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State of Minnesota

HOUSE OF REPRESENTATIVES

NINETY-THIRD SESSION

H. F. No. **4819**

03/11/2024 Authored by Howard

The bill was read for the first time and referred to the Committee on Housing Finance and Policy

03/21/2024 Adoption of Report: Amended and re-referred to the Committee on Commerce Finance and Policy

1.1 A bill for an act

1.2 relating to housing; expanding eligible uses of housing infrastructure bonds;

1.3 providing for recapitalization; amending a prior appropriation for the housing

1.4 infrastructure program; establishing a task force and requiring a report; amending

1.5 Minnesota Statutes 2022, sections 462A.03, by adding subdivisions; 462A.05,

1.6 subdivision 3b; 462A.21, subdivision 8b; 462A.37, by adding a subdivision;

1.7 Minnesota Statutes 2023 Supplement, section 462A.37, subdivisions 1, 2; Laws

1.8 2023, chapter 37, article 1, section 2, subdivision 17.

1.9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.10 Section 1. Minnesota Statutes 2022, section 462A.03, is amended by adding a subdivision

1.11 to read:

1.12 Subd. 2a. **Distressed building.** "Distressed building" means an existing rental housing

1.13 building:

1.14 (1) in which the units are restricted to households at or below 60 percent of the area

1.15 median income; and

1.16 (2) that:

1.17 (i) is in foreclosure proceedings;

1.18 (ii) has two or more years of negative net operating income;

1.19 (iii) has two or more years with a debt service coverage ratio less than one; or

1.20 (iv) has necessary costs of repair, replacement, or maintenance that exceed the project

1.21 reserves available for those purposes.

2.1 Sec. 2. Minnesota Statutes 2022, section 462A.03, is amended by adding a subdivision to
2.2 read:

2.3 Subd. 6a. **Recapitalization.** "Recapitalization" means financing for the physical and
2.4 financial needs of a distressed building, including restructuring and forgiveness of amortizing
2.5 and deferred debt, principal and interest paydown, interest rate write-down, deferral of debt
2.6 payments, mortgage payment forbearance, deferred maintenance, security services, property
2.7 insurance, reasonably necessary capital improvements, funding of reserves for supportive
2.8 services, and property operations. Recapitalization may include reimbursement to a nonprofit
2.9 sponsor or owner for expenditures that would have otherwise qualified for recapitalization.

2.10 Sec. 3. Minnesota Statutes 2022, section 462A.05, subdivision 3b, is amended to read:

2.11 Subd. 3b. **Refinancing mortgages.** The agency may make loans for recapitalization or
2.12 to refinance the existing indebtedness, of owners of rental property, secured by federally
2.13 assisted housing for the purpose of obtaining agreement of the owner to participate in the
2.14 federally assisted rental housing program and to extend any existing low-income affordability
2.15 restrictions on the housing for the maximum term permitted. For purposes of this subdivision,
2.16 "federally assisted rental housing" includes housing that is:

2.17 (1) subject to a project-based housing or rental assistance payment contract funded by
2.18 the federal government;

2.19 (2) financed by the Rural Housing Service of the United States Department of Agriculture
2.20 under section 515 of the Housing Act of 1949, as amended; or

2.21 (3) financed under section 236; section 221(d)(3) below market interest rate program;
2.22 section 202; or section 811 of the Housing and Urban Development Act of 1968, as amended.

2.23 Sec. 4. Minnesota Statutes 2022, section 462A.21, subdivision 8b, is amended to read:

2.24 Subd. 8b. **Family rental housing.** It may establish a family rental housing assistance
2.25 program to provide loans or direct rental subsidies for housing for families with incomes
2.26 of up to 80 percent of state median income, or to provide grants for the operating cost of
2.27 public housing. Priority must be given to those developments with resident families with
2.28 the lowest income. The development may be financed by the agency or other public or
2.29 private lenders. Direct rental subsidies must be administered by the agency for the benefit
2.30 of eligible families. Financial assistance provided under this subdivision to recipients of aid
2.31 to families with dependent children must be in the form of vendor payments whenever
2.32 possible. Loans, grants, and direct rental subsidies under this subdivision may be made only

3.1 with specific appropriations by the legislature. The limitations on eligible mortgagors
3.2 contained in section 462A.03, subdivision 13, do not apply to loans for the recapitalization
3.3 or rehabilitation of existing housing under this subdivision.

3.4 Sec. 5. Minnesota Statutes 2023 Supplement, section 462A.37, subdivision 1, is amended
3.5 to read:

3.6 Subdivision 1. **Definitions.** (a) For purposes of this section, the following terms have
3.7 the meanings given.

3.8 (b) "Abandoned property" has the meaning given in section 117.025, subdivision 5.

3.9 (c) "Community land trust" means an entity that meets the requirements of section
3.10 462A.31, subdivisions 1 and 2.

3.11 (d) "Debt service" means the amount payable in any fiscal year of principal, premium,
3.12 if any, and interest on housing infrastructure bonds and the fees, charges, and expenses
3.13 related to the bonds.

3.14 (e) "Foreclosed property" means residential property where foreclosure proceedings
3.15 have been initiated or have been completed and title transferred or where title is transferred
3.16 in lieu of foreclosure.

3.17 (f) "Housing infrastructure bonds" means money appropriated to the agency for the
3.18 purposes of this section, the proceeds of any bonds defined in this paragraph, and bonds
3.19 issued by the agency under this chapter that:

3.20 (1) are qualified 501(c)(3) bonds, within the meaning of section 145(a) of the Internal
3.21 Revenue Code;

3.22 (2) finance qualified residential rental projects within the meaning of section 142(d) of
3.23 the Internal Revenue Code; ~~or~~

3.24 (3) are tax-exempt bonds that are not private activity bonds, within the meaning of
3.25 section 141(a) of the Internal Revenue Code, for the purpose of financing or refinancing
3.26 affordable housing authorized under this chapter; or

3.27 (4) are taxable bonds for the purpose of financing or refinancing affordable housing
3.28 authorized under this chapter.

3.29 (g) "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended.

3.30 (h) "Senior" means a person 55 years of age or older.

4.1 (i) "Senior household" means a household with one or more senior members and with
4.2 an annual combined income not greater than 50 percent of:

4.3 (1) the metropolitan area median income for persons in the metropolitan area; or

4.4 (2) the statewide median income for persons outside the metropolitan area.

4.5 (j) "Senior housing" means housing intended and operated for occupancy by senior
4.6 households with at least 80 percent of the units occupied by senior households, and for
4.7 which there is publication of, and adherence to, policies and procedures that demonstrate
4.8 an intent by the owner or manager to provide housing for seniors. Senior housing may be
4.9 developed in conjunction with and as a distinct portion of mixed-income senior housing
4.10 developments that use a variety of public or private financing sources.

4.11 (k) "Supportive housing" means housing that is not time-limited and provides or
4.12 coordinates with linkages to services necessary for residents to maintain housing stability
4.13 and maximize opportunities for education and employment.

4.14 Sec. 6. Minnesota Statutes 2023 Supplement, section 462A.37, subdivision 2, is amended
4.15 to read:

4.16 Subd. 2. **Authorization.** (a) The agency may issue up to \$30,000,000 in aggregate
4.17 principal amount of housing infrastructure bonds in one or more series to which the payment
4.18 made under this section may be pledged. The housing infrastructure bonds authorized in
4.19 this subdivision may be issued to fund loans; or grants ~~for the purposes of clauses (4) and~~
4.20 ~~(7)~~; on terms and conditions the agency deems appropriate, made for one or more of the
4.21 following purposes:

4.22 (1) to finance the costs of the construction, acquisition, recapitalization, and rehabilitation
4.23 of supportive housing where at least 50 percent of units are set aside for individuals and
4.24 families who are without a permanent residence;

4.25 (2) to finance the costs of the acquisition and rehabilitation of foreclosed or abandoned
4.26 housing to be used for affordable rental housing and the costs of new construction of rental
4.27 housing on abandoned or foreclosed property where the existing structures will be demolished
4.28 or removed;

4.29 (3) to finance that portion of the costs of acquisition of property that is attributable to
4.30 the land to be leased by community land trusts to low- and moderate-income home buyers;

4.31 (4) to finance the acquisition, improvement, and infrastructure of manufactured home
4.32 parks under section 462A.2035, subdivision 1b;

5.1 (5) to finance the costs of acquisition, rehabilitation, recapitalization, adaptive reuse, or
5.2 new construction of senior housing;

5.3 (6) to finance the costs of acquisition, rehabilitation, recapitalization, and replacement
5.4 of federally assisted rental housing and for the refinancing of costs of the construction,
5.5 acquisition, and rehabilitation of federally assisted rental housing, including providing funds
5.6 to refund, in whole or in part, outstanding bonds previously issued by the agency or another
5.7 government unit to finance or refinance such costs;

5.8 (7) to finance the costs of acquisition, rehabilitation, adaptive reuse, or new construction
5.9 of single-family housing; ~~and~~

5.10 (8) to finance the costs of construction, acquisition, recapitalization, and rehabilitation
5.11 of permanent housing that is affordable to households with incomes at or below 50 percent
5.12 of the area median income for the applicable county or metropolitan area as published by
5.13 the Department of Housing and Urban Development, as adjusted for household size; and

5.14 (9) to finance the recapitalization of a distressed building.

5.15 (b) Among comparable proposals for permanent supportive housing, preference shall
5.16 be given to permanent supportive housing for veterans and other individuals or families
5.17 who:

5.18 (1) either have been without a permanent residence for at least 12 months or at least four
5.19 times in the last three years; or

5.20 (2) are at significant risk of lacking a permanent residence for 12 months or at least four
5.21 times in the last three years.

5.22 (c) Among comparable proposals for senior housing, the agency must give priority to
5.23 requests for projects that:

5.24 (1) demonstrate a commitment to maintaining the housing financed as affordable to
5.25 senior households;

5.26 (2) leverage other sources of funding to finance the project, including the use of
5.27 low-income housing tax credits;

5.28 (3) provide access to services to residents and demonstrate the ability to increase physical
5.29 supports and support services as residents age and experience increasing levels of disability;
5.30 and

5.31 (4) include households with incomes that do not exceed 30 percent of the median
5.32 household income for the metropolitan area.

6.1 (d) To the extent practicable, the agency shall balance the loans made between projects
6.2 in the metropolitan area and projects outside the metropolitan area. Of the loans made to
6.3 projects outside the metropolitan area, the agency shall, to the extent practicable, balance
6.4 the loans made between projects in counties or cities with a population of 20,000 or less,
6.5 as established by the most recent decennial census, and projects in counties or cities with
6.6 populations in excess of 20,000.

6.7 (e) Among comparable proposals for permanent housing, the agency must give preference
6.8 to projects that will provide housing that is affordable to households at or below 30 percent
6.9 of the area median income.

6.10 (f) If a loan recipient uses the loan for new construction or substantial rehabilitation as
6.11 defined by the agency on a building containing more than four units, the loan recipient must
6.12 construct, convert, or otherwise adapt the building to include:

6.13 (1) the greater of: (i) at least one unit; or (ii) at least five percent of units that are
6.14 accessible units, as defined by section 1002 of the current State Building Code Accessibility
6.15 Provisions for Dwelling Units in Minnesota, and include at least one roll-in shower; and

6.16 (2) the greater of: (i) at least one unit; or (ii) at least five percent of units that are
6.17 sensory-accessible units that include:

6.18 (A) soundproofing between shared walls for first and second floor units;

6.19 (B) no florescent lighting in units and common areas;

6.20 (C) low-fume paint;

6.21 (D) low-chemical carpet; and

6.22 (E) low-chemical carpet glue in units and common areas.

6.23 Nothing in this paragraph relieves a project funded by the agency from meeting other
6.24 applicable accessibility requirements.

6.25 (g) Among comparable proposals requesting funding for recapitalization, the agency
6.26 must prioritize projects in properties that are:

6.27 (1) at risk of foreclosure; or

6.28 (2) under workout agreements with lenders.

6.29 When determining whether a building is at risk of foreclosure, sale, or closure, the agency
6.30 shall consider the factors qualifying a building as distressed, as defined under section
6.31 462A.03, subdivision 2a.

7.1 (h) Supportive housing providers may use a portion of funding awarded pursuant to this
7.2 section to support oversight and operations of supportive housing facilities.

7.3 (i) The agency must engage with community stakeholders, advocates, and developers
7.4 annually when considering project priorities.

7.5 (j) From July 1, 2024, through June 30, 2033, whenever the agency awards more than
7.6 \$20,000,000 under this section, 50 percent of the amount must be awarded for
7.7 recapitalization.

7.8 **EFFECTIVE DATE.** This section is effective the day following final enactment.

7.9 Sec. 7. Minnesota Statutes 2022, section 462A.37, is amended by adding a subdivision to
7.10 read:

7.11 Subd. 3a. **Procedures for considering requests for recapitalization financing.** (a) In
7.12 considering and processing requests for recapitalization financing under this section, the
7.13 agency must:

7.14 (1) process applications on a rolling basis;

7.15 (2) implement commercially reasonable standards consistent with the standards of other
7.16 providers of financing for affordable housing;

7.17 (3) prioritize timeliness and efficiency of closing;

7.18 (4) begin accepting applications no later than July 2, 2024;

7.19 (5) approve or reject an application within 60 days of receiving the application and all
7.20 supporting documents; and

7.21 (6) close and disburse recapitalization funds promptly and within 120 days of receiving
7.22 an approved application except when compliance with the 120-day deadline would be illegal
7.23 under the laws of this state or of the United States.

7.24 (b) The agency will provide a report on the status of implementation of this section by
7.25 January 30 of each year to the chairs and ranking minority members of the legislative
7.26 committees with jurisdiction over housing finance and policy. Each report will detail the
7.27 number of properties receiving funding for recapitalization in the prior year, the amount of
7.28 funding awarded for recapitalization in the prior year, the average time from the agency's
7.29 receipt of an application under this subdivision to closing, and a report of the number of
7.30 applications for recapitalization funding then in-process.

7.31 **EFFECTIVE DATE.** This section is effective the day following final enactment.

8.1 Sec. 8. Laws 2023, chapter 37, article 1, section 2, subdivision 17, is amended to read:

8.2 Subd. 17. **Housing Infrastructure** 100,000,000 100,000,000

8.3 This appropriation is for the housing
 8.4 infrastructure program for the eligible
 8.5 purposes under Minnesota Statutes, section
 8.6 462A.37, subdivision 2. This is a onetime
 8.7 appropriation. Of this amount, at least
 8.8 \$50,000,000 must be used for recapitalization,
 8.9 as defined by Minnesota Statutes, section
 8.10 462A.37, subdivision 1.

8.11 **EFFECTIVE DATE.** This section is effective the day following final enactment.

8.12 Sec. 9. **TASK FORCE ON LONG-TERM SUSTAINABILITY OF AFFORDABLE**
 8.13 **HOUSING.**

8.14 (a) A task force is established to:

8.15 (1) evaluate the process of awarding and closing awards of low-income housing tax
 8.16 credits and housing infrastructure bonds; and

8.17 (2) recommend to the commissioner of the Minnesota Housing Finance Agency process
 8.18 improvements to promote long-term sustainability of affordable housing projects.

8.19 (b) The Minnesota Housing Finance Agency shall convene the first meeting of the task
 8.20 force no later than August 31, 2024, and shall provide accessible physical or virtual meeting
 8.21 space as necessary for the task force to conduct its work. The task force must create final
 8.22 recommendations for the commissioner of the Minnesota Housing Finance Agency no later
 8.23 than April 30, 2025.

8.24 (c) The task force shall consist of 11 members representing a cross section of the
 8.25 affordable housing industry and relevant agency staff. The chair of the house of
 8.26 representatives committee with jurisdiction over housing finance shall appoint four members.
 8.27 The chair of the senate committee with jurisdiction over housing finance shall appoint four
 8.28 members. The commissioner of the Minnesota Housing Finance Agency shall appoint three
 8.29 members. Members must be appointed no later than July 1, 2024.

8.30 (d) The task force expires upon submission of the final recommendations required under
 8.31 paragraph (b).

8.32 **EFFECTIVE DATE.** This section is effective the day following final enactment.