



Jim Solem

No grand solution to affordable housing; use existing tools, expand them as far as possible, keep plugging away

A Minnesota Affordable Housing Policy Interview

July 19, 2019

Former Minnesota Housing Finance Agency (MHFA) Commissioner Jim Solem discusses the beginnings of the MHFA, the agency's use of Section 8 housing vouchers, the Low-Income Housing Tax Credit (LIHTC) program, how the Minneapolis 2040 Plan might impact neighborhood acceptance of affordable housing and inclusionary zoning, and his opinion that there is no grand solution to the problem of supplying low-income affordable housing.

Present

John Adams, Janis Clay (executive director), Paul Gilje, Paul Ostrow (chair), Dana Schroeder (associate director), Clarence Shallbetter, Jim Solem.

Summary

Jim Solem, former commissioner of the Minnesota Housing Finance Agency (MHFA), discusses five major topics related to affordable housing:

1. The history of the MHFA. Solem says establishing the MHFA in 1971 created the capacity for Minnesota to respond to its housing needs. He says the state was then able to take advantage of federal and other kinds of resources and did so in a remarkable way.

2. Section 8 housing vouchers. According to Solem, the MHFA and local governments did a terrific job of taking advantage of the Section 8 housing voucher programs, applying the vouchers to 13,500 rental units during the time Section 8 was available. Section 8 vouchers are still around, but there is no new federal funding for new vouchers. He notes that there are currently 45,000 names on the waiting list for Section 8 housing at the Metropolitan Council's Housing and Redevelopment Agency.

3. The Low-Income Housing Tax Credit (LIHTC) program. Minnesota gets around \$12 million in LIHTC tax credits per year-enough to generate about \$200 million in investment and produce 700 units. Minnesota has produced about 33,000 LIHTC units since 1987.

4. The impact of the Minneapolis 2040 Plan. Solem wonders what impact the new Minneapolis 2040 Plan will have on neighborhood acceptance of affordable housing. He thinks inclusionary zoning is a good idea, but says there must be an incentive for developers to include affordable units, such as up-zoning for inclusive developments.

5. His belief that there is no grand solution to the problem of supplying affordable housing to people with low incomes. Solem says we must use the tools we have, try to expand them, and keep plugging away. It is important to build on what currently works and not try to start with a new financing/incentive system.

Biography

Jim Solem was the first regional administrator of the Metropolitan Council, an agency that coordinates planning and development in the seven-county Twin Cities metropolitan area. It also directly operates numerous regional public services, including the Section 8 housing program, transit and wastewater treatment. He earlier served as commissioner of the Minnesota Housing Finance Agency for 16 years under three governors.

Solem also served as director of the Office of Local and Urban Affairs for the Minnesota State Planning Agency; taught government and urban politics at the University of Missouri, St. Louis; and worked as a financial analyst for the Office of the Secretary, U.S. Department of Agriculture. Solem currently serves on the boards of the Greater Minnesota Housing Fund, Common Bond Housing and Seward Towers.

He is a graduate of Luther College and has a graduate degree in public administration from the University of Minnesota.

Background

The Civic Caucus has been focusing on the topic of affordable housing in its interviews since late October 2018. All of those interviews are available on the [Civic Caucus website](#).

The Caucus interviewed Jim Solem to get his perspective both on the history of affordable housing programs in Minnesota and on the current status of those programs.

Discussion

1. The beginnings of the Minnesota State Housing Finance Agency.

The first state housing agency was created in the 1960s in New York under Governor Nelson Rockefeller. By the mid-1960s, five or six state housing agencies had been created. Prior to the mid-1960s, he said, federal housing programs didn't include states. The New York model of state use of Federal tax policy through tax-exempt bonds as capital for participation in subsidy programs became the model for all state agencies.

The Minnesota State Planning Agency had produced a background paper on what a state housing finance agency would do, why we needed one and how it could utilize federal assistance, which was given to Governor Wendell Anderson after he won the 1970 election.

Solem and Jerry Christensen, then director of the State Planning Agency, took the idea of a housing finance agency to Governor-elect Anderson, who said the state should do it. The legislation prepared for Minnesota was based on Michigan's Housing Finance Agency.

In March 1971, Anderson was the first Minnesota governor ever to produce a special message on housing. "We needed to produce housing units," Solem said. "There was also the need for a state building code, a manufactured housing code and a set of tenants' rights." The Legislature established the Minnesota Housing Finance Agency (MHFA) in 1971. "This was quite an achievement," he said. There was also a proposal in 1971 for a regional housing agency, which was eventually created in 1975 at the Metropolitan Council.

Establishing the MHFA created the capacity for Minnesota to respond to its housing needs. "We developed the capacity in Minnesota to take advantage of federal and other kinds of resources in a remarkable way," Solem said.

He pointed out that the state's capacity builds on federal tax policy. As an example, Minnesota was the first state in the country to have a tax-exempt bond financed home-improvement loan program.

The initial work of the MHFA, Solem said, involved some single-family mortgage activity and financing 236 rental housing developments.

In 1973, President Nixon imposed a moratorium on all new rental housing construction commitments, including those under public housing. "The feds figured

out that affordable housing cost something," Solem said. The Nixon Moratorium ended in 1974, when Congress authorized funding for new units of public housing and created new housing assistance programs.

The state and local relationship with the federal government on affordable housing is a history of federal limits being placed on programs once the real cost became clear.

Solem said when he started as MHFA commissioner in 1978, there were no limits on the amount of bonds the agency could sell and there were no income limits for single-family mortgages offered by the agency. Limits were needed, but were enacted with little involvement of state and local governments.

"The limitation in terms of what you can do with the various resources you get through the feds is an important part of why the system is as messy and convoluted as it is today," Solem said. New restrictions are enacted with little concern for the way they fit in the existing system.

During Solem's 16 years at the MHFA, the agency sold about \$7 billion worth of bonds. He said Minnesota is a moral obligation state. That means the housing bonds do not have the full faith and credit of the state behind them, he said. In Minnesota, if there is a deficit in a particular fund of the MHFA, the Legislature is morally obligated to pay for it. There has never been a problem with bonds issued by the agency, he said.

Solem said the cost to the federal government from tax-exempt housing bonds in 1994, his last year as MHFA commissioner, was \$11 billion or \$12 billion. In contrast, he said, the cost for federal income-tax deductibility of home mortgage interest in 2017 was \$60 billion. In 2018, it moved down to \$40 billion because of changes to federal tax laws.

2. Section 8 Housing Vouchers.

The Housing and Community Development Act of 1974 created the Section 8 program . The program continued the shift to subsidizing privately owned housing by pairing rental subsidies with private-market housing units. The Section 8 program was designed to respond to the criticisms of the earlier programs by including subsidies for private units and relying less heavily on new construction. Section 8 vouchers provided a subsidy to low-income families and individuals so they could rent housing in the private market.

The MHFA did a terrific job of taking advantage of Section 8 programs . Solem said Minnesota did about 13,500 Section 8 units during the time Section 8 was available. About 6,000 of those were in the metro area and 70 percent of the metro units were in the suburbs. He pointed out that Minnesota had a higher percentage of its Section 8 housing units as family units in the suburbs than almost any other state.

"Section 8 was a great program," Solem said. "It provided almost enough subsidy to produce a housing unit quickly. But it had a visible cost, so President Ronald Reagan stopped it."

There are currently 45,000 names on the waiting list for Section 8 vouchers at the Metropolitan Council's Housing and Redevelopment Agency (HRA). "Vouchers are wonderful and we need more of them," Solem said. "But some of them have to be targeted to buildings or you'll never get the buildings financed or built."

"Section 8 worked," he continued. "It was a remarkable program. And it was, in the grand scheme of things, not all that expensive. Today's voucher has the same income and rent levels as Section 8, but there is no new federal funding for new vouchers. HUD is recycling old money. We need something like vouchers targeted at different income levels, with some portion of vouchers tied to specific buildings."

Solem said if politically, Congress can't appropriate the money to run the public housing program, it's not likely to create a brand-new voucher program.

(MHFA and the other HFAs in the country receive no federal support to pay for staff and operations. MHFA has to earn the money needed to pay for staff and operations, which is why, some say, it is modeled after a bank.)

3. The Low-Income Housing Tax Credit (LIHTC) Program.

The Low-Income Housing Tax Credit (LIHTC) program was created as part of the Tax Reform Act of 1986. Solem said it put state housing finance agencies in the middle of the allocation and finance process, with no input from states in the creation of the program.

He said the dollar amount of tax credits allocated to each state is \$2.75 per person with the population figures adjusted by the Census Bureau each year. Minnesota gets around \$12 million in tax credits per year. That generates about \$200 million in investment and about 700 units.

In order to use tax credits, each state's housing finance agency must prepare a very elaborate plan. The agency sets out what it's going to do and creates a ranking system, which is used for each application made by a developer/builder. Unique to Minnesota, he said, is that, in addition to the rankings done by the MHFA, the following localities do their own rankings: Minneapolis, Saint Paul, Duluth, Dakota County and Washington County.

"That adds to the inefficiency," Solem said.

He said the MHFA cooperated with the Metropolitan Council, the state's cities and the Federal Housing Administration (FHA), so there wouldn't be any overlap in projects. The

MHFA started a consolidated Request for Proposal (RFP) process, he said, in which all the housing agencies come together and do the selection process to prevent overlap.

Solem said for subsidized rental housing, the state monitors the continued income eligibility of tenants. "For tax credits, that's a big deal," he said. "It's a lot more complicated with tax credits, because the price of failure is so high. You have to give the feds back the tax deduction you took times two," if it's found that ineligible tenants are still living in units in a LIHTC development. He said even the LIHTC investors check on the income requirements compliance, which is very expensive and takes lots of time and effort.

"It's complicated and expensive," he said, "but it's the only game in town."

Investors in LIHTC affordable housing projects get the tax credits against their federal income taxes for 10 years and, under federal requirements, must maintain affordability of the units for 15 years. But in Minnesota, the units must remain affordable for 30 years.

The first tax credits under the LIHTC program were available in 1987. It took several years for the Congress to make the program a permanent part of the tax code. It is a part of tax law and not housing legislation.

LIHTC investors include insurance companies and banks like Wells Fargo and U.S. Bank, among others. Solem said housing tax credits are a good way for banks to invest because they also get required Community Reinvestment Act (CRA) points from investing in housing. The investors, who come from all over the country, have large chunks of capital they can put to work for 15 years.

Solem said there are proposals in Congress to improve LIHTC and increase the dollar amount of tax credits by 50 percent over a five-year period. "That's a good interim step," he said.

Minnesota has produced 33,000 LIHTC units, he said. "That's quite a remarkable record."

He said the [Minnesota Equity Fund](#), a subsidiary of the Greater Minnesota Housing Fund, has done remarkable work with companies like United Health Care, Hormel, Schwan's and Jennie-O. "They've all invested in LIHTC to get projects done in their particular community," he said. "They're doing it for community reasons."

(Note: For more on the LIHTC program and how it is used by developers, see notes from the June 21, 2019, [Civic Caucus interview with Dominium Housing's Owen Metz and Paula Prahl](#).)

4. Impact of the Minneapolis 2040 Plan.

Local acceptance is a big part of the affordable housing problem. Solem said that nonprofit housing developers say that, apart from financing, their biggest problem is finding a site for affordable housing. "If you don't have a location, you don't build anything," he said.

Minneapolis is making an effort, through its [2040 Plan](#), at dealing with local neighborhood acceptance, Solem said. "Whether it works or not remains to be seen." The 2040 Plan seeks to increase the city's density by restricting single-family zoning,

The Minneapolis City Council should set limits on the allowable density of developments under its 2040 Plan and allow higher densities only if a developer includes affordable housing. An interviewer made that statement. "That's exactly right," Solem responded. "Inclusionary housing doesn't work without an incentive." (Inclusionary housing means including some affordable housing units in an otherwise market-rate development.)

Solem said he's a big fan of inclusionary zoning as it's been done in Montgomery County, Maryland, which is different from what Minneapolis is talking about in its 2040 Plan. In Maryland, he said, if a development of 60 units, for example, includes enough inclusionary units, the development will get up-zoned, so it can include 10 or 15 more units. He has concluded that inclusionary zoning without up-zoning doesn't work.

5. No grand solution.

There's no possibility of a grand solution. "My notion is that you take the existing tools and do the best with them you can," Solem said. Minnesota has done a better job of using the existing tools to produce units and deal with the supply side than many other states in the country. The state has put together as many sources of funds as possible in a complicated, difficult way, making it relatively easy for the development community to come out at the other end with units.

Solem pointed out that the MHFA budget is now \$1.3 billion. "We have the capacity to deal about as effectively with the supply side in as reasonable a way as it's possible to have," he said. "In Minnesota we're taking advantage of the existing resources about as effectively as we can."

"You need, at a minimum, an hourly wage of \$17 or \$18 in order to rent a market-rate, two-bedroom unit in Minnesota," he continued. "We're always going to have a supply problem. We have serious issues in terms of demographics and income distribution. We're always going to need to deal with supply and demand. Take the tools you know how to use, expand them to the extent that's politically possible and keep plugging away."

In response to an interviewer's question about what Solem would do with \$100 million, Solem said, "I'm a supply guy. I'd put some into vouchers, but you have to build some units to go along with it."

How do we advance the public debate about affordable housing? An interviewer asked that question and Solem responded that people need to know the real cost of getting this done. Then we must put a process in place with incrementally more resources that can result in more units, he said.