

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

REPORT TO THE COMMISSIONERS

DATE: APRIL 8, 2020

**REGARDING: REQUEST TO ENSURE THE PROPOSED AMENDMENTS TO THE
MINNEAPOLIS/SAINT PAUL HOUSING FINANCE BOARD - LOW INCOME
HOUSING TAX CREDIT PROGRAM FOR 2021, CITYWIDE**

Requested Board Action

This report requests the HRA Board consideration 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 2021. The proposed changes are specifically identified in the 2021 Procedural Manual which is referenced in the attached **Procedural Manual** and the 2021 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 owners/investors may use Credits annually for ten years (“credit period”), 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 (“compliance period”).

Under the law, to qualify for low-income housing tax credits (LIHTCs), rental properties must meet one of three set-aside tests:

- 1) At least 20 percent of the units had to be both rent restricted and occupied by households with incomes at or below 50 percent of area median income (AMI), or
- 2) At least 40 percent of the units had to be both rent restricted and occupied by households with incomes at or below 60 percent of AMI, or
- 3) The Average Income test as follows:

- a. At least 40 percent of the units have to be both rent-restricted and occupied by individuals whose incomes do not exceed the imputed income limitation designated by the taxpayer (up to 80% AMI)
- b. The average of the imputed income limitations designated cannot exceed 60 percent of AMI

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 2021 Procedural Manual and 2021 QAP, the Housing Finance Board authorizes the HRA to administer the Credit Program for Saint Paul’s projects. Saint Paul’s Credit Allocation for 2021 is \$909,721 which is \$8,480 more than the 2020 Credit Allocation.

Summary of Changes to the Procedural Manual and Qualified Allocation Plan

As referenced in the Attachments, HRA staff recommends changes to the 2021 Procedural Manual and the 2021 Qualified Allocation Plan in order to reflect the priorities of the HRA Board. In summary, the proposed changes include the following:

2021 Procedural Manual

Section III - B: Update description of application processes

Section III – E: A series of changes to clarify and expand unacceptable practices in the HTC program

Section III – F: Define minimum underwriting standards for the HTC program

Section III – G: Clarify Identity of Interest language

Section III – M: Clarify language on election of applicable percentage and gross rent floor

Section III – N: Clarify language around administrative appeals

Section IV – C: Delete redundant language and clarify Subsidy Layering Review requirements

Section IV – D: Clarify language on Minimum Set-Aside elections, including Average Income

Section IV – E: Clarify language on Utility Allowances and add new language limiting rent increases in HTC units to no more than once per year

Section IV – H: Clarify language prohibiting project owners from refusing tenants based on participation in Section 8 or other tenant-based assistance programs. Add language on student eligibility in HTC projects.

Section IV – I and J: Clarify language around Eligible and Qualified Basis

Section IV – L: Clarify Land Use Restrictive Covenants procedures

Section IV – M: Clarify ineligible property types

Section IV – Q: Update language to require projects claiming points for future Tenant Ownership to be 100% HTC

Section V – A: Clarify language around cost reasonableness and appraisal requirements

Section V – C: Add new language to require project reserves to remain with the project

2021 Qualified Allocation Plan (9% Credit Projects)

Article VII: A series of changes to align 9% threshold requirements with State statute

Attachment 2 – Saint Paul Selection Priorities and Self-Scoring Worksheet - 9% Tax Credits

In order to clearly define our objectives and goals through the tax credit program, we are reformatting the Self-Scoring Worksheet to group the priorities in six main categories:

- A. Increase Supply for Those with the Lowest Incomes
- B. Preservation
- C. Healthy Communities, Wealth and Community Building
- D. Fair Access to Housing
- E. Catalytic Development Sites
- F. Innovative Approach and Financial Considerations

Proposed changes to priorities in each category:

- A. Increase Supply for Those with the Lowest Incomes
 - Percentage of housing units serving households at or below 30% Area Median Income: In response to the community request to deepen the affordability levels in tax credit projects, we are including a new priority that will provide points to developments with units at 30% AMI.
 - Homelessness: we are collapsing the tiered scoring options into one, with a revised maximum points awarded for this priority from up to 5 to up to 3 points
- B. Preservation: No change
- C. Healthy Communities, Wealth and Community Building
 - Enhanced Services, Programming and Amenities: The proposed list of services includes financial capacity programming, homeownership readiness, financial and tax services partially in response to the community recommendation

- Future Tenant Ownership: in response to community request, the proposed criterion provides 5 points (instead of 1) to projects that agree to offer 100% of the HTC units for sale to tenants at the end of the initial 15-year compliance period
- Non-smoking: Update language to define commercial tobacco and electronic delivery devices

D. Fair Access to Housing:

Transit: Points will be awarded to new construction or substantial rehabilitation projects that are:

- Located within 0.25 miles of a completed or planned* light rail train (“LRT”) station and bus rapid transit or other fixed transitways stops (3 points)
- Located within 0.25 miles of a high service Metro Transit bus route (defined as a bus running at least every 30 minutes). (2 points)

E. Catalytic Development Sites: No change

F. Innovative Approach and Financial Considerations

- Intermediary Costs (soft costs): The proposed priority will only provide up to 3 points (instead of 6 points) to projects on a sliding scale of intermediary costs based on percentage of total project costs, in response to the community that was concerned this may have a negative impact on small developers

Attachment 4 – Self-Scoring Worksheet 4% HTC. Saint Paul HRA

The proposed changes are:

3. Intermediary Costs (soft costs): The proposed priority will only provide up to 3 points (instead of 6 points) to projects on a sliding scale of intermediary costs based on percentage of total project costs, in response to the community that was concerned this may have a negative impact on small developers

9. Percentage of housing units serving households at or below 30% Area Median

Percentage of housing units serving households at or below 30% Area Median Income: In response to the community request to deepen the affordability levels in tax credit projects, we are including a new priority that will provide points to developments with units at 30% AMI.

Future Action

Upon HRA Board consideration of the proposed 2021 Procedural Manual and 2021 QAP, the HRA staff will prepare final recommendations for HRA Board endorsement to the Minneapolis/Saint Paul Housing Finance Board which will hold a public hearing on May 12, 2020 for formal adoption of the 2021 Procedural Manual and 2021 QAP. The 2021 Credit Applications will be due likely in late summer 2020. Staff will request HRA Board action to reserve 2021 Credits late 2020.

Green/Sustainable Development Projects that receive 2021 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 2021 Credits must comply with applicable compliance requirements.

Public Purpose

Discussion of proposed changes to the 2021 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 Commissioner endorses the proposed changes to the 2021 Low Income Housing Tax Credit Procedural Manual and endorse the proposed changes to the 2021 Qualified Allocation Plan pursuant to the attached resolution.

Sponsored by: Commissioner Chris Tolbert

Staff: Jules Atangana, 266-6552

Attachments

- Procedural Manual
- Qualified Allocation Plan
- Proposed amendments to 2020 Procedural Manual
- Proposed amendments to 2020 Qualified Allocation Plan