

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

REPORT TO THE COMMISSIONERS

DATE: NOVEMBER 5, 2025

REGARDING: RESOLUTION ENDORSING AMENDMENTS TO THE
MINNEAPOLIS/SAINT PAUL HOUSING FINANCE BOARD'S 2026-2027
QUALIFIED ALLOCATION PLAN; CITYWIDE

Requested Board Action

This report requests the HRA Board consideration of proposed amendments to 2026-2027 *Qualified Allocation Plan* ("QAP"). The proposed changes are specifically identified in the attached 2026-2027 QAP.

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 projects. The owners and 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 ("Compliance Period") with an extended use period of an additional 15 years ("Extended Use 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 must 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 must 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 must 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

Federal law also gives preference to selected properties which serve the lowest income qualified tenants for the longest period, and projects which are in qualified census tracts for community revitalization.

Pursuant to Minnesota Statute, Sections 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 the cities of Saint Paul and Minneapolis. The Housing Finance Board must annually publish a Procedural Manual and a 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.

Through Resolution 25-733 on May 14, 2025, the HRA Board endorsed the attached 2026-2027 QAP that was approved by the Housing Finance Board on June 11, 2025.

This report provides the rationale for amending the 2026-2027 QAP with the goal of revitalizing our downtown as well as making the QAP consistent with the passage by Congress of H.R. 1 (OBBBA) on July 4, 2025, that reduced the amount of Tax-Exempt Bond Volume Cap required for projects using 4% Federal Housing Tax Credits from 50% to 25% of the project’s aggregate basis. Also, staff is proposing to formalize our tax-exempt bond policy by limiting the amount of volume cap issued to projects in order to take advantage of the expanded tax credit capacity provided by the passage of H.R. 1 (OBBBA).

According to the Tax Credit Procedural Manual, the QAP may be amended by the Housing Finance Board with the approval of both of the cities of Saint Paul and Minneapolis for substantive issues at any time following a public notice and a public hearing.

Qualified Allocation Plan

The Covid pandemic led to a significant decline in office occupancy in downtown because of the shift to remote work and the exodus of high-income earners. We however have the opportunity to reinvent our downtown as a mixed-use neighborhood. We need to be creative in finding resources to build more housing that will help create a more vibrant downtown.

As referenced in the attachment, HRA staff recommend changes to the 2026-2027 Qualified Allocation Plan as follows:

- **Qualified contract:** allows property owners of projects located downtown to exit their affordability commitment after the 15-year Compliance Period. The downtown boundaries are defined as the area bounded by I-35E and I-94 to the north, I-94 and Broadway Street to the east, Shepard Road to the south, and Kellogg Boulevard and Eagle Parkway to the west, as illustrated on the attached map. This change aims at attracting more resources and will provide additional financing tools to housing developers downtown. The opportunity to limit the affordability to only 15 years will be an incentive tool for investors in affordable housing downtown.
- **Reduction in Financed-By Test:** effective January 1, 2026, the new tax law reduces the percentage of the aggregate basis that is required to be financed by private activity bonds from 50% to 25%. By reducing the amount of volume cap required, we can issue fewer bonds per project, expanding capacity to allocate Credits for affordable projects. If approved, this change will take effect on January 1, 2026 and will align our QAP with the H.R. 1 (OBBBA) bill passed by Congress on July 4, 2025.
- **4% HTC Scorecard:** in order to affirm the priority that is given to downtown office to housing conversion projects and offset the requirement for long-term affordability for other projects outside of downtown, staff are proposing the following to help projects located downtown meet the 40-point threshold to receive volume cap allocation:
 - Addition of office to housing conversion in the Creation and Preservation priority

- recognition of office to housing conversion projects as catalysts to increase investments in downtown by awarding points to those projects.
- Changes to the 2026-2027 Procedural Manual: All proposed changes outlined in the attached Amended 2026-2027 HTC Procedural Manual are technical changes to align the language with proposed changes to the QAP.

Future Action

Upon HRA Board endorsement of the 2026-2027 QAP, the Minneapolis/Saint Paul Housing Finance Board will hold a public hearing at a meeting in November 2025, for formal adoption of the amended 2026-2027 QAP.

PED Credit Committee Review

N/A

Compliance

Qualified low-income housing developments that receive 2026-2027 Credits must comply with applicable compliance requirements.

Green/Sustainable Development

Projects that receive 2026-2027 Credits must comply with the Minnesota Overlay developed in coordination with Green Communities as well as the *Saint Paul Sustainable Building Policy*.

Public Purpose/Comprehensive Plan Conformance:

The Low-Income Housing Tax Credit program helps achieve Saint Paul's commitment outlined in the 2040 Comprehensive Plan to create:

- Decent, safe and healthy housing for all Saint Paul residents.
- Well-designed, energy-efficient buildings and sites constructed with quality materials.
- Fair and equitable access to housing for all city residents.
- A supportive environment for homeownership.
- Stable rental housing.

- Improved access to affordable housing.
- Strong neighborhoods that support lifelong housing needs

Recommendation:

The Executive Director recommends that the HRA Board of Commissioners endorses the proposed amendments to the 2026-2027 Qualified Allocation Plan pursuant to the attached resolution.

Sponsored by: Rebecca Noecker

Staff: Jules Atangana, 266-6660

Attachments

1. **2026-2027 Qualified Allocation Plan (redline)**
2. **Amended 2026-2027 HTC Procedural Manual (Redline)**
3. **4% HTC Scorecard (redline)**
4. **Map**