer

In addition to the responsibilities related to the facilitation and coordination of the RMC, the CRO will also:

- Coordinate the annual Conflict of Interest Disclosure update; present results to the Board; collaborate with the Deputy Commissioner, as needed, to determine actions required by staff to mitigate conflict of interest risk, and/or to approve staff requests for external ~~outside-secondary~~ employment and/or external ~~outside~~ board or other membershipemployment
- Manage the Navex Global EthicsPoint (third party vendor) reporting hotline
- Collaborate with the Legal Division to triage and investigate reports of fraud, misuse of funds, conflicts of interest or other concerns; provide periodic reports regarding the status of investigations to the RMC and the Board
- Collaborate with management and staff to complete risk assessment projects as scheduled in the Agency Risk Assessment Plan
- Collaborate with the Human Resources Division to ensure all new staff complete required risk management and ethics training within 60 days of starting at the Agency, and annually

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thereafter; ensure all managers and staff complete annual Code of Conduct training and certification

- Collaborate with the Human Resources and Communications Divisions to develop and update as needed, risk management and internal controls-related training for Agency staff

Managers (including members of the RMC, as applicable)

- Demonstrate a commitment to integrity and ethical values
- Demonstrate a commitment to recruit, develop, and retain competent staff
- Evaluate staff performance and hold staff accountable for their risk management and internal control responsibilities
- Define clear and measurable objectives to enable the identification of risks to those objectives
- Identify, analyze and respond to risks relating to the achievement of defined objectives
- Consider the potential for fraud when identifying, analyzing and responding to risks
- Identify, analyze and respond to significant internal and external changes that could impact the risk management and internal control systems
- Design control activities to achieve objectives and respond to risks
- Design the information system and related control activities to achieve objectives and respond to risks
- Implement control activities through policies
- Make sure that information received from internal and external sources is reliable for decision making
- Communicate accurate and reliable information internally and externally as necessary to achieve Agency objectives
- Establish activities for monitoring and evaluating Agency risk management and internal control systems and processes
- Remediate identified risk management and internal control deficiencies on a timely basis
- Coordinate with the legal division to determine if risk management and internal control processes, practices and treatments are compliant with regulatory, statutory, program rule, program guide and policy requirements
- Alert member of Servant Leadership Team (SLT), direct supervisor, or CRO of significant risk or internal control concerns
- Attend Risk Management Committee meetings as required
- Attend risk management and internal control-related training sessions as required

Staff

- Demonstrate a commitment to integrity and ethical values
- Identify, analyze, evaluate and respond to risks impacting their job objectives
- Maintain an awareness of risks (current and potential) relating to their job and areas of responsibility
- Actively support and contribute to risk management and internal control initiatives
- Alert members of SLT, direct supervisor or CRO of significant risk and internal control concerns
- Attend risk management and internal control-related training sessions as required

Chapter 4 – Key Risk Management and Internal Control Framework Components

- **Training:** Staff complete ethics, risk management and internal control-related training within 60 days of starting employment at the agency and annually thereafter. The training includes but is not limited to the following:
 - Risk management webinar (includes ethics, fraud prevention, conflict of interest, data practices, required disclosures)
 - Code of conduct webinar and certification
 - Prohibition of harassment and sexual harassment
 - Information security
- **Policies and procedures, including program guides:** Keep current policies and procedures pertaining to key duties, tasks and responsibilities.
- **Board Reporting:** The Agency holds monthly board meetings where the Servant Leadership Team and other staff provide information to the Board regarding all aspects of the Agency's business, including, as necessary, matters relating to risk management and internal controls.
- **Agency Risk Profile:** A risk profile is the periodic identification, analysis and documentation of critical risk sources to an organization; risks that could impact the organization's ability to achieve its stated objectives over a future time period. Specifically for Minnesota Housing, the Agency Risk Profile focuses on the critical risks confronting the Agency which could negatively impact the Agency's ability to achieve the goals identified in the Minnesota Housing Strategic and Affordable Housing plan documents.
 - The primary purpose for completing the Agency Risk Profile is to assist the Commissioner and Risk Management Committee in communicating risk-related issues to the Board
 - The Agency Risk Profile is a self-assessment exercise completed by the RMC
 - The Agency Risk Profile is completed biennially, or more frequently as requested by the Board, with a formal report issued to the Board
- **Annual Financial Audit:** The Agency contracts with an independent audit firm to complete an annual financial audit. The scope of the audit includes:
 - Opinion on the accuracy and reliability of the Agency's financial statements, including related footnotes and reasonableness of accounting estimates
 - Review of the Agency's level of compliance with major federal program requirements (i.e., Single Audit)
 - Review of internal controls over financial reporting, ~~information technology~~, Disaster Recovery and Continuity of Operations Plans, and other critical areas such as loans and allowance for loan loss, management override of controls, revenue recognition, interest rate swaps, and real estate owned valuation
 - Assessment of the Agency's computerized information system controls and security
- **Annual MMB Internal Control System Certification:** Minnesota Housing annually certifies to ~~Minnesota Management and Budget (MMB)~~ that the Agency's internal control systems are compliant with statute and MMB standards, pursuant to Minnesota Statutes 16A.057. The signed certification and supporting documentation is submitted to MMB within the timeframe determined by MMB ~~on or before July 31~~ each year. ~~Currently, there currently~~ are three certification components completed each year:

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- Control Self-Assessment Tool (CSAT) – A structured way for the Agency to review and document the effectiveness of internal controls over selected processes common for all Minnesota state agencies. The CSAT identifies a number of lists 14 organizational goals, a series of internal control requirements for each goal, and identifies the existing statutes, state laws, policies and procedures relating to those goals that agencies must follow
- Risk Assessment Plan – Identifies the risk assessment projects the Agency will attempt to complete during the coming year. The RMC updates the Plan each year
- Certification form signed by the Commissioner and Board Chair
- **Risk Assessment Projects:** The Chief Risk Officer will collaborate with management and staff to complete the risk assessment projects as scheduled in the Agency Risk Assessment Plan. Risk assessment projects will:
 - Document the agency business process under assessment
 - Identify the inherent risks related to the business process
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 - Identify and document internal control gaps and weaknesses within the business process
 - Report identified internal control gaps and weaknesses, and recommendations for correction to the RMC
 - Develop action plans to correct identified internal control gaps and weaknesses
- **Conflict of Interest Disclosure:**
 - Staff complete conflict of interest disclosure statements at time of new employee orientation and annually thereafter. Staff also request permission to accept external ~~secondary~~ employment and/or ~~external outside~~ board or other memberships
 - The Chief Risk Officer and Legal Division review ~~Annual~~ Conflict of Interest Disclosure forms and requests for ~~external outside~~ employment or membership prepared by staff and collaborates with the Deputy Commissioner, as applicable, to determine actions required by staff to mitigate conflict of interest risk, and/or to approve staff requests for ~~outside~~ secondary employment and/or ~~external outside~~ membership
 - The Chief Risk Officer provides the Board with an annual overview of the internal conflict of interest policies and procedures, and the results of the annual conflict of interest disclosure reporting.
-
- **Fraud/Misuse of Funds/COI monitoring, investigation, and reporting:**
 - Multiple internal retaliation-free communication channels are available for staff and stakeholders to report wrongdoing or other concerns
 - External reporting hotline - The Agency contracts with a third-party vendor to maintain a reporting hotline for staff and external parties to make reports of wrongdoing or other concerns. The hotline allows reporting individuals to remain anonymous
 - Procedures are in place to document, triage, investigate and resolve all reports of wrongdoing or other concerns
 - Chief Risk Officer provides semi-annual reports to the Board regarding the status of all applicable investigations
- **Credit Risk Management:** The Agency employs a Credit Risk Management team that:
 - Evaluates borrower and grantee financial capacities to complete and support proposed affordable housing projects and activities

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- Provides information and analyses about credit risks and mitigation strategies to assist Agency decision makers to effectively manage loan and grant portfolio risks, and ~~evaluate~~ enhance Agency financial ~~sustainability~~ strength
- **Review and Selection Committees:**
 - The Agency currently maintains two primary internal review committees, Mortgage Credit and Clearinghouse. Each committee meets regularly to consider a variety of matters related to multifamily affordable housing loans, grants and policies or procedures, and these meetings are attended by a broad cross section of Agency staff, with expertise in lending, underwriting, credit review, finance and accounting, legal and compliance. Other Agency matters requiring internal review that do not fit into the purview of Mortgage Credit or Clearinghouse are handled through alternate channels
 - Selection committees are designed and called to act for certain funding opportunities and cycles as required by the specific program intent and potential funding availability
- **Compliance:** Compliance impacts every part of the Agency. Minnesota Housing maintains compliance with state and federal rules and regulations through a wide variety of activities, including the following:
 - Minnesota Housing endeavors to maintain compliance with all applicable Agency policies and state or federal laws, rules and regulations. To do so, each of the Single- and Multi-Family divisions employ personnel to develop, implement, and monitor compliance practices and procedures within their divisions. Additionally, employees within the divisions coordinate with the policy, legal and finance teams as appropriate to update compliance practices and maintain consistency with applicable state and federal requirements.
 - The Minnesota Housing Employee Policies and Procedures Manual includes all of the state and federal human resources-related compliance requirements
 - Related to Data Practices, the Agency has designated a Responsible Authority, Data Practices Compliance Officer, and Division designees. The Data Practices Manual details all required compliance elements and outlines processes for agency staff to follow. Applicable staff are provided annual training on the requirements and procedures
 - The Minnesota Housing Information Protection Policies and Procedures document outlines how Minnesota Housing will protect both its electronic and physical data sources. It also outlines staff roles and responsibilities for protecting these assets, including sensitive, confidential, and other not-public information and data.
 - Agency has designated personnel responsible for compliance with SEC and IRS rules and regulations, including disclosures to investors and potential investors in the Agency’s debt securities; and has practices and procedures to comply with applicable provisions
 - The annual financial audit scope includes an assessment of the Agency’s compliance with major federal program requirements (i.e., the Single Audit)
- **Continuity of Operations Plan (COOP):** The Agency maintains a COOP which includes a Disaster Recovery Plan which includes a COOP component.
 - The Disaster Recovery Plan, ~~and COOP~~ is reviewed, updated and tested annually
 - The Agency has contracted for an alternative “hot” site processing center. The readiness and functionality of this site is included in the scope of the annual disaster recovery testing.
 - The COOP, including Disaster Recovery Plan, ~~including COOP,~~ may be reviewed and assessed ~~is reviewed and assessed~~ during the annual financial audit

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Appendix 1 Resolution Establishing
a Finance and Audit Committee

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite #400
Saint Paul, Minnesota 55102

RESOLUTION NO. MHFA 20-039
Superseding Resolution No. MHFA 12-062

**RESOLUTION REVISING AND RESTATING THE ROLE OF THE
FINANCE AND AUDIT COMMITTEE**

WHEREAS, the members of the Minnesota Housing Finance Agency (collectively known as the "Board") previously established a Finance and Audit Committee ("Committee") through the adoption of Resolution No. 12-062.

WHEREAS, the Board has determined a need to update the resolution governing that Committee to better reflect the activities and function of the Committee.

NOW THEREFORE BE IT RESOLVED:

THAT, Resolution No. 12-062 is hereby superseded by this Resolution, which updates and restates the activities and function of the Committee;

THAT, the Committee shall perform the activities designated herein:

1. Committee Members. The Board shall have a Committee consisting of all members of the Board. The Board Chair shall preside at all Committee meetings. In the Board Chair's absence, the Vice Chair shall preside. A majority of the members (excluding vacancies) shall constitute a quorum for the purpose of conducting the Committee's business and exercising its powers and for all other purposes. When a quorum is in attendance, action may be taken by the Committee upon a vote of a majority of the members present.

2. Committee Purpose. The purpose of the Committee is to receive and review, as necessary, certain financial information of the Minnesota Housing Finance Agency ("Agency") and, when necessary, recommend action by the members of the Board as a whole. The Committee is responsible for overseeing the Agency's accounting and financial reporting processes, the audit of the Agency's annual financial statements, and the overall approach to risk management and internal controls. Some of the Committee's responsibilities may be delegated in writing to Agency staff, as appropriate. The Committee shall meet as needed to address matters. The Committee shall have access to financial expertise, whether in the form of Agency staff or outside financial advisors or auditors. It may ask others to attend its meetings and provide pertinent information as necessary.
3. Committee Responsibilities The Committee shall perform the following duties unless they are performed directly by the Board:
- a) Recommend to the Board the selection and replacement of any financial advisor, investment banker and publicly registered public accounting firm (independent auditor) engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Board.
 - b) As necessary, meet with the financial advisor, investment bankers, independent auditor and other Agency staff, review Agency financial reports, evaluate or receive evaluations of the performance of the financial advisor, the investment bankers, or the independent financial auditor, and receive reports on the sale and issuance of bonds.
 - c) Oversight of agency risk and internal controls, including consultation with senior management and the Chief Risk Officer
 - d) Review, at least annually, with the independent auditor and Agency staff:
 1. The independent auditor's plan for the financial audit, and scope thereof
 2. The independent auditor's report on the Agency's annual financial statements and related footnotes.
 3. The independent auditor's report on the Agency's Federal Program single audit.
 4. The independent auditor's required communications, including reporting on significant accounting areas and estimates.
 5. The independent auditor's report on internal controls and governmental audit standards including, as necessary, any assessment or report related to the Agency's computerized information system controls and security.
 6. Any other matters the independent auditor chooses to bring to the attention of the Committee
 - e) Review, at least annually, with Agency staff:
 1. The Agency's Risk Management and Internal Control Framework.
 2. Agency compliance with the Risk Management and Internal Control Framework including, but not limited to:
 - Code of conduct, ethics, and conflict of interest.
 - Procedures for the receipt, retention and treatment of reports of wrongdoing or other concerns received, and reporting on investigative activities and resolutions, if any

- Risk assessments and other internal control reviews, including the Agency Risk Profile, Annual Internal Control System Certification, and program/business process risk assessment projects.
- f) Make reports and recommendations, as necessary, to the Board.
- g) Perform such other functions as assigned by the Board.
- h) The Committee may create subcommittees as necessary.

Adopted this 27th day of August, 2020



Chairman



Risk Management and Internal Control Framework

(Effective June 23, 2022)

Chapter 1 – Introduction and Overview

Minnesota Housing Risk Management and Internal Control Framework

Minnesota Housing (Agency) has adopted a formal Risk Management and Internal Control Framework (Framework) for managing its risks and internal controls. The Framework was established by the Agency’s Board of Directors, Commissioner, and Risk Management Committee for the purpose of documenting how the Board and management will identify and respond to potential events (risks) that may impact achievement of the Agency’s objectives and overall mission.

This Framework document establishes the Agency’s Risk Management Policy (Chapter 2), emphasizes that managing risks and internal controls is an essential part of the management process, and outlines the Agency’s key risk management and internal control strategies and processes designed to promote:

- Efficient and effective operations;
- Reliable reporting for internal and external use;
- Compliance with applicable laws and regulations;
- Safeguarding of assets, including protection of the Agency’s reputation.

Terms and Definitions

Risk: The chance of something happening that may have a material impact on the Agency’s achievement of its mission, Strategic Plan, Affordable Housing Plan, and other goals and objectives.

Risk Management: The Agency’s coordinated activities to identify, analyze, evaluate, and respond to risks.

Internal Control: A process effected by the Minnesota Housing Board, management and staff that provides reasonable assurance that the objectives of the Agency will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the Agency’s mission, Strategic Plan, Affordable Housing Plan, and other goals and objectives.

Risk Responses: Possible responses to identified risks are listed below.

- Acceptance - No action is taken to respond to the risk.
- Avoidance - Action is taken to stop or modify the operational process or the part of the operational process causing the risk
- Reduction/mitigation – Internal control actions are taken to reduce the likelihood or magnitude of the risk
- Sharing - Action is taken to transfer or share risks across the entity or with external parties, such as insuring against losses

Principles of the Risk Management and Internal Control Framework

The Framework is based on the following key principles. Risk management and internal control is:

- The responsibility of all appointees, managers, employees and contractors
- Part of all organizational processes
- Part of decision making
- Explicit in addressing uncertainty

- Structured, timely and cost effective
- Based on the best available information
- Transparent and inclusive
- Responsive to change

Categories of Risk

The risks facing the Agency can result from both internally and externally driven factors. Within four broad categories the following list identifies the risks that may be relevant to the Agency (this list is not exhaustive or all-encompassing). Furthermore, certain of the risk categories intersect with each other:

1. Strategic Risk	2. Financial Risk	3. Operational Risk	4. Legal Risk
<ul style="list-style-type: none"> • Reputation • Business Model • Organizational Structure • Resource Allocation • Planning / Execution • Competition / Industry Changes • Legislative 	<ul style="list-style-type: none"> • Federal Resources • State Appropriations • Bond Markets • Interest Rates • Counterparties, such as: <ul style="list-style-type: none"> ○ GSEs ○ Credit Rating Agencies ○ Non-profit Partners ○ Sponsors and Developers ○ Correspondent Lenders 	<ul style="list-style-type: none"> • Program Management • Budgeting • Human Resources • Information Technology • Integrity • Culture • Counterparties, such as: <ul style="list-style-type: none"> ○ Grantees ○ Sub-Grantees ○ Borrowers ○ Brokers and Realtors • Vendors • Business Continuity 	<ul style="list-style-type: none"> • Regulatory Compliance • Fraud/Misuse of Funds/Conflict of Interest

Chapter 2 – Risk Management and Internal Control Policy

In support of its mission and objectives, Minnesota Housing is committed to, and places a high priority on managing its risks and internal controls strategically and systematically.

Risk management and internal control is an integral part of the Agency's approach to decision making and accountability. Implementation begins with the Board of Directors and Commissioner and is applied through all levels of the Agency. All Agency management and staff are required to integrate sound risk management and internal control procedures and practices into their daily activities.

Risk is a fundamental component in Agency activities and is managed to produce the best outcomes for the Agency over time. The intent of risk management is not to eliminate risk but rather to assist Agency staff to manage the risks related to their responsibilities so that the Agency mission and objectives are achieved. Minnesota Housing's risk management and

internal control program is managed by the Risk Management Committee (RMC) with day-to-day activities coordinated by the Chief Risk Officer (CRO) and other senior staff. The RMC, together with the Finance and Audit Committee of the Board, is authorized to implement all actions necessary to ensure the Agency maintains effective risk management and internal control systems.

This Framework adopts the United States Government Accountability Office, *Standards for Internal Control in the Federal Government*, also known as the *Green Book*, as the model and criteria the Agency will use to design, implement, and operate an effective risk management and internal control system. The Green Book identifies five internal control components and 17 principles necessary for an effective risk management and internal control system. This Framework serves as a companion to the Minnesota Management and Budget (MMB) Statewide Operating Policy 0102-01, *Internal Control System*.

Chapter 3 - Responsibilities for Agency Risk Management and Internal Control

Board of Directors

- Demonstrate a commitment to integrity and ethical values (i.e., provide strong “Tone at the Top”)
- Approve the Minnesota Housing Risk Management and Internal Control Framework
- Oversee management’s resource allocation and implementation and operation of the Agency’s risk management and internal control processes
- If necessary, sign the annual Internal Control System Certification for submission to Minnesota Management and Budget
- Periodically review the Agency’s compliance with the Risk Management and Internal Control Framework’s policy requirements
- Other functions, as necessary, and as outlined in Resolution No. MHFA20-039: Resolution - Establishing a Finance and Audit Committee (See Appendix 1)

Commissioner and Deputy Commissioner

- Demonstrate a commitment to integrity and ethical values (i.e., provide strong “Tone at the Top”) and require that management and staff do the same
- Establish an organizational structure, assign responsibility, and delegate authority to achieve the Agency’s objectives and mission
- Establish and maintain a culture of risk awareness and support for internal controls
- Chair the Risk Management Committee
- If necessary, sign the annual Internal Control System Certification for submission to MMB
- Provide managers and staff with support and training to effectively fulfill their risk management and internal control responsibilities

Risk Management Committee

The Risk Management Committee (RMC) meets periodically to address matters as needed. A

majority of the members must be present for the purpose of conducting RMC business. Consensus decision making is the goal for the RMC. The RMC is comprised of the following members:

- Commissioner - Chair
- Deputy Commissioner –Co-Chair
- Chief Risk Officer – RMC coordinator and meeting facilitator
- General Counsel
- Chief Information Officer
- Chief Financial Officer
- Assistant Commissioner – Single Family Division
- Assistant Commissioner – Multifamily Division
- Assistant Commissioner – Policy
- Director of Human Resources

RMC responsibilities include, but are not limited to:

- Develop the Agency Risk Management and Internal Control Framework, and update as needed
- Evaluate, prioritize and approve the Agency’s risk management and internal control activities
- Complete the Agency Risk Profile, including review and approval of the Agency Risk Profile report for presentation to the Board
- Complete the annual Internal Control System Certification; approve certification supporting documentation (i.e., Control Self-Assessment Tool, Risk Assessment Plan) for presentation to the Board Chair for review and execution of the certification form
- Provide input for and approval of risk assessment project scopes and strategies; review risk assessment project results; approve process improvement and corrective action measures, as applicable
- Periodically examine the Agency’s risk tolerances (i.e., the amounts and types of risk the Agency is willing to pursue or retain)

Chief Risk Officer

In addition to the responsibilities related to the facilitation and coordination of the RMC, the CRO will also:

- Coordinate the annual Conflict of Interest Disclosure update; present results to the Board; collaborate with the Deputy Commissioner, as needed, to determine actions required by staff to mitigate conflict of interest risk, and/or to approve staff requests for external employment and/or external board or other membership
- Manage the Navex Global EthicsPoint (third party vendor) reporting hotline
- Collaborate with the Legal Division to triage and investigate reports of fraud, misuse of funds, conflicts of interest or other concerns; provide periodic reports regarding the status of investigations to the RMC and the Board
- Collaborate with management and staff to complete risk assessment projects as scheduled in the Agency Risk Assessment Plan
- Collaborate with the Human Resources Division to ensure all new staff complete required risk management and ethics training within 60 days of starting at the Agency, and annually thereafter; ensure all managers and staff complete annual Code of Conduct training and

certification

- Collaborate with the Human Resources and Communications Divisions to develop and update as needed, risk management and internal controls-related training for Agency staff

Managers (including members of the RMC, as applicable)

- Demonstrate a commitment to integrity and ethical values
- Demonstrate a commitment to recruit, develop, and retain competent staff
- Evaluate staff performance and hold staff accountable for their risk management and internal control responsibilities
- Define clear and measurable objectives to enable the identification of risks to those objectives
- Identify, analyze and respond to risks relating to the achievement of defined objectives
- Consider the potential for fraud when identifying, analyzing and responding to risks
- Identify, analyze and respond to significant internal and external changes that could impact the risk management and internal control systems
- Design control activities to achieve objectives and respond to risks
- Design the information system and related control activities to achieve objectives and respond to risks
- Implement control activities through policies
- Make sure that information received from internal and external sources is reliable for decision making
- Communicate accurate and reliable information internally and externally as necessary to achieve Agency objectives
- Establish activities for monitoring and evaluating Agency risk management and internal control systems and processes
- Remediate identified risk management and internal control deficiencies on a timely basis
- Coordinate with the legal division to determine if risk management and internal control processes, practices and treatments are compliant with regulatory, statutory, program rule, program guide and policy requirements
- Alert member of Servant Leadership Team (SLT), direct supervisor, or CRO of significant risk or internal control concerns
- Attend Risk Management Committee meetings as required
- Attend risk management and internal control-related training sessions as required

Staff

- Demonstrate a commitment to integrity and ethical values
- Identify, analyze, evaluate and respond to risks impacting their job objectives
- Maintain an awareness of risks (current and potential) relating to their job and areas of responsibility
- Actively support and contribute to risk management and internal control initiatives
- Alert members of SLT, direct supervisor or CRO of significant risk and internal control concerns
- Attend risk management and internal control-related training sessions as required

Chapter 4 – Key Risk Management and Internal Control Framework Components

- **Training:** Staff complete ethics, risk management and internal control-related training within 60 days of starting employment at the agency and annually thereafter. The training includes but is not limited to the following:
 - Risk management webinar (includes ethics, fraud prevention, conflict of interest, data practices, required disclosures)
 - Code of conduct webinar and certification
 - Prohibition of harassment and sexual harassment
 - Information security
- **Policies and procedures, including program guides:** Keep current policies and procedures pertaining to key duties, tasks and responsibilities.
- **Board Reporting:** The Agency holds monthly board meetings where the Servant Leadership Team and other staff provide information to the Board regarding all aspects of the Agency's business, including, as necessary, matters relating to risk management and internal controls.
- **Agency Risk Profile:** A risk profile is the periodic identification, analysis and documentation of critical risk sources to an organization; risks that could impact the organization's ability to achieve its stated objectives over a future time period. Specifically for Minnesota Housing the Agency Risk Profile focuses on the critical risks confronting the Agency which could negatively impact the Agency's ability to achieve the goals identified in the Minnesota Housing Strategic and Affordable Housing plan documents.
 - The primary purpose for completing the Agency Risk Profile is to assist the Commissioner and Risk Management Committee in communicating risk-related issues to the Board
 - The Agency Risk Profile is a self-assessment exercise completed by the RMC
 - The Agency Risk Profile is completed biennially, or more frequently as requested by the Board, with a formal report issued to the Board
- **Annual Financial Audit:** The Agency contracts with an independent audit firm to complete an annual financial audit. The scope of the audit includes:
 - Opinion on the accuracy and reliability of the Agency's financial statements, including related footnotes and reasonableness of accounting estimates
 - Review of the Agency's level of compliance with major federal program requirements (i.e., Single Audit)
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 - Assessment of the Agency's computerized information system controls and security
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 - The Minnesota Housing Employee Policies and Procedures Manual includes all of the state and federal human resources-related compliance requirements
 - Related to Data Practices, the Agency has designated a Responsible Authority, Data Practices Compliance Officer, and Division designees. The Data Practices Manual details all required compliance elements and outlines processes for agency staff to follow. Applicable staff are provided annual training on the requirements and procedures
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 - The annual financial audit scope includes an assessment of the Agency's compliance with major federal program requirements (i.e., the Single Audit)
- **Continuity of Operations Plan (COOP):** The Agency maintains a COOP which includes a Disaster Recovery Plan component.
 - The Disaster Recovery Plan, is reviewed, updated and tested annually
 - The Agency has contracted for an alternative "hot" site processing center. The readiness and functionality of this site is included in the scope of the annual disaster recovery testing.
 - The COOP, including Disaster Recovery Plan, may be reviewed and assessed during the annual financial audit

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite #400
Saint Paul, Minnesota 55102**

**RESOLUTION NO. MHFA 20-039
Superseding Resolution No. MHFA 12-062**

**RESOLUTION REVISING AND RESTATING THE ROLE OF THE
FINANCE AND AUDIT COMMITTEE**

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WHEREAS, the Board has determined a need to update the resolution governing that Committee to better reflect the activities and function of the Committee.

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THAT, Resolution No. 12-062 is hereby superseded by this Resolution, which updates and restates the activities and function of the Committee;

THAT, the Committee shall perform the activities designated herein:

Committee Members. The Board shall have a Committee consisting of all members of the Board.

1.

The Board Chair shall preside at all Committee meetings. In the Board Chair’s absence, the Vice Chair shall preside. A majority of the members (excluding vacancies) shall constitute a quorum for the purpose of conducting the Committee’s business and exercising its powers and for all other purposes. When a quorum is in attendance, action may be taken by the Committee upon a vote of a majority of the members present.

2. Committee Purpose. The purpose of the Committee is to receive and review, as necessary, certain financial information of the Minnesota Housing Finance Agency (“Agency”) and, when necessary, recommend action by the members of the Board as a whole. The Committee is responsible for overseeing the Agency’s accounting and financial reporting processes, the audit of the Agency’s annual financial statements, and the overall approach to risk management and internal controls. Some of the Committee’s responsibilities may be delegated in writing to Agency staff, as appropriate. The Committee shall meet as needed to address matters. The Committee shall have access to financial expertise, whether in the form of Agency staff or outside financial advisors or auditors. It may ask others to attend its meetings and provide pertinent information as necessary.

3. Committee Responsibilities The Committee shall perform the following duties unless they are performed directly by the Board:

- a) Recommend to the Board the selection and replacement of any financial advisor, investment banker and publicly registered public accounting firm (independent auditor) engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Board.
- b) As necessary, meet with the financial advisor, investment bankers, independent auditor and other Agency staff, review Agency financial reports, evaluate or receive evaluations of the performance of the financial advisor, the investment bankers, or the independent financial auditor, and receive reports on the sale and issuance of bonds.
- c) Oversight of agency risk and internal controls, including consultation with senior management and the Chief Risk Officer
- d) Review, at least annually, with the independent auditor and Agency staff:
 1. The independent auditor’s plan for the financial audit, and scope thereof
 2. The independent auditor’s report on the Agency’s annual financial statements and related footnotes.
 3. The independent auditor’s report on the Agency’s Federal Program single audit.
 4. The independent auditor’s required communications, including reporting on significant accounting areas and estimates.
 5. The independent auditor’s report on internal controls and governmental audit standards including, as necessary, any assessment or report related to the Agency’s computerized information system controls and security.
 6. Any other matters the independent auditor chooses to bring to the attention of the Committee
- e) Review, at least annually, with Agency staff:
 1. The Agency’s Risk Management and Internal Control Framework.
 2. Agency compliance with the Risk Management and Internal Control Framework including, but not limited to:
 - Code of conduct, ethics, and conflict of interest.
 - Procedures for the receipt, retention and treatment of reports of wrongdoing or other concerns received, and reporting on investigative activities and resolutions, if any

- Risk assessments and other internal control reviews, including the Agency Risk Profile, Annual Internal Control System Certification, and program/business process risk assessment projects.
- f) Make reports and recommendations, as necessary, to the Board.
- g) Perform such other functions as assigned by the Board.
- h) The Committee may create subcommittees as necessary.

Adopted this 27th day of August, 2020



Chairman

Item: Approval, Home Improvement Loan Programs Changes

Staff Contact(s):

Shannon Gerving, 651.296.3725, shannon.gerving@state.mn.us

Laura Bolstad Grafstrom, 651.296.6346, laura.bolstad.grafstrom@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

As a result of the single family division's annual program review process, staff requests Board approval for the following changes to the Home Improvement Loan Programs: 1) add solar as an eligible improvement under the secured Incentive Rate Energy Conservation program; 2) increase maximum loan amounts for the secured Incentive Rate Energy Conservation program, unsecured Incentive Rate Energy Conservation program, and Accessibility program; and 3) update corresponding sections in the Home Improvement Loan Programs Procedural Manual.

Fiscal Impact:

Home Improvement loans are amortizing, interest-bearing loans financed from pool 2, without financing expense. These loans increase the Agency's interest earnings and the program changes are expected to help maintain loan production.

Meeting Agency Priorities:

- Improve the Housing System
- Preserve and Create Housing Opportunities
- Make Homeownership More Accessible
- Support People Needing Services
- Strengthen Communities

Attachment(s):

- Background
- Request Details
- Updates to Programs Procedural Manual

Background:

The Home Improvement Loan Programs include the Fix Up, Community Fix Up, Incentive Rate Energy Conservation and Accessibility Loan Programs. The programs allow homeowners to finance a variety of permanent improvements to their homes with affordable repayment terms. The program is delivered through a statewide network of lenders, including private sector banks, credit unions, nonprofit organizations, and local units of government. The program saw strong production during the height of the pandemic, with more recent numbers leveling off to pre-pandemic volume.

Home Improvement Loan Programs Production		
Program Year (10/1-9/30)	\$ Loan Volume	# of Loans
2020	\$24M	1097
2021	\$35M	1300
2022 (projected)	\$26M	1050

Request Details:

Solar panels were not originally included in the secured Incentive Rate Energy Conservation program because they do not meet the traditional definition for energy conservation. They could, however, be considered an energy saving technology because they reduce the amount of electricity homeowners will need to buy from utility companies. Adding solar panels as an eligible improvement under the secured energy loan will allow homeowners to finance solar panels with the added benefits of the program, including a lower rate than the regular Fix Up program and no income limit.

We propose to increase the maximum secured Incentive Rate Energy Conservation loan amount to \$60,000 to support solar panels, particularly in Greater Minnesota where the cost of solar panel installation may be higher due to transportation costs. We propose to increase the unsecured Incentive Rate Energy Conservation loan amount to \$30,000 to account for inflation and higher costs of materials. Currently, our Accessibility loan option is underutilized, with only one loan originated per year for the last two years. We propose to increase the Accessibility loan amount to \$35,000 to both account for inflation and cost of materials, and to allow for more extensive accessibility improvements, such as making both a bathroom and a kitchen accessible.

In summary, to meet the current market conditions and need, we propose increasing the maximum loan amounts as outlined below:

Loan Program	Current Amount	Proposed Amount
Incentive Rate Energy Conservation (secured)	\$ 25,000	\$ 60,000
Incentive Rate Energy Conservation (unsecured)	\$ 25,000	\$ 30,000
Accessibility (secured)	\$ 25,000	\$ 35,000

If the Board approves the requested changes, the proposed program and manual changes will be effective later this summer, contingent on implementation of system changes. The requested authorization includes both the language below and any additional non-substantive edits deemed necessary by the legal division to effectively implement the approved substantive changes.

Updates to Home Improvement Programs Procedural Manual:

MINNESOTA HOUSING – HOME IMPROVEMENT PROGRAMS PROCEDURAL MANUAL

~~January 8, 2021~~ August 1, 2022

5.01 Eligible Loans

General Loan Eligibility Requirements

Minnesota Housing purchases closed and funded loans from Lenders under contract in Minnesota Housing loan programs. The Lender must warrant that the following criteria are met for each loan submitted for purchase:

- All loans are originated, processed, credit underwritten, closed, and disbursed in accordance with the requirements of this Procedural Manual;
- If the loan is secured by a mortgage in first lien position, the combination of the interest rate and loan repayment term may not cause the annual percentage rate (APR) for the loan to exceed the first lien position rate published on Minnesota Housing’s website by more than .49%;
- All loans must be current as to monthly payments at the time of loan purchase;
- All local, state, and federal laws and regulations including those relating to affirmative action, fair housing, equal opportunity, truth-in-lending, and wrongful discrimination in residential housing are met;
- Minnesota Housing program income and property requirements are met; and
- The loan must be originated and closed in the name of the Lender that is a party to the Participation Agreement and that locked the loan on the Minnesota Housing loan commitment system.

Eligible Loan Types/Loan Amounts/Loan Terms

Fix Up Loan Type	Min. Ln. Amt.	Max. Ln. Amt.	Min. Ln. Term	Max Ln. Term
Regular - Secured Loan	\$2,000	\$75,000	1 year	20 years
Regular - Unsecured Loan	\$2,000	\$25,000	3 years	10 years
Energy/Accessibility Incentive - Secured Loan	\$2,000	\$6025,000	1 year	20 years
Energy Incentive – Unsecured Loan	\$2,000	\$30,000	1 year	20 years
Accessibility – Secured Loan	\$2,000	\$35,000	1 year	20 years
Community Fix Up - Secured Loan	\$2,000	\$75,000	1 year	20 years

The above loan repayment terms apply subject to the following:

- The maximum possible maturity on a loan in an amount less than or equal to \$10,000 is 10 years.

- The maximum possible maturity for secured loans in an amount greater than \$10,000 is 20 years.
- The Lender will not make a loan term for an unreasonable length of time. Final maturity of the loan will be commensurate with the Borrower's ability to pay, including such considerations as debt-to-income ratio, size of household, and Qualifying Income.
- For properties secured by a mortgage or contract-for-deed, the term of a secured Fix Up loan may not extend beyond the balloon payment due date, if applicable.
 - The Lender must review the contract-for-deed for any terms that would be incompatible with the proposed loan or proposed improvements
- For tribal trust properties:
 - the loan term may not extend beyond the term of the individual home-site lease; and
 - the loan must be unsecured.

5.02 Ineligible Loans

Loans ineligible for purchase by Minnesota Housing include, but are not limited to:

- Any Fix Up or Community Fix Up loan secured by a mortgage in first lien position and having an APR that exceeds the first lien position rate published on Minnesota Housing's website by more than .49%.
- Any secured Fix Up loan or any secured Community Fix Up loan subject to a reverse mortgage.
- Any secured Fix Up loan to any Borrower(s), Co-Borrower(s), or Co-signer(s) with a minimum credit score (s) below 620.
- Any secured loan to any Borrower(s), Co-Borrower(s), or Co-signer(s) who is/are without a credit score(s) and is/are unable to establish satisfactory alternative credit with at least a 6-month history.
- Unsecured loans to a Borrower(s), Co-Borrower(s), or Co-signer(s) that have no established credit score.
- Unsecured loans to a Borrower(s), Co-Borrower(s), or Co-signer(s) with a credit score(s) below 680.
- Unsecured loans in an amount greater than \$25,000 or the addition of an unsecured loan to one already existing that would cause the total outstanding unsecured Fix Up loans to exceed \$25,000.
- Incentive Rate Energy Conservation loans in an amount greater than \$60,000 for secured or \$30,000 for unsecured and Accessibility Improvement Loans in an amount greater than \$235,000 or the addition of an Incentive Rate Energy Conservation and Accessibility Improvement Loan to one already existing that would cause the total outstanding Incentive Rate Energy Conservation and Accessibility Improvement Loans to exceed \$6025,000.
- Secured loans on properties located on tribal trust land.
- Loans with repayment terms in excess of the terms referenced in section 5.01.



Board Agenda Item: 7.B
Date: 6/23/2022

Item: Request for Updated Delegated Authority Related to Extensions of Single Family Loans

Staff Contact(s):

Jennifer Leimaile Ho, 651.276.1362, Jennifer.ho@state.mn.us

Anne Smetak, 651.263.1460, anne.smetak@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

The Commissioner requests approval of an update to existing Board Delegation 24 to allow six months extensions of single family loan terms.

Fiscal Impact:

None.

Meeting Agency Priorities:

- Improve the Housing System
- Preserve and Create Housing Opportunities
- Make Homeownership More Accessible
- Support People Needing Services
- Strengthen Communities

Attachment(s):

- Proposed Resolution: Revised Board Delegation 24: Resolution Delegating Authority to the Commissioner Regarding Single Family Grant and Loan Extensions

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha St N, Suite 400
St. Paul, Minnesota 55102**

**RESOLUTION NO. MHFA 22-XXX
REVISED BOARD DELEGATION NO. 024**

**RESOLUTION DELEGATING AUTHORITY TO THE COMMISSIONER
REGARDING SINGLE FAMILY GRANT AND LOAN EXTENSIONS**

WHEREAS, the Minnesota Housing Finance Agency (“Agency”) Commissioner (“Commissioner”) has requested the Minnesota Housing Finance Agency Board (“Board”) to delegate to the Commissioner certain authority regarding the administration of loans and grants in order to improve the efficiency of the Agency’s loan and grant programs; and

WHEREAS, such authority would permit the Commissioner to perform the activities encompassed by the delegation without prior Board approval; and

WHEREAS, the Board has considered the request and finds that it is in the best interests of the Agency to delegate such authority.

NOW, THEREFORE, BE IT RESOLVED:

That the Board delegates the authority described below to the Commissioner so long as such authority is exercised in accordance with the parameters and requirements stated herein. This delegated authority shall remain in effect for the current and future Commissioners until revoked.

DELEGATED AUTHORITY

To authorize the Commissioner to approve grant or loan extensions for all single family grants and loans.

PARAMETERS OF DELEGATED AUTHORITY

1. A grant or loan extension period must not exceed six months.
2. The total grant term, with extensions, must not exceed five years.
3. The grant or loan extension must be approved by an appropriate person or committee designated by the Commissioner.

REPORTING REQUIREMENTS

The Commissioner shall make a written report to the Board at least annually describing the actions taken utilizing the delegated authority.

OTHER CONSIDERATIONS

None.

Adopted this 23rd day of June, 2022

CHAIRMAN



Board Agenda Item: 7.C
Date: 6/23/2022

Item: Approval, Selection and Commitment 2022 Housing Tax Credit (HTC) Round 2 and Deferred Loan Selection

Staff Contact(s):

Nicola Viana, 651.296.8277, nicola.viana@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

Staff requests the following approvals related to the 2022 HTC Round 2 Request for Proposals (RFP):

- Adoption of a resolution approving the allocation of competitive federal 9% Low Income Housing Tax Credits (HTCs). Staff request, and the resolution includes, the following waivers:
 - Chapter 2.H of the 2022-2023 Qualified Allocation Plan to exceed the \$1,350,000 per development 9% HTC cap to allow for an aggregate amount of \$2,116,358 for Union Park Flats
 - Chapter 2.H of the 2022-2023 Qualified Allocation Plan to exceed the two developments per developer or general partner cap to allow for one additional project for Trellis Company
 - Chapter 2.O of the 2022-2023 Qualified Allocation Plan to allow for a third supplemental allocation of 9% HTCs for Manor Hills
 - A waiver of the the predictive cost model threshold of 25% for Calvary Apartments
- Adoption of a resolution approving the selection of Isle View Apartments for further processing, and the commitment of deferred financing, and subject to final underwriting and due diligence, authorizing the closing of loans related to an Asset Management Financing Adjustment/Financing Adjustment Factor (FA/FAF) deferred loan commitment in the amount of up to \$2,000,000 for a 30-year term and up to a 1.0% interest rate.

Fiscal Impact:

Housing tax credits are a federal resource and do not directly impact the Agency's financial condition.

The Asset Management FA/FAF loan will be funded out of federal resources, will be deferred, and may earn up to 1% interest for the Agency.

Meeting Agency Priorities:

- Improve the Housing System
- Preserve and Create Housing Opportunities
- Make Homeownership More Accessible
- Support People Needing Services
- Strengthen Communities

Attachment(s):

- Background
- 2022 HTC Round 2: Proposals Recommended for Selection
- 2022 HTC Round 2: Proposals Not Recommended for Selection
- 2022 HTC Round 2 Waiver Request
- 2022 HTC Round 2 Selection Report
- 2022 HTC Round 2 Development Summaries
- Resolutions

Background

The total 2022 HTC Round 1 9% allocation amount available and administered by Minnesota Housing is \$10,905,629. Of that total amount, Minnesota Housing awarded \$9,760,289 in the 2021 Consolidated RFP.

On March 25, 2022, Minnesota Housing accepted applications for the 2022 HTC Round 2. A total of \$1,713,907 in 9% HTCs were available, including \$375,000 from the Rural Development set-aside (RD set-aside) because there were no eligible RD set-aside projects in the 2021 Consolidated RFP/2022 HTC Round 1. Table A provides a calculation summary of the total 2022 HTC Round 2 credits available.

Table A. 2022 HTC Round 2 Available Credits

2022 HTC Round 1 Remaining Balance*	Increase Due to IRS Update to Population	Returned or Unused HTCs	2022 Current HTC Balance (available for Round 2)*
\$ 1,145,340	\$ 130,125	\$ 438,442	\$ 1,713,907

* Balance includes RD set-aside

In HTC Round 2 of each allocation year, priority is given to developments that have previously received a substantial allocation of eligible HTCs. In accordance with Chapter 2.E of the 2022-2023 Qualified Allocation Plan (QAP), projects that have previously received HTCs from Minnesota Housing or a suballocator and have an annual HTC shortfall of at least 5%, but not more than 33.33% of the total qualified annual HTC amount, have priority over other applicants in Round 2. If more than one project qualifies under the supplemental priority, projects are ranked according to their validated score.

Proposals submitted to Minnesota Housing were ranked in accordance with the selection criteria outlined in the State of Minnesota's Housing Tax Credit 2022-2023 QAP. The highest-ranking applications were reviewed by a team of Minnesota Housing staff underwriters, architects, asset managers, and housing stability officers for:

- Consistency with the Agency's mission and strategic priorities
- Compliance with statutes and HTC program guidelines
- Consistency with HTC program priorities
- Financial feasibility, market need, architectural quality, and overall development team capacity

2022 HTC Round 2: Proposals Recommended for Selection

Minnesota Housing received eight (8) applications requesting \$3,848,781 in HTCs. The applications were reviewed, scored, and ranked according to the priorities specified in Minnesota Housing's 2022-2023 QAP. Top scoring developments moved into the feasibility and underwriting phases. Based on scoring, feasibility and available HTCs, five (5) proposals are recommended for selection, and three (3) proposals are not recommended for selection.

Table B. Recommended HTC Selections

Project	Location	HTC Allocated
Union Park Flats	Saint Louis Park	\$ 197,091
Calvary Apartments*	Minneapolis	\$ 4,676
Treehouse*	Saint Paul	\$ 415,000
Manor Hills Apartments	Rochester	\$ 405,307
Isle View Apartments	Isle	\$ 375,000
	Total HTC Allocated	\$ 1,397,074

*The HTCs for Calvary Apartments will be apportioned to the city of Minneapolis, and the HTCs for Treehouse will be apportioned to the city of St. Paul.

The Calvary Apartments proposal included approximately \$2,000,000 of proceeds anticipated to be generated from the state historic tax credit program. Unfortunately, the state historic tax credit program was not extended by the Minnesota legislature and is scheduled to sunset after June 30, 2022. The developer has submitted the required information to the State Historic Preservation Office (SHPO); however, the final determination for state historic tax credits is not expected to be known until early July 2022. In the event SHPO does not grant the final approval for the state historic tax credits, the project would have a gap. Given the uncertainty, staff is proposing a recommendation that includes a potential increase of up to \$220,00 in HTCs to allow if the state historic tax credits are no longer a viable option.

Isle View Apartments is recommended for a \$2,000,000 Financing Adjustment/ Financing Adjustment Factor (FA/FAF) deferred loan with a 30-year term and up to a 1% interest rate. This loan is subject to final underwriting and due diligence review.

If the proposed 2022 HTC Round 2 allocations are approved by the board, the remaining balance of 2022 HTCs will be \$316,833, and will be held for projects in need of additional credits to address other cost changes, including the potential gap increase if Calvary Apartments is not successful in securing the state historic tax credit approvals before the program sunsets.

2022 HTC Round 2: Proposals Not Recommended for Selection

Two projects will be placed on the waiting list and may apply for the 2022 Consolidated RFP/2023 HTC Round 1. Staff did not complete a final market or feasibility review on these projects. These projects will be further evaluated for underwriting, market, and financial feasibility if additional HTCs become available. If additional HTCs become available through a return of HTCs by one or more previously selected projects, or from the National Pool, staff will evaluate projects according to rank and HTC need on the 2022 waiting list as set forth in Chapter 2.T of the QAP. Selecting proposals from the waiting list are subject to further review and board selection.

Table C. Waiting List Summary

Project	Location	HTC Requested
Monticello Workforce Housing	Monticello	\$ 1,350,000
Silverarrow Apartments	Sauk Centre	\$ 375,000

Balsam II Apartments recently received a \$1,000,000 deferred loan award from Hennepin County and will not be placed on the waiting list due to no longer having a financial gap. Table D provides an overview of the non-select and no waiting list proposals.

2022 HTC Round 2 Waiver Request

Staff proposes four waiver requests as further described below.

Waiver of Development Allocation and Developer Credit Limits

Chapter 2.H of the 2022-2023 QAP states that during the allocation year, no developer or development may receive HTCs in excess of the per developer or development limit without a waiver. The per developer or general partner HTC limit is the greater of: the amount representing 10% of the state's per capita volume limit in HTCs or the amount needed to support two developments in the case that two developments selected are being developed by the same developer or general partner. Projects are subject to a development limit of no more than \$1,350,000 in cumulative annual HTC.

Minnesota Housing's goal is to optimize the use of all available sources of funding for multifamily developments, including private investor equity, amortizing loans, and deferred loans to produce the maximum number of affordable rental units that meet the strategic priorities adopted by Minnesota Housing and to represent developments that are sustainable, cost effective, and geographically diverse. The board may waive these limits for projects that exhibit developer/sponsor capacity or financial need.

- **Housing Tax Credit Waiver of Development Allocation Credit Limit**
Union Park Flats exceeded the development limit. The development is eligible for Minnesota Housing's per development waiver criteria because it has demonstrated the HTCs are necessary for the financial feasibility of the proposed project and that a significant funding gap will remain if the waiver is not granted. A waiver of the development limit will allow the developers to maximize the amount of equity available to fund development costs.

Staff recommends a waiver to the \$1,350,000 per development cap to allow for an aggregate amount of \$2,116,358 in 2022 HTCs for the Union Park Flats project in Saint Louis Park. The amount exceeds the cap by \$766,358.

- **Housing Tax Credit Waiver of the Developer Limit**
Trellis Company exceeded the two developments per developer limit. The developer is eligible for Minnesota Housing's per developer waiver criteria because: 1) the developer demonstrated the ability and capacity of the development team to proceed expeditiously to complete multiple developments; and 2) the developer has demonstrated the HTCs are necessary for the financial feasibility of the proposed development and that a significant funding gap will remain if the waiver is not granted.

Trellis Co. was selected for 9% HTC in Round 1 for Alexander Baker and Hillside Heights. With the selections of Calvary Apartments and Treehouse, this brings Trellis Company over the developer limit of two projects per HTC year. Calvary Apartments and Treehouse will be apportioned to suballocators. There are no known developer capacity issues at this time.

Waiver of Additional Allocation Credit Limit

Chapter 2.O of the 2022-2023 QAP states that only one supplemental or additional HTC allocation be allowed for each development. The Minnesota Housing board is authorized to waive, on a case-by-case basis for good cause shown, any conditions of 2022-2023 QAP that are not mandated by Internal Revenue Code (IRC) Section 42.

Staff recommends a waiver of the additional HTC allocation limit to allow a third supplemental allocation for the Manor Hills project in Rochester. The project received a partial allocation of 9% HTC in 2021 HTC Round 1, 2021 HTC Round 2, and 2022 HTC Round 1. Staff requests an additional allocation of HTCs to fully fund the project.

Waiver of Predictive Cost Model

The predictive cost model is a tool that Minnesota Housing uses to identify, from a statistical perspective, proposed rental developments with unusually high costs. The model predicts the costs of a proposed development based on building characteristics and cost data from developments that the Agency has previously financed or to which it has awarded or allocated HTCs and is benchmarked against industry-wide construction data.

Minnesota Housing staff analyzes all proposals on a total development cost (TDC) and per unit cost basis using a predictive cost model. Minnesota Housing's research division developed this model as a method to identify proposals having higher than expected costs. While the model is statistically robust, explaining 55% to 76% of the variation of TDC, it cannot capture all of the components of a project and leaves 24-45% of the variation unexplained. To account for this uncertainty, Minnesota Housing instituted a 25% buffer around the predicted costs. With the 25% threshold, staff has historically had to conduct further investigation for 1 out of 6 proposals. If a project exceeds the predictive cost model estimate by more than 25 percent, staff will undertake a thorough evaluation of the project's costs and other development costs in similar geographies for comparable properties, including potential mitigation methods, and report this information with the Board.

Calvary Apartments exceeds the predictive cost model estimate by more than 25%. Higher construction costs relative to Minnesota Housing's predictive cost model represent the more expensive adaptive re-use of the historic church and school. Costs could rise over construction contingency, and historical replacement of windows and other features are unknown until further in development. Based on project review and analysis, staff determined that the increased cost is reasonable due to higher historical replacement requirements.

Table D. Predictive Cost Model Waiver

Project Name	Use	Total Development Cost per Unit	Predictive Model Cost per Unit	Amount Over
Calvary Apartments	Adaptive Reuse/ Historic Preservation	\$536,000	\$422,212	27%



2022 RFP / 2022 HTC ROUND 2, SELECTION REPORT

Property D#	Project #	Project Name	City	County	Rental Assistance Units	High Priority Homeless Units	People w/ Disabilities Units	Housing Tax Credit Units	Total Units	Rural Development Set Aside	Recommended HTC Allocation
RECOMMENDED FOR SELECTION											
FULLY FUNDED: MET SUPPLEMENTAL PRIORITY											
D8309	M19030	Union Park Flats	Saint Louis Park	Hennepin	13	7	6	60	60		\$ 197,091
D8426	M19037	Calvary Apartments (Suballocator)	Minneapolis	Hennepin	41	10	5	41	41		\$ 4,676
D8329	M19032	Treehouse (Suballocator)	Saint Paul	Ramsey	18	7	0	36	36		\$ 415,000
D8320	M19034	Manor Hills Apartments	Rochester	Olmsted	8	4	4	72	72		\$ 405,307
PARTIAL FUNDED: MET SUPPLEMENTAL PRIORITY OR RURAL DEVELOPMENT SET-ASIDE											
D3325	M19029	Isle View Apartments	Isle	Mille Lacs	41	4	0	41	41	Yes	\$ 375,000

RECOMMENDED FOR NON-SELECTION AND PLACED ON THE WAITING LIST

DOES NOT MEET SUPPLEMENTAL PRIORITY											
D8416	M19033	Monticello Workforce Housing	Monticello	Wright	6	7	6	59	59		\$ -
RURAL DEVELOPMENT SET-ASIDE											
D8498	M19024	Silverarrow Apartments	Sauk Centre	Stearns	21	0	0	27	28	Yes	\$ -

RECOMMENDED FOR NON-SELECTION AND NOT PLACED ON THE WAITING LIST

MET SUPPLEMENTAL PRIORITY												
		AVAILABLE	RECOMMENDED	BALANCE								TOTAL
D8307	M19035	Balsam Apartments II	Dayton	Hennepin	13	4	5	48	48		\$ -	
		HOUSING TAX CREDITS \$	1,338,907 \$	1,022,074 \$								\$ 1,397,074
		RURAL DEVELOPMENT (RD) SET-SIDE \$	375,000 \$	375,000 \$								\$ -
		TOTAL HTC FOR ROUND 2 \$	1,713,907 \$	1,397,074 \$								\$ 316,833

Isle View Apartments

Developer	Volunteers of America National Services
Location	Isle
Property Number (D#)	D3325
Project Number	M19029

Project Description

Isle View Apartments is the acquisition and rehabilitation of an existing Section 8 rental housing development located in Isle View, Mille Lacs County. The development consists of a 41-units in a three-story elevator building for seniors and the disabled. Isle View was a Rural Development project until the USDA RD mortgage was paid off when the sponsor recently acquired the property. The RD Declaration remains in place as long as the tenants that were living at the property prior to the payoff of the old RD mortgage continue to live at the property. The sponsor has a commitment from a certified RHS/RD lender to provide a combined bridge loan and permanent first mortgage for the property which will re-establish Isle View as a Rural Development project.

Populations Served

- The development provides 41 units for elderly (62+) and disabled individuals. Disabled tenants are not age restricted.
- 4 units will serve High Priority Homeless (HPH) with household income restricted to the 30% MTSP level
- 37 units restricted to household incomes at the 50% MTSP level
- All 41 units benefit from rental assistance through a Sec 8 HAP contract

Capital Sources of Funding

<u>Name of Source</u>	<u>Award Amount</u>
Seller Note	\$100,000
Energy Rebates	\$12,000
Sales Tax Rebate	\$5,345
Deferred Loan Request	\$2,000,000
Syndication Proceeds	\$3,187,181
Deferred Developer Fee	\$71,288
Replacement Reserves	\$49,000
First Mortgage	\$1,134,000
Total Permanent Financing	\$6,558,814
FUNDING GAP REMAINING	\$0

Union Park Flats

Developer	Project for Pride in Living, Inc.
Location	Saint Louis Park
Property Number (D#)	D8309
Project Number	M19030

Project Description

Union Park Flats is a 60-unit, new construction general occupancy predominantly family housing project that includes 13 permanent supportive housing units in St. Louis Park. The project includes studio, 1, 2, 3 and 4 bedroom units and will serve both single households and families. The project site currently has an educational wing of a church that will be demolished and environmental remediation that will be completed to prepare the site for new construction.

Populations Served

- The development will provide 47 units of general occupancy family housing and 13 units of supportive housing.
- 7 of the supportive housing units are for High Priority Homeless households for single adults.
- 6 of the supportive housing units are for People with Disabilities.
- The 13 permanent supportive units will benefit from Housing Support, be referred through Coordinated Entry and will also meet the Long Term Homeless definition.

Capital Sources of Funding

- Three general occupancy units will be deeply affordable and restricted to 30% rent and income limits for 10 years.

<u>Name of Source</u>	<u>Award Amount</u>
Energy Rebates	\$58,062
Sales Tax Rebate	\$505,073
Syndication Proceeds	\$19,468,271
Deferred Developer Fee	\$300,000
St. Louis Park (Trust Fund)	\$450,000
Minnesota Brownfields	\$14,528
Hennepin County HOME	\$1,000,000
Hennepin County ERF	\$177,000
Met Council TBRA	\$236,800
Met Council LCDA-TOD	\$1,900,000
Minnesota Housing First Mortgage	\$4,470,000
Total Permanent Financing	\$28,579,734
FUNDING GAP REMAINING	\$27

Treehouse

Developer	Trellis Co.
Location	Saint Paul
Property Number (D#)	D8329
Project Number	M19032

Project Description

Treehouse is a 36-unit, new construction, senior housing project located in St. Paul. The project is a 5-story elevator building and includes studio and one-bedroom apartments and will serve primarily single households. The project is adjacent to the existing Highland Chateau Rehabilitation and Care Center so the project will be part of a larger housing and service campus for seniors and residents of the project will have access to the existing common amenities, spaces and services in other buildings. The project will expand the range of options for seniors, providing a bridge for those individuals who no longer need skilled nursing care offered at Highland Chateau, but who still need quality, affordable homes with access to community and independent living support.

Populations Served

- The development will provide 36 units for seniors 55+ including 18 permanent supportive housing units.
- 7 units will serve High Priority Homeless households for single adults who will also meet the long-term homeless definition.
- 18 permanent supportive units will benefit from Housing Support and be referred through coordinated entry.
- The project will serve households with incomes ranging from 30% to 50% MTSP.

Capital Sources of Funding

<u>Name of Source</u>	<u>Award Amount</u>
Energy Rebates	\$12,000
Sales Tax Rebate	\$205,797
Syndication Proceeds	\$11,344,327
Deferred Developer Fee	\$161,998
Ramsey County	\$490,000
St. Paul HOME	\$550,000
Seller Loan	\$350,000
Total Permanent Financing	\$13,114,122
FUNDING GAP REMAINING	\$0

Manor Hills Apartments

Developer	Titan Development and Investments
Location	Rochester
Property Number (D#)	D8320
Project Number	M19034

Project Description

Manor Hills Apartments is a 72-unit, new construction, workforce, general occupancy housing project that includes 8 permanent supportive housing units in Rochester. The project includes 1, 2, and 3 bedroom units and will serve both single households and families.

Populations Served

- The development will provide 72 units workforce general occupancy housing, including 8 units of supportive housing.
- 4 of the supportive housing units are High Priority Homeless units for single adults.
- 4 of the supportive housing units are for People With Disabilities.
- The 8 permanent supportive units will benefit from Housing Support, referred through Coordinated Entry and will meet the Long Term Homeless definition.
- The project will serve households with incomes ranging from 30% to 60% MTSP.

Capital Sources of Funding

<u>Name of Source</u>	<u>Award Amount</u>
Energy Rebates	\$11,000
Syndication Proceeds	\$17,229,196
First Mortgage	\$6,650,000
Total Permanent Financing	\$23,890,196
FUNDING GAP REMAINING	(\$4)

Calvary Apartments

Developer	Trellis Co.
Location	Minneapolis
Property Number (D#)	D8426
Project Number	M19037

Project Description

The 41-unit development includes the new construction of one building and adaptive reuse of two historic structures, the Calvary Lutheran Church and Parish Building, located one block south of George Floyd Square in Minneapolis. The buildings will contain 15 studios, 5 one-bedroom, 14 two-bedroom, 5 three-bedroom, and 2 four-bedroom apartments as well as common amenities.

All units have rental assistance, including 15 units with Housing Support from Hennepin County and 26 units with Project Based Section 8 from Minneapolis Public Housing Authority.

Calvary Lutheran Church will have a long-term lease at no charge on the large community space and the food shelf/food storage located in the basement. The large community room will be used for both worship services and serve as a community room and TV room for the apartment complex. The basement will contain a food shelf/food storage, which will serve both the public and residents of the building. There will be secure access to the apartment building and apartment related uses.

Populations Served

- 41 units will have income limits restricted to 30% MTSP for a minimum of 10 years.
- 10 units will serve High Priority Homeless Households (4 single adults and 6 families with children).
- 5 units are designated for People with Disabilities.

Capital Sources of Funding

<u>Name of Source</u>	<u>Award Amount</u>
Sponsor Loan (State Historic Tax Credits)	\$2,000,717
Energy Rebates	\$30,000
Sales Tax Rebate	\$418,371
Federal Historic Proceeds	\$1,720,445
Syndication Proceeds	\$10,495,637
Deferred Developer Fee	\$204,092
Hennepin County Pandemic Relief	\$5,880,000
Minneapolis AHTF	\$1,230,000
Total Permanent Financing	\$21,979,262
FUNDING GAP REMAINING	\$1

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, MN 55102**

RESOLUTION NO. MHFA 22-XX

**RESOLUTION APPROVING ALLOCATION OF
FEDERAL LOW INCOME HOUSING TAX CREDITS
FOR CALENDAR YEAR 2022
TO CERTAIN QUALIFIED LOW-INCOME HOUSING BUILDINGS**

WHEREAS, in accordance with the Tax Reform Act of 1986 and the provisions of Minn. Stat. § 462A.221-462A.223, the Minnesota Housing Finance Agency (Agency) has received applications as a duly designated housing credit agency for allocations to certain developments of the Low Income Housing Tax Credit program provided by Section 42 of the Internal Revenue Code of 1986 (IRC); and

WHEREAS, the Agency has applied to said applications the criteria set forth for selection in Minnesota Housing's Qualified Allocation Plan (QAP), duly adopted by the Agency for 2022-2023; and

WHEREAS, the Agency has determined to reserve, for future allocation, portions of the state allocation of the Low Income Housing Tax Credits (LIHTC) to the developments identified below, pending final Agency staff review and delivery by the applicants of additional certifications and information required for the Agency's issuance of such allocations.

NOW, THEREFORE, BE IT RESOLVED:

The Board hereby authorizes Agency staff to allocate portions of the state allocation of Low Income Housing Tax Credits as set out below upon meeting the requirements for allocation contained in Section 42 of the Internal Revenue Code (IRC) and QAP subject to the terms and conditions contained herein:

Developments Receiving Additional Housing Tax Credits

Property #	Project #	Project Name	HTC 9% Allocated
D8309	M19030	Union Park Flats	\$ 197,091
D8426	M19037	Calvary Apartments	\$ 4,676
D8329	M19032	Treehouse	\$ 415,000
D8320	M19034	Manor Hills Apartments	\$ 405,307
		Selection Amount:	\$ 1,022,074

Development Receiving a New Award of Housing Tax Credits

Property #	Project #	Project Name	HTC 9% Awarded
D3325	M19029	Isle View Apartments	\$ 375,000
		Selection Amount:	\$ 375,000

Summary of Housing Tax Credit Selections

Total Number of Housing Tax Credit Selections	5
Total Amount of Housing Tax Credit Selections	\$ 1,397,074

Developments on the 2022 Waiting List

Property #	Project #	Project Name	HTC 9% Requested
D8416	M19033	Monticello Workforce Housing	\$ 1,350,000
D8498	M19024	Silverarrow Apartments	\$ 375,000
		Waiting List Amount:	\$ 1,725,000

1. Pursuant to the above-referenced statutes and the allocation ranking factors contained in the QAP when applied to the applications submitted, Minnesota Housing staff is hereby authorized to make the Low Income Housing Tax Credits reservations and allocations for the above developments in the amounts shown for calendar year 2022 of the Low Income Housing Tax Credits, upon compliance with all of the requirements contained in Section 42 of the IRC and the QAP; and
2. That Agency staff is authorized to allocate the portions of the state of Minnesota's ceiling of Low Income Housing Tax Credits to the developments identified above in the amounts shown, subject to adjustments in accordance with the QAP; and
3. All selections are subject to available resources and the requirements of the Low Income Housing Tax Credit program, and the Commissioner is authorized to approve non-material changes to the selections; and
4. If after a good faith effort Calvary Apartments does not secure the necessary approvals from the State Historic Preservation Office and National Park Service for the state historic tax credits, the total HTC's may be increased from \$4,676 to a maximum of \$220,000 subject to review and approval by the Mortgage Credit Committee. The net value of the increase in HTC's shall not exceed the amount of equity needed to accommodate for the loss of state historic tax credits as solely determined by Minnesota Housing; and
5. Notification letters concerning the above developments will be forwarded to the approved applicants; and
6. THAT, if additional HTC's become available for developments on the wait list, HTC allocations may be made available in accordance with the QAP and Section 42 of the IRC. HTC allocations to developments on the wait list will require both Agency staff review and approval processes and additional action by the board.

7. Execution of all documents related to the allocation, subject to such terms and conditions as the Agency, in its sole discretion, deems necessary; and
8. A waiver to Chapter 2.H of the 2022-2023 QAP to exceed the \$1,350,000 per development cap for Union Park Flats; and
9. A waiver to Chapter 2.H of the 2022-2023 QAP to exceed the two developments per developer limit for Trellis Company; and
10. A waiver to Chapter 2.O of the 2022-2023 QAP to allow a third supplemental allocation for Manor Hills; and
11. A waiver of the predictive cost model 25% threshold for Calvary Apartments.

Adopted this 23rd day of June 2022

CHAIRMAN

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102**

RESOLUTION NO. MHFA 22-XXX

RESOLUTION APPROVING ASSET MANAGEMENT LOAN PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide permanent financing for a multiple unit housing development to be occupied by persons and families of low and moderate income, as follows:

Name of Development:	Isle View Apartments
Sponsors:	Volunteers of America National Services
Guarantors:	Volunteers of America National Services
Location of Development:	Isle, MN
Number of Units:	41
Amount of Asset Management Loan:	not to exceed \$ 2,000,000

WHEREAS, Agency staff has determined that such applicant is an eligible sponsor under the Agency's rules; that such permanent mortgage loan is not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the refinance and rehabilitation of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, Agency staff has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and Agency's rules, regulations and policies;

NOW THEREFORE, BE IT RESOLVED:

That, the Board hereby authorizes Agency staff to issue a commitment to provide construction and permanent mortgage loans to the sponsor or an affiliate thereof from the Financing Adjustment (FA) and Financing Adjustment Resolution Factor (FAF) fund under the Asset Management Program for the indicated development, upon the following terms and conditions:

1. The amount of the Asset Management deferred loan shall not exceed \$2,000,000; and
2. Repayment of the Asset Management loan shall be deferred, with interest up to 1.0%, and the loan term shall be 30-years; an

3. The issuance of a mortgage loan commitment shall be in a form and substance acceptable to Agency staff and the closing of loan shall occur no later than 20 months from the adoption date of this Resolution; but if the development elected the End Loan Commitment, the End Loan Commitment shall occur no later than 20 months from the adoption date of this Resolution, and construction of the development shall be completed within 18 months from the date of the End Loan Commitment; and
4. This selection is subject to available resources and requirements applicable to the funding source, and the Commissioner is authorized to approve non-material changes to the selection; and
5. Agency staff shall review and approve the mortgagor; and
6. The sponsor, the general contractor, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deems necessary, shall execute all such documents relating to said loans, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deems necessary.

Adopted this 23rd day of June 2022

CHAIRMAN

Item: Commitment, Low and Moderate Income Rental Loan (LMIR); Modification, Housing Infrastructure Bond Loan (HIB), and Waiver of the Predictive Cost Model 25% Threshold
– Windwood Townhomes, D2959, Duluth, MN

Staff Contact(s):

Carrie Weisman, 651.296.3789, carrie.weisman@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

At the March 25, 2021 board meeting, the proposed development was selected for further processing under the LMIR program in the amount of up to \$601,000 in Resolution No. 21-014. At that same meeting, the development was selected for deferred funding up to \$10,527,000 under the HIB program under Resolution No. 21-013.

Agency staff completed the underwriting and technical review of the proposed development and recommends:

1. Adoption of a resolution authorizing the issuance of a LMIR program commitment in the amount of up to \$677,000;
2. Adoption of a resolution modifying the loan under the HIB program to increase from a maximum loan of \$10,527,000 to a maximum of \$11,277,000; and
3. Approval of a waiver to the predictive cost model. The total development cost (TDC) per unit is \$242,000 and now exceeds the predictive model by 26%. Because the percentage is over the predictive cost model threshold of 25%, the increase requires a board approved waiver.

The development was also selected for deferred funding up to \$4,080,000 under the Flexible Financing for Capital Costs (FFCC) program under Resolution No. 21-013. There are no changes to the FFCC loan amount and that loan is not subject to additional board action.

All commitments are subject to the terms and conditions of the Agency term letter.

Fiscal Impact:

LMIR loans are funded from Housing Investment Fund Pool 2 resources, and as such, Minnesota Housing will earn interest income on the end loan without incurring financing expenses.

Minnesota Housing will not earn interest revenue on the HIB loan. As the debt service on the HIBs to be issued to finance the HIB loan is paid via state appropriations, there is also no interest expense to the Agency.

Minnesota Housing will earn additional fee income from originating the loans for this project.

Meeting Agency Priorities:

- Improve the Housing System
- Preserve and Create Housing Opportunities
- Make Homeownership More Accessible
- Support People Needing Services
- Strengthen Communities

Attachments:

- Development Summary
- Resolution(s)
- Resolution Attachment: Term Letter

DEVELOPMENT SUMMARY

SECTION I: PROJECT DESCRIPTION AND RECOMMENDATIONS

Project Information			
Development Name	Windwood Townhomes	D# 2959	M# 18432
Address	807 Upham Road		
City	Duluth	County	Saint Louis
Date of Selection	March 25, 2021	Region	Northeast

A. Project Description and Population Served

- The development involves the substantial rehabilitation and preservation of a partial Section 8 development consisting of 70 units in seven buildings with units ranging from one to four bedrooms. The project also involves the construction of a new community building.
- The development will provide general occupancy and permanent supportive housing for households with incomes that range from 30% to 60% Multifamily Tax Subsidy Projects (MTSP).
- Four units will serve People with Disabilities (PWD) and will be deeply affordable to households at 30% MTSP.
- Four units will serve single individuals that meet the definition of High Priority Homeless (HPH) and will benefit from Housing Support.
- Twenty-one units benefit from Project-based Section 8 rental assistance.

B. Mortgagor Information

Ownership Entity:	Center City Windwood Partners, LP
Sponsor:	Center City Housing Corp.
General Partner:	Center City Housing Corp.
Guarantor(s):	Center City Housing Corp.

C. Development Team Capacity Review

The sponsor, Center City Housing Corp., has experience completing housing of similar size and scope.

The property manager, Center City Housing Corp., was established in 1986 and currently has 19 developments, with a total of 783 units. The property management company has the capacity to manage this development.

The service provider, Center City Housing Corp., has extensive experience providing supportive housing services to the population being served.

LHB, Inc. is the architect and Frerichs Construction Company is the general contractor. Both have the capacity and experience to effectively design and construct the project.

Center City Housing Corp., the project's developer, sponsor, and management company represents a woman-owned business enterprise.

D. Current Funding Request

Loan Type	Program	Source	Amount	IR	MIP	Term	Amort/ Cash Flow	Construction/ End Loan
Permanent Amortizing	LMIR	Pool 2	\$677,000	4%	0.125	30 yr.	30 yr.	End
Deferred	HIB	HIB – Pres*	\$11,277,000	0%	N/A	Approx. 15 mos. (const.) +30 yr.	N/A	Const. to Perm

*Pres= Preservation

- The LMIR loan will be insured under the United States Department of Housing and Urban Development (HUD) Risk-Sharing program and may be securitized with the United States Department of the Treasury's Federal Financing Bank (FFB) via their partnership with HUD.
- The HIB deferred loan will have interest anticipated to be 0% but up to 1% interest allowed, if requested. The term of the HIB loan will be co-terminus with the LMIR permanent loan, and the loan will be repayable.

Permanent Mortgage Loan to Cost: 4% **Permanent Mortgage Loan to Value: 12%**

E. Significant Changes Since Date of Selection

- Total construction costs increased \$1.35M (12%) due to market volatility and approximately \$500,000 of hot water piping replacement costs that were identified and added to the project's scope of work after selection.
- The following actions were taken to address increased costs:

- The project was modified from 67 to 70 units. This change involved exchanging a portion of demolition and new construction costs with less expensive rehabilitation costs. It also increased the project's revenue, allowing the first mortgage to increase from \$601,000 to \$677,000.
- Capitalized reserves were reduced \$151,600 by updating the replacement reserve analysis from a 15-year analysis to a 10-year analysis, Minnesota Housing's minimum standard.
- The project applied for and was awarded \$291,508 of HOME funds from the City of Duluth.
- The HIB loan is increasing \$750,000 to fill the project's remaining gap.

SECTION II: FINAL SOURCES AND USES; FINANCING DETAILS

A. Project Uses

Description	Amount	Per Unit
Acquisition or Refinance	\$566,943	\$8,099
Construction Costs	\$12,837,747	\$183,396
Environmental Abatement	\$137,500	\$1,964
Professional Fees	\$1,101,183	\$15,731
Developer Fee	\$1,814,523	\$25,922
Financing Costs	\$271,876	\$3,884
Total Mortgageable Costs	\$16,729,772	\$238,997
Reserves	\$215,596	\$3,080
Total Development Cost	\$16,945,368	\$242,077

B. Permanent Capital Sources

Description	Amount	Per Unit
Permanent LMIR Mortgage	\$677,000	\$9,671
Agency Deferred Funding (HIB)	\$11,277,000	\$161,100
Agency Deferred Funding (FFCC)	\$4,080,000	\$58,286
City of Duluth HOME	\$291,508	\$4,164
Existing Project Reserves	\$215,596	\$3,080
Rebates	\$404,264	\$5,775
Total Permanent Financing	\$16,945,368	\$242,077

C. Financing Structure

- The development will not utilize housing tax credits as a funding source.

D. Cost Reasonableness

- The budgeted total development cost per unit of \$242,000 is now 26% above the predictive model estimate of \$192,000 per unit. Cost per unit is above the 25% tolerance and therefore requires a Board approved waiver.
 - Due to cost escalation, material volatility and the additional hot water piping replacement added to the original scope of work since selection, Minnesota Housing staff deems the budgeted total development cost of \$242,000 per unit reasonable.
- This project did not receive cost containment points in the Multifamily Consolidated Request for Proposals (Consolidated RFP).

SECTION III: UNDERWRITING

A. Rent Grid

Unit Type	Number	Net Rent*	Rent Limit (% of MTSP or AMI)	Income Limit (% of MTSP or AMI)	Rental Assistance Source
1 BR	8	\$ 656	60% MTSP	60% MTSP	
1 BR	4	\$ 734	60% MTSP	60% MTSP	Housing Support
2 BR	14	\$ 862	60% MTSP	60% MTSP	
3 BR	8	\$ 1,303	60% MTSP	60% MTSP	Section 8
3 BR	4	\$ 1,303	30% MTSP	30% MTSP	Section 8
3 BR	23	\$ 977	60% MTSP	60% MTSP	
4 BR	9	\$ 1,402	60% MTSP	60% MTSP	Section 8

*Net Rents are the underwriting rents and are net of a utility allowance. The underwriting rents may not reflect the maximum rent limits.

- The permanent LMIR program will restrict 70 units to incomes not exceeding 60% MTSP and rents at 60% MTSP.
- The HIB loan will restrict 70 units to incomes not exceeding 60% MTSP and rents at 60% MTSP.
- The FFCC loan will restrict 70 units to incomes not exceeding 60% MTSP and rents at 60% MTSP.
- The City of Duluth HOME loan will restrict two units to High HOME rent limits.

B. Feasibility Summary

All projects are underwritten within the Agency’s underwriting guidelines, unless a modification is approved by the Mortgage Credit Committee. This includes management and operating expenses, vacancy rate, rent and income inflators, and annual replacement reserve

contributions. Projects also undergo a sensitivity analysis on property operations to further enhance underwriting.

- Twenty-one units will benefit from Project-based Section 8 rental assistance.
- Four units will serve single adults who meet the HPH requirements and will benefit from Housing Support.
- The project maintains positive cash flow for 15 years, with a projected debt coverage ratio in year 15 of 1.09.
- The project was underwritten at 7% vacancy, with 1.85% income and 3% expense inflators.
- Capitalized replacement reserves in the amount of \$90,466 will be funded at initial closing. In addition, replacement reserves will be funded from project operations in the amount of \$2,625 per month.
- An operating reserve in the amount of \$86,635 will be funded at initial closing.
- A residual receipts account in the amount of \$38,495 will be funded at initial closing.

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102**

RESOLUTION NO. MHFA 22-XX

**RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM**

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide construction and permanent financing for a multiple unit housing development to be occupied by persons and families of low and moderate income, as follows:

Name of Development:	Windwood Townhomes
Sponsor:	Center City Housing Corp.
Guarantor:	Center City Housing Corp.
Location of Development:	Duluth, MN
Number of Units:	70
Amount of LMIR Mortgage: (not to exceed)	\$677,000

WHEREAS, Agency staff has determined that such applicant is an eligible sponsor under the Agency's rules; that such permanent mortgage loan is not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the construction acquisition and rehabilitation of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, Agency staff has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and Agency's rules, regulations and policies;

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide a permanent mortgage loan to the sponsor or an affiliate thereof from the Housing Investment Fund (Pool 2 under the LMIR Program), for the indicated development, upon the following terms and conditions:

1. This authorization shall expire on December 31, 2022.
2. The amount of the LMIR amortizing loan shall not exceed \$677,000; and

3. The interest rate on the permanent LMIR loan shall be 4.0% per annum (subject to change, as set forth in the attached Agency term letter dated June 1, 2022), plus 0.125% per annum HUD Risk-Sharing Mortgage Insurance Premium, with monthly payments based on a 30-year amortization; and
4. The term of the permanent LMIR loan shall be 30 years; and
5. The LMIR End Loan Commitment shall be entered into on or before December 31, 2022 and shall expire on December 31, 2023.
6. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The Commissioner is authorized to approve non-material modifications to those terms; and
7. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and
8. The sponsor shall guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.11 debt service coverage ratio (assuming stabilized expenses) for three successive months; and
9. The sponsor shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and
10. The sponsor, the general contractor, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deems necessary, shall execute all such documents relating to said loans, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deems necessary.

Adopted this 23rd day of June 2022

CHAIRMAN

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102**

**RESOLUTION NO. MHFA 22-XX
Modifying Resolution No. MHFA 20-013**

**RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT MODIFICATION
HOUSING INFRASTRUCTURE BOND (HIB) PROGRAM**

WHEREAS, the Board has previously authorized a commitment for the Windwood Townhomes development by its Resolution No. 20-013; and

WHEREAS, the development continues to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations, and policies, and;

WHEREAS, Agency staff has determined that there are increased development costs.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to modify the commitment for the indicated development, subject to the revisions noted:

1. The Housing Infrastructure Bond loan shall not exceed \$11,277,000.
2. All other terms and conditions of Minnesota Housing Resolution No. 20-013 remain in effect.

Adopted this 23rd day of June 2022

CHAIRMAN



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 400 St. Paul, MN 55102
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 F: 651.296.8139 | TTY:
 651.297.2361
 www.mnhousing.gov

June 1, 2022

Center City Windwood Partners, LP
 105 ½ West 1st Street
 Duluth, MN 55802

RE: Term Letter
 Windwood Townhomes, Duluth
 Development #D2959, Project # M18432

Dear Mrs. Nancy Cashman:

Minnesota Housing Finance Agency (“Minnesota Housing”) staff has approved your request for a loan or loans subject to the terms and conditions contained in this letter (the “Terms”). The Terms are subject to Minnesota Housing’s Board of Directors’ approval and meeting all underwriting standards, delivery of required due diligence items, satisfactory loan documentation and other loan closing requirements. The Terms do not constitute a commitment to lend on the part of Minnesota Housing and relate only to the specific financing referenced in this letter.

Borrower: A single asset entity: Center City Windwood Partners, LP

General Partner: Center City Housing Corp.

Development Description/Purpose: Acquisition and rehabilitation of a 70-unit affordable housing development located in Duluth, Minnesota and new construction of a community building.

Program	Low and Moderate Income Rental Program (LMIR) (HUD Risk Sharing)	Housing Infrastructure Bonds (HIB)	Flexible Financing Capital Costs (FFCC)
Loan Amount	\$677,000	\$11,277,000	\$4,080,000
Interest Rate	4.0%*	0%	0%
Mortgage Insurance Premium (%)	.125% <i>(first year premium is paid in advance)</i>	N/A	N/A
Term	30 years	Approx. 15 mos. (const.) + 30 years	Approx. 15 mos. (const.) + 30 years
Amortization/Repayment	30 years		Annual payment that is equal to 20% of the

June 1, 2022

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		Deferred lump sum payment due in 30 years.	amount by which Eligible Cash (as defined in the Note) exceeds \$50,000; with remaining balance due in lump sum payment in 30 years.
Prepayment Provision	No prepayment first 10 years from date of the LMIR Note.	No prepayment first 10 years from date of the HIB Note.	Prepay at any time without penalty.
Nonrecourse or Recourse	Nonrecourse	Nonrecourse	Nonrecourse
Construction to Permanent Loan, Construction Bridge Loan or End Loan	End Loan**	Construction to Permanent Loan	Construction to Permanent Loan
Lien Priority	First	Second (first during construction)	Third (second during construction)

*Interest Rate is dependent upon closing and commencement of amortization not later than December 31, 2023. After that date, the rate may be subject to adjustment or payment of an extension fee at Minnesota Housing's sole discretion.

**The term of the End Loan Commitment shall be 15-months, but not later than December 31, 2023.

Origination Fee: LMIR Loan: \$25,000
HIB Loan: \$81,385
(payable at the earlier of loan commitment or loan closing)

Inspection Fee: \$29,995 (payable at the earlier of loan commitment or loan closing)

Guaranty / Guarantor: Completion, repayment and operations guaranty to be provided by Center City Housing Corp.

Operating Deficit Escrow Reserve Account: Waived

June 1, 2022
Page 3

Operating Cost Reserve Account: Capitalized operating reserve in the amount of \$86,635 funded at initial loan closing with the property's existing operating cost reserve account. The operating reserve will not be held by Minnesota Housing.

Replacement Reserve Account: Capitalized replacement reserve in the amount of \$90,466 funded at initial loan closing with the property's existing replacement reserve account. In addition, annual replacement reserve deposits will be required in the amount of \$450/unit. The monthly replacement reserve will be \$2,625. The replacement reserve will be held by Minnesota Housing.

Escrows: Real estate tax escrow and property insurance escrow to be established on the day of closing of the LMIR/HRS loan (outside of the development budget) and will be held by Minnesota Housing.

Collateral/Security: Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment.

Rent and Income Requirements:

LMIR

- 70 units with incomes not exceeding 60% MTSP and rents at 60% MTSP.
- Commitment to affordability in effect while the loan is outstanding.

HIB- Preservation

- 70 units with incomes not exceeding 60% MTSP and rents at 60% MTSP.
- Commitment to 15 months (construction) plus 30 years of affordability from the date of loan closing.

FFCC

- 70 units with incomes not exceeding 60% MTSP and rents at 60% MTSP.

June 1, 2022

Page 4

- Commitment to affordability in effect while the loan is outstanding.

HAP or Other Subsidy Agreement:

Commitment to construction period plus 30 years of affordability from the date of loan closing under the HAP Program for 21 units.

Other Occupancy Requirements:

None

Other Requirements:

The HIB loan is subject to the terms in the attached Deferred Selection Criteria.

Closing Costs:

Borrower agrees to pay all closing costs related to the specific financing referenced in this letter.

Expiration Date:

This term letter will expire on the earlier of six months from the date of this letter or loan closing/end loan commitment.

Additional Terms:

None

Other Conditions:

The existing \$1,931,350 PARIF loan will be subordinated and extended to be co-terminus with the new Agency loans. The extension is conditioned upon:

- 70 units with incomes not exceeding 80% of the median income for the State of Minnesota.
- Commitment to affordability in effect while the loan is outstanding.
- Commitment to construction period plus 30 years of affordability under the HAP program for 21 units.

The existing residual receipts account will continue to be held by Minnesota Housing.

June 1, 2022
Page 5

Board Approval: Commitment of the loans are subject to Minnesota Housing's board approval and adoption of a resolution authorizing the commitment of the loans.

Not a Binding Contract: This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower's ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter.

Please sign this letter and return it to Maggie Nadeau at Maggie.nadeau@state.mn.us on or before 10 business days from date of this letter.

If you have any questions related to this letter, please contact Carrie Weisman at carrie.weisman@state.mn.us.

We appreciate the opportunity to work with you on your affordable housing development.

Sincerely,



James Lehnhoff
Assistant Commissioner, Multifamily

AGREED AND ACCEPTED BY:

CENTER CITY WINDWOOD PARTNERS, LP

By:



Nancy Cashman, Executive Director

Date Accepted:

6/6/22

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Item: Commitment, Low and Moderate Income Rental Loan (LMIR)
- Balsam Apartments II, D8307, Dayton, MN

Staff Contact(s):

Tom Anderson, 651.296.8161, tom.a.anderson@state.mn.us

Request Type:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

At the December 17, 2020 board meeting, the proposed development was selected for further processing under the Low and Moderate Income Rental (LMIR) program under Resolution Number 20-066. Agency staff completed the underwriting and technical review of the proposed development and recommends adoption of a resolution authorizing the issuance of a LMIR program commitment in the amount of up to \$3,025,000.

At that same board meeting on December 17, 2020, the development was selected for an allocation of up to \$1,207,144 of federal 9% Housing Tax Credits (HTCs) under Resolution Number 20-065. There are no changes to the HTC allocation.

All commitments are subject to the terms and conditions of the Agency term letter.

Fiscal Impact:

LMIR loans are funded from Housing Investment Fund Pool 2 resources, and as such, Minnesota Housing will earn interest income on the loan without incurring financing expenses. The Agency will earn additional fee income from originating the loans for this project.

Meeting Agency Priorities:

- Improve the Housing System
- Preserve and Create Housing Opportunities
- Make Homeownership More Accessible
- Support People Needing Services
- Strengthen Communities

Attachment(s):

- Development Summary
- Resolution
- Resolution Attachment: Term Letter

DEVELOPMENT SUMMARY**SECTION I: PROJECT DESCRIPTION AND RECOMMENDATIONS**

Project Information			
Development Name	Balsam Apartments II	D#8307	M#18435
Address	13610 Balsam Lane North		
City	Dayton	County	Hennepin
Date of Selection	December 17, 2020	Region	Metro

A. Project Description and Population Served

- The development involves the acquisition and new construction of 48 units in a three-story elevator building that will offer one-, two-, and three-bedroom units.
- The development will provide general occupancy, workforce, and permanent supportive housing for individuals and families.
- Four units will serve single adults that meet the definition of high priority homeless (HPH).
- Five units will serve households that include people with disabilities (PWD).
- The development will serve households with incomes that range from 30% to 60% of Multifamily Tax Subsidy Project (MTSP).
- Thirteen units will benefit from rental assistance; nine will utilize Housing Support that will be deeply affordable to households at 30% MTSP; four will have Metropolitan Council's Housing and Redevelopment Authority (Metro HRA) project-based vouchers.

B. Mortgagor Information

Ownership Entity:	Dayton Housing Group II, LLC
Sponsor:	SCI Associates, LLC
General Partner(s)/ Principal(s):	Dayton Housing Partners II, LLC
Guarantor(s):	SCI Associates, LLC Mr. John Belisle Ms. Sarah Nieters

C. Development Team Capacity Review

Access Development, LLC is the developer of Balsam Apartments II and has developed one affordable housing project and has a second in process. The members of Access Development, LLC are SCI Associates; LLC, Belisle Development, LLC; and Ember Lake, LLC. These entities are

experienced tax credit developers that have successfully completed 17 projects consisting of 695 units throughout Minnesota and Iowa.

Sand Property Management, LLC is a subsidiary of Sand Companies, Inc. and has been managing properties since 2011. The company is at least 51% woman-owned. The company currently manages a portfolio of 37 developments with a total of 1,626 units. Minnesota Housing has previous experience working with Sand Property Management and based on their past performance, the company has the capacity to manage this development.

Simpson Housing Services, Inc. is an experienced supportive housing services provider for the population being served. Minnesota Housing supportive housing team found the proposed service plan is adequate to serve the population and the proposed staffing at 0.3 FTE/4 HPH households served is very good. Tenant referrals will be provided through Coordinated Entry. The provider plans to provide Medicaid Housing Stabilization Services.

Sand Architects, LLC will be the architect for the project and Sand Construction, LLC will be the general contractor. Both firms are related to the borrowing entity and an identity of interest exists between the parties. Minnesota Housing has experience working with both companies and has found them to be qualified to successfully complete the project.

The property management firm and architectural firm both represent people of color and indigenous-owned/women-owned business enterprises (BIPOCBE/WBE).

D. Current Funding Request

Loan Type	Program	Source	Amount	IR	MIP	Term	Amort/ Cash Flow	Construction/ End Loan
Permanent/ Amortizing	LMIR	Pool 2	\$3,025,000	4.5%	.125%	40 yrs	Amortizing	Permanent

The LMIR loan will be insured under the United States Department of Housing and Urban Development (HUD) Risk-Sharing program and may be securitized with the United States Department of the Treasury’s Federal Financing Bank (FFB) via their partnership with HUD.

Permanent Mortgage Loan to Cost: 20%

Permanent Mortgage Loan to Value: 67%

E. Significant Changes Since Date of Selection

Between selection in December 2020 and February 2022, construction costs increased by \$798,000 or approximately 7%. To address this gap, the developer applied to Hennepin County for additional funding in March 2022 and was awarded a \$1,100,000 HOME loan in April 2022. This additional funding allowed the project to avoid significant value engineering. Due to this delay and to the equity pay-in schedule from the tax credit syndicator, staff recommends a

three-month extension to the original end loan commitment period and interest rate lock period until April 1, 2024, in exchange for an 0.25% fee from the developer.

SECTION II: FINAL SOURCES AND USES; FINANCING DETAILS

A. Project Uses

Description	Amount	Per Unit
Acquisition or Refinance	\$ 90,289	\$ 1,881
Construction Costs	\$12,040,870	\$ 250,851
Professional Fees	\$ 1,290,332	\$ 26,882
Developer Fee	\$ 500,000	\$ 10,417
Financing Costs	\$ 898,520	\$ 18,719
Total Mortgageable Costs	\$14,820,011	\$ 308,750
Reserves	\$ 306,800	\$ 6,392
Total Development Cost	\$15,126,811	\$ 315,142

B. Permanent Capital Sources

Description	Amount	Per Unit
Agency LMIR Permanent Mortgage	\$ 3,025,000	\$ 63,021
General Partner Cash	\$ 1,194	\$ 25
HTC Syndication Proceeds	\$10,983,909	\$ 228,831
Rebates	\$ 16,708	\$ 348
Hennepin County HOME Loan	\$ 1,100,000	\$ 22,917
Total Permanent Financing	\$15,126,811	\$ 315,142

C. Financing Structure

- The development was awarded \$1,207,144 in annual 9% housing tax credits, which will result in \$10.98 million in equity proceeds from Wells Fargo. The term of the Land Use Restrictive Agreement (LURA) will be 40 years.
- The LMIR loan will have a 40-year term and 4.5% interest.
- The LMIR end loan commitment and 4.5% selected interest rate will remain effective as long as the permanent loan closes by April 1, 2024.

D. Cost Reasonableness

- The budgeted total development cost per unit of \$315,142 is 13% above the predictive cost model estimate of \$277,797 but within the 25% tolerance and therefore does not require a waiver.
- This project did not receive cost containment points in the Consolidated RFP.

SECTION III: UNDERWRITING**A. Rent Grid**

Unit Type	Number	Net Rent*	Rent Limit (% of MTSP or AMI)	Income Limit (% of MTSP or AMI)	Rental Assistance Source
2BR	5	\$ 659	30% MTSP	30% MTSP	Housing Support (PWD)
1BR	4	\$ 676	30% MTSP	30% MTSP	Housing Support (LTH)
1BR	6	\$ 906	50% MTSP	60% MTSP	None
2BR	12	\$ 1,086	50% MTSP	60% MTSP	None
3BR	6	\$ 1,250	50% MTSP	60% MTSP	None
1BR	2	\$ 1,103	60% MTSP	60% MTSP	None
2BR	2	\$ 1,322	60% MTSP	60% MTSP	None
3BR	7	\$ 1,523	60% MTSP	60% MTSP	None
2BR	2	\$ 1,315	50% MTSP	50% MTSP	Section 8
3BR	2	\$ 1,523	50% MTSP	50% MTSP	Section 8

*Net Rents are the underwriting rents and are net of a utility allowance. The underwriting rents may not reflect the maximum rent limits. Under the Section 8 rental assistance program, no tenant shall pay more than 30% of their income toward rent.

The rent and income restrictions under the LMIR loan will be as follows:

- Forty-eight units with rents and incomes at or below 60% MTSP

B. Feasibility Summary

All projects are underwritten within the Agency's underwriting guidelines unless a modification is approved by the Mortgage Credit Committee. This includes management and operating expenses, vacancy rate, rent and income inflators, and annual replacement reserve contributions. Projects also undergo a sensitivity analysis on property operations to further enhance underwriting.

- Under the LMIR loan, the project will be rent and income restricted to 60% MTSP.
- The project maintains positive cash flow for 15 years, with a projected debt coverage ratio in year 15 of 1.23.
- The project was underwritten at 6% vacancy, with 2% income and 3% expense inflators.

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102**

RESOLUTION NO. MHFA 22-XX

**RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM**

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide construction and permanent financing for a multiple unit housing development to be occupied by persons and families of low and moderate income, as follows:

Name of Development: Balsam Apartments II
Sponsors: SCI Associates, LLC
Guarantors: SCI Associates, LLC
Mr. John Belisle
Ms. Sarah Nieters
Location of Development: Dayton
Number of Units: 48
Amount of LMIR Mortgage: \$3,025,000
(not to exceed)

WHEREAS, Agency staff has determined that such applicant is an eligible sponsor under the Agency's rules; that such permanent mortgage loan is not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the acquisition and construction of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, Agency staff has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and Agency's rules, regulations and policies;

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide a permanent mortgage loan to the sponsor or an affiliate thereof from the Housing Investment Fund (Pool 2 under the LMIR Program) for the indicated development, upon the following terms and conditions:

1. This authorization shall expire on December 31, 2022; and
2. The amount of the permanent LMIR amortizing loan shall not exceed \$3,025,000; and

3. The interest rate on the permanent LMIR amortizing loan shall be 4.5% per annum (subject to change, as set forth in the attached Agency term letter dated June 2, 2022), plus 0.125% per annum HUD Risk-Sharing Mortgage Insurance Premium, with monthly payments based on a 40-year amortization; and
4. The term of the permanent LMIR amortizing loan shall be 40 years; and
5. The LMIR End Loan Commitment term shall be entered into on or before December 31, 2022 and shall expire on April 1, 2024.
6. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The Commissioner is authorized to approve non-material modifications to those terms; and
7. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and
8. The sponsor shall guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.11 debt service coverage ratio (assuming stabilized expenses) for three successive months; and
9. The sponsor shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and
10. The sponsor, the general contractor, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deems necessary, shall execute all such documents relating to said loans, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deems necessary.

Adopted this 23rd day of June 2022

CHAIRMAN



400 Wabasha Street North, Suite
400 St. Paul, MN 55102
P: 800.657.3769
F: 651.296.8139 | TTY:
651.297.2361
www.mnhousing.gov

June 2, 2022

Mr. Jamie Thelen
Access Development, LLC
366 Tenth Avenue South
Waite Park, MN 56387

RE: Amendment to Term Letter dated March 17, 2022
Balsam Apartments II
Development #D8307 Project # M18435

Dear Mr. Thelen:

Minnesota Housing Finance Agency (“Minnesota Housing”) staff has approved your request for a loan or loans subject to the terms and conditions contained in this letter (the “Terms”). The Terms are subject to Minnesota Housing’s Board of Directors’ approval and meeting all underwriting standards, delivery of required due diligence items, satisfactory loan documentation and other loan closing requirements. The Terms do not constitute a commitment to lend on the part of Minnesota Housing and relate only to the specific financing referenced in this letter.

Borrower:	A single asset entity: Dayton Housing Group II, LLC
General Partner(s) Managing Member(s):	Dayton Housing Partners II, LLC
Development Description/Purpose:	Acquisition and new construction of a 48-unit affordable housing development located in Dayton, Minnesota

Program	Low and Moderate Income Rental Program (LMIR) (HUD Risk Share)
Loan Amount	\$3,025,000
Interest Rate	4.50%*
Mortgage Insurance Premium (%)	.125% <i>(first year premium is paid in advance)</i>
Term	40 years
Amortization / Repayment	40 years
Prepayment Provision	No prepayment first 10 years from date of the Note.

Nonrecourse or Recourse	Nonrecourse
Construction to Permanent Loan, Construction Bridge Loan or End Loan Lien Priority	End Loan** First

*The interest rate at the time of selection of 4.5% is set to expire by December 31, 2023 and is being extended by three months to April 1, 2024. A fee of 0.25% is being charged for the extension of the rate lock. After that date, the rate may be subject to adjustment or payment of an extension fee at Minnesota Housing’s sole discretion.

** The end loan commitment shall expire April 1, 2024.

Origination Fee: LMIR HUD Risk Share Loan: \$60,500
Interest Rate Extension Fee: \$7,762
(both payable at the earlier of loan commitment or loan closing)

Inspection Fee: \$28,669 (payable at the earlier of loan commitment or loan closing)

Guaranty / Guarantor(s): Repayment and operations guaranty to be provided by:

- SCI Associates, LLC
- Mr. John Belisle
- Ms. Sarah Nieters

Operating Deficit Escrow Reserve Account: \$90,750 to be funded on the day of closing of the LMIR/HRS loan by cash or letter of credit (outside of the development budget) to be held by Minnesota Housing.

Operating Cost Reserve Account: Capitalized operating reserve in the amount of \$280,000 funded after construction completion anticipated from the third equity installment. The operating reserve will not be held by Minnesota Housing.

Replacement Reserve Account:	Monthly replacement reserve deposits will be required in the amount of \$450/unit/annum. The annual replacement reserve will be \$21,600. The replacement reserve will be held by Minnesota Housing.
Escrows:	Real estate tax escrow and property insurance escrow to be established on the day of closing of the LMIR/HRS loan (outside of the development budget) and will be held by Minnesota Housing.
Collateral/Security:	Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment.
Rent and Income Requirements:	LMIR <ul style="list-style-type: none">• 48 units with incomes not exceeding 60% MTSP and rents at 60% MTSP.
HAP or Other Subsidy Agreement:	<ul style="list-style-type: none">• Nine (9) units Rental Assistance through Housing Support from Hennepin County.• Four (4) units Project Based Vouchers from Metropolitan Council Housing and Redevelopment Authority (Metro HRA).
Other Occupancy Requirements:	<ul style="list-style-type: none">• Four (4) High Priority Homeless units that are set aside and rented to single adults• Five (5) People with Disabilities
Other Requirements:	Not Applicable
Closing Costs:	Borrower agrees to pay all closing costs related to the specific financing referenced in this letter.

Expiration Date: This term letter will expire on the earlier of six months from the date of this letter or loan closing/end loan commitment.

Additional Terms: Not Applicable

Other Conditions: Not Applicable

Board Approval: Commitment of all loans under the LMIR program and Bridge Loan product are subject to Minnesota Housing’s board approval and adoption of a resolution authorizing the commitment of the loans.

Not a Binding Contract: This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower’s ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter.

Please sign this letter and return it to Maggie Nadeau, Loan Processor, at maggie.nadeau@state.mn.us on or before 10 business days from date of this letter.

If you have any questions related to this letter, please contact Tom Anderson, Senior Housing Development Officer, at Tom.A.Anderson@state.mn.us.

We appreciate the opportunity to work with you on your affordable housing development.

Sincerely,

James Lehnhoff
Assistant Commissioner, Multifamily

AGREED AND ACCEPTED BY:

DAYTON HOUSING GROUP II, LLC

By:

Name:

Title:

Date Accepted: _____

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Item: 3rd Quarter FY 2022 Financial Reporting Package

Staff Contact(s):

Debbi Larson, 651.296.8183, debbi.larson@state.mn.us

Rachel Robinson, 651.297.3125, Rachel.robinson@state.mn.us

Request Type:

- | | |
|-------------------------------------|--|
| <input type="checkbox"/> Approval | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input checked="" type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

Staff will review 3rd quarter financial results

Fiscal Impact:

None.

Meeting Agency Priorities:

- Improve the Housing System
- Preserve and Create Housing Opportunities
- Make Homeownership More Accessible
- Support People Needing Services
- Strengthen Communities

Attachment(s):

- Noteworthy Items
- Financial Dashboard
- Selected Financial Statements – 3rd quarter FY 2022

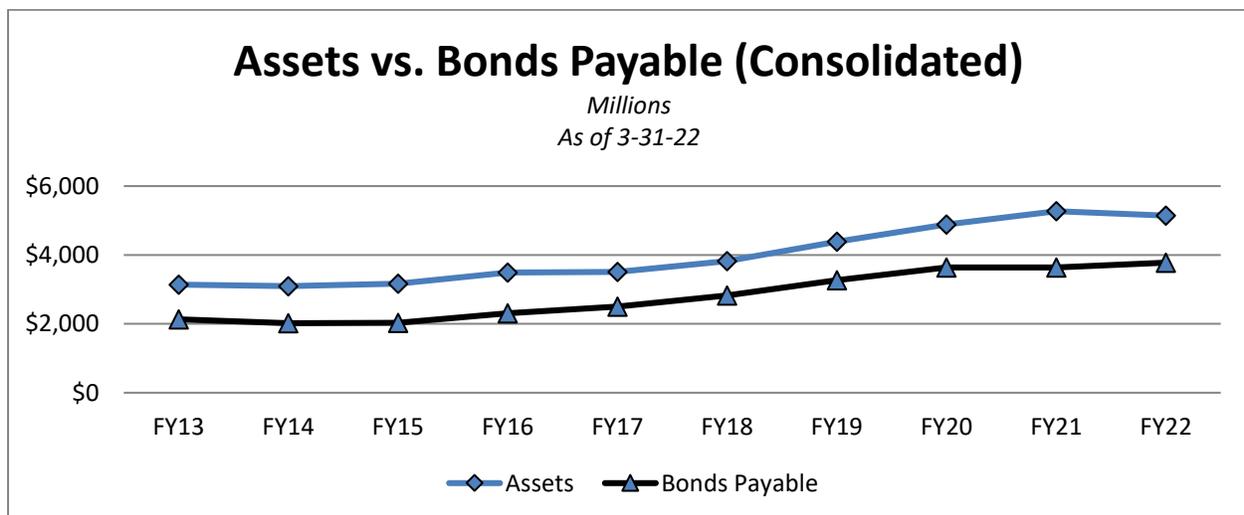
**Minnesota Housing Finance Agency
FY 2022 3rd Quarter Financial Results
Noteworthy Items**

Balance Sheet

At the consolidated level, total assets are down slightly from prior quarter and for up from the comparative quarter in FY21. In terms of the MBS portfolio, the prepayments from prior quarters have leveled off, while new homeownership mortgage production remains steady, resulting in relatively a small increase over prior year. Overall, non-securitized loan assets remained steady, as the pace of new production generally offsets loan prepayments and maturities.

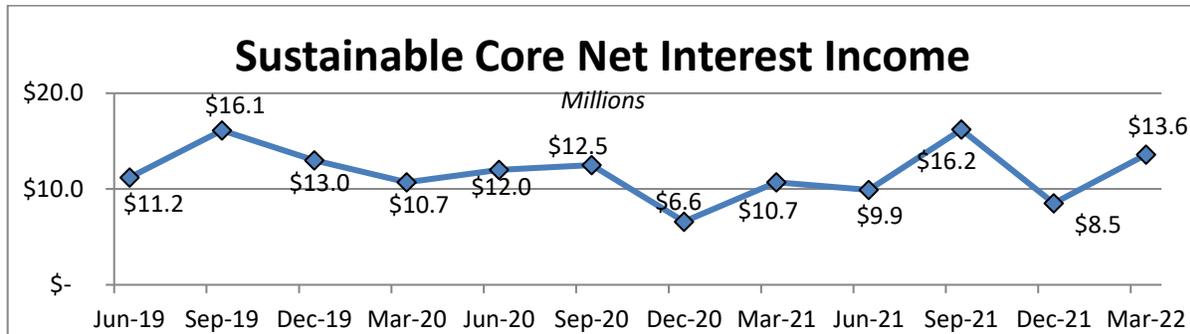
In the Sustainable Core, while the MBS portfolio (investments – program securities) remains relatively steady compared to FY21 and last quarter, the bonds payable liability – while relatively flat compared to one year ago – did increase marginally from last quarter. Primarily, that is attributable to advances taken from the FHLB to finance the acquisition of MBS that are carried on the balance sheet as Investments – other, while awaiting permanent bond financing and moving to the investments – program securities asset line.

The cash from the federal programs was the main driver to a year over year increase in net position at the consolidated level. Meanwhile, net position in the sustainable Core dropped (\$142 million) from one year ago.

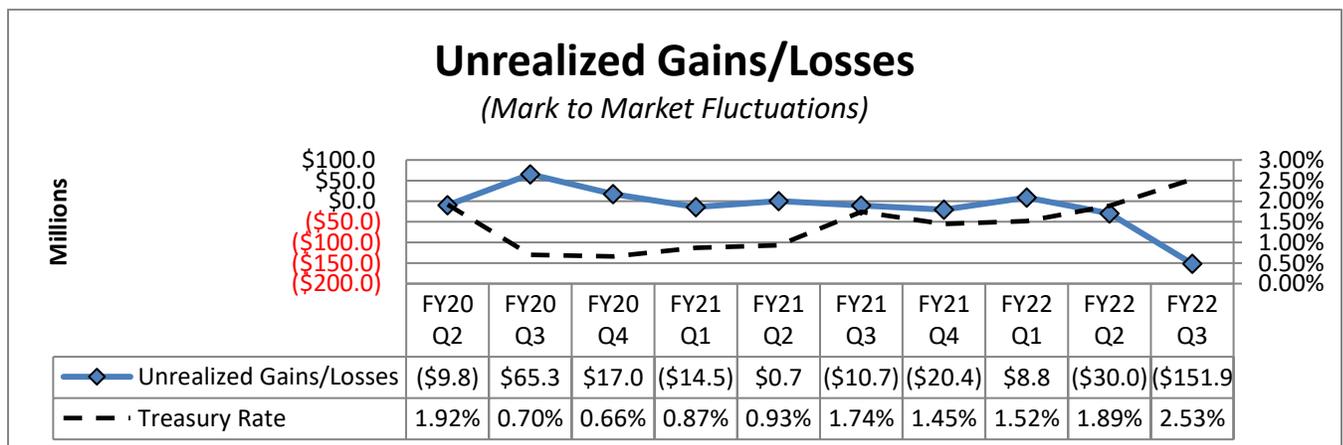


Operating Results

In the Sustainable Core, Q3 FY22 net interest income was \$13.6 million, up from the prior quarter, due primarily to the accounting treatment related to the timing of recognizing bond premiums related to the sale of RHFB bonds. For the first nine months of the fiscal year, net interest income is up by \$8.5 million from the first 9 months of FY21.



In the third quarter, Agency also booked a \$151.9 million unrealized loss on the MBS portfolio, compared to an unrealized loss of roughly \$30 million in the second quarter. For the nine month period, unrealized loss is up by \$149 million compared to the 9 month period from the prior fiscal year.



Other revenue (fees, MBS sales, etc.) was flat compared to Q2, and down modestly from the nine month period a year ago. Operating and other expenses down in the quarter compared to the second quarter, and also down for the first nine months of the year when compared to last year.

BALANCE SHEET*

Quarterly Financial Dashboard - Selected Reporting
As of March 31, 2022 - (\$ million)

	Quarter End	Prior Quarter End	Change from Prior Quarter	Year Ago	Change From Year Ago
CONSOLIDATED					
Total Assets	5,148.0	5,234.0	(86.0)	5,108.5	39.5
<i>Program Securities</i>	2,958.1	2,974.0	(15.9)	2,914.7	43.4
<i>Loans, net</i>	940.2	940.0	0.2	940.7	(0.5)
<i>Other investments and cash</i>	1,223.1	1,292.0	(68.9)	1,231.5	(8.4)
Total Liabilities	4,119.6	4,112.0	7.6	3,859.0	260.6
Net Position					
<i>restricted by Resolution</i>	314.4	463.2	(148.8)	506.0	(191.6)
<i>restricted by Covenant</i>	541.8	529.6	12.2	517.9	23.9
<i>restricted by Law</i>	475.3	446.5	28.8	479.7	(4.4)
<i>unrestricted - State Appr-Backed Debt</i>	(348.0)	(348.0)	0.0	(280.8)	(67.2)
<i>other</i>	1.3	1.4	(0.1)	2.3	(1.0)
Total Net Position	984.8	1,092.7	(107.9)	1,225.1	(240.3)
CONSOLIDATED EXCLUDING APPROPRIATED					
Total Assets	4,505.8	4,583.8	(78.0)	4,511.8	(6.0)
Net Position	857.6	994.3	(136.7)	1,026.2	(168.6)
SUSTAINABLE CORE					
Total Assets	4,379.7	4,457.4	(77.7)	4,381.3	(1.6)
<i>Program Securities</i>	2,958.1	2,974.2	(16.1)	2,914.7	43.4
<i>Loans, net</i>	792.2	791.3	0.9	793.0	(0.8)
<i>Other investments & cash</i>	603.1	664.9	(61.8)	652.3	(49.2)
Total Liabilities	3,609.5	3,564.8	44.7	3,459.4	150.1
<i>Bonds payable, net</i>	3,429.5	3,364.9	64.6	3,275.0	154.5
Net Position	726.5	863.0	(136.5)	897.6	(171.1)

* Assets and liabilities do not include deferred inflows/outflows

STATEMENT OF OPERATIONS
Quarterly Financial Dashboard - Selected Reporting
As of March 31, 2022 - (\$ million)

	This Quarter	Prior Quarter	Change from Prior Quarter	FYTD	Last Year FYTD	Change
CONSOLIDATED						
Revenues	77.1	242.7	(165.6)	497.2	737.5	(240.3)
Expenses	185.1	361.2	(176.1)	728.1	438.0	290.1
Net	(108.0)	(118.5)	10.5	(230.9)	299.5	(530.4)
SUSTAINABLE CORE						
Interest revenue	32.1	31.3	0.8	93.7	96.5	(2.8)
Other revenue	14.2	14.7	(0.5)	43.5	49.9	(6.4)
Unrealized gain (loss)	(151.9)	(30.0)	(121.9)	(173.1)	(24.5)	(148.6)
TOTAL REVENUE	(105.6)	16.0	(121.6)	(35.9)	121.9	(157.8)
Interest Expense	18.5	22.8	(4.3)	55.4	66.7	(11.3)
Operating Expenses(1)	10.5	10.7	(0.2)	29.1	28.7	0.4
Other Expenses	1.9	7.6	(5.7)	21.8	34.3	(12.5)
TOTAL EXPENSE	30.9	41.1	(10.2)	106.3	129.7	(23.4)
Revenue over Expense	(136.5)	(25.1)	(111.4)	(142.2)	(7.8)	(134.4)
Net Interest Income	13.6	8.5	5.1	38.3	29.8	8.5
<i>Annualized Net Interest Margin(2)</i>	<i>1.23%</i>	<i>0.77%</i>		<i>1.15%</i>	<i>0.89%</i>	

(1) Salaries, benefits and other general operating; includes YE Pension Adj

(2) Annualized Net Interest Income/Average assets for period

Minnesota Housing Finance Agency
 Fund Financial Statements
 Statement of Net Position (in thousands) - UNAUDITED
 Proprietary Funds
 As of March 31, 2022 (with comparative totals as of
 March 31, 2021)

	Bond Funds					Appropriated Funds			Total as of March 31, 2021
	General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance Bonds	Multifamily Housing Bonds	HOMES SM	State Appropriated	Federal Appropriated	
Assets									
Cash and cash equivalents	111,753	\$ 38,682	\$ 198,508	\$ 52,265	\$ 1,767	\$ -	\$ 313,526	\$ 289,417	\$ 1,005,918
Investments-program mortgage-backed securities	-	-	1,824,887	1,133,215	-	-	-	-	2,958,102
Investment securities-other	-	20,149	191,313	-	-	5,717	-	-	217,179
Loans receivable, net	-	145,062	742,864	-	13,178	-	39,090	-	940,194
Interest receivable on loans and program mortgage-backed securities	-	543	8,069	3,375	48	-	10	-	12,045
Interest receivable on investments	38	71	602	2	-	15	63	-	791
Interest rate swap agreements	-	-	6,786	-	-	-	-	-	6,786
FHA/VA insurance claims, net	-	-	47	-	-	-	-	-	47
Real estate owned, net	-	-	903	-	-	-	-	-	903
Capital assets, net	1,341	-	-	-	-	-	-	-	1,341
Other assets	3,500	1	1,066	7	-	-	-	168	4,742
Total assets	116,632	204,508	2,975,045	1,188,864	14,993	5,732	352,689	289,585	5,148,048
Deferred Outflows of Resources									
Deferred loss on refunding	-	-	2	-	-	-	-	-	2
Deferred loss on interest rate swap agreements	-	-	525	-	-	-	-	-	525
Deferred pension expense	2,434	-	-	-	-	-	-	-	2,434
Total deferred outflows of resources	2,434	-	527	-	-	-	-	-	2,961
Total assets and deferred outflows of resources	\$ 119,066	\$ 204,508	\$ 2,975,572	\$ 1,188,864	\$ 14,993	\$ 5,732	\$ 352,689	\$ 289,585	\$ 5,151,009
Liabilities									
Bonds payable, net	\$ -	\$ 41,150	\$ 2,228,617	\$ 1,141,161	\$ 12,820	\$ 5,732	\$ 348,040	\$ -	\$ 3,777,520
Interest payable	-	85	12,460	2,507	32	15	-	-	15,519
Interest rate swap agreements	-	-	525	-	-	-	-	-	525
Net pension liability	10,189	-	-	-	-	-	-	-	10,189
Accounts payable and other liabilities	5,733	9,865	61,041	53	-	-	9	7,691	84,392
Interfund payable (receivable)	1,558	-	(1,934)	-	-	-	132	244	-
Funds held for others	72,915	-	-	-	-	(15)	158,932	5	231,837
Total liabilities	90,395	51,100	2,300,709	1,143,721	12,852	5,732	507,113	7,940	4,119,562
Deferred Inflows of Resources									
Deferred gain on interest rate swap agreements	-	-	6,786	-	-	-	-	-	6,786
Deferred revenue-service release fee	-	-	13,413	7,129	-	-	-	-	20,542
Deferred pension credit	19,329	-	-	-	-	-	-	-	19,329
Total deferred inflows of resources	19,329	-	20,199	7,129	-	-	-	-	46,657
Total liabilities and deferred inflows of resources	\$ 109,724	\$ 51,100	\$ 2,320,908	\$ 1,150,850	\$ 12,852	\$ 5,732	\$ 507,113	\$ 7,940	\$ 4,166,219
Commitments and contingencies									
Net Position									
Restricted by bond resolution	-	153,408	120,834	38,014	2,141	-	-	-	314,397
Restricted by covenant	8,001	-	533,830	-	-	-	-	-	541,831
Restricted by law	-	-	-	-	-	-	193,616	281,645	475,261
Unrestricted by State Appropriation-backed Debt	-	-	-	-	-	-	(348,040)	-	(348,040)
Invested in capital assets	1,341	153,408	654,664	38,014	2,141	-	(154,424)	281,645	1,341
Total net position	9,342	153,408	1,188,864	14,993	5,732	(154,424)	352,689	289,585	5,151,009
Total liabilities, deferred inflows of resources, and net position	\$ 119,066	\$ 204,508	\$ 2,975,572	\$ 1,188,864	\$ 14,993	\$ 5,732	\$ 352,689	\$ 289,585	\$ 5,151,009

This information on the funds of the Agency for the nine-month period ended March 31, 2022, was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those funds for the nine-month period ended March 31, 2022, subject to year-end adjustments. However, this presentation excludes management's discussion and analysis, the agency-wide financial statements, and the notes to the financial statements which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. This information should be read in conjunction with the Agency's audited financial statements as of June 30, 2021, and for the fiscal year then ended.

Minnesota Housing Finance Agency
Fund Financial Statements - UNAUDITED

Statement of Revenues, Expenses and Changes in Net Position (in thousands)

	Proprietary Funds				Bond Funds			Appropriated Funds			Total for the Nine Months Ended March 31, 2021
	General Reserve	Rental Housing	Residential Housing Finance	Homeownership Finance Bonds	Multifamily Housing Bonds	HOMES SM	State Appropriated	Federal Appropriated	Total for the Nine Months Ended March 31, 2022		
Revenues											
Interest earned on loans	\$ -	\$ 5,252	\$ 21,365	\$ -	\$ 436	\$ -	\$ 1,024	\$ -	\$ 28,077	\$ 31,499	
Interest earned on investments-program mortgage-backed securities	-	-	32,421	27,432	-	-	-	-	59,853	61,460	
Interest earned on investments-other	88	636	6,371	4	-	147	385	247	7,878	5,360	
Net G/L on Sale of MBS Held for Sale/HOMES Certificates	-	-	6,606	-	-	-	-	-	6,606	11,010	
Appropriations received	-	-	-	-	-	-	69,429	461,196	530,625	613,320	
Administrative reimbursement	23,384	-	-	-	-	-	-	-	23,384	25,061	
Fees earned and other income	9,451	70	2,854	1,121	-	-	507	-	14,003	14,445	
Unrealized gains (losses) on investments	-	(1,939)	(97,599)	(73,733)	-	-	-	-	(173,271)	(24,685)	
Total revenues	32,923	4,019	(27,982)	(45,176)	436	147	71,345	461,443	497,155	737,470	
Expenses											
Interest	-	462	30,084	24,384	291	147	-	-	55,368	66,660	
Financing, net	-	1	(2,726)	1,357	-	-	-	-	(1,368)	8,083	
Loan administration and trustee fees	-	57	1,934	334	4	-	82	-	2,411	2,625	
Administrative reimbursement	-	983	14,714	6,107	68	-	385	-	22,257	24,550	
Salaries and benefits	24,063	-	-	-	-	-	-	-	24,063	23,029	
Other general operating	3,834	5	2,160	30	-	-	1,061	-	7,090	7,779	
Appropriations disbursed	-	-	-	-	-	-	28,158	581,709	609,867	289,324	
Reduction in carrying value of certain low interest rate deferred loans	-	-	-	-	-	-	8,252	-	8,269	14,505	
Provision for loan losses	-	(441)	470	-	(1)	-	144	-	172	1,424	
Total expenses	27,897	1,067	46,653	32,212	362	147	38,082	581,709	728,129	437,979	
Revenues over (under) expenses	5,026	2,952	(74,635)	(77,388)	74	-	33,263	(120,266)	(230,974)	299,491	
Other changes											
Non-operating transfer of assets between funds & Adj.	(5,735)	14	(1,121)	6,842	-	-	(67,280)	-	(67,280)	(100,915)	
Change in net position	(709)	2,966	(75,756)	(70,546)	74	-	(34,017)	(120,266)	(298,254)	198,576	
Net Position											
Total net position, beginning of period	10,051	150,442	730,420	108,560	2,067	-	(120,407)	401,911	1,283,044	1,026,582	
Total net position, end of period	\$ 9,342	\$ 153,408	\$ 654,664	\$ 38,014	\$ 2,141	\$ -	\$ (154,424)	\$ 281,645	\$ 984,790	\$ 1,225,158	

This information on the funds of the Agency for the nine-month period ended March 31, 2022 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those funds for the nine-month period ended March 31, 2022, subject to year-end adjustments. However, this presentation excludes management's discussion and analysis, the agency-wide financial statements, and the notes to the financial statements which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. This information should be read in conjunction with the Agency's audited financial statements as of June 30, 2021 and for the fiscal year then ended.

Total net position, beginning of period adjusted to GASB 68.

See accompanying notes to financial statements.

Minnesota Housing Finance Agency
 Supplementary Information(Unaudited)
 Statement of Net Position (in thousands)
 General Reserve & Bond Funds

As of March 31, 2022 (with comparative totals for
 March 31, 2021)

Assets

Cash and cash equivalents	\$ 111,753	\$ 38,682	\$ 168,178	\$ 22,404	\$ 52,265	\$ 1,767	\$ -	\$ -	\$ 395,049	\$ 529,282	\$ 7,926	\$ 540,234
Investments-program mortgage-backed securities	-	-	1,824,887	-	1,133,215	-	-	-	2,958,102	2,914,671	-	2,914,671
Investment securities-other	-	20,149	7,331	174,877	-	-	5,717	-	208,074	217,179	9,105	132,589
Loans receivable, net	-	145,062	237,830	396,080	-	13,178	-	-	792,150	793,019	108,954	902,879
Interest receivable on loans and program mortgage-backed securities	-	543	6,436	1,595	3,375	48	-	-	11,997	12,611	38	12,638
Interest receivable on investments	38	71	51	540	2	-	15	-	717	581	11	589
Interest rate swap agreements	-	-	6,786	-	-	-	-	-	6,786	659	-	659
FHA/VA insurance claims, net	-	-	47	-	-	-	-	-	47	334	-	334
Real estate owned, net	-	-	418	460	-	-	-	-	878	592	25	592
Capital assets, net	1,341	-	-	-	-	-	-	-	1,341	2,276	-	2,276
Other assets	3,500	1	11	1,055	7	-	-	-	4,574	4,291	-	4,291
Total assets	116,632	204,508	2,251,975	597,011	1,188,864	14,993	5,732	-	4,379,715	4,381,342	126,059	4,511,752

Deferred Outflows of Resources

Deferred loss on refunding	-	-	2	-	-	-	-	-	2	-	-	8
Deferred loss on interest rate swap agreements	-	-	525	-	-	-	-	-	525	12,142	-	12,142
Deferred pension expense	2,434	-	-	-	-	-	-	-	2,434	14,211	-	14,211
Total deferred outflows of resources	2,434	-	527	-	-	-	-	-	2,961	26,361	-	26,361
Total assets and deferred outflows of resources	\$ 119,066	\$ 204,508	\$ 2,252,502	\$ 597,011	\$ 1,188,864	\$ 14,993	\$ 5,732	\$ -	\$ 4,382,676	\$ 4,407,703	\$ 126,059	\$ 4,538,113

Liabilities

Bonds payable, net	\$ -	\$ 41,150	\$ 2,116,345	\$ 112,272	\$ 1,141,161	\$ 12,820	\$ 5,732	\$ -	\$ 3,429,480	\$ 3,275,032	\$ -	\$ 3,275,032
Interest payable	-	85	12,426	34	2,507	32	15	-	15,099	15,519	-	15,519
Interest rate swap agreements	-	-	525	-	-	-	-	-	525	12,142	-	12,142
Net pension liability	10,189	-	-	-	-	-	-	-	10,189	10,412	-	10,412
Accounts payable and other liabilities	5,733	9,865	392	60,641	53	-	-	-	76,684	72,627	8	72,628
Interfund payable (receivable)	1,558	-	(15,017)	18,083	-	-	-	-	(465)	(465)	-	(465)
Funds held for others	72,915	-	-	-	-	-	(15)	-	72,900	74,094	-	75,844
Total liabilities	90,395	51,100	2,114,671	191,030	1,143,721	12,852	(15)	-	3,609,501	3,459,361	(4,992)	3,461,112

Deferred Inflows of Resources

Deferred gain on interest rate swap agreements	-	-	6,786	-	-	-	-	-	6,786	659	-	659
Deferred revenue-service release fee	-	-	10,211	3,202	7,129	-	-	-	20,364	20,542	-	20,364
Deferred pension credit	19,329	-	-	-	-	-	-	-	19,329	29,734	-	29,734
Total deferred inflows of resources	19,329	-	16,997	3,202	7,129	-	-	-	46,657	50,757	-	50,757

Total liabilities and deferred inflows of resources

Commitments and contingencies

Net Position

Restricted by bond resolution	-	153,408	120,834	-	38,014	2,141	-	-	314,397	506,023	-	506,023
Restricted by covenant	8,001	-	-	402,779	-	-	-	-	410,780	389,286	131,051	517,945
Restricted by law	-	-	-	-	-	-	-	-	-	-	-	-
Unrestricted by State Appropriation-backed Debt	-	-	-	-	-	-	-	-	-	-	-	-
Invested in capital assets	1,341	-	-	-	-	-	-	-	1,341	2,276	-	2,276
Total net position	9,342	153,408	120,834	402,779	38,014	2,141	-	-	726,518	897,585	131,051	1,026,244
Total liabilities, deferred inflows, and net position	\$ 119,066	\$ 204,508	\$ 2,252,502	\$ 597,011	\$ 1,188,864	\$ 14,993	\$ 5,732	\$ -	\$ 4,382,676	\$ 4,407,703	\$ 126,059	\$ 4,538,113

This information on the funds of the Agency for the nine-month period ended March 31, 2022, was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those funds for the nine-month period ended March 31, 2022, subject to year-end adjustments. However, this presentation excludes management's discussion and analysis, the agency-wide financial statements, and the notes to the financial statements which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. This information should be read in conjunction with the Agency's audited financial statements as of June 30, 2021 and for the fiscal year then ended.

See accompanying notes to financial statements.

Minnesota Housing Finance Agency
 Supplementary Information (Unaudited)
 Statement of Revenues, Expenses and Changes in Net Position (in thousands)
 General Reserve & Bond Funds
 Nine Months Ended March 31, 2022 (with comparative totals for the nine months ended March 31, 2021)

	Revenues				Bond Funds				General Reserve & Bond Funds		Residential Housing Finance Pool 3		General Reserve & Bond Funds		General Reserve & Bond Funds	
	General Reserve	Rental Housing	Residential Housing Bonds	Pool 2	Homeownership Finance Bonds	Multifamily Housing Bonds	HOMES SM	Excluding Pool 3 Total for Nine Months Ended March 31, 2022	Excluding Pool 3 Total for Nine Months Ended March 31, 2021	Housing Finance Pool 3 Total for Nine Months Ended March 31, 2022	Housing Finance Pool 3 Total for Nine Months Ended March 31, 2021	General Reserve & Bond Funds Total for Nine Months Ended March 31, 2022	General Reserve & Bond Funds Total for Nine Months Ended March 31, 2021			
Interest earned on loans	\$ -	\$ 5,252	\$ 9,026	\$ 11,950	\$ -	\$ 436	\$ -	\$ 26,664	\$ 30,553	\$ -	\$ 389	\$ 27,053	\$ 31,053			
Interest earned on investments-program mortgage-backed securities	-	-	32,421	-	27,432	-	-	59,853	61,460	-	-	59,853	61,460			
Interest earned on investments-other	88	636	385	5,931	4	-	147	7,191	4,509	-	55	7,246	4,665			
Net GL on Sale of MBS Held for Sale/HOMES Certificate	-	-	-	6,606	-	-	-	6,606	11,010	-	-	6,606	11,010			
Appropriations received	-	-	-	-	-	-	-	-	-	-	-	-	-			
Administrative reimbursement	23,384	-	-	-	-	-	-	23,384	25,061	-	-	23,384	25,061			
Fees earned and other income	9,451	70	1,329	1,525	1,121	-	-	13,496	13,824	-	-	13,496	13,853			
Unrealized gains (losses) on Investments	-	(1,939)	(111,580)	14,132	(73,733)	-	-	(173,120)	(24,472)	-	(151)	(173,271)	(24,685)			
Total revenues	32,923	4,019	(68,419)	40,144	(45,176)	436	147	(35,926)	121,945	147	293	(35,633)	122,417			
Expenses																
Interest	-	462	29,379	705	24,384	291	147	55,368	66,660	-	-	55,368	66,660			
Financing, net	-	1	(2,763)	37	1,357	-	-	(1,368)	8,083	-	-	(1,368)	8,083			
Loan administration and trustee fees	-	57	1,040	872	334	4	-	2,307	2,526	-	22	2,329	2,543			
Administrative reimbursement	-	983	8,930	4,616	6,107	68	-	20,704	22,745	-	1,168	21,872	23,889			
Salaries and benefits	24,063	-	-	-	-	-	-	24,063	23,029	-	-	24,063	23,029			
Other general operating	3,834	5	42	1,080	30	-	-	4,991	5,710	-	1,038	6,029	6,599			
Appropriations disbursed	-	-	-	-	-	-	-	-	-	-	-	-	-			
Reduction in carrying value of certain low interest rate deferred loans	-	-	611	(319)	-	-	-	282	119	-	(275)	17	4,007			
Provision for loan losses	-	(441)	(544)	915	-	(1)	-	(71)	824	-	99	28	1,292			
Total expenses	27,897	1,067	36,695	7,906	32,212	362	147	106,286	129,696	147	2,052	108,338	136,102			
Other changes	5,026	2,952	(105,114)	32,238	(77,386)	74	-	(142,212)	(7,751)	-	(1,759)	(143,971)	(13,685)			
Non-operating transfer of assets between funds	(5,735)	14	1,037	(2,158)	6,842	-	-	-	(8,000)	-	-	-	1,587			
Change in net position	(709)	2,966	(104,077)	30,080	(70,546)	74	-	(142,212)	(15,751)	-	(1,759)	(143,971)	(12,098)			
Total net position, beginning of period	10,051	150,442	224,911	372,699	108,560	2,067	-	868,730	913,336	132,810	1,001,540	1,001,540	1,038,342			
Total net position, end of period	\$ 9,342	\$ 153,408	\$ 120,834	\$ 402,779	\$ 38,014	\$ 2,141	\$ -	\$ 726,518	\$ 897,585	\$ 131,051	\$ 857,569	\$ 857,569	\$ 1,026,244			

This information on the funds of the Agency for the nine-month period ended March 31, 2022 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those funds for the nine-month period ended March 31, 2022 subject to year-end adjustments. However, this presentation excludes management's discussion and analysis, the agency-wide financial statements, and the notes to the financial statements which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. This information should be read in conjunction with the Agency's audited financial statements as of June 30, 2021 and for the fiscal year then ended.

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Board Agenda Item: 8.B

Date: 6/23/2022

Item: Minnesota Housing Administrative Budget, State Fiscal Year 2023

Staff Contact(s):

Rachel Robinson, 651.297.3125, rachel.robinson@state.mn.us

Debbi Larson, 651-296-8183, debbi.larson@state.mn.us

Request Type:

- | | |
|-------------------------------------|--|
| <input type="checkbox"/> Approval | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input checked="" type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

The Agency's administrative budget is presented to the Board annually. Presentation of the administrative budget is informational and no action by the Board is required.

Fiscal Impact:

The Agency's administrative budget represents the projected expenditures necessary to support the level of program and other activities which the Agency anticipates utilizing in fiscal year 2023.

Meeting Agency Priorities:

- Improve the Housing System
- Preserve and Create Housing Opportunities
- Make Homeownership More Accessible
- Support People Needing Services
- Strengthen Communities

Attachment(s):

- Background
- Administrative Budget FY 2023
- Administrative Budget History

Background

The overall Agency administrative budget for fiscal year 2023 (July 1, 2022 – June 30, 2023) is \$47.4 million. This budget covers all Agency administrative and operational expenses. The 2023 budget is 4.5% greater than the current 2022 administrative budget, which was 9.3% greater than the 2021 administrative budget. The 2023 budget is approximately 22.5% greater than forecasted actual expenditures for 2022.

Of note, the 2023 administrative budget includes approximately \$1.4 million (and 13 FTEs) of projected expense that is anticipated to be covered through the administrative component of temporary federal emergency housing assistance programs. Net of that amount, the 2023 fiscal year budget would be \$46 million.

Actual expenditures for 2022 FYE are forecast to be approximately \$38.7 million, almost 15% below the 2022 budget, and up only 1.6% from actual 2021 expenditures.

The budget increases can be almost entirely attributed to the cost of staffing, measured in Full Time Equivalents. The FTE count included in the 2023 budget is 307.4, in 2022 was 293.4, and was 268 for 2021. All of the positions budgeted for are planned and will be filled as quickly as possible. A tight labor market and slightly higher turnover in the past 2 years has led to higher average vacancy rates.

MINNESOTA HOUSING

Administrative Budget

Fiscal Year 2023 with Prior Year Comparables

EXPENSE CATEGORY	Total Agency 2023		Total Agency 2023 Budget to		Total Agency 2022		Total Agency 2022 Budget to		Prior Year Comparable		Prior Year Comparable	
	Budget	2023 Forecast	2023 Budget	2022 Budget	Budget	Forecast	2022 Budget	2022 Forecast	2022 Forecast	2021 Actual	2021 Actual	2021 Actual
Full Time Salaries	36,548,000	4,529,000	34,592,000	(1,956,000)	34,592,000	32,019,000	32,019,000	(2,573,000)	30,663,933	30,663,933	30,663,933	
Part Time & Temp Salaries	41,000	(155,000)	42,000	1,000	42,000	196,000	196,000	154,000	126,180	126,180	126,180	
Overtime	166,000	(65,000)	132,000	(34,000)	132,000	231,000	231,000	99,000	227,728	227,728	227,728	
Separation Expenses	262,000	31,000	238,000	(24,000)	238,000	231,000	231,000	(7,000)	128,442	128,442	128,442	
Space Rental	1,766,000	72,000	1,797,000	31,000	1,797,000	1,694,000	1,694,000	(103,000)	1,598,247	1,598,247	1,598,247	
Printing /Advertising	239,000	150,000	142,000	(97,000)	142,000	90,000	90,000	(52,000)	52,192	52,192	52,192	
Postage/Telephone	109,000	21,000	155,000	46,000	155,000	88,000	88,000	(67,000)	110,032	110,032	110,032	
Travel-In State	201,000	98,000	194,000	(7,000)	194,000	103,000	103,000	(91,000)	50,907	50,907	50,907	
Travel-Out State	194,000	151,000	154,000	(40,000)	154,000	43,000	43,000	(111,000)	0	0	0	
Employee Development	421,000	222,000	400,000	(21,000)	400,000	198,000	198,000	(202,000)	225,769	225,769	225,769	
Other Benefits	133,000	27,000	153,000	20,000	153,000	105,000	105,000	(48,000)	38,809	38,809	38,809	
Repairs & Maintenance	121,000	3,000	50,000	(71,000)	50,000	117,000	117,000	67,000	92,660	92,660	92,660	
Computer & Systems Services	1,793,000	645,000	2,456,000	663,000	2,456,000	1,148,000	1,148,000	(1,308,000)	1,595,274	1,595,274	1,595,274	
Supplies	163,000	59,000	255,000	92,000	255,000	104,000	104,000	(151,000)	44,064	44,064	44,064	
Equipment Rentals	17,000	13,000	19,000	2,000	19,000	3,000	3,000	(16,000)	10,558	10,558	10,558	
Equipment Purchases	713,000	473,000	591,000	(122,000)	591,000	240,000	240,000	(351,000)	119,638	119,638	119,638	
Other Operating Expenses	285,000	50,000	234,000	(51,000)	234,000	236,000	236,000	2,000	180,818	180,818	180,818	
Pool 2 Contracts	1,531,000	434,000	784,000	(747,000)	784,000	1,097,000	1,097,000	313,000	1,298,119	1,298,119	1,298,119	
Prof & Tech w/Outside Vendors	1,784,000	1,571,000	1,853,000	69,000	1,853,000	212,000	212,000	(1,641,000)	703,646	703,646	703,646	
Prof & Tech Computer System Dev.	0	(116,000)	0	0	0	116,000	116,000	116,000	279,258	279,258	279,258	
Prof & Tech w/State Agencies	640,000	422,000	902,000	262,000	902,000	219,000	219,000	(683,000)	17,391	17,391	17,391	
State Indirect Costs	124,000	(71,000)	196,000	72,000	196,000	196,000	196,000	0	535,759	535,759	535,759	
State Board of Investments	6,000	5,000	6,000	0	6,000	2,000	2,000	(4,000)	0	0	0	
Attorney General Costs	180,000	128,000	32,000	(148,000)	32,000	52,000	52,000	20,000	24,937	24,937	24,937	
TOTALS	47,437,000	8,697,000	45,377,000	(2,060,000)	45,377,000	38,740,000	38,740,000	(6,637,000)	38,124,361	38,124,361	38,124,361	



**MINNESOTA HOUSING FINANCE AGENCY
ADMINISTRATIVE BUDGET HISTORY
(\$000's)**

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Budgeted*	28,132	30,538	33,509	36,657	37,852	39,298	40,481	41,501	45,377	47,437
Actual**	26,790	29,838	30,813	35,649	35,938	34,860	37,117	38,124	38,740	N/A
Variance	1,342	700	2,696	1,008	1,914	4,438	3,364	3,377	6,637	N/A
<i>Budget FTE Count*</i>	231.1	237.6	242.4	249.6	253.6	258.9	266.0	268.0	293.4	307.42
Expense actual change % year/year**		11.38%	3.27%	15.69%	0.81%	-3.00%	6.47%	2.71%	1.62%	N/A
Expense actual change \$\$ year/year**		3,048	975	4,836	289	(1,078)	2,257	1,007	616	N/A

Notes:

* FY2022 budget includes 9 FTEs, and approximately \$1 million, planned to be paid for via the administrative component of emergency federal programs

* FY2023 budget includes 13 FTEs, and approximately \$1.4 million, planned to be paid for via the administrative component of emergency federal programs

** FY2022 is forecasted amount



Board Agenda Item: 9.A

Date: 6/23/2022

Item: 2021 Conflict of Interest Disclosure Reporting

Staff Contact(s):

Mike Thone, 651.296.9813, Mike.Thone@state.mn.us

Rachel Robinson, 651.297.3125, Rachel.Robinson@state.mn.us

Request Type:

- | | |
|-------------------------------------|--|
| <input type="checkbox"/> Approval | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input checked="" type="checkbox"/> Information |

Summary of Request:

The purpose of this agenda item is to give a brief overview of the conflict of interest reporting processes and inform the Board about the results of the 2021 conflict of interest disclosure reporting.

The last Conflict of Interest Disclosure Reporting Board Report was presented February 25, 2021. Completion of the 2021 annual conflict of interest disclosure update took longer than expected which delayed the presentation this report. The next report is scheduled to be delivered February 2023.

Fiscal Impact:

None

Meeting Agency Priorities:

- Improve the Housing System
- Preserve and Create Housing Opportunities
- Make Homeownership More Accessible
- Support People Needing Services
- Strengthen Communities

Attachment(s):

- Background
- Results of the 2021 conflict of interest disclosure reporting

Background:

It is Minnesota Housing's policy that all Agency employees, including contractors and interns, be aware of, and make every effort to avoid actual and potential conflicts of interest. During 2021, management revised the Agency's conflict of interest procedures, disclosure forms, and Conflict of Interest Action Memorandums. The procedures are incorporated in the Agency's Code of Ethics and Conflict of Interest policies contained in the Minnesota Housing Employee Policies & Procedures Manual.

Upon starting employment at Minnesota Housing, and annually thereafter, all employees are required to complete the Conflict of Interest Disclosure Form. The form asks employees to disclose all external affiliations and business interests they and their immediate family members have (companies, partnerships, boards, councils, second employment, consulting contracts, or other applicable entities), and to identify those affiliations which may present conflicts with their official Agency duties. Any employees who identify personal or familial affiliations that present conflict of interest risk, as determined by the Deputy Commissioner, General Counsel, and Chief Risk Officer, are issued a Conflict of Interest Actions Memorandum which outlines actions the individual and their immediate supervisor must follow to avoid or mitigate the conflict risk. The employee's immediate supervisor and the Director of Human Resources are copied on the memorandum.

Agency conflict of interest procedures also require employees to request approval prior to accepting external employment or other external affiliation (e.g., Board membership). For each request, the General Counsel and Chief Risk Officer evaluate the request for conflict of interest risk. If determined that conflict of interest risk is present, the request may be denied or approved with issuance of a Conflict of Interest Actions Memorandum which outlines the actions the employee and immediate supervisor must follow to avoid or mitigate the conflict risk.

Note: Minnesota Management and Budget (MMB) issued HR/LR Policy #1445, Code of Ethical Conduct, effective January 1, 2022. The new MMB policy provides updated information, including new standards and requirements that all executive agencies and employees must comply with. The policy also includes an updated Code of Ethical Conduct Acknowledgement form and a new Conflict of Interest Disclosure form, both of which must be completed by all executive agency staff and management personnel prior to beginning state employment, and annually thereafter. Staff is actively integrating the new MMB policy standards and forms into its existing ethics and conflict of interest policies and procedures.

Results of 2021 Annual Conflict of Interest Reporting:

- In the fall and early winter of 2021, 264 employees and contract staff electronically completed the Conflict of Interest Disclosure form.
- Seventy-six of the 264 employees identified personal or familial affiliations, or other situations, that were evaluated for conflict of interest risk. Twenty-six of those 76 employees were issued a Conflict of Interest Actions Memorandum.
- During calendar 2021, nineteen employees made a request to accept external employment or other external membership. Two of the requests were denied for conflict of interest risk reasons. Seventeen requests were approved; five of those approvals were coupled with a Conflict of Interest Actions Memorandum.
- During calendar 2021, (26) new hire Conflict of Interest Disclosure forms were reviewed. One new hire was not approved to maintain an existing external second job. Three new hires who had existing external employment, affiliation or membership received a Conflict of Interest Actions Memorandum.



Board Agenda Item: 9.B
Date: 6/23/2022

Item: Post-Sale Report, Residential Housing Finance Bonds 2022 Series EF

Staff Contact(s):

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Request Type:

- | | |
|-------------------------------------|--|
| <input type="checkbox"/> Approval | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input checked="" type="checkbox"/> Information |

Summary of Request:

The Agency sold \$150,000,000 of Residential Housing Finance Bonds on April 13, 2022 with a closing on May 12, 2022. In accordance with the Debt and Balance Sheet Management Policy the attached detailed post-sale report is provided by the Agency's financial advisor, CSG Advisors.

Fiscal Impact:

None.

Meeting Agency Priorities:

- Improve the Housing System
- Preserve and Create Housing Opportunities
- Make Homeownership More Accessible
- Support People Needing Services
- Strengthen Communities

Attachment(s):

- Post-Sale Report

\$150,000,000
Minnesota Housing Finance Agency
Residential Housing Finance Bonds
2022 Series EF (Taxable)

POST-SALE ANALYSIS

KEY RESULTS FOR MINNESOTA HOUSING

Purpose. 2022 Series EF accomplished the following major objectives:

1. The issue enabled Minnesota Housing to profitably finance Start-Up first mortgages on the balance sheet and earn net annual income over future years.
2. As an all-taxable issue, no volume cap was required, and no zero participations were needed.
3. Achieved a direct spread of 0.95% on the bond issue, and together with a hedge gain of \$673,000 helps provide the equivalent of a spread of 1.01%.

Key Measurable Objectives and Accomplishments. The results of the issue were very successful, coming in an extremely volatile market environment. The agency effectively navigated this extraordinary market, achieving broad investor support for financing its upcoming loan pipeline for first-time homebuyers in Minnesota.

<i>Objective</i>	<i>Result</i>
Finance new production on balance sheet	\$150 million of new first mortgage loans in MBS securities
Leverage private activity bond volume cap	Did not use any bond volume cap
Efficiently incorporate taxable debt	All bonds are taxable
Maximize spread on the overall transaction	Agency is expected to earn equivalent of 1.01% spread including from hedge gains, without any volume cap
Minimize use of and/or create zero participations (interest subsidies under IRS rules), and preserve them for future issues	Did not use any zero participations.
Achieve cost-effective bond yield	The overall bond yield is projected to be approximately 3.49%.
Create future income streams that will support Pool 3	Increases indenture's expected net present value by approximately \$3 million, at 150% PSA prepayment speed.
Maintain high bond ratings	RHFB bonds are rated Aa1 / AA+

TIMING AND STRUCTURE

Timing. The bonds were priced on Wednesday, April 13th to close on May 12th.

Sizing. The issue was sized to fund upcoming lending.

Major Design Decisions. Key decisions by Minnesota Housing were to:

- 1. Time and size the issue to address rising interest rates.** Since the beginning of 2022, yields on municipal bonds have risen by approximately 140 basis points, and Treasury yields and mortgage rates rose dramatically as well. This rapid increase has been due to stark inflation news and the Federal Reserve unveiling a new, more aggressive policy to deal with inflation, and while temporarily stayed by the beginning of Russia's invasion of Ukraine, rates have risen extraordinarily quickly ever since.

While Minnesota Housing hedges its loan pipeline and is compensated when rates rise, it seeks to issue bonds at as a low rate as possible in order to use the fewest zero participations to achieve full spread. In an environment of rapidly rising interest rates, Minnesota Housing has:

- actively increased interest rates for new loan reservations to help keep pace with the market; and
 - issued bonds quite quickly in recent months (\$99 million RHFB 2022 AB on Feb. 1st, \$150 million CD on March 3, and this \$150 million issue on April 13th) in order to lock in the long-term cost of funds on more of its loan pipeline, protecting the agency if rates continue to rise after reserving loans. These bond issues together with the direct sale of some lower-rate loans have enabled the agency to establish its bond rates prior to adding new loan reservations to the pipeline.
- 2. Use taxable debt to efficiently leverage volume cap.** The agency structured this entire issue as taxable. This use of taxable debt reflects the broader need to preserve volume cap during 2022 and in future years. With the rise in mortgage rates, prepayments have begun to slow, which results in a decrease in the amount of previously issued volume cap that can be recycled into new bond authority. This places an increased importance on taxable debt.
 - 3. Issue variable rate debt.** The most efficient way to issue long-term taxable debt is as variable rate demand bonds. The RHFB indenture has included variable rate bonds for more than 20 years. The percentage of variable rate bonds in the RHFB indenture has been declined significantly over time. This percentage was 25.9% in 2012 and dropped to 17.0% before issuance of variable rate debt in 2022 CD and 2022 EF. Including these issues, variable rate debt remains less than 20% of all RHFB debt, and less than 15% of all single family housing bonds including the Homeownership indenture. This amount of variable debt is well below the 30% of total indenture bonds outstanding that is often used as a benchmark for comparisons among HFAs and presentations to rating agencies. Such variable rate debt helps the agency issue long-term bonds with the least amount of limited bond volume cap as well as lower the overall bond yield of the issue.

- 4. Appropriately hedge the variable rate debt.** For the \$50 million variable rate series F, the agency entered into \$37.5 million of interest rate swaps with Bank of New York Mellon, which is rated Aa2 /AA. This includes a \$25 million long-term swap that Minnesota Housing can terminate at par starting in 10 years, at a rate of 3.24%, and a \$10 million bullet swap for 8 years at a rate of 2.51%.

The remaining \$12.5 million of variable rate debt does not have an interest rate swap. This reflects the fact that the RHFB indenture generally has a significantly larger amount of short-term cash investments that naturally hedge un-swapped debt. That is, if short-term taxable variable rates rise, so does the interest that the indenture earns on its cash investments. When the earnings on its cash investments are low, the cost of such debt is low as well.

Indeed, cash flow projections of RHFB show that including this level of unhedged debt in the indenture helps reduce its sensitivity to a range of future management case scenarios. RHFB, like the indentures of most HFAs, performs best when interest rates are high, since it earns more on its short-term investments and its loans prepay more slowly, enabling it to earn spread over a longer period of time. Conversely, the indenture generates less net income when interest rates are low. Including un-swapped debt thus reduces Minnesota Housing's sensitivity to the level of future interest rates. This is the same reason that numerous other state housing finance agencies have been including modest amounts of unhedged variable rate debt in their financings.

Bond Structure Decisions.

- 1. Series E.** The \$100 million of taxable fixed rate bonds were structured as \$49.3 million serial maturities from 2023 through 2033, and \$50.7 million of term bonds including small term bonds in 2030 and 2031 and larger ones in 2037 and 2041.
- 2. Series F.** The \$50 million of taxable variable rate demand bonds have an initial 5-year standby bond purchase agreement from RBC, protecting bondholders who may tender their bonds with 7 days notice.
- 3. Swaps and PAC bonds.** Rather than applying loan prepayments to a long-term taxable PAC bond, it was more efficient to use prepayments to help pay down the variable rate bonds.

SOCIAL BONDS

Minnesota Housing continued the practice it established with Series 2021 EF, of designating its RHFB bonds as meeting an important social purpose.

Many investors have begun seeking out bonds which meet environmental, social and governance standards. Single-family housing bonds generally meet the social purpose standards because of the level of affordability in serving low- and moderate-income households. Indeed, the three social purpose categories are: affordable housing, access to essential services, and socioeconomic advancement and empowerment. Eligibility requirements for loans supported with social bonds include income limits to help ensure the program serves households with low and moderate incomes, and that the borrower must be a first-time homebuyer, a qualified veteran, or purchasing a home in a targeted area.

Serving such needs is nothing new for Minnesota Housing and other state and local housing finance agencies. What is new is the growing interest of many participants across the wide range of municipal and corporate markets in defining those investments which meet these kinds of standards. New bond funds are beginning to be established specifically for such bonds.

Like many housing finance agencies, Minnesota Housing has contracted with an independent party to evaluate and confirm that the bonds specifically meet the criteria for social bonds. Kestrel Verifiers, widely recognized across the industry, provided this opinion. As the basis for Kestrel's determination, Minnesota Housing provides detailed information on the income mix of borrowers under the program.

BOND SALE RESULTS

Following are the bond sale results for fixed rate Series E. The Series F variable bonds are sold on a short-term basis with interest rates reset weekly.

1. ***Retail.*** Taxable bonds are sold solely to institutional investors, so there were no retail orders.
2. ***Institutional Interest.*** More than \$414 million of institutional orders were received on the \$100 million of Series E fixed rate bonds, with an overall subscription slightly over 4 to 1. This was especially noteworthy since there had been significant unsold balances on many recent housing issues.
3. ***Pricing.*** The early serial maturities in 2023 and 2024 were heavily oversubscribed, and yields reduced by 10 basis points on the 2023 maturity, and 5 and 3 basis points on the 2024 maturities. Some additional serial bonds were reduced by 2 basis points. With almost no orders on the \$11 million of 2030 and 2031 bonds, the semi-annual maturities were turned into annual maturities, increasing the block sizes for investors and effectively increasing the average yield. Most important, the \$21.2 million term bond in 2037 was 5x oversubscribed and lowered in yield by 7 basis points, while the \$17.9 million final term bond in 2041 was oversubscribed by 8.8 times and dropped in yield by 10 basis points.
4. ***Comparable Transactions.*** Recent taxable offerings, such as Illinois and Oregon the week before only had serial maturities since they were part of blended taxable / tax-exempt issues. Illinois was the most comparable since it had bonds out through 2032.

Compared to Illinois, Minnesota Housing's serial bonds were about 5 basis points wider on early serials, but 5 basis points tighter on the final serials.

With respect to term bonds, there have been no other taxable term bonds on recent issues, and Minnesota was effectively testing the market. The heavy oversubscription of its two long term bonds allowed it to drop yields significantly.

UNDERWRITING

Underwriters. RBC was senior manager, with J.P. Morgan, Piper Sandler and Wells Fargo as co-managers.

Sales by Underwriter. All the taxable fixed rate bonds were sold to institutions. RBC brought in \$414.7 million of orders. There was also 25,000 of orders from J.P. Morgan.

Underwriter Fees. Management fees were appropriate, consistent with industry standards, and in the samerange as fees reported for other housing issues of similar size and structure.

ISSUE DETAILS

Economic Calendar. Economic news in 2022 has largely been dominated by rapidly escalating concerns about inflation as evidenced by March CPI increasing by 8.5% from prior year, its highest level in 40 years. Driving markets is the expectation that the Federal Reserve will accelerate the pace of its increases to the Federal Fund rates and lightening its balance sheet holdings of US Treasuries and MBS.

Treasuries. The yields on Treasuries rose rapidly at the beginning of 2022 based on rising inflation and a moderately hawkish Federal Reserve policy. Thus, the 10-year Treasury, at 1.47% in early December when RHFB 2021 GHI was priced, began rising quickly in January as the Omicron variant began to seem less dangerous and investors increasingly expected tougher Fed action to deal with inflation. The 10-year Treasury was 1.79% when RHFB 2022 AB was priced on Feb. 1st

After quickly rising to over the 2.0% threshold in mid-February, the invasion of the Ukraine led to a global flight to Treasuries, with the 10 year at 1.73% on March 3rd when Series CD was priced. Since that time, the 10-year UST increased in yield by an extraordinary 97 bps as the March Fed meeting and subsequent Fed speeches indicated a much more aggressive Fed policy of raising rates. The 10 year was at 2.70% when Series EF was priced.

Municipals. Demand for municipal bonds throughout 2021 was very strong, resulting in 45 straight weeks of inflows to municipal bond funds, relatively limited supply of bonds, and near historic low MMD to Treasury ratios. But in 2022, as Treasury yields rose dramatically, municipal bond investors pulled back from new purchases, and municipal bond funds posted a 7% loss in the first quarter. Investors withdrew over \$21.9 billion from municipal bond funds, the fourth-worst period on record; this put stress on new issues looking to price. Year to date, the 10-year MMD Index has increased by an extraordinary 120 basis points.

Far from the historically low 10-year MMD to Treasury ratios of 60% throughout much of 2021, and 64% at the beginning of 2022, the ratio rose to 93.3% as of the date of the sale. Indeed, the 30-year MMD for tax-exempt bonds was at 100% of the 30-year Treasury, giving little or no value to the benefits of tax-exemption.

More important for this taxable transaction is the spread on taxable municipal bonds to Treasuries. This spread has widened during the recent extraordinary interest rate volatility.

Issue	Date	10-Year Treasury	10-Year MMD	MMD/Treasury	30-Year Treasury	30-Year MMD	MMD/Treasury
2020 HFB A	3/9/20	0.54%	0.78%	144.4%	0.99%	1.38%	139.4%
2020 HFB BC	5/13/20	0.64%	1.09%	170.3%	1.35%	1.90%	140.7%
2020 RHFB DE	6/9/20	0.84%	0.88%	104.8%	1.59%	1.68%	105.7%
2020 HFB D	8/6/20	0.55%	0.59%	107.3%	1.20%	1.28%	106.7%
2020 RHFB FG	9/15/20	0.68%	0.84%	123.5%	1.43%	1.58%	110.5%
2020 HFB E	11/9/20	0.96%	0.86%	89.6%	1.73%	1.61%	93.1%
2020 RHFB HI	12/9/20	0.95%	0.71%	74.7%	1.69%	1.40%	82.8%
2021 HFB A	2/10/21	1.15%	0.69%	60.0%	1.92%	1.34%	69.8%
2021 RHFB AB	3/3/21	1.47%	1.15%	78.2%	2.25%	1.80%	80.0%
2021 HFB B	5/12/21	1.69%	1.02%	60.4%	2.41%	1.60%	66.4%
2021 RHFB CD	5/19/21	1.68%	1.01%	60.1%	2.38%	1.58%	66.4%
2021 HFB C	8/10/21	1.36%	0.88%	64.7%	1.99%	1.46%	73.4%
2021 RHFB EF	9/9/21	1.30%	0.94%	72.3%	1.90%	1.53%	80.5%
2021 HFB D	11/9/21	1.46%	1.08%	74.0%	1.82%	1.53%	84.1%
2021 RHFB GHI	12/7/21	1.47%	1.03%	70.1%	1.80%	1.48%	82.2%
2022 RHFB AB	2/1/22	1.79%	1.50%	83.8%	2.11%	1.91%	91.1%
2022 RHFB CD	3/3/22	1.73%	1.61%	93.1%	2.16%	2.03%	94.0%
2022 RHFB EF	4/13/22	2.70%	2.46%	91.1%	2.81%	2.81%	100.0%
Change from RHFB 2022 CD		+ 97 bp	+ 85 bp	- 2.0%	+ 65 bp	+ 78 bp	+ 6.0%

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