2019 QAP Content and Scoring Change Summary

Key Changes

The changes in the 2019 QAP focus on streamlining and enhancing clarity. The key changes are:

Providing two Self-Scoring Worksheets. We will now provide separate Self-Scoring Worksheets for 9% and 4% tax credits.

Increasing the per development tax credit cap increases from $1 million to $1.2 million to reflect an adjustment for inflation.

Increasing the number of selection categories from six to seven. The Greatest Need – Tenant and Affordability Targeting Priority is now broken into two. The first priority focuses on the tenant populations served by targeting large families, high priority homeless and people with disabilities. The second priority focuses on serving the lowest income tenants and affordability.

Adding one selection criterion and deleting another.

- *What's New:* Under the Serves Lowest Income for Long Durations Selection criterion, we now provide points for 9% tax credits with a 35-year or 40-year extended-use period and a waiver of the qualified contract.
- *What's Gone:* We removed High Speed Internet Access as an optional selection criterion because we now require it under our Design/Construction Standards.

Recalibrating the overall scoring framework to reflect the streamlining and clarifications but not change the balance of priorities. After streamlining the QAP and making the content changes, we recalibrated and adjusted the overall scoring to align the pointing of the 2019 QAP with the 2017 QAP. While we want to streamline and simplify the QAP, we want to keep the type of selections that occurred under the 2017 QAP (the most recent selections) because those selections are well-aligned with our priorities. With the scoring recalibration, the changes in the proposed 2019 QAP would result in only one change in ranking among the 13 projects that were selected under the 2017 QAP if the proposed 2019 QAP were used instead. See the Test Cases for Scoring Changes for more details.

Selection Categories and Selection Criteria

The pointing, content, streamlining and clarification changes impacted several selection categories and scoring criteria, all of which are outlined in the At-A-Glance 2019 QAP Changes document. Notable changes are outlined below:

Greatest Need Tenant Targeting. The three selection criteria that comprise this selection category are:

- Large Family Housing (previously named Household Targeting)
- Permanent Supportive Housing for High Priority Homeless
- People with Disabilities

The 2019 QAP emphasizes serving large families. We eliminated the points for Single Room Occupancy (SRO); however, the Rental Assistance criterion continues to provide points for serving households with incomes at or below 30 percent of Multifamily Tax Subsidy Project (MTSP) Income Limits. Multifamily Tax Subsidy Projects (MTSP) Income Limits were developed to meet the requirements established by the Housing and Economic Recovery Act of 2008 (Public Law 110-289) that allows project rents to increase over time. The MTSP Income Limits are used to determine qualification levels as well as set maximum rental rates for projects funded with tax credits authorized under section 42 of the Internal Revenue Code.

While the Permanent Supportive Housing criterion previously offered 100 bonus points to applicants, we have concluded that the bonus points have no measurable impact on the selections. After a careful evaluation of past scoring, we found that the developments that received the bonus points would still have been selected without them. Therefore, we are dropping the bonus points.

Several important clarifications were made to the People with Disabilities criterion, which includes creating a preference for serving people with disabilities who are moving from segregated settings. Developments with units designated for people with disabilities need to be an integrated setting, which is defined as no more than 25 percent of the units designated for people with disabilities.

Serves Lowest Income for Long Durations. The three selection criteria that comprise this selection category are:

- Serves Lowest Income
- Rental Assistance
- Long-term Affordability (newly added in the 2019 QAP)

The Serves Lowest Income criterion is revised to focus solely on rents affordable to tenants with incomes at or below 50 percent of MTSP Income Limits. We further adjusted the criterion by requiring a 10-year commitment, when the 10-year commitment had previously been an option to get additional points.

Rental assistance is critical for serving very low-income populations, and the 2019 QAP madeseveral important adjustments. First, all rental assistance points are consolidated into this selection criterion. Previously, they were co-mingled in other selection criteria, such as Permanent Supportive Housing for High Priority Homeless or People with Disabilities. The notable changes are: (1) adding an additional tier to the category to indude projects with a smaller percentage of units with rental assistance;, and (2) providing additional points for developments that target rental assistance to households with incomes at or below 30 percent of MTSP Income Limits.

Areas of Opportunity – Location Efficiency. We made several modifications to the Location Efficiency selection criterion in an effort to streamline and enhance scoring clarity. First, we better define Greater Minnesota geographies for scoring purposes and align these definitions withthe Minnesota Department of Transportation (MnDOT) Transit Investment Plans. There are now two transit categories in Greater Minnesota:

- Urbanized areas with fixed route transit services.
- Rural and small urban areas with access to designed stops, route deviation service or dial-a-ride.

In the Twin Cities Metropolitan area, we eliminated the criterion related to Transit Oriented Development (TOD) building design but moved the two points previously available under that criterion to the Access to Transit criterion.

Preservation. We eliminated the requirement that developments be located in a Preservation Priority Area, and we added the following requirements and clarifications for two of three risk categories:

- Risk of loss due to market conversion. This risk of loss has been updated to require evidence from one or more of the following:
  - An appraisal commissioned by Minnesota Housing within one year of the application date.
  - For properties with Section 8 contracts, a Rent Comparability Study that is acceptable to Minnesota Housing, meets HUD standards, and is completed within one year of the application date.
  - A market study commissioned by Minnesota Housing, paid for by the developer, and completed within one year of the application date.

- Risk of loss due to ownership capacity. The expanded acceptable circumstances include:
  - Properties acquired from an unrelated party within three years of the application date after being offered for sale on the open market after an opt-out notice for the Housing Assistance Payment (HAP) contract was provided.
  - Properties acquired from an unrelated party within three years of the application date as a result of a PARIF Right of First Refusal being exercised.
  - Properties where the current or previous owner intends (or intended) to allow a USDA Rural Development mortgage to mature and has (or had) turned down offers to re-amortize the mortgage. An application must occur within five years of the maturity date and within three years of acquisition by a new party.

Federally assisted projects will now be awarded points only for the percentage of units that are assisted, rather than the absolute number of units that are assisted. This will prioritize projects with a greater percentage of assisted units and will result in a more efficient use of resources.

Efficient Use of Resources/Leverage. We value the contributions made by other governmental and philanthropic funding partners, but previously scored these contributions under two distinct selection categories - Community and Economic Development and Efficient Use of Scarce Resources. Combining similar commitments into a newly-named selection category (Financial Readiness to Proceed/Leverage) enhances scoring clarity and underscores the critical financial impact other funding partners have on the development.

The category now includes both direct funding contributions and other types of contributions (land donation, fee waivers) from federal, local or philanthropic partners. All previously scored elements from Federal/Local/Philanthropic Contributions in the Community and Economic Development selection category have been consolidated, retained and integrated into this newly-named selection category.

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At-A-Glance 2019 QAP Changes

Greatest Need – Tenant Targeting

Large Family Housing

- Removed Single Room Occupancy (SRO) points; but points are still available under rental assistance for serving households with incomes at or below 30 percent MTSP Income Limits
- Reduced points for Large Family Housing; with the SRO category being dropped, the points for large families needed to be recalibrated

Permanent Supportive Housing for High Priority Homeless[1]

- Streamlined language to support use of the Coordinated Entry delivery system
- Eliminated bonus points but increased general points for homelessness to maintain the incentive to serve this population

People with Disabilities

- Added preference for individuals moving from segregated settings

Serves Lowest Income for Long Durations

Serves Lowest Income

- Added requirement that developments that choose this option and restrict rents to 50 percent of MTSP Income Limits must provide a 10-year commitment. Previously the 10-year commitment was optional for additional points
- Dropped points for units with rents further restricted to 30 percent MTSP Income Limits; consolidated incentive to serve households at 30 percent of MTSP Income Limits in Rental Assistance criterion

Rental Assistance (RA)

- Consolidated RA points into one category (points were previously available in Permanent Supportive Housing and People with Disabilities)
- Added a lower tier point category for developments with 5-10 percent of units with RA
- Added a new criterion that provides points for the percentage of units serving households with incomes at or below 30 percent MTSP Income Limits
- Increased the overall points available under RA

Long-term Affordability - NEW

- Added new points for 35- or 40-year extended affordability

[1] Families with children, youth (including youth with families or single youth), and single adults.

Areas of Opportunity

Economic Integration
Higher Performing Schools
Workforce Housing Communities
Location Efficiency

- Eliminated points for transit-oriented development building design in the Twin Cities metropolitan area and moved these points to Access to Transit
- Aligned the criterion's definitions with the MnDOT transit investment plan and reclassified Greater Minnesota into two geographies: urbanized and rural/small urban areas
    - Better defined urbanized areas with access to fixed routes
    - Better defined rural/small urban areas with access to designated stops, demand-response service, or dial-a-ride
- Removed proximity to jobs threshold under the Greater Minnesota category

Community and Economic Development

Planned Community Development

- Required plan to be dated or amended within seven years
- Defined documentation required to support the plan
- Eliminated the requirement for a local official support letter

Qualified Census Tracts – Low Income Communities
Eventual Tenant Ownership
Rural/Tribal
Minority-owned and Women-owned Business Enterprise

- Added eligibility for non-profit corporations

Federal/Local/Philanthropic Contributions

- Moved to Efficient Use of Scarce Resources

Preservation

Thresholds: Risk of loss due to market conversion, critical physical needs or ownership capacity/program commitment

- Eliminated requirement to be in a Preservation Priority Area
- Clarified risk of loss due to market conversion requirements
- Clarified risk of loss due to ownership capacity requirements.

Scoring

- Based points on the percentage of units assisted, rather than the absolute number of units assisted

Efficient Use of Resources/Leverage

Financial Readiness to Proceed/Leveraged Funds

- o Provided a list of eligible sources including clarification regarding supporting documentation for: Tax Increment Financing (TIF), Historic Tax Credits, deferred loans, below-market interest rate loans, grants and donations, and grants from nonprofit organizations converted to deferred loans

Other Contributions

- o Removed duplicate funding sources included in the Financial Readiness criterion. Remaining contributions listed are sources that reduce development costs and are not reflected in the sources and uses budget, such as land donation or SAC/WAC fee waivers

Intermediary Costs

Cost Containment

Building Characteristics

Universal Design

- o Eliminated one options feature because it is already a code requirement (braille on interior signage)

Smoke-Free Buildings

High Speed Internet

- o Eliminated because it is now required in our design standards

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Test Cases for Scoring Changes

After streamlining and modifying the selection criteria, we recalibrated the overall pointing by running dozens of test cases (primarily 2017 tax credit applications) through multiple point scenarios, with the goal of minimizing the change in the total points that a project would receive and that project's final ranking in the selection process. In the end, more than half the test cases had a change in their overall score of three points or less when we ran these development through the scoring and point changes that we are recommending in the 2019 QAP.

The following examples reflect test cases using the point structure that we are recommending. The summary for each test case focuses just on those selection criteria that had the largest changes. The analysis excludes the additional three to seven points that will be available to developments that extend their affordability period to 35 or 40 years. All developments will be eligible for these points.

Test Development #1

50 one-bedroom units of permanent supportive housing for high priority homeless with incomes at or below 30 percent of MTSP Income Limits; all the units have rent assistance

Category	Impact
SRO (deleted)	**Lose 10 points** with the elimination of the SRO scoring criterion
Permanent Supportive Housing	**Gain 10 points** because the points for the top tier (50 percent to 100 percent of the units are PSH) increases from 10 to 20 points
Rent Assistance	**Gain 5 points** overall. There are two changes: (1) Lose 2 points because the points awarded based on the number of rent assistance units are reduced, and (2) gain 7 points because a new scoring criterion is added based on the share of units with rent assistance
Other	**Lose 3 points** from a few small changes
Total Change	**Gain 2 points**

Test Development #2

35 units in Greater Minnesota with 29 of the units having two or more bedroom units and 4 units with rent assistance and permanent supportive housing

Category	Impact
Large Family	**Lose 5 points** because the points are reduced from 10 to 5
Permanent Supportive Housing	**Gain 3 points** because the points for the middle tier (10.0% to 49.9% of the units are PSH) increases from 7 to 10 points
Rent Assistance	**Gain 3 points** because a new scoring criterion is added based on the share of units with rent assistance
Other	**0 point change** because a few small changes offset each other
Total Change	**Gain 1 point**

Preservation Analysis

Preservation of Federally Assisted Units

We made a significant change to the 2019 Preservation scoring criterion by basing the points just on the share of units with federal assistance rather than on both the number and share of units, as the 2018 QAP does. The following grid summarizes the effect of that change after we recalibrated the scoring.

The rows show three different sized buildings and the columns show three different shares of units with federal assistance, for a total of nine test cases. Seven of the nine cases have a change ofthree points or fewer. The largest scoring changes, which are all increases, occur for the developments with 100 percent federal assistance because the new scoring is focused just on the share of units with federal assistance. It is more cost efficient to preserve two 40-unit buildings each with 100 percent assistance (preserving 80 units of assistance), than one 80-unit building with 50 percent assistance (40 units of assistance), assuming the rehabilitation costs per unit are the same for each development.

	Share of Units with Rent Assistance		
	50%	**75%**	**100%**
40-Unit Building	20 assisted units **2018 QAP = 9 points** o Share = 8 points o Number = 1 point **2019 QAP = 10 points**	30 assisted units **2018 QAP = 13 points** o Share = 12 points o Number = 1 point **2019 QAP = 15 points**	40 assisted units **2018 QAP = 23 points** o Share = 20 points o Number = 3 points **2019 QAP = 30 points**
60-Unit Building	30 assisted units **2018 QAP = 9 points** o Share = 8 points o Number = 1 point **2019 QAP = 10 points**	45 assisted units **2018 QAP = 15 points** o Share = 12 points o Number = 3 points **2019 QAP = 15 points**	60 assisted units **2018 QAP = 23 points** o Share = 20 points o Number = 3 points **2019 QAP = 30 points**
80-Unit Building	40 assisted units **2018 QAP = 11 points** o Share = 8 points o Number = 3 points **2019 QAP = 10 points**	60 assisted units **2018 QAP = 15 points** o Share = 12 points o Number = 3 points **2019 QAP = 15 points**	80 assisted units **2018 QAP = 27 points** o Share = 20 points o Number = 7 points **2019 QAP = 30 points**