



Note: content on this report has been revised since initial distribution

AGENDA ITEM: 7.B.
MINNESOTA HOUSING BOARD MEETING
February 19, 2015

ITEM: Proposed Revisions to the Qualified Allocation Plan (QAP) and Procedural Manual, 2017 Housing Tax Credit (HTC) Program

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REQUEST:

Approval Discussion Information

TYPE(S):

Administrative Commitment(s) Modification/Change Policy Selection(s) Waiver(s)

Other: _____

ACTION:

Motion Resolution No Action Required

SUMMARY REQUEST:

Staff is recommending adoption of a motion for approval of the proposed revisions to the Housing Tax Credit Qualified Allocation Plan (QAP) and Procedural Manual for the 2017 Housing Tax Credit Program.

FISCAL IMPACT:

This is a federally sponsored program not funded from state appropriations and will not have any fiscal impact on the Agency's financial condition.

MEETING AGENCY PRIORITIES:

Promote and support successful homeownership Preserve federally-subsidized rental housing
 Address specific and critical needs in rental housing markets Prevent and end homelessness
 Prevent foreclosures and support community recovery Strengthening Organizational Capacity

ATTACHMENT(S):

- Background
- Timetable
- 2017 Housing Tax Credit Program, QAP and Procedural Manual Proposed Revisions
- Proposed 2017 Housing Tax Credit Program Self-Scoring Worksheet
- Methodologies
 - o Workforce Housing Communities
 - o Preservation Geographic Priority Areas
 - o Location Efficiency
 - o Qualified Census Tracts, Tribal Equivalent Areas
 - o Community Economic Integration
 - o Cost Containment

Continuum of Care (CoC) Priorities

BACKGROUND:

The Federal Tax Reform Act of 1986 created the Housing Tax Credit Program (HTC) for qualified residential rental properties. The HTC program is the principal federal subsidy contained within the tax law for acquisition/substantial rehabilitation and new construction of low-income rental housing.

Section 42 of the Internal Revenue Code (IRC), requires that state allocating agencies develop a Qualified Allocation Plan (QAP) for the distribution of the tax credits within their jurisdiction. The QAP is subject to modification or amendment to ensure the provisions conform to the changing requirements of the IRC, applicable state statute, the changing environment and to best promote the Agency's strategic priorities. Staff has reviewed the HTC program and is preparing the necessary modifications.

On February 12, 2015, staff met with tax credit suballocators to review proposed revisions for the 2017 QAP and to adopt the tentative 2017 HTC Program Schedule. The cities of Minneapolis and St. Paul, and Dakota and Washington counties are expected to continue to administer tax credits within their jurisdictions and the cities of Duluth, St. Cloud, and Rochester are expected to again enter into Joint Powers Agreements with the Agency to administer their 2016 housing tax credits.

A summary of the proposed revisions for the 2017 QAP and Procedural Manual will be made available for public review on the Agency's web site following Board approval of the proposed revisions, along with a notice of the upcoming HTC 2017 QAP public hearing. The Agency invites comments from tax credit developers, industry representatives, and the public regarding the Allocation Plan at a public hearing scheduled for March 23, 2015. Staff will review all comments, and changes will be incorporated into the HTC QAP and/or Manual where appropriate. The Board will review the Final 2017 HTC QAP and Procedural Manual revisions at its April 23rd Board meeting. Upon obtaining final Agency Board and Governor approval of the HTC QAP and Procedural Manual, staff will provide technical assistance to applicants.

Included in the Methodology attachments to this report are descriptions of the data and methodology to be used in various data-driven scoring criteria in the QAP. New data is expected to become available in the upcoming months, and if available prior to the scheduled public hearing, the data in the affected methodologies (as noted on the Workforce Housing Communities, Location Efficiency, and Community Economic Integration Methodology attachments) will be updated.

The proposed revisions to the QAP are presented in the form of a blackline version of the Self-Scoring Worksheet. The Self-Scoring Worksheet is a form that is provided to potential applicants for the HTC program and contains all of the scoring criteria presented in the QAP. Copies of the current QAP and Procedural Manual are available on the Agency's website, www.mnhousing.gov (Home -> Multifamily Rental Partners -> Programs & Funding -> Tax Credits -> 2016 QAP Planning Materials)

TIMETABLE:

2017 HTC PROGRAM SCHEDULE

March 19, 2015	Minnesota Housing 2017 QAP Public Hearing
April 23, 2015	Agency Board asked to approve final 2017 QAP and Manual
April 18, 2016 (tentative date)	Publish RFP for HTC 2017 Rounds 1 and 2
May 31, 2016 (tentative date)	HTC 2017 Round 1 and 2016 MF Consolidated RFP Application Deadline
October 27, 2016 (tentative date)	Agency Board asked to approve HTC 2017 Round 1 selection recommendations
January 24, 2017 (tentative date)	HTC 2017 Round 2 Application Deadline
April 27, 2017 (tentative date)	Agency Board asked to approve HTC 2017 Round 2 selection recommendations

2016 HTC PROGRAM SCHEDULE

March 17, 2014	Minnesota Housing 2016 QAP Public Hearing
April 24, 2014	Agency Board asked to approve final 2016 QAP and Manual
April 20, 2015	Publish RFP for HTC 2016 Rounds 1 and 2
June 2, 2015	HTC 2016 Round 1 and 2015 Multifamily Consolidated RFP Application Deadline
October 22, 2015	Agency Board asked to approve HTC 2016 Round 1 selection recommendations
January 26, 2016 (tentative date)	HTC 2016 Round 2 Application Deadline
April 28, 2016 (tentative date)	Agency Board asked to approve HTC 2016 Round 2 selection recommendations

**2017 Housing Tax Credit Program, QAP and Procedural Manual
Proposed Revisions**

Statutory

No statutory changes are proposed.

Qualified Allocation Plan, Procedural Manual, and/or Self-Scoring Worksheet

1. Add requirement that all projects seeking 9% competitive tax credits must meet one of the Strategic Priority Policy Thresholds defined for the year.

Minnesota Housing's Qualified Allocation Plan attempts to address and balance many competing priorities. While this has ensured that the selection priorities encompass a broad range of important policy goals, it is difficult to ensure outcomes of these priorities have the desired strategic focus. While all of the selection priorities in the Qualified Allocation Plan are important, there are certain policy goals related to the Agency's strategic priorities and the current policy environment and market that staff is proposing all proposals must meet in order to apply for competitive 9% tax credits. These Strategic Priority Policy Thresholds are detailed in the Proposed 2017 Housing Tax Credit Program Self-Scoring Worksheet Attachment and below. Staff proposes to redefine these Strategic Priority Policy Thresholds annually as needed based on the housing and policy needs the Agency identifies as most pressing to meet our strategic priorities for that year.

Proposed Strategic Priority Policy Thresholds: (projects must meet at least one of these priorities)

Access to Fixed Transit: Projects within one half mile of a completed or existing LRT, BRT, or commuter rail station

Greater Minnesota Workforce Housing: Projects in Greater Minnesota documenting all three of the following:

- Need – projects in communities with low vacancy (typically considered 4% and below) and:
 - That that have experienced net job growth of 100 or more jobs
 - With 15 percent or more of the workforce commuting 30 or more miles to work, or
 - With planned job expansion documented by a local employer
- Employer Support
- Cooperatively Developed Plan – projects that are consistent with a community-supported plan that addresses workforce housing needs

Economic Integration: Projects located in higher income communities with access to low and moderate wage jobs, meeting either First or Second Tier Community Economic Integration as defined in Selection Priority 2 on the Self-Scoring Worksheet

Tribal: Projects sponsored by tribal governments or tribal corporate entities

Planned Community Development: Projects that contribute to Planned Community Development efforts, as defined in section 7.A of the Housing Tax Credit Procedural Manual, to address locally identified needs and priorities, in which local stakeholders are actively engaged

Preservation: Existing federally assisted or other critical affordable projects eligible for points under Selection Priority 11 on the Self-Scoring Worksheet

Supportive Housing: Permanent housing proposals with at least 5 percent of units (rounded up

to the next full unit), with a minimum of 4 units either:

- Set aside and rented to households experiencing long-term homelessness targeted to single adults, OR
- Set aside and rented to households experiencing long-term homelessness, at significant risk of long-term homelessness, or as prioritized for permanent supportive housing by the Coordinated Entry System, targeted to families with children or youth

2. Revise the Household Targeting scoring criterion.

In the 2016 QAP, given the addition of the Universal Design scoring criterion, points were reduced for the Special Populations component of the Household Targeting scoring criterion. However, as more work has been done around the Olmstead Plan, and as Department of Human Services has provided data on the number of people living in institutions and segregated settings, it is evident that there is a large need to add units that support Special Populations to our housing infrastructure. While many people with disabilities are eligible for Home and Community Based Services to enable them to live in the community, a major barrier for people to transition from care facilities into rental housing in the community is locating affordable housing. To ensure the QAP provides sufficient incentives to advance the goals of the Olmstead Plan, and create more easily accessible, affordable housing options for people with disabilities, staff is proposing adding five points to the Special Populations scoring category.

In addition, the performance requirements of the Special Populations and Single Room Occupancy sections of this category are being revised. In order to serve Special Populations, or households with incomes at or below 30 percent of area median income as required under the Single Room Occupancy section, owners must typically have rental assistance or other operating support, in addition to supportive services. Because rental assistance, operating, and supportive services funding commitments do not typically extend for the full 30-year term of the HTC Declaration of Land Use Restrictive Covenants (HTC Declaration), syndicators often require large reserves to be funded through the capital budget to ensure enough funds are available in the event one of these funding streams is not renewed or becomes unavailable. Because Minnesota Housing has recognized that it may not be feasible, or produce desirable outcomes, to require a property owner to continue housing long-term homeless (LTH) households without the necessary rental, operating, or service funding in place, a provision has been in place in the QAP that allows for owners to petition the Agency to no longer serve LTH households if these necessary funding streams are lost due to no fault of the owner, as determined by the Agency. If the Agency determines that the necessary funding streams at any point within the 30-year term of the HTC Declaration later become available, the owner must again serve LTH households. It is expected that this provision has significantly reduced the cost of capitalized reserves, which can be a substantial line item in the development budget for supportive housing projects. The same performance requirement provision is proposed to be added to the HTC Declaration for the Special Populations and Single Room Occupancy criteria. Staff will also add this provision to the 2016 HTC Declaration.

3. Replace the Strategically Targeted Resources and the Temporary Priority – Foreclosed Properties scoring criteria with a Community Recovery – Planned Community Development scoring criterion, and revise the definition of, and requirements for, Community Revitalization to align with the proposed definition of Planned Community Development.

The Strategically Targeted Resources scoring criterion currently provides 10 points for rehabilitation projects that meet state and federal rehabilitation per unit requirements, 10 points for new construction

projects that utilize existing sewer and water lines without substantial extensions, and an additional two points for rehabilitation projects that are part of a community revitalization or stabilization plan.

The effect of this category has been that nearly all projects receive 10 points for proposing either rehabilitation or new construction. Because the rehabilitation amounts included in the current scoring criterion are required by state and federal law, all rehabilitation projects must comply in order to receive tax credits, and thus a pointing incentive mirroring these requirements is not necessary. Similarly, because Minnesota Housing's mandatory Green Communities Criteria require all new construction projects (except for those on rural tribal lands or in communities with populations of less than 10,000) to be located on sites with access to existing roads, water, and sewers, within or contiguous to existing development, no new construction projects may be selected if substantial extensions to sewer or water lines would be required, and therefore a pointing incentive for this is also unnecessary.

While prioritizing community revitalization is meaningful, the definition of what constitutes community revitalization, along with whether a project is part of community revitalization, is largely undefined and has therefore been difficult to apply in a meaningful manner.

Separately, the temporary priority for Foreclosed Properties that was adopted in the 2011 QAP in response to the foreclosure crisis requires refinement. While foreclosure rates are still somewhat elevated from pre-recession levels, mortgage foreclosures have decreased annually, with a 34 percent drop in 2013 being the third consecutive year of double digit percentage declines. In 2014, for the first time since 2006, foreclosure rates for the state dropped below one percent. Given the data on the foreclosure crisis, and to align with Agency strategy around foreclosure recovery in other programs, staff is proposing a shift in focus from the foreclosure crisis toward community recovery, and supporting local community development efforts.

Local communities are well-positioned to identify the needs and priorities of their communities, and to engage local stakeholders to plan for addressing these needs and priorities. By supporting a housing proposal that contributes to addressing the identified needs and priorities of a Planned Community Development effort, Minnesota Housing can better address the varying needs of communities throughout the state. Further, aligning Agency resources with community investments will allow for greater impact in the lives of residents and in communities.

Staff therefore recommends replacing the Strategically Targeted Resources and the Temporary Priority – Foreclosed Properties scoring criteria with a criterion titled Community Recovery – Planned Community Development. The proposed definition of Planned Community Development will be added to the Procedural Manual and referenced for all other considerations for community revitalization in the Manual, including consideration for the State Designated Basis Boost, variances from HTC Development Standards, and waivers to per development or per developer credit limit caps, along with references in the Self-Scoring Worksheet in the Community Recovery – Planned Community Development and QCT – Community Revitalization scoring criteria, as indicated in the Proposed 2017 Housing Tax Credit Program Self-Scoring Worksheet Attachment.

Proposed Definition for Procedural Manual:

To be considered Planned Community Development, an applicant must document the following about a community plan or initiative:

- The local community is currently actively engaged in the plan or initiative
- Geographic boundaries of a targeted geographic area are identified by the plan or initiative

The plan or initiative pursues community, economic, or transit oriented development objectives for the target geography, aimed at creating more vibrant, livable, sustainable and equitable communities, reversing historic underinvestment or decline in an area, or responding to a crisis or opportunity.

The plan or initiative includes the rehabilitation or production of affordable housing as a primary strategy to meet identified objectives.

The plan or initiative identifies specific activities and investments by which the local community is pursuing and implementing the objectives.

A comprehensive plan, land use plans and general neighborhood planning documents are not by themselves considered evidence of Planned Community Development. In addition to submission of evidence of Planned Community Development, evidence from local community development partners that the housing proposal contributes to the objectives of the plan must be provided.

4. Revise the Workforce Housing Communities scoring criterion.

Under the current QAP, five points are available to Metro projects in the top five communities with the most jobs and the top 10 communities in job growth in the previous five years with at least 2,000 total jobs. In Greater Minnesota these points are provided for projects in the top ten communities with the most jobs and any community with at least 2,000 jobs that had positive job growth in the previous five years.

Staff is proposing to revise the Net Five Year Job Growth component to provide points for projects in communities with at least 2,000 jobs that had net job growth of at least 100 jobs in Greater Minnesota, and at least 500 jobs in the Metro. As our economy has moved out of recession, the number of communities that would begin to qualify for having any positive net growth has grown, and so staff is recommending a slightly more rigorous measure of growth in this regard. In addition, the proposed QAP adds as eligible for these five points communities that neither meet the Top Job Center or Net Five Year Job Growth components, but that document that an individual area employer has added at least 100 net jobs during the previous five years.

The proposed QAP also adds three points for projects that are in communities where at least 15 percent of the workforce commutes into the community for work from 30 or more miles away. Communities where households work but are unable to find housing are considered to have a housing supply issue, and increasing the supply of housing in these communities is vital to ensure affordability and in order to retain and grow the number of jobs in the community.

Lastly, prior to the 2017 funding rounds, staff is proposing to update the eligible Workforce Housing Communities lists to include cities that would be eligible using data current as of April 2016. Additional eligible communities would be added to the list, however no communities would be removed.

See the Workforce Housing Communities Methodology and the Proposed 2017 Housing Tax Credit Program Self-Scoring Worksheet Attachments for additional details.

5. Clarify the Federal/Local/Philanthropic Contributions scoring criterion.

In the current QAP, contributions from any part of the ownership entity are excluded from the calculation for federal/local/philanthropic funds unless awarded by local units of government or

nonprofit charitable organizations pursuant to a funding competition. The purpose of this exclusion is to ensure that general partner equity is not construed as a federal, local, or philanthropic source. An unintended consequence of this exclusion, as currently written, is that it is unclear how funds from local and tribal governments should be treated. The exclusion is therefore being clarified. In addition the calculation related to the value of certain local or tribal tax incentives is being clarified. These clarifications are detailed on the Proposed 2017 Housing Tax Credit Program Self-Scoring Worksheet Attachment.

6. Revise the Preservation scoring criterion.

The current QAP provides from 26 to 35 points for units qualifying as Preservation of Existing Federal Assistance. Because there is nothing analogous that is available solely for new construction projects, they have to make up these 26 to 35 points over the other remaining categories. This has meant that selected new construction projects have tended to meet multiple strategic priority policy goals, including locational priorities and the ending long-term homelessness priority. However, an unintended consequence has been that new construction projects that meet Agency strategic priorities have been more ready to proceed with more federal/local/philanthropic contributions than comparable federally assisted preservation projects. While there are other resources available for preservation developments, the 9% housing tax credit is especially important for new construction given the large amount of capital needed to build a new development. Given the current state of the rental market meaning low vacancy rates and increased rents, the limited new construction during the recession and following years, along with the pressing need for workforce housing being identified in communities across the state, it is important that new construction projects that meet Agency strategic priorities are able to compete for 9% tax credits. Therefore, staff is recommending a five point decrease for Existing Federal Assistance in the Preservation scoring criterion as detailed in the Proposed 2017 Housing Tax Credit Program Self-Scoring Worksheet Attachment.

7. Revise the Permanent Supporting Housing for Individuals Experiencing Long Term Homelessness scoring criterion; retitle Permanent Supportive Housing for Households Experiencing Homelessness

In the 2016 QAP the scoring category was revised so that only proposals targeting Long Term Homeless (LTH) families with children and youth were eligible for the 100 bonus points provided in the QAP for supportive housing. In the current QAP, the requirements for the 100 bonus points are being clarified to say that not all of a proposal's supportive housing units must target these populations, but that five percent of total units, or a minimum of four units, must.

In addition, while the increased targeting incentive for families and youth is important to meet the goals of the Heading Home MN Plan to Prevent and End Homelessness, it is also important to support local communities in serving other high priority populations in their communities. While the Heading Home Plan identifies families with children and youth as having the highest needs statewide, the characteristics of the homeless population vary from community to community. To address the needs of the homeless in local communities, staff is proposing to add points for proposals targeting populations that are identified by the local Continuum of Care (CoC) as high priority. Local CoCs will rank priorities for household type and sub-populations based on local point in time count homelessness data and needs assessment and will be approved by their governing boards. These priorities will be published annually with the QAP. Current CoC priorities are detailed in the Continuum of Care (CoC) Priorities attachment.

Lastly, staff is recommending broadening eligibility for units targeting families with children and youth to

include those who are at significant risk of LTH, and family/youth prioritized for permanent supportive housing by the Coordinated Entry System. The family and youth populations need more flexibility in the definition because families and youth have different patterns of homelessness than many single adults, and the impacts of homelessness on children are traumatic and compounded with time. The 2012 Wilder Research Survey shows that young people are most at risk for homelessness in Minnesota, and also indicates a high rate of recidivism for adults who were homeless as children. There are also fewer shelters for families and youth around the state, so the need is hidden by couch hopping and doubling up with family or friends, making it difficult to document length of homelessness. Research has shown that other risk factors beyond the length of homelessness must be considered to determine the need and prioritization for permanent supportive housing for families and youth. With the move toward the Coordinated Entry System, households will be assessed and prioritized for supportive housing based on a number of risk factors, including history of homelessness, trauma, health, and daily functioning. The Coordinated Entry System will better prioritize families and youth who need supportive housing, and help bend the curve to end homelessness for families and youth.

The Proposed 2017 Housing Tax Credit Program Self-Scoring Worksheet Attachment details these revisions.

8. Revise the Location Efficiency scoring criterion.

Eligibility for Access to Transit points for projects in Greater Minnesota communities with fixed route transit service is being revised to include projects near planned fixed route transit stops as eligible for points, in addition to existing stops, as detailed in the Proposed 2017 Housing Tax Credit Program Self-Scoring Worksheet Attachment. This is proposed to provide consistency with the criteria for Metro projects, as points in the Metro are available for projects near both completed and planned LRT, BRT, or commuter rail stations.

In addition, Minnesota Housing will be entering into a licensing agreement with WalkScore. This will provide applicants access to dispute a walk score for a particular address by contacting WalkScore directly. WalkScore will then respond within forty-five days. While Minnesota Housing and the broader Research community have found WalkScore to be a valid tool, this licensing agreement will ensure that any anomalies found can be handled in a fair, consistent, and neutral manner.

9. Revise the Universal Design scoring criterion.

In the 2016 QAP, with the addition of the Universal Design scoring criterion, projects would receive three points for having the required universal design elements, and projects that would both include the required universal design elements and agree to very low rents or that have a commitment of rental assistance, would receive an additional two points. These two additional points were intended to offset the reduction of five points that was made to Special Populations under the Household Targeting scoring criterion. However, as planning and data analysis around the Olmstead Plan has progressed, staff proposes restoring the 10 points previously available for Special Populations as a more direct incentive toward serving Special Populations, which typically will require rental assistance or very low rents, rather than tying this goal to the Universal Design incentive, which relates more directly to households with physical disabilities. Staff therefore recommends, in conjunction with the increase for Special Populations in the Household Targeting scoring criterion detailed in the report above, removing the two bonus points from the Universal Design criterion, as detailed in the Proposed 2017 Housing Tax Credit Program Self-Scoring Worksheet Attachment.

10. Revise the Rental Assistance scoring criterion.

Staff is proposing to add a definition of rental assistance to this scoring criterion in order to provide clear direction about what required elements the assistance must include in order to be considered for points under this category.

Staff is also proposing to reduce the minimum commitment percentage required so that developments having a commitment for project based Rental Assistance for at least five percent, but no fewer than 4 units, receive points under this category. This will allow projects with small commitments of project based assistance, which are typically general occupancy projects with a small percentage of LTH units, to receive priority over those without commitments of rental assistance.

In addition, the current QAP provides points (under Rental Assistance category G in the Proposed 2017 Housing Tax Credit Program Self-Scoring Worksheet Attachment) for owners which will enter into a cooperatively developed housing plan to provide other rental assistance, as evidenced by a letter of intent at the time of application. In practice, this category has resulted in the generation of letters of intent that do not result in a more meaningful form of collaboration or contribution to the development, and it has been unclear what types of other rental assistance contributions are eligible for these points. Staff is proposing to clarify that this section provides consideration for non-project based assistance (either tenant based, sponsor based, or assistance through master leasing) and to clarify the requirements of acceptable documentation. Also, staff is proposing to reduce available points under this category for other rental assistance to ensure that applicants with project based rental assistance receive higher weighting than those receiving points for non-project based assistance, given the combined point availability between the Rental Assistance and the Serves Lowest Income Tenants/Rent Reduction scoring criteria.

11. Revise the QCT/Community Revitalization scoring criterion; retitle QCT/Community Revitalization & Tribal Equivalent Areas.

Federal law requires housing tax credit allocators to give preference to projects located in a federally-designated Qualified Census Tract (QCT), as annually published by HUD for census tracts determined to have 50 percent or more of its households having incomes below 60 percent of the Area Median Gross Income or a poverty rate of 25 percent or more. However, because the federally-published QCTs do not look just at geographies within tribal lands, and may also encompass non-tribal surrounding communities, the federal QCTs do not capture many of the tribal areas that have a great need for low and moderate income housing. As such, staff is proposing publishing Tribal Equivalent Areas which in addition to federally-designated QCTs, would be eligible for one point. See the Qualified Census Tracts, Tribal Equivalent Areas Methodology for a list and maps of eligible communities, along with further details on eligibility.

12. Revise Cost Containment methodology.

In the Cost Containment methodology in the current QAP, a 10 percent cost adjustment is applied to development costs located on Tribal lands due to the unique costs and situation of such projects. Staff is proposing to increase this adjustment factor to 15 percent based on additional data and further analysis. A 15 percent adjustment better captures the unique costs faced by developers on Tribal land. See the Cost Containment Methodology Attachment for more detail on this criterion.

13. General Administrative and Clarifications:

Perform various administrative checks for spelling, formatting, text and instruction corrections and clarifications within QAP, Manual, Self-Scoring Worksheet, and other 2017 tax credit program related documents.