

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

REPORT TO THE COMMISSIONERS

DATE: MAY 24, 2023

REGARDING: RESOLUTION ENDORSING PROPOSED CHANGES TO THE
MINNEAPOLIS/SAINT PAUL HOUSING FINANCE BOARD'S 2024-2025
LOW-INCOME HOUSING TAX CREDIT PROCEDURAL MANUAL AND
ITS 2024-2025 QUALIFIED ALLOCATION PLAN; CITYWIDE

Requested Board Action

This item 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 the 2024-2025 cycle. The proposed changes are specifically identified in the attached 2024-2025 **Procedural Manual** and the attached 2024-2025 **QAP**.

Background

The Federal Tax Reform Act of 1986 created the Low-Income Housing Tax Credit ("LIHTC") for qualified residential properties to encourage the production of affordable low-income rental housing. LIHTC provides a reduction in federal tax liability to owners and investors of qualified low-income housing projects. The owners and investors may use LIHTC 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 LIHTC, 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, the 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. 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.

With the adoption of its 2024-2025 Procedural Manual and 2024-2025 QAP, the Housing Finance Board authorizes the HRA to administer the Credit Program for Saint Paul’s projects. Saint Paul’s Credit Allocation for 2024 is estimated to be \$891,451.00 which is \$21,162 more than the 2023 Credit Allocation.

Changes to the Procedural Manual and Qualified Allocation Plan

As referenced in the Attachments, HRA staff recommends changes to the 2024-2025 Procedural Manual and the 2024-2025 QAP to reflect the priorities of the HRA Board.

Summary of 2024-2025 Procedural Manual Proposed Changes.

The proposed changes summarized below are made for language clarification, clean up and alignment to current tax credit laws. Substantive changes are as follows:

- Section III-B – Application Cycle: clarification on the application methods.
- Section III-K – Census Tract Updates: Removal of this section that is no longer relevant since the new maps have been published.
- Section IV-D – Minimum Set-Aside Elections: Clarification of the language on the minimum set –aside elections, including terms for average income election to be consistent with Minnesota Housing requirements.
- Section IV-J – Annual HTC Amount: removal of this language because the applicable percentage for 4% tax credit projects is now fixed at 4%.
- Section VI-B – Market Review: Language clarification on the validity of the market study that should have an effective date of no more than 6 months prior to the application.
- Section VII-A – Application Requirements for 9% Tax Credits: Adding certain materials to be submitted including a complete description of the project.
- Section VII-B – Application Requirements for 4% Tax Credits: Adding certain materials to be submitted including a complete description of the project.
- Section VIII-C – Allocation Fee: Specifying the allocation fee for projects receiving tax credits apportioned from Minnesota Housing.

Summary of 2024-2025 QAP Proposed Changes

The proposed changes for the 2024-2025 QAP are made for language clarification, clean up and alignment to current tax credit laws.

Summary of the substantive changes on the 9% Self-Scoring Worksheet are as follows:

- **A-3 - Homelessness:** Breaking down the number of homeless units and providing more points to projects with more homeless units
- **B-1 and B-2 – Preservation:** Removing the location-based requirement and adding a criterion for naturally occurring affordable housing (NOAH) projects.
- **D-4 – Fair Access to Housing:** Clarifying that applicant can only work with a property management with a history of supporting evictions based on “just cause” and requiring a written tenant selection plan policy.
- **D-6 – New affordable Family Housing:** removing this criterion for new construction projects based on the location of the project (QCT vs. Non-QCT)

Summary of 2024-2025 4% Self-Scoring worksheet

A summary of the substantive changes on the 4% Self-Scoring Worksheet are as follows:

- **Financing Committed:** Clarifying what is included in “gap financing”
- **Preservation:** Adding this criterion for preservation projects
- **Naturally Occurring Affordable Housing:** Adding this criterion for 4% Applicants
- **New Affordable Family Housing:** removing this criterion for new construction projects based on the location of the project (QCT vs. Non-QCT)
- **Homelessness:** Breaking down the number of homeless units and providing more points to projects with more homeless units
- **Non-Smoking Policy:** New Criterion for 4% (consistent with the 9% scorecard)
- **Tenant Selection Plan:** Clarifying that applicant can only work with a property management with a history of supporting evictions based on “just cause” and requiring a written tenant selection plan policy
- **Equity and Cultural Integration:** New criterion. Up to 10 points will be awarded to projects that demonstrate the use of strategic and integrated approach to addressing equity issues and the intended impacts of the project will result in tangible and measurable equitable outcomes.
- **Senior Housing:** New criterion. Five points to be awarded to projects intended to serve residents 55 years old or older.
- **Historic Building:** New criterion. One point to be awarded to historic rehabilitation projects.
- **Project-based Section 8:** New criterion. Up to five points to be awarded to projects that are a Substantial Rehabilitation project that preserves existing project-based Section 8 assistance.

The proposed changes to the 2024-2025 Qualified Allocation Plan are also included in the attached **Chart – 2024-2025 QAP Proposed Changes**, which also includes the proposed selection priorities for both the 9% and the 4% HTC scorecards.

Future Action

Upon HRA Board endorsement of the proposed 2024-2025 Procedural Manual and 2024-2025 QAP, the Minneapolis/Saint Paul Housing Finance Board will hold a public hearing on May 30, 2023, for formal adoption of the 2024-2025 Procedural Manual and 2024-2025 QAP. The 2024 9% LIHTC Applications will be due in late July 2023. Staff will request HRA Board action to reserve 2024 LIHTC for specific projects in October 2023.

Financing Structure

PED Credit Committee Review

Compliance

Qualified low-income housing developments that receive 2024-2025 LIHTC must comply with applicable compliance requirements.

Green/Sustainable Development

Projects that receive 2024-2025 LIHTC 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 endorse the proposed changes to the 2024-2025 Low Income Housing Tax Credit Procedural Manual and endorse the proposed changes to the 2024-2025 Qualified Allocation Plan pursuant to the attached resolution.

Sponsored by: Commissioner Chris Tolbert

Staff: Jules Atangana, 266-6660

Attachments

- **2024-2025 Procedural Manual - Redlined**
- **2024-2025 QAP - Redlined**
- **Chart – 2024-2025 Procedural Manual Proposed Changes**
- **Chart – 2024-2025 QAP Proposed Changes**