



## **Proposed Amendments to the 2014/2015 Housing Tax Credit Program, QAP and Procedural Manual**

### **Statutory**

No statutory changes are proposed.

### **Qualified Allocation Plan and/or Procedural Manual**

The following amendments to the existing Preservation of Federally Assisted Units and Preservation of Existing Housing Tax Credit Units scoring criteria are proposed based on additional experience:

#### **1. Revise methodology for geographic priority areas under the Preservation of Federally Assisted Units scoring criterion**

The 2014/2015 QAP approved by the Board in April 2013 provided that properties with federal assistance would need to be in an area experiencing job or household growth to be considered for the highest tier of points under the Preservation of Federally Assisted Units scoring criterion. While the job growth priority areas were established based on city, household growth areas were mapped by census tract. In evaluating applications against household growth areas with applications received through 2014 Round 1, the priority census tracts were found to be problematic as census tracts can be quite large, covering hundreds of square miles in rural areas, and containing multiple small townships. Because of this, a census tract doesn't always capture a "housing market," while the purpose of prioritizing these areas was to target strong housing markets. To correct for this, the methodology has been revised to also evaluate smaller cities in addition to census tracts. Refer to the Preservation Geographic Priority Areas Methodology attachment for household growth areas and a more detailed explanation of the methodology used.

#### **2. Revise priorities under the Preservation of Federally Assisted Units, Preservation of Existing Housing Tax Credits scoring criteria**

The current criteria require a property to have an as-is condition that does not meet Minnesota Housing's minimum design standards in order to be considered at high risk of loss. The design standards published in Minnesota Housing's Rental Housing Design and Construction Standards define only broad terms about property condition, and do not serve as a good reference in determining which portion of a property's physical component needs are truly critical. Staff recommends instead referencing HUD's Uniform Physical Condition Standards (UPCS), which provide a much more detailed standard that can be reported by the developer and validated by Agency architects to determine whether the condition of a physical component puts the property at risk. Because UPCS does not include a measure for some major building exterior components and mechanical systems, any critical physical need reported without a corresponding UPCS standard must be supported by independent third party professional certification.

In addition, clarification is recommended to allow tribal properties subsidized under the Native American Self-Determination Act (NAHASDA) to be eligible for points under the Preservation of Federally Assisted Units scoring criterion. With publication of the 2014/2015 QAP, the definition of federal assistance was revised to remove reference to specific federal subsidy programs, including NAHASDA, and the criteria for eligibility were revised in a way that is difficult for NAHASDA properties to document eligibility. The combination of these two changes causes confusion about whether NAHASDA properties are eligible for points under Preservation of Federally Assisted Units, and clarification is necessary to remedy this.

### **Current (Preservation of Federally Assisted Units):**

DEFINITION - Any housing receiving project based rental assistance, operating subsidies, or mortgage interest reduction payments under a U.S. Department of Housing and Urban Development ("HUD") or U.S. Department of Agriculture Rural Development ("RD") program that is not scheduled to sunset or expire.

In order to obtain the related points, the owner shall continue renewals of existing project based housing subsidy payment contract(s) for as long as the assistance is available. Except for "good cause" the owner must not evict existing subsidized residents and must continue to renew leases for those residents.

#### **Imminent Risk of Loss – 30 Points**

1. To obtain these points, the existing federal assistance must be at risk of loss within three years of application date for the following reasons:

Prepayment/opt-out/mortgage maturity and conversion to market rate housing.

Attach evidence (narratives), including eligibility dates, with copies of relevant expiring contracts, loan documents that describe the ability to pre-pay the financing including required approvals and/or penalties AND documentation to fully evidence all of the following:

Location in either a jobs growth area or household growth area (as published by Minnesota Housing); and

Market for conversion evidenced by significant rent differential and low physical vacancy rate ( 4% or lower) for market rate comparable units (comparable units to be validated by Minnesota Housing at Minnesota Housing's discretion); and

The property's ability to command market rents as evidenced by direct comparison to local market comparable units and amenities. Conversion scenario must result in sufficient additional revenue to support improvements and amenities necessary to match market comparable units.

Minnesota Housing, at its sole discretion, must agree that a market exists for a conversion to market rate housing.

#### **High Risk of Loss – 25 Points**

1. To obtain these points, the existing federal assistance must be at risk of loss under one of the following two thresholds:

Contract expiration/opt-out or mortgage maturity/prepayment within six years of application date and the local need for subsidized units can be demonstrated by data evidencing rent-burdened population (as published by Minnesota Housing): Cost Burdened Lower Income Renters  
You can find this information in the agency's community profiles interactive mapping tool

or

Contract expiration/opt-out or mortgage maturity/prepayment within six years of application date and property is located in either jobs growth area or household growth area (as published by Minnesota Housing); Preservation Geographic Priority Areas

**AND**

either 2a. or 2b. is true.

1. Reason for high risk of loss:

2a. Substantial physical needs identified by third party assessment to support the following conclusions:

- i. As-is condition of property does not meet Minnesota Housing's minimum design standards, and
- ii. Repair/replacement of major physical plant components have been identified which will result in 15+ years sustained operations of federally assisted units, and
- iii. Identified scope of work required to meet minimum design standards exceeds the available reserves.

Attach evidence of most recent REAC score or RD classification, outstanding code violations or other inspection results that threaten sustained operations under the federal assistance.

Attach worksheet showing certification of the costs related to repair or replacement of physical improvements not currently meeting Minnesota Housing's design standards and available reserves.

**OR**

2b. A change in ownership is necessary due to deterioration of capacity as evidenced by threat to units remaining decent, safe, and affordable due to events such as:

- i. Bankruptcy/insolvency
- ii. Self-determination of diminishing or insufficient capacity by nonprofit board

**Current (Preservation of Existing Housing Tax Credits):**

These points are available only to existing Minnesota Housing tax credit projects applying for tax credits from Minnesota Housing's competitive allocation process (consolidated RFP) and qualified tax exempt projects applying for a preliminary determination letter from Minnesota Housing as the credit allocator.

**To obtain the related points, the existing tax credit housing must meet all of the following:**

1. The development received a Minnesota Housing allocation of housing tax credits and is eligible to exercise their option under the provisions of Section 42(h)(6)(E)(i)(II) and 42(h)(6)(F) (Qualified Contract) within the next 12 months (developments that have exercised their option to opt out under the Qualified Contract process are not eligible for points in this category); and
2. Applicant agrees to maintain the Housing Tax Credit Units in the development for at least 30 years; and
3. The proposal will not result in the displacement of existing low and moderate income residents;
4. The development must claim and be eligible for points under Serves Lowest Income Tenants/Rent Reduction.

AND either 5a. or 5b. is true (check one)

5a. **Imminent Risk of Loss –10 points**

Attach evidence including eligibility dates and copies of relevant documents that describe option to file for Qualified Contract and to fully evidence both of the following:

Market for conversion evidenced by significant rent differential and low physical vacancy rate ( 4% or lower) for market rate comparable units (comparable units to be validated by Minnesota Housing at Minnesota Housing’s discretion); and

The property’s ability to command market rents as evidenced by direct comparison to local market comparable units and amenities. Conversion scenario must result in sufficient additional revenue to support improvements and additional amenities necessary to match market comparable units.

5b. **High Risk of Loss – 7 Points**

Due to:

Substantial physical needs identified by third party assessment to support the following conclusions:

- i. As-is condition of property does not meet Minnesota Housing’s minimum design standards; and
- ii. Repair/replacement of major physical plant components have been identified which will result in 15+ years sustained operations of Housing Tax Credit units; and
- iii. Identified scope of work required to meet minimum design standards exceeds the available reserves.

Attach evidence of most recent UPCS (Uniform Physical Condition Standards) findings, outstanding code violations or other inspection results that threaten sustained operations under the housing tax credit program.

Attach worksheet showing certification of the costs related to repair or replacement of physical improvements not currently meeting the Minnesota Housing's design standards and available reserves.

OR

A change in ownership is necessary due to deterioration of capacity as evidenced by threat to units remaining decent, safe, and affordable due to events such as:

- i. Bankruptcy
- ii. Self-determination of diminishing or insufficient capacity by nonprofit board

**Proposed – Preservation of Federally Assisted Units (revisions underlined/black lined):**

DEFINITION - Any housing receiving project based rental assistance, operating subsidies, or mortgage interest reduction payments under a U.S. Department of Housing and Urban Development ("HUD") or U.S. Department of Agriculture Rural Development ("RD") program that is not scheduled to sunset or expire. NAHASDA is eligible for points under Imminent Risk of Loss provided that criteria 1.b. and 1.c. are met, and eligible for points under High Risk of Loss provided that either criterion 2.a. or 2.b. is met.

In order to obtain the related points, the owner shall continue renewals of existing project based housing subsidy payment contract(s) for as long as the assistance is available. Except for "good cause" the owner must not evict existing subsidized residents and must continue to renew leases for those residents.

**Imminent Risk of Loss – 30 Points**

1. To obtain these points, the existing federal assistance must be at risk of loss within three years of application date ~~for the following reasons~~ due to pPrepayment/opt-out/mortgage maturity and conversion to market rate housing.

Attach evidence (narratives), including eligibility dates, with copies of relevant expiring contracts, loan documents that describe the ability to pre-pay the financing including required approvals and/or penalties AND documentation to fully evidence all of the following:

a. Location in either a jobs growth area or household growth area (as published by Minnesota Housing); and

b. Market for conversion evidenced by significant rent differential and low physical vacancy rate ( 4% or lower) for market rate comparable units (comparable units to be validated by Minnesota Housing at Minnesota Housing's discretion); and

c. The property's ability to command market rents as evidenced by direct comparison to local market comparable units and amenities. Conversion scenario must result in sufficient additional revenue to support improvements and amenities necessary to match market comparable units.

Minnesota Housing, at its sole discretion, must agree that a market exists for a conversion to market rate housing.

**High Risk of Loss – 25 Points**

1. To obtain these points, the existing federal assistance must be at risk of loss under one of the following two thresholds:

~~Contract expiration/opt-out or mortgage maturity/prepayment within six years of application date and the local need for subsidized units can be demonstrated by data evidencing rent-burdened population (as published by Minnesota Housing): Cost Burdened Lower Income Renters You can find this information in the agency's community profiles interactive mapping tool~~

or

~~Contract expiration/opt-out or mortgage maturity/prepayment within six years of application date and property is located in either jobs growth area or household growth area (as published by Minnesota Housing); Preservation Geographic Priority Areas~~

**AND**

either 2a. or 2b. is true.

2. Reason for high risk of loss:

- 2a. ~~Substantial~~Critical physical needs identified by third party assessment to support the following conclusions:

- i. As-is condition of a property's physical component(s) does not meet:

1. Minnesota Housing's minimum design standards HUD's Uniform Physical Condition Standards (UPCS), or and

2. For building exterior components and mechanical systems for which UPCS does not provide a measure, critical need(s) supported by an independent third party professional certification, and

- ii. Repair/replacement of major physical plant components have been identified which will result in 15+ years sustained operations of federally assisted units, and

1: Identified scope of critical physical needs work required to meet minimum design standards exceeds the available reserves.

Attach evidence of most recent REAC score or RD classification, outstanding code violations or other inspection results that threaten sustained operations under the federal assistance.

Evidence of inspection results is not required for NAHASDA

Attach Determination of Critical Physical Needs worksheet, showing certification of the costs related to repair or replacement of physical improvements not currently meeting Minnesota Housing's design standards and available reserves.

**OR**

- 2b. A change in ownership is necessary due to deterioration of capacity as evidenced by threat to units remaining decent, safe, and affordable due to events such as:

- iii. Bankruptcy/insolvency
- iv. Self-determination of diminishing or insufficient capacity by nonprofit board

**Proposed (Preservation of Existing Housing Tax Credit Units):**

These points are available only to existing Minnesota Housing tax credit projects applying for tax credits from Minnesota Housing's competitive allocation process (consolidated RFP) and qualified tax exempt projects applying for a preliminary determination letter from Minnesota Housing as the credit allocator.

**To obtain the related points, the existing tax credit housing must meet all of the following:**

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5b. **High Risk of Loss – 7 Points**

Due to:

~~Substantial~~Critical physical needs identified by third party assessment to support the following conclusions:

- i. As-is condition of a property's physical component(s) does not meet:
  - a. Minnesota Housing's minimum design standards HUD's Uniform Physical Condition Standards (UPCS), or and
  - b.
  - c. For building exterior components and mechanical systems for which UPCS does not provide a measure, critical need(s) supported by an independent third party professional certification, and
- ii. Repair/replacement of major physical plant components have been identified which will result in 15+ years sustained operations of Housing Tax Credit units; and
- iii. Identified scope of work required to meet minimum design standards critical physical needs exceeds the available reserves.

Attach evidence of most recent UPCS (Uniform Physical Condition Standards) findings, outstanding code violations or other inspection results that threaten sustained operations under the housing tax credit program.

Attach Determination of Critical Physical Needs worksheet showing certification of the costs related to repair or replacement of physical improvements not currently meeting the Minnesota Housing's design standards and available reserves.

**OR**

A change in ownership is necessary due to deterioration of capacity as evidenced by threat to units remaining decent, safe, and affordable due to events such as:

- iii. Bankruptcy
- iv. Self-determination of diminishing or insufficient capacity by nonprofit board

### Preservation Geographic Priority Areas

In the preservation priority, there are three geographic based areas defined in the self-scoring worksheet—regional definition, jobs and household growth communities, and rent burdened areas. This methodology defines each. Applicants will find interactive maps to identify whether a property falls within these areas on Minnesota Housing’s website – [www.mnhousing.gov](http://www.mnhousing.gov) > Research & Publications > Community Profiles.

#### 1. Regional Definitions

For the purposes of obtaining points for number of units preserved, the state is broke into three geographic regions, the Twin Cities seven county metropolitan area, Greater Minnesota counties part of a Metropolitan Statistical Area, and rural counties not included in the previous two categories. Table 1 below displays a list of counties in the Metro and Greater Minnesota MSAs.

**Table 1 – Metro and MSA Counties**

<b>Region</b>	<b>Minnesota Counties</b>
Duluth MSA	Carlton, Saint Louis
Fargo MSA	Clay
Grand Forks MSA	Polk
La Crosse MSA	Houston
Mankato MSA	Blue Earth, Nicollet
Rochester MSA	Dodge, Olmsted
Saint Cloud MSA	Benton, Stearns
Twin Cities 7 County Metro	Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Washington
Twin Cities MSA (outside of 7 County Metro)	Chisago, Isanti, Sherburne, Wright

## 2. Job and Household Growth Communities Methodology

The methodology for determining areas with job growth is consistent with the methodology used in the “workforce housing” priority. The two priority areas differ with the workforce housing priority’s inclusion of top job centers in total jobs and the preservation priority’s inclusion of household growth.

Areas can be defined as a growth community in two ways, through job or household growth. Job growth areas are determined by a city or township’s job growth between 2007 and 2012, based on data from the Minnesota Department of Employment and Economic Development’s Quarterly Census of Employment and Wages<sup>1</sup>. Household growth areas are determined by a *census tract*’s growth in total households between 2000 and 2012, based on data from the US Census’s Decennial Census and American Community Survey.

### 2.1 Job Growth

To be identified as a community with job growth, the top 10 communities in job growth between 2007-2012 are selected for the Twin Cities seven county metro area, and all communities in Greater Minnesota with any job growth between 2007-2012 are selected. To meet the job growth definition, communities must meet or exceed 2,000 jobs in 2012. Areas within five miles of communities in the Twin Cities seven county metro area and within 10 miles of communities in Greater Minnesota are included for a modest commuteshed. Table 2 below and the map on page 2 list and show the communities that meet this definition. An interactive version of this map is available on the Minnesota Housing website: [www.mnhousing.gov](http://www.mnhousing.gov) > Research & Publications > Community Profiles.

**Table 2 – Job Growth Communities 2007-2012**

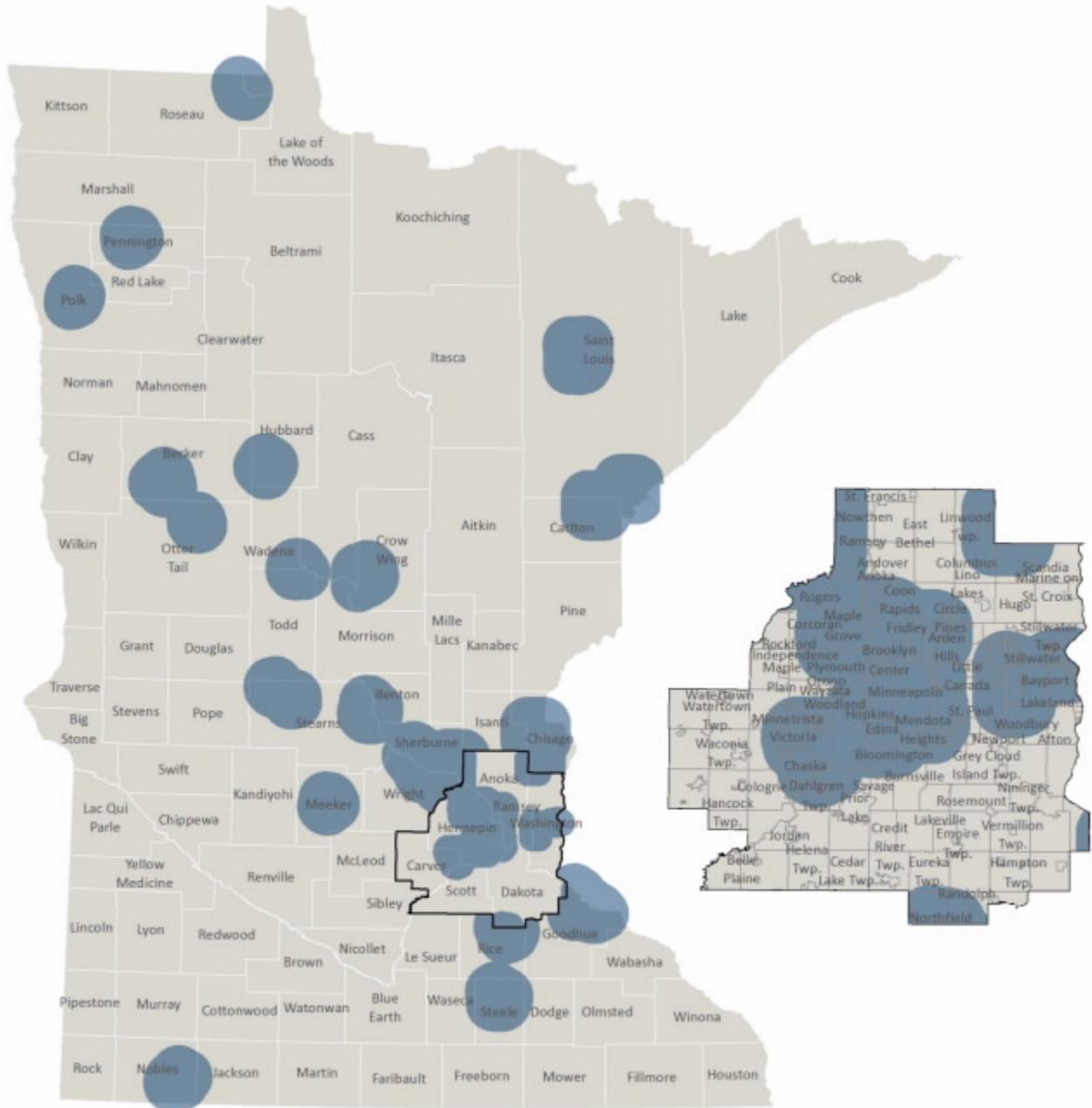
Twin Cities Top 10 Job Growth		Greater Minnesota Job Growth	
Brooklyn Park, Hennepin	Albertville, Wright	North Branch, Chisago	
Chanhassen, largely Carver	Baxter, Crow Wing	Northfield, largely Rice	
Edina, Hennepin	Becker, Sherburne	Owatonna, Steele	
Golden Valley, Hennepin	Cloquet, Carlton	Park Rapids, Hubbard	
Hopkins, Hennepin	Crookston, Polk	Perham, Otter Tail	
Maple Grove, Hennepin	Detroit Lakes, Becker	Red Wing, Goodhue	
Minneapolis, Hennepin	Elk River, Sherburne	Sartell, largely Stearns	
Mounds View, Ramsey	Hermantown, Saint Louis	Sauk Centre, Stearns	
Oak Park Heights, Washington	Litchfield, Meeker	Staples, largely Todd	

<sup>1</sup><http://mn.gov/deed/data/data-tools/qcew.jsp>

Attachment: Preservation Geographic Priority Areas Methodology

Oakdale, Washington	Melrose, Stearns	Thief River Falls, Pennington
	Monticello, Wright	Warroad, Roseau
	Mountain Iron, Saint Louis	Worthington, Nobles
		Wyoming, Chisago

## Job Growth Priority Areas



Includes areas within five miles of the top 10 job growth communities in the Twin Cities Metro, and within ten miles of all job growth communities (for communities with at least 2,000 jobs) in Greater Minnesota.



 Job Growth Areas

Source: Minnesota Housing analysis of American Community Survey 2008-2012 data, Date: 12/27/2013



## 2.2 Household Growth

To be identified as a community with household growth, an area may be eligible in two ways. First, census tracts with total household growth of 100 and greater between 2000 and 2012 are eligible. An increase of 100 households represents the 60<sup>th</sup> percentile of household change statewide (60% of Census Tracts in the state had a change in households less than 100).

Census tracts are variable sized geography that contain, on average, 1,500 households. As such, tracts can range in size from small neighborhoods within an urban area to hundreds of square miles in rural areas, containing multiple small townships. Because of this variability a census tract doesn't always capture a "housing market". Smaller cities and townships can also capture a market. Larger cities (more than 15,000 households) often have multiple neighborhoods and housing markets. Data for cities and townships with fewer than 1,500 households is not always reliable from the American Community Survey.

Thus, medium sized cities, those between 1,500 and 15,000 households are also evaluated for growth. Medium sized cities contain between 1-10 census tracts and could be considered a single housing market. Medium sized cities with growth of at least 100 households are added to the census tracts with growth to form a more complete eligibility area.

The map on the next page shows the areas eligible under the household growth criterion. An interactive version of this map is available on the Minnesota Housing website: [www.mnhousing.gov](http://www.mnhousing.gov) > Research & Publications > Community Profiles.

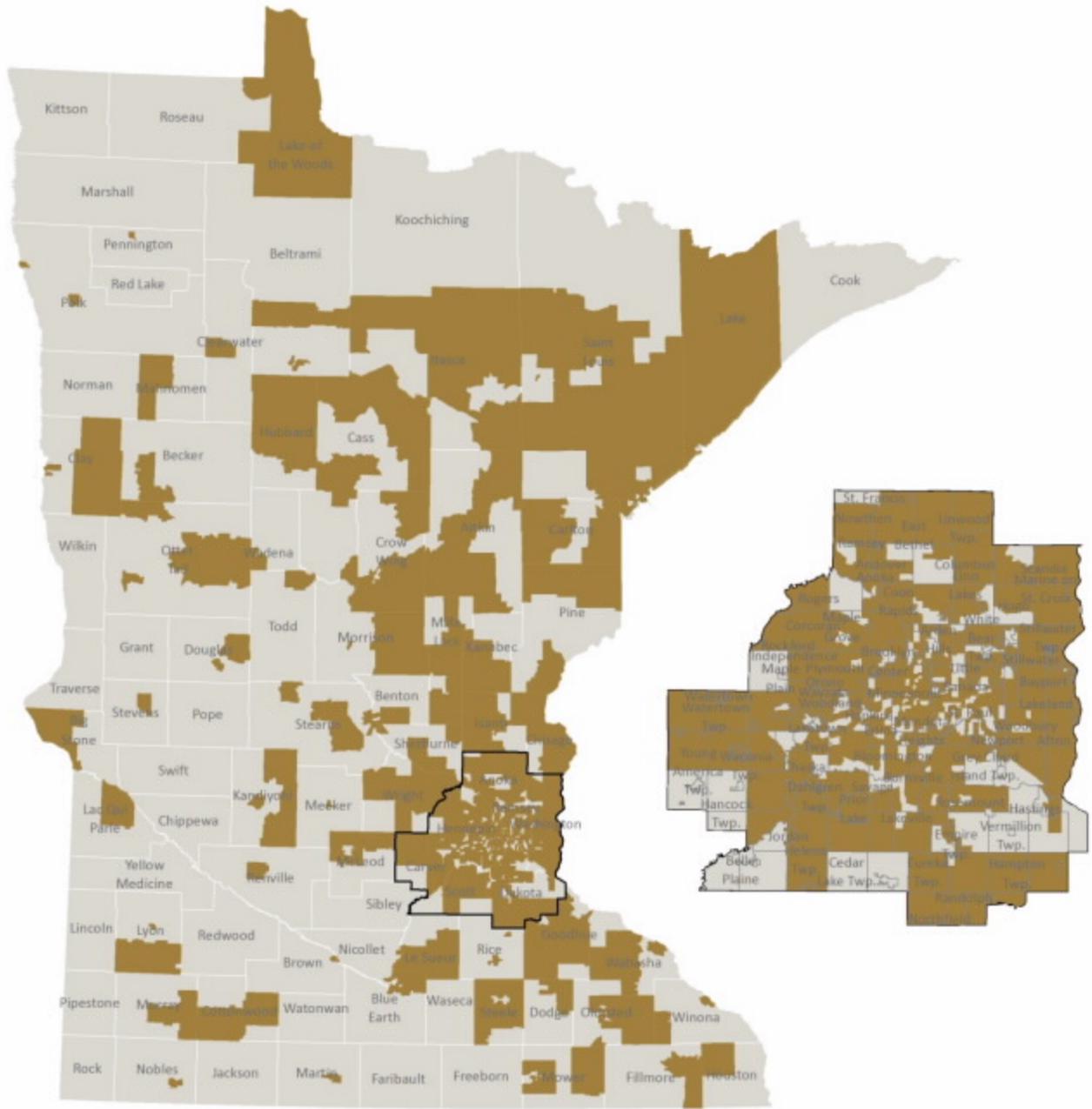


### **3. Cost Burdened Renters**

To be identified as a community with a substantial share of cost burdened renters, census tracts must be in the top 60% of census tracts ranked by share of lower income renters (annual incomes less than \$50,000) spending more than 30% of their income on housing.

Using data from the American Community Survey 2008-2012 sample, the 40<sup>th</sup> percentile for lower income cost burdened renters in a tract is 61%. Thus, census tracts where the percentage of lower income renters who are cost burdened is at or greater than 61% meet this criterion. The map on the next pages shows the census tracts achieving this threshold. An interactive version of this map is available on the Minnesota Housing website: [www.mnhousing.gov](http://www.mnhousing.gov) > Research & Publications > Community Profiles.

## Cost Burdened Renters, Priority Areas



 >61% of Renters are Cost Burdened

Source: Minnesota Housing analysis of American Community Survey 2008-2012 data, Date: 12/27/2013

