BOARD MEETINGS SCHEDULED FOR MARCH

Location:

Minnesota Housing
400 Sibley Street, Suite 300
St. Paul, MN 55101

<u>MONDAY, MARCH 12, 2012</u>
Program Committee Meeting
In person: Jelatis Conference Room
By phone*: 1-888-742-5095; Code: 2680427896
**some members will participate by phone*
1:00 p.m.

<u>THURSDAY, MARCH 22, 2012</u>
Regular Board Meeting
State Street Conference Room
1:00 p.m.
(materials for the regular meeting will be sent under separate cover)

The Agency may conduct a meeting by telephone or other electronic means, provided the conditions of Minn. Stat. §462A.041 are met. In accordance with Minn. Stat. §462A.041, the Agency shall, to the extent practical, allow a person to monitor the meeting electronically and may require the person making a connection to pay for documented marginal costs that the Agency incurs as a result of the additional connection.

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400 Sibley Street | Suite 300 | Saint Paul, MN 55101-1998 | 651.296.7608
800.657.3769 | fax: 651.296.8139 | tty: 651.297.2361 | www.mnhousing.gov
Equal Opportunity Housing and Equal Opportunity Employment

DATE: March 7, 2012

TO: Minnesota Housing Board Members

FROM: Mary Tingerthal
Commissioner

SUBJECT: **Program Committee Meeting**

A meeting of the **Program Committee** has been scheduled for:

Monday, March 12, 2012 at 1:00 p.m.

In person: Minnesota Housing
Jelatis Conference Room
400 Sibley Street, Suite 300
St. Paul, MN 55101

By phone*: 1-888-742-5095; Code: 2680427896
**some members will participate by phone*

The topic for discussion at this meeting is:

A. Discussion, 2013 Housing Tax Credit (HTC) Program, Qualified Allocation Plan (QAP) and Procedural Manual.

The Agency may conduct a meeting by telephone or other electronic means, provided the conditions of Minn. Stat. §462A.041 are met. In accordance with Minn. Stat. §462A.041, the Agency shall, to the extent practical, allow a person to monitor the meeting electronically and may require the person making a connection to pay for documented marginal costs that the Agency incurs as a result of the additional connection.

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Minnesota Housing Finance Agency

AGENDA ITEM: A
MINNESOTA HOUSING BOARD PROGRAM COMMITTEE MEETING
March 12, 2012

ITEM: Discussion, 2013 Housing Tax Credit (HTC) Program, Qualified Allocation Plan (QAP) and Procedural Manual.

CONTACT:
Kasey Kier, 651-284-0078
kasey.kier@state.mn.us

John Patterson, 651-296-0763
john.patterson@state.mn.us

REQUEST:

☐ Approval ☑ Discussion ☐ Information

TYPE(S):

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☑ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
Discuss proposed changes to the 2013 Qualified Allocation Plan (QAP).

FISCAL IMPACT:
None.

MEETING AGENCY PRIORITIES:

☑ Finance New Opportunities for Affordable Housing

☑ Mitigate Foreclosure Impact Through Prevention and Remediation

☐ Build our Organizational Capacity to Excel and Achieve Our Vision

☑ Preserve Existing Affordable Housing ☑ Prevent and End Long-term Homelessness

ATTACHMENT(S):
- Memo to Members

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Minnesota Housing Finance Agency

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Equal Opportunity Housing and Equal Opportunity Employment

Date: **March 8, 2012**

To: Minnesota Housing Program Committee members

From: Kasey Kier, Housing Tax Credit Program Manager
John Patterson, Director of Planning, Analysis, and Evaluation

Subject: Program Committee Meeting
Proposed Revisions to the 2013 Qualified Allocation Plan

During the public comment period for Minnesota Housing's 2013 Housing Tax Credit Qualified Allocation Plan (QAP), the Agency received a significant number of public comments on the proposed changes. Based on the comments, there are five areas that warrant additional discussion prior to the March Board meeting:

- Cost Containment
- State Designated Basis Boost
- Joint Powers Suballocator Projects
- Long-term Homeless Households
- Project Location – Locate projects in pro-integrative locations/areas of opportunity

In the attachment, we provide draft language for discussion to prepare the final Board report for the 2013 Housing Tax Credit Program Qualified Allocation Plan (QAP). In addition to the listed discussion items, staff will be prepared to discuss other questions or issues related to the public comments and any other proposed changes to the 2013 QAP.

This Board report restates the explanation provided in the January 2012 report for proposed changes from the 2012 to 2013 QAP. Following the original explanation of each change is a summary of the public comments received and then staff's suggested modifications to the QAP in response to the public comments. To aid in readability, the information that the Board has not seen previously (the summary of public comments and staff's recommendations) is boxed and shaded.

The first two items pertain to refinements to existing priorities that the Agency had proposed in the previous draft of the QAP

12. Replace Regulatory Cost Avoidance/Cost Reduction with Cost Containment – Per Unit Cost Limits scoring criterion.

The Agency has included cost avoidance/cost reduction in its QAP for a number of years. It has been difficult to value the cost avoidance measures and lack of clarity about the benefits. The proposed cost containment scoring criterion is much more concrete and objective.

The Cost Containment – Per Unit Cost Limit selection priority will be one of several tools that Minnesota Housing will use to assess costs. Besides the cost containment scoring priority:

- The Agency will continue to use its predictive cost model to test cost reasonableness for all projects. The model uses cost data from tax credit properties completed since 2003, industry cost data from RSMean, and regression analysis to predict total project costs. Based on a projects characteristics (building type, building characteristics, project size, project location, population served, financing, etc.), the model predicts the total development costs. During the tax credit selection process, the proposed total development costs for all projects will be compared with the predicted costs to assess cost reasonableness, regardless of whether the project receives points under this selection priority. The Agency wants to ensure that all costs are reasonable, particularly if a project does not get points for having low costs.
- Minnesota Housing underwriters and architects will continue to use their professional judgment to assess cost reasonableness

This selection priority and predictive model are consistent with a policy adopted by the National Council of State Housing Agencies (NCSHA) in December 2011. The policy states:

> *In addition to carefully rationing the amount of Housing Credit allocated to eligible developments, as federally required, each Allocating Agency should develop a per unit cost limit standard. That standard should be based on total development costs, including costs not eligible for Housing Credit financing and costs funded from sources other than the Housing Credit…Finally, each Allocating Agency should regularly review its QAP and related allocation guidelines with the goal of reducing development costs.*

Staff will assess and revise the Low and Moderate Cost Thresholds annually. The low cost threshold represents the historical cost benchmark that captures the 25 percent of Housing Tax Credit developments over the last eight years with the lowest costs. (All costs are adjusted for inflation to reflect current costs.) The moderate threshold is 10 percent higher than the low cost threshold for new construction and 25 percent higher for rehabilitation. Generally, the moderate threshold captures the 50 percent of projects with the lowest costs. The percentage adjustment between the low and moderate cost thresholds is larger for rehabilitation than new construction because there is greater variation in costs (or cost spread) among the rehabilitation projects.

If a project receives points under this criterion, failure to keep project costs under the selected cost threshold will be considered an unacceptable practice and will result in negative points equal to points awarded in the applicant's next new tax credit submission. This language will be added to the Unacceptable Practices section in the HTC procedural manual.

Proposed:

Points are awarded for projects that demonstrate cost containment with per unit Total Development Costs (TDC) below the following Low Cost and Moderate Cost thresholds:

	Low Cost Threshold (10 pts)	Moderate Cost Threshold (5 pts)
New Construction in Metro for Families or Mixed Use	$215,000	$236,500
New Construction in Metro for Singles	$185,000	$203,500
New Construction in Greater Minnesota for Families or Mixed Use	$165,000	$181,500
New Construction in Greater Minnesota for Singles	$125,000	$137,500
Rehabilitation in Metro for Families or Mixed Use	$145,000	$181,250
Rehabilitation in Metro for Singles	$110,000	$137,500
Rehabilitation in Greater Minnesota for Families or Mixed Use	$95,000	$118,750
Rehabilitation in Greater Minnesota for Singles	$65,000	$81,250
"New Construction" includes: (1) Conversion from nonresidential use and (2) New Construction Combined with Rehabilitation "For Families or Mixed Use" refers to developments were more than 25% of the units have two or more bedrooms. "For Singles" refers to developments where 75% or more of the units are efficiencies or one bedroom.		

☐ The proposed housing's per unit TDC meets the Low Cost Threshold and is eligible for 10 points
☐ The proposed housing's per unit TDC meets the Moderate Cost Threshold and is eligible for 5 points

Public Comments Summary *(staff responses italicized)*:

- The agency received 17 letters and one oral comment expressing concerns and/or recommending delay of implementation of a new cost containment category until 2014 QAP.

  While Minnesota Housing is committed to controlling total development costs associated with Housing Tax Credit properties, the Agency realizes that the proposed low- and moderate-cost thresholds are a significant change from previous QAPs and more time is needed to process the change and understand the overall implications, particularly unintended consequences.

  Consequently, Minnesota Housing will drop the proposed low- and moderate-cost thresholds for the 2013 QAP but intends to include some version of it in the 2014 QAP. To ensure that developers and other partners have sufficient time to process and assess the proposed cost thresholds, the Agency will make them available in July of 2012 for comment and feedback, well in advance of the 2014 QAP approval process. Before developing the revised cost thresholds in July, Agency staff will assess in greater detail the comments made during the public comment period for the 2013 QAP.

  While Minnesota Housing is dropping the low- and moderate-cost thresholds for now, it will continue to assess the cost reasonableness of all proposed developments using the predictive cost model. The model uses cost data from tax credit properties completed since 2003, industry cost data from RSMean, and regression analysis to predict total development costs. Based on 17 project characteristics (including building type, building characteristics, project size, project location, population served, financing, etc.), the current model predicts the total development costs. During the tax credit selection process, the proposed total development costs for all projects will be compared with the predicted costs to assess cost reasonableness. Prior to Board selection, staff highlight for Board discussion developments for which proposed costs are more than 25% above the predicted costs

Proposed change resulting from public comment:
Defer adding a new Cost Containment criterion to the 2014 QAP.

2. Revise Targeting of the State Designated Basis Boost.

HERA allowed states to set standards for determining which areas and projects shall receive the state designated basis boost and define the criteria as part of the Agency's QAP and express its reasons for such determination. To further target the state designated basis boost, staff proposes revising the criteria to target the basis boost to projects that involve community revitalization, historic preservation, preservation of existing federally assisted buildings, housing with rents affordable to households at or below 30 percent of median income, including households experiencing long-term homelessness or in response to significant proposed expansions in area employment or natural disaster recovery efforts. The proposed revision is consistent with the criteria for justifying a waiver to the per development and per developer limits established in the QAP. The proposed language is as follows (revisions underlined/black lined):

State Designated Basis Boost – Buildings Designated by State Housing Credit Agency [pursuant to 42(d)(5)(B)(v)]

It is the goal of Minnesota Housing to optimize the use of all available sources of funding for multifamily developments; including private investor equity, amortizing loans and deferred loans to produce the maximum number of affordable rental units in the most sustainable, equitable, cost effective and geographically diverse developments possible which meet Minnesota Housing's strategic priorities. Consistent with this goal, the following criteria will be used to determine if, when, and in what amount, Minnesota Housing will provide a basis boost for housing tax credit developments on a building by building basis to attain financial feasibility.

a. Development must meet state identified housing priorities by competitive tax credit score and involve community revitalization, historic preservation, preservation of existing federally assisted buildings, housing with rents affordable to households at or below 30 percent of median income, including households experiencing long-term homelessness, or in response to significant proposed expansions in area employment or natural disaster recovery efforts
b. Funding gaps remain for top ranking tax credit developments
c. Credits allocated in connection with the basis boost shall be no more than needed to achieve financial feasibility

Requests must be made formally in writing and should clearly outline the reasons supporting the request and demonstrate how the proposal meets the criteria established by the Agency for receiving boost considerations.

Public Comments Summary *(staff responses italicized)*:

- Expand the basis boost to expiring tax credit projects
- Expand the basis boost to rural developments
- Expand the basis boost to preservation projects that are not federally assisted.

  Preservation (rehabilitation) projects and rural developments should be able to meet one of the other identified project types or areas to utilize the basis boost.

Proposed changes resulting from public comment:

- Expand the basis boost to expiring tax credit projects as defined in the Self Scoring Worksheet

The following three items apply to scoring priorities in general or to priorities for which the agency had not proposed refinements in the previous draft of the QAP.

A. Joint Powers Suballocators *(staff responses italicized):*

- Give Joint Powers Suballocators more decision making ability
- Give significant points to projects in Joint Powers Suballocator jurisdictions

Projects in Joint Powers suballocator jurisdictions previously received significant priority in the Agency's Qualified Allocation Plan which resulted in significant pushback from the balance of Greater Minnesota. This resulted in the change to the QAP, which required projects located in Joint Powers Suballocator jurisdictions to score competitively within the applicable regional pool to receive tax credits. Under the agreement, Minnesota Housing fully funds the remainder of the credit request over and above the Joint Powers Suballocator tax credit distribution up to the per unit (1 MM per project) or per developer (10% of the volume cap amount). A suballocator may choose to not enter in to a Joint Powers Agreement with the Agency and allocate their own credits under their Qualified Allocation Plan.

B. Long-Term Homelessness

- The Agency received one letter of support for continuation of the Long-term Homeless (LTH) priority. *Serving long-term homeless households continues to be an important Agency priority that supports the Agency's strategic plan and the State's Business Plan to End LTH. The QAP has been an effective mechanism to encourage development of LTH units.*

- Add points for projects that have long-term homeless design standards and spaces
The Agency has specific design standards for supportive housing projects (including LTH) that need to be met.

- Reduce the minimum number of LTH units required for smaller developments in Greater Minnesota (current minimum is the greater of 4 units or 5% of the total number of units)
It has been determined that 4 units is the minimum number necessary to balance the additional requirements for projects that deem LTH units. Some factors include service delivery costs, annual reporting requirements and additional asset management oversight of the LTH units.

- Remove rural greater Minnesota from the LTH selection priority and instead consider a rural area set-aside or create a LTH set-aside
The Agency currently administers a Rural Development/Small projects set-side, the amount of which is being increased for the 2013 QAP. Creating additional set-asides limits flexibility in project selection, and the current LTH scoring criterion has been an effective tool to encourage the development of LTH unit statewide.

- Increase LTH priority to be equal to preservation (20 points for Preservation of at risk Federally Assisted projects)
LTH projects receive significant priority in the QAP. The point potential for LTH projects exceeds points for preservation. LTH projects may receive up to 10 points in addition to 100 bonus points for LTH projects up to 25% (approximately 1.75 MM) of Agency administered tax credits.

- Prioritize projects that deliver supportive services to residents online
Online services may be one option available to supportive housing projects but does not replace having a primary service provider available to residents.

- Increase points for projects with extensive services
Each project's supportive service plan is reviewed based on the appropriate level of services for the proposed housing and targeted households. Extensive services may not be appropriate to all supportive housing developments. In addition, it would be difficult to develop clear and measurable pointing criteria to consistently assess degrees of service levels.

- Increase incentives for projects that have a higher percentage of LTH units
Syndicators have been requiring large up-front reserves for the LTH units. To encourage more LTH units and maintain the economic viability of the project, staff recommends adding an additional tier to the LTH scoring criterion detailed below.

Proposed Change Resulting From Public Comment:

Current – For projects agreeing to set aside and rent to households experiencing long-term homelessness:

☐ 5% to 49.99%, but no fewer than 4 units – 5 points
☐ 50% to 100%, but no fewer than 20 units –10 Points

Proposed – For projects agreeing to set aside and rent to households experiencing long-term homelessness:

☐ 5% to 9.99%, but no fewer than 4 units – 5 points
☐ 10% to 49.99%, but no fewer than 7 units –7 points
☐ 50% to 100%, but no fewer than 20 units –10 Points

C. Project Location – Locate projects in pro-integrative locations/areas of opportunity

Minnesota Housing received comments that Agency selections under the QAP contributes to school segregation by placing a high proportion of developments in areas with segregated schools. Without agreeing or disagreeing with the theory behind those comments, based on a preliminary assessment, the data does not appear to support these comments with respect to the credits allocated by the agency, which includes suballocator credits allocated under joint power agreements. This excludes credits allocated by suballocators under their own QAPs.

The following analysis is based on all developments that applied to Minnesota for HTCs during allocation years 2006 through 2012 (including TCAP and 1602 but excluding round 2 of 2012). The developments were identified as either "selected" or "not-selected." "Selected" developments were selected by Minnesota Housing to receive a tax credit allocation. "Not-selected" developments applied for credits some time during the period but were never selected by Minnesota Housing for an allocation.

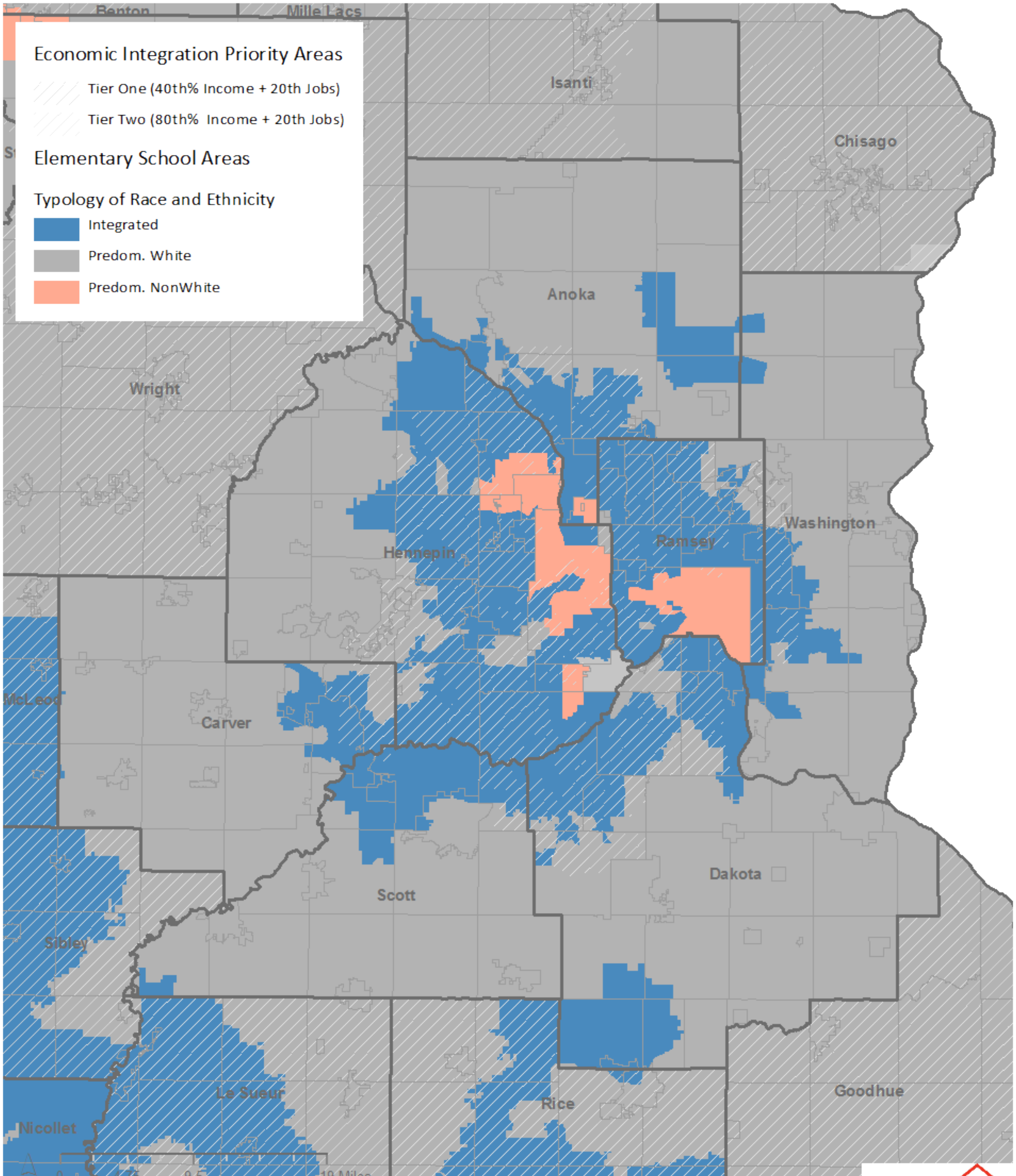
- *In the Twin Cities metro areas, 77% of the developments selected for Minnesota Housing tax credits are in the attendance area of neighborhood elementary schools that are classified as integrated or predominantly white. , Segregated attendance areas accounted for only 23% of the selected developments.*
- *Over 50% of metro area developments that applied for credits in integrated and predominantly white areas were selected for credits, while only 28% of applications in segregated areas were selected.*

(The classification of segregated, integrated, and predominantly white is based on a typology development by Myron Orfield and Tom Luce in their 2010 book Region: Planning the Future of the Twin Cities.)

In addition, under the 2013 QAP, a development will receive economic integration points if it is in a higher income census tract that is close to jobs, which is reflected by the areas with the hatched lines in the attached map (Relationship of Economic Integration Priority Areas to Race and Ethnicity of Elementary Schools). As the maps shows, these census tracts are almost exclusively in attendance areas for elementary schools that integrated or predominantly white.

Integration Map

Relationship of Economic Integration Prioritiy Areas to Race and Ethnicity of Elementary Schools

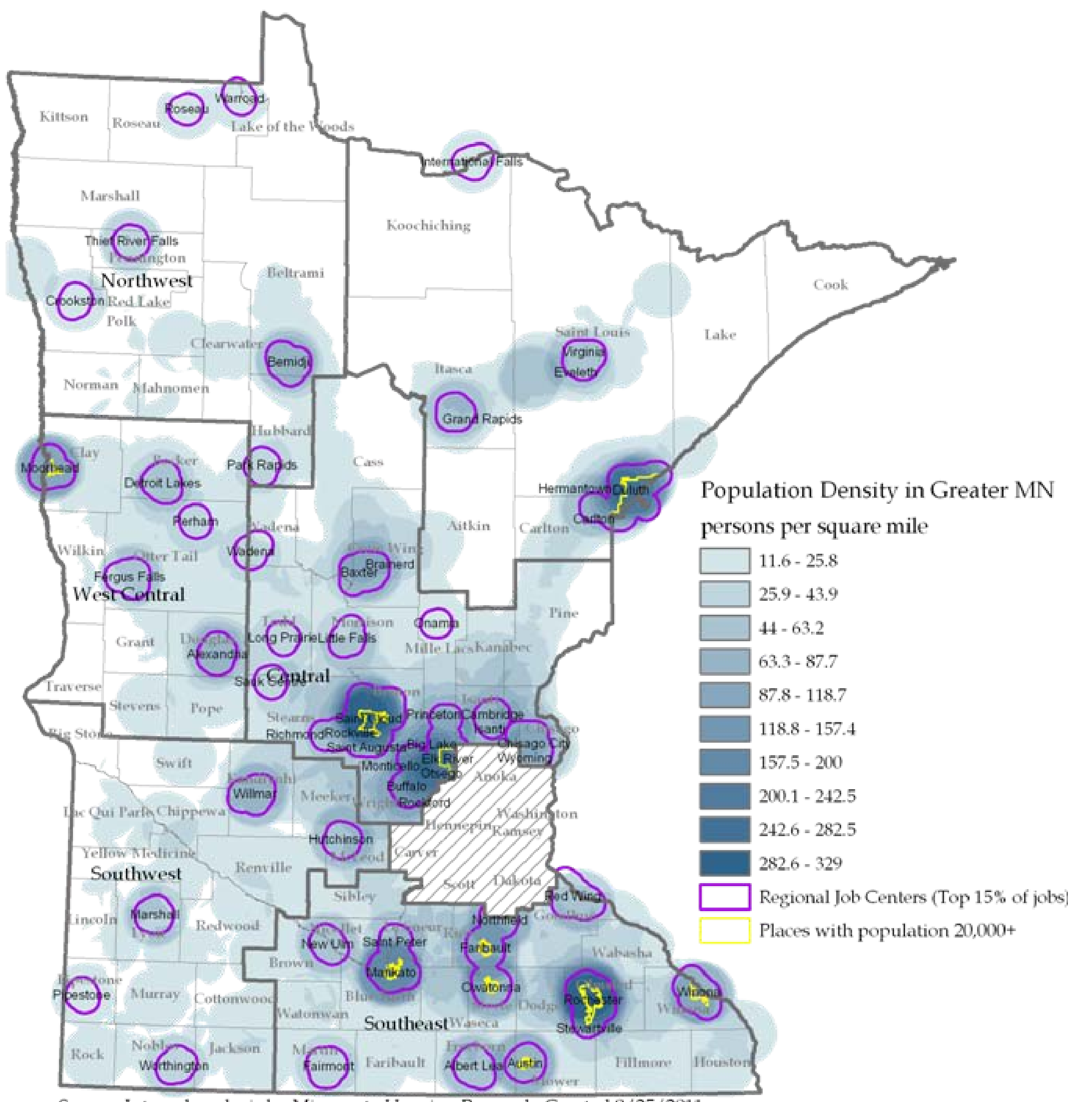


Source: Minnesota Housing analysis of Housing Tax Credit applications 2006 through 2011, Current Section 8 PBCA and TCA portfolio, racial and ethnic characteristics of elementary school attendance areas (MDE, 2010/2011 school year), American Community Survey 2006-2010 (family income), LPS Applied Analytics (foreclosure), and MetroTransit. Date Printed: 3/2/2012

Minnesota Housing Finance Agency

Attachment – Additional Information for Discussing the Rural Basis Boost

It was suggested that cities in Greater Minnesota with a population less than Mankato be eligible for the basis boost. As described in the main body of this document, staff are not recommending that the basis boost include a rural community category. However, if the Board would like to add this category, staff would need to determine the most appropriate definition of a rural community to be eligible to receive the boost. Greater Minnesota cities with a population less than Mankato is one option. An alternative option is areas outside of regional job centers. See the map below. This is how the Agency has defined rural communities in other analyses. The purple circles capture cities that contain at least one of the top 15% of census tracts in the number of jobs; the circles also include a 5 mile commuting buffer around those cities. The QAP could make the rural communities in Greater Minnesota outside the circles eligible for the basis boost. This would be restrictive targeting. Only 1.8% of HTC units from the last five years are in these rural areas. If the concept of a basis boost for rural developments is added, Minnesota Housing will determine in the next few days the most appropriate definition of a rural community and include it in the Board report.



Source: Internal analysis by Minnesota Housing Research. Created 8/25/2011