MINNESOTA HOUSING

2020 Qualified Action Plan (QAP)
Summary of Proposed Content Changes

Key Changes

In the 2019 QAP, Minnesota Housing proposed and adopted significant streamlining changes. With these changes now in place, the proposed changes for the 2020 QAP are recommended only for critical policy or clarification purposes. Key changes are identified below in three categories based on their impact on: projects with 9% tax credits allocated through the competitive RFP process; tax-exempt bond/4% projects selected through the competitive Request for Proposals (RFP) process; and projects receiving tax exempt bonds through the Minnesota Department of Management and Budget (MMB) and seeking an allocation of tax credits through the 4% Only (42M) process. While these are the proposed changes identified at this point, there may be additional modifications to the 2020 QAP, including addressing concerns and suggestions that arise from public comments.

9% Housing Tax Credits (HTC) Allocated Through the Competitive RFP

- **Clarify the tie breaker criteria** by making long-term affordability a preference priority, which is given weight in the first round of a tie breaker. This change is in line with Internal Revenue Code preferences. Cost containment is removed as a preference priority and will become a selection priority.
- **Increase the per-developer or general partner tax credit limit** to the greater of: the amount representing 10 percent of the state's per capita volume limit in tax credits, 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. Such projects are subject to the per development limit shown below.
- **Increase the per-development tax credit limit** from $1.2 million to $1.25 million, based on an annual inflation factor.
- **Increase the rural development/small project set-aside** from $300,000 to $350,000. This set-aside was last adjusted in the 2013 QAP. Minnesota Housing intends to apply an annual inflation adjustment factor in future QAP rounds.
- **Revise the State Designated Basis Boost** to apply to developments that meet one of the following two strategic priority policy thresholds: Supportive Housing or Preservation. Allocating agencies are allowed to award a basis boost of up to 30 percent to HTC buildings, and allocating agencies are authorized to determine their individual policy objectives for projects eligible for the basis boost. Minnesota Housing seeks to ensure that the boost continues to advance critical state housing priorities through targeted and strategic use. Note that many projects qualify under more than one strategic priority; for example, many projects meet the Greater Minnesota Workforce Housing strategic priority policy threshold in addition to the Supportive Housing strategic priority threshold.

Competitive RFP (9% and 4% HTC) and 4% Only (42M)

- **Reform the Planned Community Development Strategic Priority into the Community Development Initiative Strategic Priority** to streamline this strategic priority and to facilitate use of the priority by communities with active community development initiatives that include affordable housing as a key strategy. Clarify what additional information is required by federal regulations for developments in a Qualified Census Tract (QCT) for a plan to be considered a concerted community revitalization plan.
- **Clarify and Revise Unacceptable Practices**, as outlined in the *2019 Housing Tax Credit Program Procedural Manual*, which result in negative points on future application submittals or the inability to

apply for future HTC rounds in severe cases. Minnesota Housing is recommending clarifications or changes that impact three areas: transfer of ownership, cost containment and compliance.

- Transfer of Ownership. Clarify that approval for transfer of ownership (more than 50 percent interest in a general partner or member, or a change in a nonprofit partner) is required for the duration of the Land Use Restrictive Agreement (LURA), and that if a transfer of ownership occurs, a fee is required throughout the term of the LURA. Also clarify that a failure to notify Minnesota Housing of a transfer of ownership constitutes an unacceptable practice for which a negative point penalty is assessed.
- Cost Containment. Clarify how penalties will be assessed for future projects. The penalty will be assessed against a future tax credit request of the same type of funding round for which the points were initially awarded. Specifically:
  - Projects awarded cost containment points in a competitive funding round (HTC Round 1 or Round 2) would receive a penalty on the next competitive HTC funding round application if costs exceed the benchmark.
  - Projects requiring points to reach the minimum score and that are awarded such points under the 4% Only (42M) allocation process would receive a penalty on the next 4% Only (42M) application if costs exceed the benchmark.
- Compliance. Add an unacceptable practice provision for failure:
  - To comply with critical life, safety and/or compliance and monitoring procedures; or
  - To correct or submit an acceptable timeline for correction of non-compliance after repeated notices.

Other notable clarifications or changes to selection categories and criteria are outlined below.

Selection Categories and Selection Criteria

Changes to the selection categories and criteria include:

- **Community Development Initiative.** This selection category is being streamlined to better clarify the eligibility criteria. Developments seeking these points must continue to provide evidence of a targeted geographic area for the initiative, a current implementation plan with goals or outcomes specific to the need identified by the initiative, and developments should demonstrate that affordable housing is a key strategy and there is active local stakeholder involvement.
  - In addition, in order for a plan to be considered a concerted community revitalization plan, as defined in federal guidance, for purposes of the statutory preference, plans in a QCT should include **a demonstrated strategy for obtaining a commitment of public or private investment (or both) in non-housing infrastructure, amenities or services.**
- **Greater Minnesota Workforce Housing.** Currently, to meet this strategic priority, projects must demonstrate need based on a low vacancy rate, have employer support and have a cooperatively developed plan. Minnesota Housing proposes to change one of these requirements and clarify a second:
  - Cooperatively Developed Plan. Remove the cooperatively developed plan requirement because it is redundant of the existing strategic priority and scoring criterion focused on community development initiative efforts.
  - Employer Support. Clarify that a letter of employer support is required. An employer with 20 or more Full-time Employees (FTEs) must provide a description of the difficulty employees have had obtaining affordable housing in the jurisdiction of the proposed project. A

description of local wage levels and affordable rent levels must be provided. Minnesota Housing will provide a sample letter that applicants can use.

- __Supportive Housing:__ **High Priority Homeless and People with Disabilities.** Both of these scoring criterion are being modified to specify that, for units occupied by households without rental assistance that are seeking these points, the gross rent, including an allowance for tenant-paid utilities, cannot exceed the greater of 30 percent of the household's monthly income or the most current supportive housing standard for the unit size as published by Minnesota Housing. Owners must establish and implement policies and procedures to specify the calculation method used to determine the appropriate rent amount and the periodic income recertification used when adjusting rents.
- __Preservation:__ **Threshold Requirement: Risk of Loss Due to Market Conversion.** We currently require projects that meet this threshold requirement to provide proof of a market for conversion as evidenced by a low physical vacancy rate (4% or lower) for market rate comparable units and one of three of the following: a market study commissioned by Minnesota Housing, an appraisal commissioned by Minnesota Housing or a Rent Comparability Study (for properties with project-based Section 8 contracts).
    - **Clarify that one option for demonstrating a market for conversion is a market study as deemed acceptable to Minnesota Housing** instead of one commissioned by Minnesota Housing.
- __Preservation.__ **Scoring: Critical Affordable Units at Risk of Loss**. Preservation projects are currently eligible for points under this scoring criterion only if the development also satisfies the Serves Lowest Income Tenants/Rent Reduction criteria, which requires that rents be restricted to 50 percent Multifamily Tax Subsidy Projects (MTSP) limits. Properties that convert through RAD 1 may not satisfy the 50 percent MTSP rent restriction as the project-based Section 8 contract on the converted property may be above that limit.
    - Minnesota Housing proposes to modify this scoring criterion to provide that **a RAD 1 development is eligible for these points if 50 percent or more of the units in the development are covered by a project-based Section 8 rental assistance contract.**

Next Steps, Feedback and Public Comments

Minnesota Housing staff will present proposed changes, including a redline version of changes, at Minnesota Housing's February 22, 2018 board meeting. Opportunities to provide feedback are currently open and include several different options listed below. While the formal comment period begins if and after the board approves the proposed 2020 QAP changes at its February 22, 2018 meeting and culminates on March 14, 2018 at 5:00 p.m., Minnesota Housing invites earlier comments and will consider all comments received through the March 14, 2018 deadline.

- Formal public comment period: **February 22 – March 14, 2018**
- In-person session at Minnesota Housing: **March 5, 2018**
- Public hearing at Minnesota Housing: **March 14, 2018**
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