On Tuesday, February 17, 2009, President Obama signed the American Recovery and Reinvestment Act (ARRA) which was an unprecedented effort to stimulate the economy and save or create millions of jobs. The purpose of ARRA is to preserve and create jobs and promote economic recovery in the near term and to invest in infrastructure that will provide long-term economic benefits. The funding from ARRA in combination with the provisions passed through the 2008 Housing and Economic Recovery Act (HERA) provides Minnesota with the necessary tools and resources to bring “shovel ready” projects to production and close financing gaps in these projects created by reduced credit pricing and lack of syndicator equity.

**Funding Availability & Distribution**
The Minnesota Housing Finance Agency (Minnesota Housing) was designated by the Minnesota Legislature as the primary allocating agency of Housing Tax Credits (HTC) in Minnesota. Qualified local cities and counties have also been designated by the Legislature as suballocators of the HTC.

Minnesota Housing will select and administer TCAP and Exchange Program funds on behalf of the Joint Powers Suballocating agencies of St. Cloud, Rochester and Duluth. Minneapolis, Saint Paul, Dakota County and Washington County will receive a portion of the state’s allocation based on Minnesota State statutory formula for tax credits to administer TCAP and Exchange Programs within their respective jurisdictions subject to HUD approval of suballocator selection criteria and process.

Minnesota Housing administered funds will be distributed to Greater Minnesota in accordance with the Geographic Distribution plan outlined in the Qualified Allocation Plan. For Greater Minnesota the percentage is 38 percent, and for the Metropolitan Area the percentage is 62 percent.

Applicants who have previously received HTC awards from Minnesota Housing will apply to Minnesota Housing, those receiving HTC awards from suballocators will contact and apply to the appropriate suballocating agency directly. It is important to note that suballocating agencies may have different selection priorities and timelines for award of the funds.

**Tax Credit Assistance Program (TCAP)**

<table>
<thead>
<tr>
<th>TCAP Distribution</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>MN Housing Administered – Greater MN</td>
<td>$10,804,967</td>
</tr>
<tr>
<td>MN Housing Administered – Metro</td>
<td>$ 8,444,192</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>$ 3,233,539</td>
</tr>
<tr>
<td>Saint Paul</td>
<td>$ 2,410,081</td>
</tr>
<tr>
<td>Washington County</td>
<td>$ 1,243,913</td>
</tr>
<tr>
<td>Dakota County</td>
<td>$ 2,297,431</td>
</tr>
<tr>
<td><strong>Total Metro and Greater Minnesota</strong></td>
<td><strong>$28,434,123</strong></td>
</tr>
</tbody>
</table>

Minnesota Housing will award TCAP funds in the form of a loan or grant.

**Section 1602 Tax Credit Exchange Program (Exchange Program)**
The state may request a grant from the Treasury in an amount that does not exceed 85% of

1) 10 times 100 percent of (a) the unused State housing credit ceiling (if any) of the State for calendar year 2008 and (b) the amount of State housing credit ceiling returned in 2009

plus

2) 10 times 40 percent of (c) the greater of $2.30 multiplied by the State population or $2,665,000 and (d) unused housing credit carryover allocated to the State in the 2009 National Pool.
The State of Minnesota forward selects its projects for awards of HTC and the majority of the 2009 State Housing Credit ceiling has been awarded to projects. In order for Minnesota Housing to return funds to the Treasury for cash grants in lieu of tax credits, project owners who have received an allocation of credits will need to voluntarily and irrevocably return a portion or all of their credits that they are unable to syndicate by completing and submitted the Return of Tax Credits form. Projects that return their credits are not guaranteed a subaward and Minnesota Housing reserves the right to subaward less than $.85 per dollar of tax credits to those selected for exchange funds. Minnesota Housing will only award an amount necessary to make the project financially feasible.

Applicants who are unable to syndicate their housing tax credits will be expected to return their credits at the time of application. There will be no penalty for projects that voluntarily return their credits simultaneously with their application for funding or for those that are working with a syndicator in good faith that return their credits in a timely manner as to not put the state at risk of losing credits, TCAP or Exchange Program funds. Project owners that fail to return their credits in a timely manner and cause the State to lose credits, TCAP or Exchange Program funds will be subject to penalty including negative points in future application submission rounds and/or being barred from the tax credit program for a period of up to 10 years.

Minnesota Housing will subaward Exchange Program funds as a loan or grant to eligible projects.

**Recapture Provision**
Projects receiving TCAP or Exchange Program funds will be required to make significant progress towards closing within 180 days of selection. Applicants will be required to submit monthly progress reports to Minnesota Housing and the progress report will be compared against the submitted project timeline showing construction benchmarks and timetables of when the applicant can expend 25/50/75/100% of the TCAP and/or Exchange Program funds. If Minnesota Housing deems that significant progress is not made towards project closing, any portion or all of the awarded TCAP and/or Exchange Program Funds may be recaptured by Minnesota Housing and redistributed to other eligible projects.

Projects receiving TCAP or Exchange Program funds will be required to meet the conditions of selection as detailed in the projects Reservation and Binding agreement and if applicable, Carryover Agreement. The funds will be subject to recapture if the project does not remain a qualified low-income building and meet the restrictions of the Declaration of Land Use Restrictive Covenants during the 15 year compliance period and extended use agreement under Section 42(h)(6)(B) of the Code.

**Guiding Principal**
To produce as much quality affordable housing as possible and stimulate the economy by creating as many jobs as quickly as possible while optimizing the use of all rental housing resources available.

Maximizing the use of the ARRA funds will require taking a comprehensive view of all resources available which will require re-underwriting each project and looking at potential uses of equity, TCAP funds, exchange funds, appropriated and partner funds, etc.

Minnesota Housing reserves the right to award TCAP and/or exchange funds or adjust existing Minnesota Housing funding awards in an effort to maximize the use of the federal and state appropriated funds.

**Eligible Projects**
Rental housing projects that received or will receive an award of Low Income Housing Tax Credits (LIHTC) under Section 42(h) of the Internal Revenue Code of 1986, as amended, during the period from October 1, 2006 to September 30, 2009, are eligible to apply for TCAP and/or Exchange Program funding. Developers must make a good faith effort to sell as many of the awarded credits as circumstances and market conditions allow. However, if a developer cannot use all of the tax credits awarded to a project, adjustments can be made to the amount of credits allocated. In any event, a written agreement that requires compliance with LIHTC and TCAP requirements for the period required by Section 42 of the Internal Revenue Code must be entered into by the project owner.

The date of the award of tax credits is defined as the date the Minnesota Housing Finance Agency Board of
Directors approves the selection of the project for Housing Tax Credits (HTC).

Projects will be required to meet the conditions of the original selection as detailed in the project’s Reservation and Binding agreement and if applicable, Carryover Agreement. A Declaration of Land Use Restrictive Covenants covering the rent restrictions and occupancy requirements must be placed on the building(s).

For projects awarded 4% HTCs in conjunction with tax exempt bond financing where Minnesota Housing is the allocator of the credits, the award date is defined as the date of the issuance of the 42(m) letter by Minnesota Housing. Tax exempt bond projects with a suballocator as the allocator of the credits will need to apply to the suballocator if eligible in accordance with the suballocator requirements for TCAP or exchange funds.

**Eligible Use of Funds**
TCAP Funds may be used for capital investment in eligible HTC projects. Capital investment means costs that are included in the 'eligible basis' of a project under Section 42 of the Internal Revenue Code.

Exchange Program funds may be used to finance the construction or acquisition and rehabilitation of qualified low-income buildings in accordance with Section 1602(c) of the ARRA.

**Award of Funds**
In an effort to maximize the use of the funds and simplify the process for applicants, applicants shall apply for the amount of the gap created by the reduced price or lack of equity investment and Minnesota Housing shall determine whether TCAP or Exchange program funds will be awarded to each project. Only the minimum amount needed to make the project financially feasible will be awarded. The sponsor/owner shall work closely with equity syndicators to structure the project proforma to ensure long-term viability and financial feasibility as an HTC project while maximizing the use of the scarce federal funds. Syndicator investment in each project is strongly encouraged.

**Selection Criteria**
All projects must demonstrate:
- Project financial feasibility
- Continuing project specific market feasibility
- Readiness to proceed
- Owner and management company capacity

Projects that are able to show financial and market feasibility, readiness to proceed and organizational capacity will be ranked and selected based on the extent they meet the competition selection criteria as described in the ARRA TCAP & Exchange Program self-scoring worksheet.

Minnesota Housing will maintain a waiting list if sufficient funding is no longer available. All applications on the waiting list would be considered at the same time to determine selection when funds become available. If the waiting list is exhausted, Minnesota Housing may accept additional applications.
- Minnesota Housing may elect not to give partial funding to a higher-ranking application but provide the funding to the next ranking application that can use the balance of the funding.
- If two or more proposals have equal number of points, the following will be used to determine selection
  - First tie breaker - Priority will be given to the project with the greater number of points in the Project Expected Completion by February 16, 2012 category
  - Second tie breaker – Priority will be given to a project with the greater number of points in the Readiness to Proceed selection criteria
  - Third tie breaker – Priority will be given to projects with the greater number of points in the Leverage of Equity Investment selection criteria and, if a tie still remains;
  - Fourth tie breaker will be by lot.

**Application Submission Requirements**
The application package must be received no later than 5:00 pm on Wednesday, July 8, 2009 at:
Minnesota Housing
400 Sibley Street, Suite 300
Saint Paul, MN 55101

Applicant must provide one original application package and one copy compiled in the following order:

1. **Updated Minnesota Housing Application Form/HTC 1** (must be submitted electronically to mhfa.app@state.mn.us no later than 5:00 p.m. on Wednesday, July 8, 2009).

2. **Minnesota Housing TCAP & Exchange Programs Self-Scoring Worksheet**

3. **Return of Tax Credits Form** (if applicant is returning tax credits)

4. Narrative describing proposed funding structure including a description of the ability or inability to meet federal fund cross/cutting requirements as identified in the TCAP guidance Notice CPD-09-03.

5. Description of any proposed change to the ownership structure

6. Demonstration of financial feasibility including a 15 year cash flow proforma and updated verification of service funding, if applicable.

7. An updated project schedule showing at a minimum project construction benchmarks and timetables of when the applicant can expend 25/50/75/100% of the ARRA funding

8. Demonstration of continuing market feasibility including
   a. **Market Qualifications Form**
   b. Market study or update to existing market study completed in accordance with the Minnesota Housing Market Study Guidelines, or
   c. For 100% long-term homeless projects in lieu of the required market study or update;
      i. **Certificate of Consistency with Continuum of Care** or Heading Home Plan targeting homeless households and
      ii. **County Letter of Confirmation** – Local Human Services Department

9. 3 years of General Partner financial statements – audited or accountant compilation

10. Commitment from Syndicator for equity investment or demonstration of good faith efforts to obtain investment commitments for reserved/awarded credits
    a. The owner must demonstrate good faith efforts to obtain investment commitments by submitting:
       i. Narrative description of efforts to obtain investment commitments, and
       ii. Two letters from syndicators/investors* that indicate
          1. The maximum amount of tax credits the Syndicator/Investor is willing to syndicate (the project is a blend of credits and TCAP or Exchange); or
          2. The equity price the Syndicator/Investor is willing to syndicate is less than $.60; or
          3. The Syndicator/Investor is not interested in the project at any equity price.

* The owner is expected to make every effort to obtain two letters from syndicators/investors. If the owner is unable to produce two letters, Minnesota Housing will review and confirm the efforts described in the narrative.

Note: Projects must use, sell, or syndicate a nominal amount of Housing Tax Credits in the project to be eligible to receive TCAP funds.

**Amendments to the Selection Process and Criteria**
The Minnesota Housing Tax Credit Assistance and Exchange Programs Selection Process and Criteria are subject to modification or amendment at any time as a result of revisions to the federal law and/or guidance from HUD or the Treasury.