

HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

DATE: APRIL 25, 2012

**REGARDING: APPROVAL TO ENDORSE THE PROPOSED AMENDMENTS TO THE
MINNEAPOLIS/SAINT PAUL HOUSING FINANCE BOARD - LOW INCOME
HOUSING TAX CREDIT PROGRAM FOR 2013, CITYWIDE**

Requested Board Action

Authorization to endorse the proposed amendments to the Minneapolis/Saint Paul Housing Finance Board for its *Low Income Housing Tax Credit Procedural Manual* (“Procedural Manual”) and its *Qualified Allocation Plan* (“QAP”) for 2013.

The proposed changes are specifically identified in Article III of the *Procedural Manual* which are referenced in **Attachment B** and Article VIII of the *Procedural Manual* as reference in **Attachment C**. At this time, there are no proposed changes to the *Qualified Allocation Plan*, including Article IX - Saint Paul Selection Priorities which currently reflects the priorities of the HRA Board and is referenced in **Attachment D**.

Background

The Federal Tax Reform Act of 1986 created the Low Income Housing Tax Credits (“Credits”) for qualified residential properties to encourage the production of affordable, low-income rental housing. The Credits provide a reduction in federal tax liability to owners and investors in qualified low-income housing developments. The owner/investors may use their Credits annually for ten years, but eligible qualified low-income housing projects must still comply with federally-imposed rent and tenant income restrictions for 15 years with an extended use period of an additional 15 years. At a minimum, at least 40% of the units must be affordable to, and rented to, households at or below 60% of the area median income (AMI) or at least 20% of the units must be affordable to, and rented to, households at or below 50% of AMI for the duration of the restricted period.

Pursuant to MN State Statute, Section 462A.221-462A.225, as amended, Minnesota Housing Finance Agency is the State Credit Allocator for eligible statewide projects. Correspondingly, the Minnesota Legislature authorized the Minneapolis/Saint Paul Housing Finance Board (“Housing Finance Board”) as the Credit Suballocator for

eligible projects located in cities of Saint Paul and Minneapolis. As the Suballocator, the Housing Finance Board must annually publish a Procedural Manual and QAP, which establish the timeline, process, and criteria by which the Housing Finance Board selects projects to receive Credits. Furthermore, by adopting its *2013 Procedural Manual* and its *2013 QAP*, the Housing Finance Board authorizes the Saint Paul Housing and Redevelopment Authority Board (“HRA”) to administer the Credits for projects located in Saint Paul. For 2013, Saint Paul’s Credit allocation amount is estimated to be \$989,035; the Credit allocation in 2012 for Saint Paul was \$966,557.

Proposed Changes to the 2013 Low Income Housing Tax Credit Procedural Manual

In consultation with the HRA Board, HRA staff is proposing the following amendments to the 2013 Procedural Manual and 2013 Qualified Allocation Plan:

- Add new language in Article III (J): Policies and Procedures – Qualified Census Tract and Difficult Development Areas.***

Background: In recognition that qualified projects located in Qualified Census Tracts or Difficult Development Areas may need additional financial assistance, Section 42 of the Internal Revenue Code (“Section 42”) has allowed such Credit projects to be eligible for an additional “30% boost” of credits for its project basis. Subsequently, under Housing and Economic Recovery Act of 2008 (“HERA”), state housing credit agencies could establish the criteria for selecting areas or projects that could receive the state-designated basis boost. Pursuant to IRC 42(d)(5)(C)(v), this designation for the 30% boost was expanded to any qualified project that was recognized by a housing credit agency as needing an increase in credits to make a project *financially feasible*.

Proposed Amendment: HRA has a goal to maximize the use of all available funding resources for multi-family affordable housing developments. Therefore, HRA proposes to specifically designate the “30% boost” to projects that meet HRA housing priorities by a top ranking competitive tax credit score and involve community revitalization; preserve existing federally-assisted buildings; develop housing affordable to households at or below 30% of area median income, including supportive housing; develop affordable housing developments in areas with significant expansion of employment opportunities; or develop affordable housing developments as part of a natural disaster recover effort. Nonetheless, HRA will only allocate additional credits to a Credit project as needed to achieve financial feasibility. (See: Attachment B)

2. ***Add new language in Article III (Q) Qualified Contract Process.***

Background: A qualified Credit property must satisfy all Section 42 low-income housing requirements for an applicable compliance period. Initially, Section 42 required a fifteen (15) year compliance period. However, for projects that receive Credits in 1990 or later, Section 42 now requires the initial 15 year compliance period and an additional 15 years of compliance, commonly known as the “extended use period.” However, pursuant to IRC 42(h)(6)(E), the extended use period for a Credit project in Saint Paul could terminate after the original 15 year compliance period if 1) the owner did not waive such rights under the Declaration of Land Use Restrictive Covenants; 2) owner submits a request for a “Qualified Contract” for the acquisition of the low income portion of the Credit property to HRA; and 3) HRA is not able to secure a prospective buyer for Credit property.

Proposed Amendment: In recognition of IRC 42(h)(6)(E), HRA proposes an amendment to the Procedural Manual in order to establish the process for requesting a “Qualified Contract” whereby the Credit owner can request the HRA, as the Credit Agency, to find a buyer who will purchase the Credit property at the Qualified Contract price and continue to operate Credit property as a qualified low-income property for the remaining time of the extended use period. (See: Attachment C) However, it should be noted that a Request for a Qualified Project is a difficult process requiring much time and substantial involvement on the part of the Credit Owner, Credit Property Management Company, and the HRA. Therefore, HRA also proposes to amend Article VIII of the Procedural Manual in order establish a \$5,000 non-refundable fee for processing a qualified contract request as well as the Credit owner will be responsible for all costs, including third party costs , incurred by HRA in the processing and evaluating the request for a Qualified Contract. See: Attachment C for the Qualified Contract Process required by HRA.

3. ***Add new language in Article VIII (J) Qualified Contract Processing Fee.***

Proposed Amendment: For its respective projects, CPED or HRA will require that Credit property owners pay a non-refundable fee of \$5,000 for processing a request for a qualified contract.

Proposed Changes to the 2013 Low Income Housing Tax Credit – Qualified Allocation Plan

HRA staff recommends no changes to the 2013 Qualified Allocation Plan, including Article VIII which currently reflects the priorities established by HRA Board for selecting Credit projects.

See: Attachment D.

Budget Action

Not Applicable. Approval of the resolution to endorse the proposed amendments to the 2013 Credit Program does not require any additional budget actions.

Future Action

Upon HRA Board endorsement of the proposed amendments to the Procedural Manual and QAP, the Housing Finance Board will hold a public hearing on May 9, 2012 to consider the formal adoption of the proposed amendments. Applications for 2013 Credits will be due to the HRA on July 13, 2012, and HRA staff will request HRA Board action to allocate the 2013 Credits in September or October 2012.

Green/Sustainable Development

Not applicable. However, any qualified low-income housing developments that receive 2013 Credits must comply with the Minnesota Overlay developed in coordination with Green Communities. All projects must comply with the applicable *Saint Paul Sustainable Building Policy*.

Compliance

Not applicable. However, any qualified low-income housing development that receives 2013 Credits must comply with applicable compliance requirements (e.g. Vendor Outreach, Affirmative Action, Davis Bacon, Section 3 etc.).

Historic Preservation

Not applicable.

Environmental Impact Disclosure

Not applicable.

Financing Structure

Not applicable.

Public Purpose

Annual approval of a resolution that endorses amendments to the 2013 Credit Program promotes the creation or preservation of rental housing that is affordable to Saint Paul residents with incomes at or below 60% of area median income.

Recommendation

The Executive Director recommends that the HRA Board of Commissioners endorse the proposed amendments to the 2013 Low Income Housing Tax Credit Procedural Manual and 2013 Qualified Allocation Plan pursuant to the attached resolution.

Sponsored by: Commissioner Dave Thune
Staff: Joe Collins, 651-266-6020

Attachments:

- Attachment A – Resolution
- Attachment B – Proposed Changes to Procedural Manual – Qualified Census Tracts and Difficult Development Areas
- Attachment C – Proposed Changes to Procedural Manual – Qualified Contract Process
- Attachment D – Proposed Changes to Qualified Allocation Plan – Selection Priority Scorecard