

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

REPORT TO THE COMMISSIONERS

DATE: APRIL 22, 2015

REGARDING: APPROVAL TO ENDORSE THE PROPOSED AMENDMENTS TO THE
MINNEAPOLIS/SAINT PAUL HOUSING FINANCE BOARD - LOW INCOME
HOUSING TAX CREDIT PROGRAM FOR 2016, 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 2016. At this time, there is one proposed amendment to the 2016 Procedural Manual which establishes the maximum fee guidelines for multi-unit rental projects using Tax Credit Financing adopted pursuant to the HRA Board Resolution 14-1038 as referenced in **Attachment B**. There is one proposed amendment to the 2016 QAP to reflect the annual priorities of the HRA Board. The proposed QAP amendment clarifies the definition of preservation as noted in Article IX – Saint Paul Selection Priorities, as referenced in **Attachment C**.

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 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 and rented to households at or below 60% of the area median income (AMI) or at least 20% of the units must be affordable 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 (“MHFA”) 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. The QAP must also have selection criteria to determine housing priorities of the housing credit agency which are appropriate to local conditions and give preference in allocating housing credit dollar amounts among selected projects that serve the lowest income tenants, projects obligated to serve qualified tenants for the longest period, and projects which are located in qualified census tracts and the development of which contributes to a concerted community revitalization plan.

By adopting its 2016 Procedural Manual and its 2016 QAP, the Housing Finance Board authorizes the HRA to administer the Credits for projects located in Saint Paul. However, MHFA has not yet officially approved the distribution of the 2016 Credits. MHFA is currently updating its distribution formula based upon demographic changes and projections in the Twin Cities metro area. Based upon the new proposed formula, MHFA may allocate \$716,521 of 2016 Credits to Saint Paul which is drastically lower than the 2015 Credit allocation of \$1,056,694. Alternatively, the MHFA Board may adopt its updated distribution formula for its 2017 Credit Allocation Year which would effectively maintain Saint Paul’s 2016 Credit Allocation to be \$1,056,694. MHFA will notify HRA of its 2016 Credit Distribution after the MHFA Board meeting scheduled on April 23, 2015.

**Proposed Amendment to the 2016 Low Income Housing Tax Credit Procedural Manual
Federal Program Requirements - Section V.B. Costs of Intermediaries**

Pursuant to the HRA Board Resolution 14-1038, the proposed amendment to the 2016 Procedural Manual will add the maximum fee guidelines for multi-unit rental projects using tax credit financing as previously adopted by the HRA Board on June 11, 2014. See **Attachment B**.

Proposed Amendment to the 2016 Low Income Housing Tax Credit Qualified Allocation Plan (“QAP”) Article IX – Saint Paul Selection Priorities.

1. There are no changes to the QAP Article I- Article VIII.
2. There is one proposed amendment in the QAP Article IX – Saint Paul Selection Priorities which clarifies the definition of Substantial Renovation as followed:

Article IX (A) (1). **Substantial renovation:** The project is a substantial renovation project that preserves low income housing which is defined as subsidized low income housing, the preservation of housing units with project-based Section 8 rental assistance funded pursuant to the McKinley-Vento Homeless Assistance Act (42. U.S.C. 11302) by transferring such federal assistance from a functionally-obsolete building into a newly-constructed building that offers affordable housing, or non-subsidized housing developments with current rents at or below 50% area median income as determined by HUD if the use of tax credits is necessary to (1) prevent conversion to market-rate use; or (2) to remedy physical deterioration of the project for which would result in the loss of affordable housing.

The rational for this proposed amendment recognizes the value of Project Based Section 8 Rental Assistance affordable housing units by the transfer of project-based Section 8 Rental Assistance units from a functionally-obsolete building into a newly-constructed building.

3. No changes are proposed for the QAP Article IX (A)(2) to Article IX (A)(12).
4. No changes are proposed for the QAP Article X to Article XII.

Budget Action

Not Applicable. Approval of the resolution to endorse the proposed amendments to the 2016 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 27, 2015 to consider the formal adoption of the proposed amendments. Applications for 2016 Credits will be due to the HRA on June 17, 2015, and staff will request HRA Board action to allocate the 2016 Credits in September or October 2015.

Green/Sustainable Development

Not applicable. However, any qualified low-income housing developments that receive 2016 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

Qualified low-income housing development that receives 2016 Credits and City funds must comply with applicable compliance requirements (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 2016 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 2016 Low Income Housing Tax Credit Procedural Manual and 2016 Qualified Allocation Plan pursuant to the attached resolution.

Sponsored by: Commissioner Amy Brendmoen

Staff: Joe Collins, 651-266-6020

Attachments:

- Attachment A – Resolution
- Attachment B – Proposed Change to the Procedural Manual - Fees
- Attachment C – Proposed Changes to Qualified Allocation Plan – Selection Priority Scorecard