

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

REPORT TO THE COMMISSIONERS

DATE: JUNE 14, 2017

REGARDING: APPROVAL TO ENDORSE THE PROPOSED AMENDMENTS TO THE
MINNEAPOLIS/SAINT PAUL HOUSING FINANCE BOARD - LOW INCOME
HOUSING TAX CREDIT PROGRAM FOR 2018, CITYWIDE

Requested Board Action

This report requests the HRA Board endorsement of proposed changes to the Minneapolis/Saint Paul Housing Finance Board's *Low Income Housing Tax Credit Procedural Manual* ("Procedural Manual") and its *Qualified Allocation Plan* ("QAP") for 2018. The proposed changes are specifically identified in the 2018 Procedural Manual which is referenced in the attached **Procedural Manual** and the 2018 QAP which is referenced in the attached **Qualified Action Plan**.

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. Credits provide a reduction in federal tax liability to owners and investors of qualified low-income housing developments. The owner/investors may use Credits annually for ten years, but qualified low-income housing projects must 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, 40% of the units must be affordable and rented to households at or below 60% of the area median income (AMI) or 20% of units must be affordable and rented to households at or below 50% of AMI for the duration of the restricted period. Federal law also gives preference to selected properties which serve the lowest income qualified tenants for the longest period, and projects which are located in qualified census tracts for community revitalization.

Pursuant to MN State Statute, Section 462A.221-462A.225, as amended, Minnesota Housing Finance Agency ("MHFA") is the State Credit Allocator for eligible statewide projects. The Minnesota Legislature also 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.

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. The QAP must also identify the selection criteria to determine housing priorities of the housing credit agency which are appropriate to local conditions.

With the adoption of its 2018 Procedural Manual and 2018 QAP, the Housing Finance Board authorizes the HRA to administer the Credit Program for Saint Paul’s projects. Saint Paul’s Credit Allocation for 2018 is \$760,022 which is \$4,180 more than the 2017 Credit Allocation.

Summary of Changes to the Procedural Manual and Qualified Allocation Plan

As referenced in the Attachments, HRA staff recommends changes to the 2018 Procedural Manual and the 2018 Qualified Allocation Plan in order to reflect the priorities of the HRA Board. In summary, the proposed changes include the following:

2018 Procedural Manual

1. Under *Policies and Procedures – Transfer of Ownership*, HRA considers a transfer of project ownership as a material change that requires HRA approval. To support long-term ownership of affordable housing, the proposed length of time required for transfer of ownership or change in nonprofit partner is increased from two (2) years to five (5) years.
2. Under *Policies and Procedures*, the proposed new section identifies *Unacceptable Practices* for which the HRA reserves the right to impose sanctions, as follows:
 - Displacement of existing Section 8 tenants: Saint Paul will not accept applications that displace or will displace existing Section 8 tenants. If HRA determines that intentional displacement of Section 8 tenants occurred, then HRA may reduce or rescind the Credit reservation; and

- Material project changes without HRA approval: Upon notice of a material change to the project without HRA approval, the HRA may determine that all parties involved with the material change will not be eligible to participate with Saint Paul’s Credit program for a period of up to five years; and
 - Repeated non-compliance with Fair Housing Policies and Procedures. Upon notice of repeated non-compliance with fair housing laws and regulations, HRA may determine that all parties involved with ownership and/or management of the project that is found in repeated non-compliance of fair housing practices will not be eligible for participation with Saint Paul’s Credit Program for a period up to five years.
3. *Section K of Policies and Procedures* is a new section requiring tax-exempt bond financed projects that receive Credits (“4% Credit projects”) to comply with the QAP.
 4. Under *Federal Program Requirements*, the Internal Revenue Code has permanently established the 9% minimum credit rate for non-federally subsidized buildings.
 5. Under *Federal Program Requirements, Section F: Affordable Rents*, there is new language that states that, during the lease term, the rental rate may be altered downward but not upward, due to annual changes in maximum income or rent limits set for Credit projects or due to changes in the Utility Allowances which are governed by HUD.
 6. Under *Federal Program Requirements, Section K: Declaration of Land Use Restrictive Covenants* will establish a 20 year affordability period for 4% Credit projects.
 7. Under *Federal Program Requirements, Section R: Fair Housing Policy*, the proposed language requires that Credit project participants use affirmative fair housing marketing practices in soliciting renters, determining eligibility, and concluding all transactions in compliance with federal, state, and local laws.
 8. Annual monitoring fees to be paid by the owner have increased from \$55 to \$60 per unit, and the physical inspection fee increased to \$60 per tax credit unit with a minimum fee of \$900 due every three years.

2018 Qualified Allocation Plan

1. Under the *Credit Agency Allocation Policies*, the proposed language of Article VI, Section H requires that Credit project participants use affirmative fair housing marketing practices in soliciting renters, determining eligibility, and concluding all transactions in compliance with federal, state, and local laws.
2. Under the *Procedures for Selecting Projects*, the proposed language of Article VIII Section G requires that Credit applications seeking 4% tax credits in conjunction with tax-exempt bonds must agree to a twenty (20) year affordability period.
3. Under *Article IX Saint Paul Site Selection Priorities*, there are three (3) new threshold requirements for Saint Paul projects as follows:
 - All projects must comply with cost containment thresholds to be established by HRA, and projects with unique redevelopment conditions may request a cost-containment adjustment, subject to HRA approval.
 - All projects must affirmatively further fair housing by complying with federal, state, and local laws. HRA reserves the right to determine that parties involved with projects that have repeated non-compliance of fair housing rules and regulations will not be eligible to participate with Saint Paul's Credit Program for up to five (5) years.
 - Upon notice of any change or transfer of ownership without HRA approval, the HRA reserves the right to determine that all parties involved may not be eligible for participation in Saint Paul Credit program for up to five years.
4. As a new priority, Site Selection Priority points will be awarded to projects that develop larger-sized family housing.
5. As a new priority, Site Selection Priority points will be awarded to a project that received a prior substantial Credit allocation and needs additional Credits to be financially feasible.

6. Under *Article X, Credits for Buildings, Financed by Tax-exempt Bonds*, it is noted that Saint Paul Bond volume cap will not be issued in the amount greater than 53% of basis as defined in the tax-exempt bond rules. Additionally, the 15 year waiver does not apply to Credit projects that receive tax-exempt bond financing.

Budget Action

N/A.

Future Action

Upon HRA Board endorsement of the proposed 2018 Procedural Manual and QAP, the Housing Finance Board will hold a public hearing on July 13, 2017 for formal adoption of the 2018 Procedural Manual and 2018 QAP. 2018 Credit Applications will be due on August 10, 2017. Staff will request HRA Board action to reserve 2018 Credits in September.

Green/Sustainable Development Projects that receive 2018 Credits must comply with the Minnesota Overlay developed in coordination with Green Communities as well as the *Saint Paul Sustainable Building Policy*.

Compliance

Qualified low-income housing developments that receive 2018 Credits must comply with applicable compliance requirements (Vendor Outreach, Affirmative Action, Davis Bacon, Section 3, etc.).

Historic Preservation

N/A

Environmental Impact Disclosure

N/A

Financing Structure

N/A

Public Purpose

Approval of a resolution that endorses changes to the 2018 Credit Program that will promote the construction 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 changes to the 2018 Low Income Housing Tax Credit Procedural Manual and endorse the proposed changes to the 2018 Qualified Allocation Plan pursuant to the attached resolution.

Sponsored by: Commissioner Amy Brendmoen

Staff: Joe Collins, 651-266-6020

Attachment:

- Attachment: 2018 Procedural Manual
- Attachment: 2018 Qualified Allocation Plan
- Attachment: 2018 Qualified Allocation Plan Article IX – Saint Paul’s Selection Priorities – Saint Paul’s Self-Scoring Worksheet