

Minnesota Housing’s proposed 2022-2023 Qualified Allocation Plan (QAP) aligns Housing Tax Credit (HTC) program policies, processes and procedures with the Agency’s Strategic Plan. The QAP is particularly focused on serving people and places most impacted by housing instability and housing disparities. From late January 2020 through late March 2020, the Agency held 17 engagement sessions<sup>1</sup> to inform the QAP and received nine written comments from stakeholders. In-person engagement strategies included informational and technical assistance sessions in Greater Minnesota, three HTC resident focus groups, and meetings with stakeholder groups. Over 400 people participated, representing a range of stakeholders including cities, counties, service providers, affordable housing developers, community-based organizations, Indian housing directors, and residents of HTC properties. Notably, over 250 people attended our engagement sessions in St. Peter, Cloquet, and Baxter.

### Summary of Engagement Feedback

Engagement session feedback on several key themes and recommendations, including:

- Communities should **drive development to be responsive to their needs**, focusing on racial equity by prioritizing communities that have been historically disinvested and discriminated against.
- There is a **need for deeper and longer-term affordability** that is better tailored to local needs and to those with barriers to housing than financing more units overall serving moderate income renters.
- Cost **containment standards should take into account those factors that result in increased**, but necessary, **development costs** such as geography, larger family projects, and long-term cost savings.
- There is a **need for housing with more bedrooms for larger and multi-generational families**, and townhomes would be a better fit than apartments.
- Participants recommended **changes to the geographic points** to allow for a more strength-based, person and community-centered approach. The recommended changes include:
  - **Prioritizing the creation of housing in cost-burdened communities** to meet the needs of low-income residents.
  - **Transit points should allow for a more flexible approach to community needs.**
- **Coordinated Entry works unevenly throughout Minnesota communities**, and in some cases may not result in units filled with people in desperate need of housing.
- **Housing stability and displacement prevention should be a priority** of development.
- Prioritize **economic opportunities for people of color and indigenous communities** to lead and participate in the development process.

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<sup>1</sup> Minnesota Housing in-person session, HTC webinar, MCHD, MHP, metro cities, St. Peter, Baxter, Cloquet, Shakopee, Blaine, St. Paul –Mino Oski Ain Dah Yung, Indian housing directors meeting, Northside Residents and Redevelopment Council, Equity in Place, resident focus groups in Cloquet, St. Paul, and Rochester.

- Minnesota Housing should **continue to incent project innovation and investment in innovative energy and building techniques**.
- Good **property management is central to tenant quality of life** experiences in affordable rental properties. A culture of respect and fairness, responsiveness to maintenance and repair requests, and addressing safety concerns in a timely manner were stressed by residents.
- **Expand penalties for fair housing violations** as Unacceptable Practices resulting in negative points on future applications.
- Streamline **the application process** for project resubmittals, including suballocator projects.
- Expand **affordable housing production using financing delivery models other than HTCs**.

In many cases, stakeholders provided targeted feedback on specific methods or project-related concerns that ranged from energy efficiency and building construction methods to cost containment. In other cases, participants advocated for opposing HTC policy goals (such as various policy tradeoffs that different geographies afford people and places, and tradeoffs between maximizing the number of affordable rental units and advancing more deeply affordable rental units).

Participants also noted the challenge of designing a statewide allocation process for the limited HTC resources, reflective of the needs of various Minnesota communities and places. With the proposed 2022-2023 QAP, Minnesota Housing strives to balance varied needs throughout the state with its Strategic Plan, which is centered on the needs of communities most impacted by housing disparities and instability.

While a number of the engagement themes outlined above are directly reflected in proposed QAP policy and process changes, some are broader than the HTC program itself. They are efforts Minnesota Housing is committed to undertaking and ones that the Agency will continue to review as it commits to public engagement work as part of a larger Agency effort. Some of these include the need to streamline the Consolidated RFP application process, the critical role property management has on tenant experiences, the role Minnesota Housing can take in spurring new methods and models to advance affordable multifamily rental housing development, efforts to affirmatively further fair housing for all Minnesotans, and work to update our Tenant Selection Plan guidance.

### Summary of Proposed Policy and Process Changes to the Self-scoring Worksheet

Changes to the Self-scoring Worksheet are outlined below, including recommended changes to two selection preferences and revised scoring weights and changes to the seven selection criteria. In addition, projects must continue to **meet an Agency strategic priority or an HTC statutory strategic priority** as well as **IRS Section 42 requirements**.

#### Preferences

- **Eventual Tenant Ownership** – HTC projects are eligible for conversion to ownership and projects intending to convert to homeownership at the time of application will receive selection review preference, consistent with the IRS Section 42 preferences.
- **Innovative Construction Methods** – A project that uses an innovative construction technique to achieve, or has the potential to achieve, one or both of the following goals will be eligible to receive selection review preference. The goals are:
  - Reduce total development costs by at least 10%
  - Reduce the time the project is under construction by at least 20%

## **Greatest Need Tenant Targeting**

- Increase the **incentive to serve larger family sizes**. For point eligibility:
  - At least 75% of the assisted units must contain two or more units; add a requirement that one-third of the 75% must contain three or more bedroom.
  - A smaller number of additional points are available if one-third of the 75% contain four or more bedrooms

### **Permanent supportive housing:**

- **Permit communities to use a dynamic prioritization process** (populations could come from Coordinated Entry (CE) waiting list households further down on CE scoring such as Rapid Re-Housing (RRH), referrals from county and/or institutions, referrals from housing choice voucher (HCV) waiting lists for households in housing search status, etc.).
  - **People with Disabilities** – Create a second point option for projects that will use Section 811 project-based rental assistance if Minnesota Housing receives an award of additional Section 811 funding by HUD in mid-2020.
  - **Tenant Selection Criteria** – Minnesota Housing currently requires a written tenant screening plan for all HTC projects selected for funding. The tenant selection plan for supportive housing, 30% MTSP rent units, and units set aside at the HAP payment standard must be written to adhere to housing first principles, **may not screen out** individuals based on only credit or housing history (including evictions), and must implement criminal background screening procedures that reduce barriers to obtaining housing following Minnesota Housing’s [proposed Tenant Selection Plan guidance](#). Minnesota Housing seeks further public comment on expanding the proposed Tenant Selection Criteria to all units financed with Agency HTCs or deferred funding.
- Add **new scoring criterion for serving seniors** for projects where 100% of units will be restricted and marketed to seniors age 55 and older. Additional points are available for further restricting units to 30% income levels consistent with the Housing Infrastructure Bond statutory preference.

## **Serves Lowest Income for Long Durations**

- **Add deeper rent targeting for 30% MTSP rents with or without a services requirement:**
  - Add requirements for HTC (9% and 4%) and deferred projects: Must set aside a minimum of 2% of units at 30% MTSP rent levels. Must set aside a minimum of 3% of unit rents at or below the housing assistance payment (HAP) standard, which may be the same units as the 30% MTSP units or different units.
  - Create a pointing incentive for deeper rent targeting (30% MTSP rents).
    - Create four new point tiers ranging from 5-9%; 10-19%; 20-29%; 30-40% of total units.
- **Long-term affordability:**
  - Make points available for longer affordability for deferred projects in addition to HTC projects for a 40-year duration or a 50-year duration.
  - Require that all projects remain affordable for a minimum duration of 30 years, including HTC projects (9% and 4%) and deferred projects.

### Increasing Geographic Choice

- Eliminate High Performing School and Economic Integration criteria.
- Create a new category (two tiers) based on the need for more affordable housing options as a result of:
  - Either a low share of affordable rental housing compared to all housing options in a community or a large share of renters that are cost burdened by their rent.
- Rename Location Efficiency to **Transit and Walkability**. Recommended changes within Transit and Walkability include:
  - Update the 7-County Twin Cities Metropolitan Area and Greater Minnesota Rural Small Urban Areas by:
    - Merging the light rail transit (LRT) and high-frequency network/bus rapid transit (BRT) into one criterion.
    - Adding an option for projects with access to dial-a-ride in the 7-County Metropolitan Area.
    - Lowering the minimum hours of service for transit operations in Greater Minnesota Rural and Small Urban Areas from 10 to 8.
  - Recalibrate the tiers for walkability in the 7-County Twin Cities Metropolitan Area and Greater Minnesota Rural and Small Urban Areas, with new tiers for the core cities in the Twin Cities 7-County Metropolitan Area and different tiers for suburban locations.

### Supporting Community and Economic Development

- Add a **point incentive for Equity and Inclusion** to the Community Development Initiative for projects committed to equity and inclusion.
- Add projects located in **Opportunity Zones** as a pointing preference.
- Incentivize projects with **No Recent Multifamily Award** (within the last five years) as a new pointing category.
- Rename Minority Business Enterprise/Women Business Enterprise to **People of Color and Indigenous-owned/Women-owned Business Enterprise (POCIBE/WBE)** and add two additional opportunities for points for projects that meet one, or both, criteria:
  - Two or more key members of the development team are POCIBE/WBE.
  - The project sponsor, general contractor, architect or management agent partners with a POCIBE/WBE entity with the goal of building the entity's capacity to develop, manage, construct, design or own affordable housing in the future.

### Preservation

- Remove points for Partially Assisted Projects with Existing Federally Assisted Units within Economic Integration Census Tracts.
- Eliminate the requirement that Tier 2 and Critical Affordable Units must also claim and be eligible for Serves Lowest Income Tenants/Rent Reduction criteria. Change scoring to require these projects to agree to restrict at least 50% of the units to rents and incomes at or below 50% MTSP.

## **Efficient Use of Scarce Resources and Leverage**

- **Recalibrate the Financial Readiness to Proceed/Leveraged Funds calculation** to better compare funding leverage from outside entities to the total development cost (TDC) of the project, excluding first mortgage financing and syndication proceeds.
- **Eliminate cost containment points.** Although projects will continue to be evaluated through the predictive cost model, they will not compete for points against other projects.

## **Building Characteristics**

- In the **Enhanced Sustainability** category, in addition to two new pointing tiers introduced in the 2021 QAP that incent projects to take a greater number of Optional Green Communities points, points are available for a higher level of sustainability:
  - **Points for projects that follow an alternative building performance pathway:** SB 2030 or Enterprise Green Communities Plus Standards (new construction only) or Performance HERS Index Pathway (rehabilitation only).

As a result of the proposed changes, we will establish **minimum point requirements** for 9% and 4% HTC projects **recalibrated overall scoring weights to reflect strategic policy priorities** in rank order:

- Serves Lowest Income for Long Durations
- Greatest Need Tenant Targeting – including large family housing, permanent supportive housing and seniors
- Preservation – to allow preservation to compete with new construction projects
- Efficient Use of Scarce Resources and Leverage
- Increasing Geographic Choice
- Supporting Community and Economic Development
- Building Characteristics

## **Summary of Proposed Changes to the QAP and HTC Procedural Manual**

Proposed changes to the Qualified Allocation Plan (QAP) and the Housing Tax Credit (HTC) Procedural Manual are highlighted below:

- Combine the QAP and HTC Procedural Manual into one document and establish a two-year QAP (2022-2023), which sets the priorities and requirements for multifamily projects that will request funding in the 2021 and 2022 Consolidated RFPs.
- Increase the per development HTC limit to \$1.35 million in 2022 and \$1.4 million in 2023.
- Increase the Rural Development set-aside to \$375,000 in both years.
- Unacceptable Practices: Eliminate the cost containment penalty as this scoring criterion no longer applies.
- Incorporate the concept of dynamic prioritization (refer above) for High Priority Homeless (HPH).
- Implement the average income test policy:
  - May be elected only for 100% HTC restricted properties
  - Owner agrees to treat all buildings as one multiple building project

- Rent and income tiers are designated at the time of application and would be incorporated into the tax credit legal documents
- The required number of units would be set forth in the LURA and may float throughout the property, but owner should be aware of potential fair housing concerns if the lower income and rent restrictions are not available in units with larger bedroom sizes.
- Move all HTC related fees to a fee schedule document that will be posted on Minnesota Housing’s website to allow for easier access.

**Next Steps**

Opportunities for feedback and public comment are listed below. **The formal comment period begins on June 10, 2020 and closes on July 22, 2020 at 5:00 p.m. CST.** Minnesota Housing will consider all comments received through this deadline. Presentation and final action on the 2022-2023 QAP is expected to occur at Minnesota Housing’s board meeting in late fall, 2020.

Date	Activity
June 10, 2020 – July 22, 2020	<b>Public comment period</b> Send to: <a href="mailto:HTC.MHFA@state.mn.us">HTC.MHFA@state.mn.us</a> , by phone at 651.296.8277, or by mail to Attn. Tamara Wilson, Minnesota Housing, 400 Wabasha Street North, Suite, 400, St. Paul, MN 55102
June 11, 2020	Minnesota Housing discussion/webinar
June 22, 2020	Minnesota Housing Partnership/Metropolitan Consortium of Community Developers co-sponsored discussion with Minnesota Housing
July 14, 2020	Public hearing
July 22, 2020	Public comment period closes
Late fall, 2020	Minnesota Housing board meeting: final action