

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

REPORT TO THE COMMISSIONERS

DATE: MAY 23, 2018

REGARDING: APPROVAL TO ENDORSE THE PROPOSED AMENDMENTS TO THE
MINNEAPOLIS/SAINT PAUL HOUSING FINANCE BOARD - LOW INCOME
HOUSING TAX CREDIT PROGRAM FOR 2019, 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 2019. The proposed changes are specifically identified in the 2019 Procedural Manual which is referenced in the attached **Procedural Manual** and the 2019 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 ("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"). 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 2019 Procedural Manual and 2019 QAP, the Housing Finance Board authorizes the HRA to administer the Credit Program for Saint Paul’s projects. Saint Paul’s Credit Allocation for 2019 is \$972,775 which is \$212,753 more than the 2018 Credit Allocation. The 2019 Credit Allocation includes an additional allocation of \$192,555 of 2018 Credits which were generated by recent changes in the Tax Code.

Summary of Changes to the Procedural Manual and Qualified Allocation Plan

As referenced in the Attachments, HRA staff recommends changes to the 2019 Procedural Manual and the 2019 Qualified Allocation Plan in order to reflect the priorities of the HRA Board. In summary, the proposed changes include the following:

2019 Procedural Manual

1. *General Amendments to the 2019 Procedural Manual.* The Minneapolis/Saint Paul Housing Finance Board retained special legal counsel to appropriately amend its 2019 Procedural Manual and 2019 QAP to reflect changes to the IRS Regulations, and amendments included formatting changes. Throughout the documents, Low Income Housing Tax Credits is referenced as “HTC”.

Additionally, when appropriate, the Procedural Manual and Qualified Allocation Plan were amended to distinguish between the 15-year compliance period requirements which are applicable to the project and the 10-year credit period requirements which are applicable to the equity investor.

2. Under Section III, *Policies and Procedures – Transfer of Ownership*, the HRA supports long-term ownership of affordable housing. For clarity, the proposed amendment states

the appropriate performance period such that when any transfer of title or transfer of more than 50% of project ownership after placement in service and through the fifth year of the *15-year compliance period* instead of the *10-year credit period* will be considered a material change that requires HRA approval.

3. Under Section III, *Policies and Procedures – Section K – Tax Exempt Projects and 4% HTC*, the proposed amendment creates new procedures for 4% Credit projects due to limited availability of tax-exempt bonds:
 - A pre-application letter is encouraged to determine project eligibility.
 - 4% Credit projects must score at least 35 points under the 4% Selection Criteria.
 - An Allocation Fee of 1.5% of Credit Amount is due at time of closing.
 - The HRA, at its discretion, may prioritize projects based upon factors such as total project points, projects located on HRA land, project readiness, amount and term of bond allocation requested, and overall project feasibility, if bond allocations become over-subscribed.
4. Under *Housing Tax Credit Requirements, Section B - Applicable Percentages*, qualified rehabilitation expenditures for 4% Credits will have an inflation cost adjustment established annually by IRS as well as Section 42 requires that at least an average of \$5,000 per unit must be spent as rehabilitation expenditures for 4% Credit projects.
5. Under *Housing Tax Credit Requirements, Section N – Volume Limit*, Saint Paul will be allocated \$972,755 of 9% Credits for 2019.
6. Under *Housing Tax Credit Requirements, Section O - Market Review*, a comprehensive market review of housing need of low-income individual in project service area must be conducted at the developer's expense by an unrelated third party acceptable by HRA instead of requiring approval by the Housing Finance Board.
7. Under *Development Standards, Section B- Developer Fees*, incorporate current Developer Fee language for consistency.

2019 Qualified Allocation Plan (9% Credit Projects)

1. Under *Article III – Definitions*, the “costs of intermediaries” shall be consistent with Minnesota Housing regulations
2. Under *Article V, Amount of 9% HTC for 2019*, Saint Paul will receive \$972,775 of Credits for the 2019 Credit year which includes \$192,555 of 2018 Credits which were subsequently allocated as a result of the recent changes to the federal tax code.
3. Under *Article VII, Project Threshold Requirements C (4,)* projects meet one of the threshold requirements if the project has at least a percentage of units (instead of 25%) are for persons with serious and persistent mental illness, developmental disability, drug dependency, brain injury, or permanent physical disability all as further described in Minnesota Statutes, Section 462A.222, Subdivision 3(c)(I)(3). Projects for persons with permanent physical disabilities must have at least 50% of units accessible as provided under Minnesota Rules, chapter 1340. This language is more consistent with State Statutes.
4. Under *Article IX Compliance Monitoring – Notification of Noncompliance*, the Housing Finance Board may review and notify IRS of the Owner’s corrective action within three years of the original IRS filing of noncompliance. This is a procedural clarification of existing procedure.
5. Under *Article VIII, Projects financed with Tax-Exempt Housing Revenue Bonds*, 4% Credit projects will score 35 points under the Site Selection Criteria to be eligible for financing in 2019.
6. Under *Saint Paul’s Site Selection Priorities #1*, affordable housing projects with substantial renovations will be awarded 15 points if the project is located within a Qualified Census Tract. Affordable housing projects with substantial renovations that are located outside a Qualified Census Tract will be awarded 20 points. These proposed amendments affirm the HRA Board’s priority to preserve existing affordable housing citywide.

7. Under *Saint Paul's Site Selection Priorities #2*, priority points will be awarded to new affordable family housing that will be built outside a Qualified Census Tract. This proposed amendment also affirms the HRA Board's priority to encourage new construction of family housing citywide.
8. *Saint Paul's Site Selection Priorities #7 – Economic Integration* awards site selection point to affordable housing developments that encourage economic integration by developing affordable housing that has both Credit units and market-rate units.
9. To comply with IRS Regulations, site selection points will now be awarded to affordable housing projects that are certified as historic properties as well as site selection points will be awarded to affordable housing that may be sold to tenants at the end of the 15-year Credit compliance period.

2019 Qualified Allocation Plan (4% Credit Projects)

In recognition of limited tax-exempt financing, 4% Credit projects requesting 2019 financing must be scored 35 points pursuant to the 4% Site Selection Criteria which affirms HRA priorities as follows:

- Site Selection Priority points will be awarded to projects that require no gap financing or projects which secured financial commitments from more than one funding source other than the Saint Paul HRA funding sources. (3-15 points)
- 4% Credit projects must currently provide affordable housing for twenty (20) years. Therefore, priority points will be awarded to affordable housing developments that offer longer affordability periods of 30, 40, 45 years. (15-20 points).
- Priority points will be awarded to affordable housing developments with intermediary costs or soft costs of 0-20% of total development costs (3-5 points).
- 4% Credit projects that provide 30-50% of the total units as 3 bedroom or larger housing units for families will receive priority points (3-5 points)
- Site Selection Priority points will be awarded to affordable housing developments located on HRA owned land or to affordable housing developments that have a HRA/City debt obligation. (20 points)

- Site Selection Priority points will be awarded to newly-constructed affordable family housing that is built outside a Qualified Census Tract (12 points).
- Non-profit organizations that are general partner of the affordable housing development may receive points. (5 points)
- Affordable housing developments that provide both Credit units and market-rate units will receive points (1-10 points)
- Projects complying with HRA cost-containment protocols will receive five points.

Future Action

Upon HRA Board endorsement of the proposed 2019 Procedural Manual and QAP, the Housing Finance Board will hold a public hearing on June 12, 2018 for formal adoption of the 2019 Procedural Manual and 2019 QAP. 2019 Credit Applications will be due on July 19, 2018. Staff will request HRA Board action to reserve 2019 Credits in September.

Green/Sustainable Development Projects that receive 2019 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 2019 Credits must comply with applicable compliance requirements.

Public Purpose

Approval of a resolution that endorses changes to the 2019 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 2019 Low Income Housing Tax Credit Procedural Manual and endorse the proposed changes to the 2019 Qualified Allocation Plan pursuant to the attached resolution.

Sponsored by: Commissioner Chris Tolbert

Staff: Joe Collins, 266-6020
Amy Geisler, 266-6602

Attachments

- 2019 Procedural Manual
- 2019 Qualified Allocation Plan
- Proposed amendments to 2019 Procedural Manual
- Proposed amendments to 2019 Qualified Allocation Plan