BOARD MEETINGS SCHEDULED FOR MARCH

Location:

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

MONDAY, MARCH 12, 2012
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.

THURSDAY, MARCH 22, 2012
Regular Board Meeting
State Street Conference Room
1:00 p.m.

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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Equal Opportunity Housing and Equal Opportunity Employment

A G E N D A

Minnesota Housing Finance Agency
Board Meeting
Thursday, March 22, 2012
1:00 p.m.

State Street Conference Room – 1st Floor
400 Sibley Street
St. Paul, MN 55101

1. **Call to Order.**
2. **Agenda Review.**
3. **Approval of the Minutes**
   A. Regular Board Meeting of February 23, 2012
4. **Chairman's Report.**
5. **Commissioner's Report and Introductions.**
6. **Audit Committee.**
   None.
7. **Program Committee.**
   A. Report, Program Committee Meeting of March 12, 2012
      - Discussion, 2013 Housing Tax Credit (HTC) Program, Qualified Allocation Plan (QAP) and Procedural Manual.
8. **Finance Committee.**
   None.
9. **Action Items:**
   A. Summary Review:
      1. Approval, Selections, Community Fix-up Fund Initiatives.
      2. Approval, Commitment Extensions, Publicly Owned Housing Program (POHP)
         - Dow Towers, Hopkins.
         - Hamilton House, St. Louis Park.
         - River Heights, Park Rapids.
         - Spruce Apartments, Waconia.
      3. Approval, Funding Modification, Commitment, Asset Management Loan.
         - Whispering Pines, Caledonia
      4. Approval, Swap Assignment, The Bank of New York Mellon.
   B. Discussion – General:
      1. Approval, 2013 Housing Tax Credit (HTC) Program, Qualified Allocation Plan (QAP) and Procedural Manual.

2. Approval, Resolution Authorizing the Sale of Residential Housing Finance Bonds Series 2012 A, B, C, and D.

C. Discussion – Homes:

1. Approval, Program Changes, Fix-Up Fund Program.
2. Approval, Funds Reallocation, Neighborhood Stabilization Program.

D. Discussion – Multifamily:

1. Approval, Debt Forgiveness, Section 8 Program.
   - Yorkdale Townhomes, Edina.
2. Approval, Selection/Commitment, Low and Moderate Income Rental (LMIR) and HOME Preservation.
   - Yorkdale Townhomes, Edina.

10. Review and Information Items.

None.

11. Other Business.

None.

12. Adjournment.

MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, February 23, 2012
1:00 p.m.
State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order.**
   Chair Johnson called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 1:03 p.m.
   Members present: Stephanie Klinzing, Gloria Bostrom, Rebecca Otto, Joe Johnson, and Ken Johnson. Members Absent: Barb Sanderson and Steve Johnson.
   Minnesota Housing staff present: Commissioner Mary Tingerthal, Deputy Commissioner Barb Sporlein, Kathy Aanerud, Paula Beck, Jeanette Blankenship, Dan Boomhower, Don Collier, Jessica Deegan, Joe Gonnella, Phil Hagelberger, Mike Haley, Susan Haugen, Maggie Hoeg, Andrew Hughes, Tara Johnson, Bill Kapphahn, Karmel Kluender, Marcia Kolb, Julie LaSota, Katy Lindblad, Kim Luchsinger, Diana Lund, Eric Mattson, Kirsten Partenheimer, John Patterson, Mary Rivers, Mary Ruch, Joel Salzer, Becky Schack, Kayla Schuchman, Terry Schwartz, Barb Sporlein, Kim Stuart, Susan Thompson, Don Wyszynski, Xia Yang.
   Others present: Paula Rindels, Dorsey & Whitney; Frank Fallon, RBC; Chip Halbach, Minnesota Housing Partnership; Shannon Guernsey, Minnesota NAHRO; Celeste Grant, Office of the State Auditor; Tom O'Hern, Assistant Attorney General.
2. **Agenda Review.**
   Commissioner Tingerthal announced that the following changes to the agenda:
   - 9.B.(1), Financial Results, had been revised to include the financial report
   - 9.C.(2), Bridge to Success program concept paper, which had not been available in for the mailing.
   - Under item 10, as an information item, Marcia Kolb, Assistant Commissioner for Multifamily Programs, would provide a summary of comments received regarding the draft Qualified Allocation Plan.
3. **Approval of the Minutes.**
   A. Regular meeting of January 26, 2012.
   Mr. Joe Johnson moved approval of the minutes as written. Ms. Klinzing seconded the motion. Motion carries 5-0.
4. **Chairman's Report.**
   Chair Ken Johnson announced that item 11.A, Rescission of Delegations, was not included in the packet but had been distributed prior to the start of the meeting and that Assistant Attorney General Tom O'Hern would discuss the request at the appropriate time during the meeting. Chair Johnson recognized Chip Halbach, Minnesota Housing Partnership, for his role in bringing about the documentary "Homes for All" and noted that the show aired on Sunday night and is available "on demand" on the Twin Cities Public Television website. Chair Johnson also announced that members would be contacted to schedule a program committee meeting in mid-March to discuss the comments received regarding the Qualified Allocation Plan and proposed revisions to the Qualified Allocation Plan.
5. **Commissioner's Report and Introductions.**
   Commissioner Tingerthal reported the following:

- The public hearing for the Qualified Allocation Plan took place on February 22. Many comments have been received regarding the plan and Marcia Kolb, Assistant Commissioner for Multifamily Programs, would provide a verbal update of the comments received at the end of the current meeting.
- Staff have been working to educate legislators about $32 million bonding request. There have been good conversations with both Republican and Democrat legislators. The Senate Capital Investment hearing has been scheduled and a House Jobs Committee hearing is expected by mid-March. The Commissioner reported that there is a general sense that there will be a bonding bill, but it will likely be smaller than the Governor's proposal and that she has received positive feedback on the inclusion of housing.
- Steve Johnson has been appointed to fill Mike Finch's position on the Board. Mr. Johnson is the CFO of an engineering firm that specializes in alternative energy. He will attend board orientation in March and will begin participating in meetings in March.
- Members received at their places prior to the meeting information about upcoming conferences. The NCSHA Legislative Conference provides an opportunity to meet with members of the congressional delegation. The NCSHB meeting is an opportunity to meet with Board colleagues from other states and learn about how agencies address housing needs in other parts of the country.
- The following new employees were introduced:
  - Dan Boomhower introduced Kim Luchsinger. Kim has a Masters in Business from Bethel and will be the HR contact for all Agency staff outside of the Multifamily division.
  - Kim Stuart introduced Maggie Hoeg and Kirsten Partenheimer. Kirsten has previously been employed with the cities of Richfield and Columbia Heights and has experience with multiple housing and community development issues. Kirsten joins the Single Family Home Mortgage team as an HPP Senior. Maggie joins the Single Family Home Mortgage team as a senior office and administrative specialist. Maggie has extensive private sector experience supporting teams and managers.

6. Audit Committee:

None.

7. Program Committee:

None.

8. Finance Committee:

None.

9. Action Items:

A. Summary Review:

9.A.(1). Approval, Selections, Community Activity Set Aside Program.

9.A.(2). Approval, Selections, Community Fix-up Fund.

9.A.(3). Approval, Commitment Extension, Preservation Affordable Rental Investment Fund (PARIF) Program
- Whispering Pines, Forest Lake.

9.A.(4). Approval, Commitment, Low and Moderate Income Rental (LMIR) and Preservation Affordable Rental Investment Fund (PARIF) Programs
- Bremerton Townhomes, Austin.

9.A.(5). Approval, Commitment, Low and Moderate Income Rental (LMIR) and Flexible Financing for Capital Costs (FFCC) Programs
- Central Towers, Rochester.

9.A.(6). Approval, Funding Modification, Commitment, Preservation Affordable Rental Investment Fund (PARIF)
- Unity Place.

In response to a question from Mr. Joe Johnson regarding item 9.A.(4)., Bremerton Townhomes, Ms. Susan Thompson stated that current Section 8 units will be converted to serve the long-term homeless households as the units become available. **MOTION:** Ms. Klinzing moved approval of the summary review items and adoption of the following resolutions: Resolution No. MHFA 12-006: Resolution Extending Commitment Date Preservation Affordable Rental Investment Fund Program; Resolution No. MHFA 12-007: Resolution Approving Mortgage Loan Commitment Low and Moderate Income Rental (LMIR) Program and Preservation Affordable Rental Investment Fund (PARIF) Program; Resolution No. MHFA 12-008: Resolution Approving Mortgage Loan Commitment Low and Moderate Income Rental (LMIR) Program and Flexible Financing for Capital Costs (FFCC) Program; Resolution No. MHFA 12-009: Resolution Approving Mortgage Loan Commitment, Preservation Affordable Rental Investment Fund (PARIF) Program. Ms. Bostrom seconded the motion. Motion carries 5-0.

B. Discussion – General:

9.B.(1). Discussion, Financial Results.

Bill Kapphahn, Finance Director, and Mary Ruch, Senior Credit Officer, presented this information, stating that the report focused mainly on the Agency's sustainable core and that the largest item was a change to the loan loss reserve methodology for Multifamily loans. In response to a question from Mr. Bostrom, Ms. Ruch stated that the loan loss reserve methodology had not been reviewed since 1997. Reserves previously had been determined at the time the loan was booked and were not subsequently changed. Ms. Ruch considered what other non profits were doing and used her own background in banking and standards for risk based capital to develop the new methodology. In response to a question from Mr. Joe Johnson, Ms. Ruch stated that the methodology is significantly more conservative than that used at a large national bank. Each loan in the portfolio has been re-rated using the new methodology and will be re-rated quarterly. The methodology can be changed in concert with economic conditions and has been vetted with Larson Allen and approved by the Agency's internal mortgage credit committee. Chair Johnson requested that staff provide to the board this report every six months. Information item; no action needed.

9.B.(2). Discussion, 2013-2015 Strategic Plan Work Plan.

Barb Sporlein, Deputy Commissioner, presented this item and explained the process for creating the 2013-2015 strategic plan, stating that, over the next two years, linkages and consistency between various Agency reporting and planning documents will be improvement and a strategy management feedback loop will exist that will allow for continuous improvement in planning and reporting. In response to a question from Ms. Bostrom, Commissioner Tingerthal stated that the existing strategic plan was adopted in 2010 and that, last year, the Board approved a one-year Affordable Housing Plan to allow the strategic plan and the Affordable Housing Plan to move to the same strategy management cycle. Information item; no action needed.

C. Discussion – Homes:

9.C.(1). Approval, Increased Income Limit Extension, Minnesota Mortgage Program.

Mary Rivers presented this request to extend for one additional year the increased income limit of 100% of AMI. Extending the increase will help to meet program goals. In response to a question from Mr. Joe Johnson, Ms. Rivers stated that all Single Family programs are undergoing an overall program review and that staff are considering recommending a permanent change to the income limits for this program. In response to a question from Ms. Bostrom, Ms. Rivers stated that the income limit change will not restrict program access for lower income

households. **MOTION:** Ms. Bostrom moved approval of the item. Mr. Joe Johnson seconded the motion. Motion carries 5-0.

9.C.(2). Approval, Program Concept, Bridge to Success Program.

Mike Haley, Assistant Commissioner for Single Family Programs, presented this item stating that the goal of the program is to reduce the inventory in troubled neighborhoods and maximize successful homeownership for owners who do not have access to traditional financing. Mr. Haley provided details of the program, which will offer contracts for deed at 7.5% interest with a 10-year balloon. The term will allow borrowers to address barriers that may exclude them from traditional financing and should also allow pricing in targeted areas to stabilize, allowing homebuyers to build the equity needed to refinance. The program also has pre- and post-purchase financial and homeownership counseling components. There was discussion regarding performance of loans that have been originated through a program of this type, the term of the contract, and marketing and administration of the program. **MOTION:** Auditor Otto moved approval. Mr. Joe Johnson seconded the motion. Motion carries 5-0.

D. Discussion – Multifamily:

9.D.(1). Approval, Selection Recommendations, Rental Rehabilitation Deferred Loan (RRDL) Pilot Program.

Ms. Susan Haugen presented this request for approval of applicants under the RRDL program and summarized the proposals recommended for selection. Ms. Haugen stated that staff are considering issuing a second RFP in July, with selections occurring in October. Assistant Attorney General O'Hern requested that the resolution be amended to incorporate the referenced exhibit. **MOTION:** Auditor Otto moved approval and adoption of Resolution No. MHFA 12-010: Resolution Approving Selection/Authorization to Close Loans/Grants. Ms. Klinzing seconded the motion. Motion carries 5-0.

9.D.(2). Approval, Commitment, Low and Moderate Income Rental (LMIR) Program - Village Commons, Savage.

Ms. Kayla Schuchman presented this item for approval, nothing that changes have been made to address concerns expressed by the community. **MOTION:** Mr. Joe Johnson moved approval and adoption of Resolution No. MHFA 12-011: Resolution Approving Mortgage Loan Commitment, Low and Moderate Income Rental (LMIR) Program. Ms. Gloria Bostrom seconded the motion. Motion carries 5-0.

9.D.(3). Approval, Rule Waiver - Washington Square, White Bear Lake.

Ms. Julie LaSota presented this request, stating that the property is a Section 8 development that serves an elderly population. The property is the only Section 8 property in a portfolio for which the General Partner has passed away and that granting the waiver is a pro-active preservation action. The net interest loss includes reinvestment of the funds. A portion of the net interest lost is due to the bonds for the property being called. **MOTION:** Ms. Klinzing moved approval and adoption of Resolution No. MHFA 12-012: Resolution Approving Minnesota Rules Waiver, Redefined Equity II Program. Auditor Otto seconded the motion. Motion carries 5-0.

10. Review and Information Items.

A. Qualified Allocation Plan Public Hearing

This agenda item was added at the meeting. Ms. Marcia Kolb provided the following summary of the public hearing for the draft Qualified Allocation Plan (QAP) that was presented to the board at its January meeting: The public hearing had 13 attendees. Three verbal and 27 written comments were received. Many of the comments focused on the areas of cost containment; increasing points for developments with more units serving the long-term homeless; increasing points for suballocator developments; the basis boost; 9% rate; expanding the definition of

Federally assisted developments; and if the plan adequately addresses fair housing requirements. Staff also received unique comments that are not encompassed by those themes. Staff will work through the comments and present at a program committee meeting recommendations for the next draft of the QAP.

Chair Johnsons stated that many of the comments pertaining to the total development cost formula indicate a desire to ensure developments remain high quality when they are developments that have significant acquisition and rehabilitation costs, such as those on brownfield sites or in the inner city. Commissioner Tingerthal stated that many comments indicated that the organizations understand the need for cost containment but requested that the Agency ensure that benchmark dollar amounts take into consideration things that increase costs, like building site and supportive housing components. There were also particular comments regarding larger cities in Greater Minnesota, suggesting the need for three breakdowns: Metro, Rural, and Greater Minnesota. Information item, no action needed.

11. Other Business.

A. Rescission of Prior Delegations.

Mr. Tom O'Hern, Assistant Attorney General presented this item, describing it as a housekeeping resolution. He stated that many years ago, the Executive Director of the Agency was deemed to be a Commissioner. After this change, resolutions from the Board to individual staff were no longer necessary as Commissioners have the authority to run the internal affairs of their agencies and may independently grant signing authority to staff. Because of this change, the 22 resolutions being rescinded are no longer necessary. **MOTION:** Auditor Otto moved approval and adoption of Resolution No. MHFA 12-013: Resolution Rescinding Prior Delegations to Minnesota Housing Finance Agency Staff. Mr. Joe Johnson seconded the motion. Motion carries 5-0.

12. Adjournment.

The meeting was adjourned at 2:22 p.m.

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Kenneth R. Johnson

Chair

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AGENDA ITEM: 9.A.(1)
MINNESOTA HOUSING BOARD MEETING
March 22, 2012

ITEM: Community Fix-up Fund Initiatives

CONTACT: Kathy Dipprey Aanerud, 651-297-3121
kathy.aanerud@state.mn.us

Calvin Greening, 651-296-8843
cal.greening@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:
Staff requests Board approval for the Community Fix-up Fund (CFUF) recommendations described in the attached Initiative Detail. The CFUF program accepts initiative proposals from participating Fix-up Fund lenders and their community partners on an ongoing basis. The activities must address home improvement needs with a resulting community impact.

FISCAL IMPACT:
This program uses Pool 2 funds budgeted in the current Affordable Housing Plan. Action requested in this report is consistent with the program terms described in the plan.

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):
- Background
- Initiative Detail

BACKGROUND
The following recommendations for Community Fix-up Fund meet the guidelines for participation contained within the Program Concept.

Staff applies threshold indicators and considers compensating factors when determining whether to recommend a specific proposal for funds access under CFUF. The threshold indicators include:

- confirmation that initiative targets fit within the Program Concept;
- strength of partnership;
- leverage and/or value added features;
- focused marketing plan; and
- budget counseling if required.

INITIATIVE DETAIL:

RHAG Region	Application Partners	Estimated Demand	General Program Description
Northeast	One Roof Community Housing, Duluth	20 loans, totaling approximately $340,000	**X** New __Renewal Community Revitalization (CRV) funds will be used to discount Community Fix-up loans to 3% and 4% interest rates based on household income. This initiative will be part of the neighborhood revitalization focused *At Home in Duluth* collaborative. The Community Fix-up Fund loans will incent and assist households who can qualify for monthly payment financing by offering a more affordable monthly payment. The loans will leverage additional activity neighborhood activity and outreach conducted by Duluth Housing and Redevelopment Authority, St. Louis County, West Duluth Community Development Corporation, and other *At Home in Duluth* partners
Southeast	Minnesota Valley Action Council (MVAC)	10 loans, totaling approximately $75,000	**X** New __Renewal MVAC will leverage Community Fix-up Fund loans with Small Cities Development Program (SCDP) financing in the nine counties of south central Minnesota (Economic Development Region 9). Households that are eligible for a Community Fix-up Fund loan will be required to finance the first $10,000 of their rehabilitation project with the loan and receive the balance in an SCDP deferred loan. Other funding sources that may provide leverage include lead abatement through Minnesota Department of Health, Rural Development, Weatherization and Energy Assistance.

AGENDA ITEM: 9.A.(2)
MINNESOTA HOUSING BOARD MEETING
March 22, 2012

ITEM: Commitment Extensions, Publicly Owned Housing Program
- Dow Towers, Hopkins D6379
- Hamilton House, Saint Louis Park D6383
- River Heights, Park Rapids D6384
- Spruce Apartments, Waconia D6386

CONTACT: Andrew Hughes, 651-296-9841
andrew.hughes@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:
Staff is requesting a six month extension of the Publicly Owned Housing Program (POHP) commitments for the developments referenced herein to allow additional time for the finalization of due diligence items and completion of the rehabilitation activities.

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):
- Background
- Resolution

Background

At its January 20, 2010, meeting, the Board approved funding commitments for ten Public Housing preservation projects funded by a GO Bond appropriation to the Agency. At its September 22, 2011, meeting, the Board approved a 6-month extension to four of these commitments for loans that had not closed during the initial commitment period.

Staff is requesting an additional 6-month commitment extension for the four developments to allow additional time to finalize due diligence items and for the rehabilitation activities to be completed, since the loans are being made as “end loans” and will be closed after construction completion. All four developments have been making satisfactory progress.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 12-

RESOLUTION EXTENDING COMMITMENT DATES
PUBLICLY OWNED HOUSING PROGRAM

WHEREAS, the Board has previously authorized the issuance of commitments on the developments hereinafter named by its Resolution No. MHFA 10-5; and an extension of that commitment by its Resolution No. MHFA 11-054; and

WHEREAS, staff represents that the applications continue to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations, and policies.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby

1. Extends the commitment expiration dates on the developments noted below from March 31, 2012 to September 30, 2012:

   Dow Towers, Hopkins – D6379
   Hamilton House, Saint Louis Park – D6383
   River Heights, Park Rapids – D6384
   Spruce Apartments, Waconia – D6386

2. Except for the extended commitment expiration dates, all other terms and conditions of MHFA Resolution Nos. 10-5 and MHFA 11-054 remain in effect.

Adopted this 22nd day of March, 2012

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CHAIRMAN

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AGENDA ITEM: 9.A.(3)
MINNESOTA HOUSING BOARD MEETING
March 22, 2012

ITEM: Whispering Pines, Caledonia

CONTACT: Andrew Hughes, 651-296-9841
andrew.hughes@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:
Staff request approval of increasing the previously committed Asset Management Loan for the referenced development from $610,000 to $810,000 to fund increased rehabilitation requirements.

FISCAL IMPACT:
In the current Affordable Housing Plan, staff proposed and the Board allocated $3.5 million in new activity for the Asset Management program, funded through the Agency's Housing Affordability Fund ("Pool 3"). The increased funding for the proposed loan falls within the approved budget and the loan will be made at an interest rate and on terms consistent with what is described in the Affordable Housing Plan.

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):
- Background
- Resolution

Background

At its September 2009, meeting, the Board approved an Asset Management Loan of $610,000 to complete needed rehabilitation of the property. Most recently at its December 2011, meeting, the Board approved a commitment extension through December 31, 2012, at which time staff also informed the Board that an additional request was forthcoming to increase the funding amount to address additional rehabilitation needs at the property. The subject of this report is the increased request.

The following summarizes the changes in composition of the proposal since the time of selection (September 2009):

DESCRIPTION:	**SELECTION, Sept. '09**		**REVISED, March '12**		**VARIANCE**	
Total Development Costs	$610,000		$1,090,000		$480,000	
Gross Construction Costs	$602,500		$891,940		$289,440	
Agency Sources						
Asset Management Loan	$610,000		$810,000		$200,000	
Total Agency Sources	$610,000		$810,000		$200,000	
Other Non-Agency Resources						
Owner Equity	$0		$190,000		$190,000	
Replacement Reserves, Agency-held	$0		$45,000		$45,000	
Dev. Cost Escrow, Agency-held	$0		$45,000		$45,000	
Gross Rents:						
Unit Type	**# DU**	**Rent**	**# DU**	**Rent**	**# DU**	**Rent**
1 BR	36	$530	36	$554	0	$24
2 BR	1	$592	1	$617	0	$25
Total Number of Units	37		37		0	

Factors Contributing to Variances:
Both hard construction and soft costs have increased. At initial selection the scope of work was primarily related to building envelope improvement. Since this time, Agency staff have performed multiple site inspections and the developer has commissioned professional studies and engaged a project architect. This additional investigative work identified further immediate rehabilitation needs primarily related to moisture infiltration. The increase in the scope of work increased hard construction and soft costs, the latter due to the necessity of engaging an architect and other third party professionals. Agency staff has negotiated with the owner to defray the additional development costs with an infusion of owner equity.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 12-

RESOLUTION INCREASING FUNDING COMMITMENT
ASSET MANAGEMENT LOAN AND SECTION 8 PROGAM

WHEREAS, the Board has previously authorized the commitments for the development hereinafter named by its Resolution Nos. MHFA 09-59 and 09-60, both with an expiration date of March 31, 2010; and,

WHEREAS, the Board also reestablished and extended the expiration date to December 31, 2010 by its Resolution No. MHFA 10-31 to allow for closing of the asset management loan and first mortgage modification; and,

WHEREAS, the Board further extended the expiration date to December 31, 2011, by its Resolution No. MHFA 10-114 to allow for reassessment of proposed work scope and closing of the loan and modification; and,

WHEREAS, the Board further extended the expiration date to December 31, 2012, by its Resolution No. MHFA 11-070 to allow for additional feasibility analysis of the proposed work scope and closing of the loan and modification; and,

WHEREAS, the application continues to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations, and policies.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby increases the funding commitment on the development noted below to the date indicated below, and hereby confirms the renewal of said commitment, subject to any revisions noted:

1. Whispering Pines – D0259
   - Increase Asset Management Loan funding commitment amount from $610,000 to $810,000

2. Except for the increased funding commitment, all other terms and conditions of MHFA Resolution Nos. 09-59, 09-60, 10-31, 10-114 and 11-070 remain in effect.

Adopted this 22nd day of March, 2012

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CHAIRMAN

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AGENDA ITEM: 9.A.4
MINNESOTA HOUSING BOARD MEETING
March 22, 2012

ITEM: Approval of Assignment of Swap Confirmations from UBS AG to The Bank of New York Mellon

CONTACT: Joe Gonnella, 651-296-2293
joe.gonnella@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

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

☑ Other: Financial

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Consent to the assignment of the existing six interest rate swap agreements from UBS AG to The Bank of New York Mellon and authorize the Agency to execute the necessary documents. Section 1 of the attached resolution explains the background of this request.

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:

- Resolution

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RESOLUTION NO. MHFA 12-___

RESOLUTION AUTHORIZING EXECUTION AND DELIVERY OF SWAP AGREEMENTS WITH THE BANK OF NEW YORK MELLON IN REPLACEMENT OF SWAP AGREEMENTS WITH UBS AG, STAMFORD BRANCH

BE IT RESOLVED BY THE MINNESOTA HOUSING FINANCE AGENCY:

Section 1. Recitals. The Agency has issued and there are outstanding variable rate demand obligations entitled Residential Housing Finance Bonds, 2003 Series B, 2003 Series J, 2005 Series C, 2006 Series C, 2007 Series S and 2007 Series T (the "Outstanding Bonds"), and in respect of the interest payments payable on the Outstanding Bonds the Agency has entered into interest rate swap agreements with UBS AG, Stamford Branch ("UBS AG"). It is proposed that the Agency consent to the assignment of the interest rate swap agreements from UBS AG to The Bank of New York Mellon ("BONY Mellon") with no change in financial terms. In connection with the assignment, the Agency will make no payments to either UBS AG or BONY Mellon. BONY Mellon has higher long-term senior unsecured debt credit ratings than UBS AG ("Aa1" and "AA-" (with a stable and negative outlook, respectively) for BONY Mellon versus "Aa3" and "A" (each with a negative outlook) for UBS AG from Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, respectively) and is active in the municipal swap market.

The Agency has executed an ISDA Master Agreement, a Schedule to the ISDA Master Agreement and an ISDA Credit Support Annex with BONY Mellon. To effect the assignments, the Agency must execute a Novation Confirmation with UBS AG and BONY Mellon (the "Novation Confirmation"), covering the existing swap confirmations relating to the interest payments payable on the Outstanding Bonds.

It is desirable to consent to the assignment because the new counterparty to the swap agreements has a higher credit rating than the existing counterparty and is active in the municipal swap market. The Agency will also not incur any significant costs to consent to the assignment of the swap agreements. In addition, bond counsel has advised the Agency that the assignment of the swap agreements in these circumstances should not be regarded as terminations of the swap agreements for purposes of the arbitrage rules. Thus, the assignment should not adversely affect the tax exemption of interest on the Outstanding Bonds or the Agency's financial position regarding the swap agreements. CSG Advisors Incorporated, the Agency's financial advisor, has advised the Agency about the proposed assignment.

Section 2. Authorization and Approval of Swap Agreement. The Chief Financial Officer or the Finance Director is hereby authorized to enter into, in the name and on behalf of the Agency, the Novation Confirmation, substantially in the form submitted with such changes as shall be approved by the officer executing the Novation Confirmation. Either such officer is further authorized to execute and deliver any other documents necessary or convenient in connection with effecting the assignment of the swap agreements to BONY Mellon and the novation of the outstanding swap agreements with UBS AG. If the Novation Confirmation is entered into by the Agency as so authorized, the Trustee is authorized and directed to pay to BONY Mellon, as the Swap Counterparty, from the Revenue Fund, the amounts due from time to time pursuant to the Swap Agreement, as provided in Section 4.5 of the Residential Housing Finance Bond Resolution (Resolution No. MHFA 95-82, adopted August 24, 1995, as amended and supplemented).

Adopted this 22nd day of March, 2012.

By: _____
Chair

AGENDA ITEM: 9.B.(1)
MINNESOTA HOUSING BOARD MEETING
March 22, 2012

ITEM: Proposed Revisions to the Qualified Allocation Plan (QAP) and Procedural Manual, 2013 Housing Tax Credit (HTC) Program

CONTACT: Kasey Kier, 651-284-0078
kasey.kier@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:
Staff recommends the adoption of a motion to approve the 2013 Housing Tax Credit Program Qualified Allocation Plan and Procedural Manual, and Timetable for Applications.

FISCAL IMPACT:
This is a federally sponsored program not funded from state appropriations and will not have any fiscal impact on the Agency's financial condition.

MEETING AGENCY PRIORITIES:

☑ Provide 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):

- Background
- Timetable
- Suballocator Participation
- Attachment 1 – Public Hearing Written Comments
- Attachment 2 - 2013 Housing Tax Credit Program, QAP and Procedural Manual Proposed Revisions
- Attachment 3 - Project Location – Top Growth Communities Methodology
- Attachment 4 - Foreclosure Priority Methodology and High Needs Zip Codes
- Attachment 5 - Minimizing Transportation Costs and Promoting Access to Transit Methodology
- Attachment 6 - Community Economic Integration Methodology
- Attachment 7 – Distribution of Tax Credits for 2013

BACKGROUND:

The Federal Tax Reform Act of 1986 created the Housing Tax Credit Program (HTC) for qualified residential rental properties. The HTC program is the principal federal subsidy contained within the tax law for acquisition/substantial rehabilitation and new construction of low-income rental housing.

Section 42 of the Internal Revenue Code (IRC), requires that state allocating agencies develop an Allocation Plan for the distribution of the tax credits within their jurisdiction. The QAP is subject to modification or amendment to ensure the provisions conform to the changing requirements of the IRC, applicable state statute, the changing environment and to best promote the Agency's strategic priorities. A preliminary summary of the proposed changes to the 2013 Qualified Allocation Plan (QAP) and Procedural Manual was provided at the January 26, 2012 Board Meeting.

In accordance with Section 42, on January 29, 2012, the Agency published a notice soliciting public comment. Minnesota Housing staff held the public hearing on Wednesday, February 22, 2012. A summary of the proposed changes was made available to the public in advance of and at the hearing for review and comment. Thirteen members of the general public attended the hearing in person, five provided oral comments on the QAP and 27 written comments were submitted to the hearing. Copies of the written comments are attached (Attachment 1).

Attachment 2 is a summary of the revisions to the 2013 QAP and Procedural Manual and Selection Criteria. Attachment 7 is the estimated 2013 Distribution of Housing Tax Credits for the state allocating agencies. The distribution is based upon the Low-Income Housing Tax Credit-2012 Calendar Year Resident Population Estimates released by the Census Bureau.

Determinations of population for any calendar year are made on the basis of the most recent census estimate of the resident population of a state (or issuing authority) released by the Census Bureau before the beginning of such calendar year. These determinations of population are subject to final publications made by the IRS at the beginning of each year.

TIMETABLE:

2013 HTC PROGRAM SCHEDULE

February 22, 2012	Minnesota Housing 2013 HTC Public Hearing
March 22, 2012	Agency Board asked to approve final 2013 QAP and Manual
April 23, 2012	Publish RFP for HTC 2013 Rounds 1 and 2
June 12, 2012	HTC 2013 Round 1 and 2012 MF Consolidated RFP Application Deadline
October 25, 2012	Agency Board asked to approve HTC 2013 Round 1 selection recommendations
January 29, 2013	HTC 2013 Round 2 Application Deadline (Tentative date)
April 25, 2013	Agency Board asked to approve HTC 2013 Round 2 selection recommendations (Tentative date)

SUBALLOCATOR PARTICIPATION:

Minneapolis, St. Paul, Dakota County, Washington County, Duluth, St. Cloud and Rochester are suballocators of housing tax credits for the 2013 program year. The cities of Duluth, St. Cloud and Rochester will again enter into a Joint Powers Agreement with the Agency to administer their 2013 Housing Tax Credits. Under this Agreement, the Agency will perform certain allocation and compliance functions on behalf of the Suballocating agency.

February 14, 2012

Kasey Kier, Tax Credit Allocation Manager
Minnesota Housing
400 Sibley Street, Suite 300 - Park Square Court Building
Saint Paul, MN 55101-1998

Dear Ms. Kier:

I write this letter on behalf of a community-based, affordable housing developer operating in Duluth, MN—One Roof Community Housing (One Roof). Formed January 1 of this year, One Roof is the result of the merging of Northern Communities Land Trust and Neighborhood Housing Services of Duluth and has a mission to strengthen the foundation of our communities by providing housing services and building and sustaining affordable homes and healthy neighborhoods. When thinking about how One Roof could best make comments regarding the QAP changes for 2013 LIHTC, it seems that the most effective way would be to frame our comments from the perspective of a community-based, affordable housing developer. As such, I present the following information for your consideration as the agency makes decisions regarding changes to the QAP.

One Roof has been working with development partners Churches United in Ministry (CHUM) and Center City Housing Corporation (CCHC) for nearly two years in consult with the City of Duluth, the Duluth HRA, and Duluth LISC in planning Hillside Apartments. When successful, this redevelopment will transform one-half block of dilapidated, crime-ridden buildings into permanent supportive housing for 44 homeless families with children, utilizing a harm-reduction model of design, management and service provision. In addition, Hillside Apartments will feature 6 units of emergency shelter housing for homeless families with children.

The origin of Hillside Apartments came from 3 sources. First, One Roof engaged CHUM in early 2010 to discern the most important need for affordable housing development relative to implementing the Ten Year Plan to End Homelessness in the Duluth area. One Roof learned from CHUM that the greatest community need was for permanent supportive housing for homeless families that utilized a service provision and management model that encouraged community building and long-term stability for the families. The rationale behind this model was that CHUM's experience in operating the emergency shelter in Duluth for over 30 years showed 2 trends that made it increasingly difficult to assist homeless families stabilize and maintain stable housing. First, CHUM noticed that they were serving the second and oftentimes third generation of families in their shelters and food shelves. Clearly, for these families, a different type of service provision was required to stop this cycle. Second, CHUM realized that the majority of families they were serving had increasing numbers of barriers per family (mental health, physical health, drug and/or alcohol addiction, and criminal backgrounds) that made it more challenging for them to obtain and maintain stable housing.

The second source for the project came out of the experience that CCHC had in taking on the Women's Community Development Organization properties for transitional and permanent supportive housing for women and children. CCHC worked with expert staff from the Northland Foundation, the Human Development Center, and the University of Minnesota Duluth to understand more about the dynamics occurring in the families in these properties and what could be done to help stabilize them. They came to a quite similar conclusion as had CHUM—a new model of housing and service provision was needed because of multiple barriers faced by these households *and* because transitional housing had time limits that were simply not long enough to stabilize families long-term. Like CHUM, CCHC did not know exactly what the model was, but they were confident that a new model was needed and that looking toward housing first models with harm reduction principles (as they had done for the very successful New San Marco Apartments for chronic inebriates) would help lead to a

successful model. They were convinced that something had to be done to stabilize these families and give the children a chance to learn a different way of living.

When CCHC and CHUM/One Roof realized they were working toward a similar goal, the three groups got together and began exploring which model to use in the development of Hillside Apartments. Ultimately, the 3 groups, representatives of the City of Duluth, our development consultant and architect, and staff from the Corporation for Supportive Housing (CSH) all traveled to San Francisco to learn from organizations and housing developments there that were using harm reduction models to stabilize homeless families. This trip, plus CCHC's experience with harm reduction housing for chronic inebriates, helped the group solidify the model of housing and services to be provided.

The third source has to do with the site of the property. For over 12 years, community organizations and the City worked in partnership to organize to get the 5 landlords to take better care of their properties and ensure the health and safety of their tenants. Over that time, murders, drug sales, sex trafficking, prostitution and generally unruly and drunken behavior were the norms for the property. Located a block from the One Roof office, I witnessed personally the aftermath of the murders of a single man and a 5 member family and, in the fall of 2010, a fire which rendered one of the more stable of the buildings unusable, as well as the operation of the Hip Hop Candy Shop—a "business" that was a front for drug sales and sex trafficking. One Roof, CHUM and CCHC had all made investments within 1-3 blocks of the development site that had been continuously destabilized by the activities occurring on this block. We decided in conversations with the City and LISC that this site was the ideal site for our redevelopment because only a project of this magnitude could clean up one-half block owned and mismanaged by five different slumlords.

So, as a community-based, affordable housing developer, One Roof proceeded to work with its partners and stakeholders to secure the site, begin fundraising and conduct predevelopment due diligence for Hillside Apartments precisely because of the multifaceted, positive impact the project would have for both its residents and its neighborhood. Hillside Apartments and its development site have been endorsed by Duluth News-Tribune, a gathering of 30 or more neighbors, the Affordable Housing Coalition of Duluth, and the City of Duluth. Further, HRA of Duluth has purchased the site and is pledging 44 project-based Section 8 vouchers and tax increment financing for the project.

Unfortunately, with the crash of the economy and associated shrinking subsidies for affordable housing from government and philanthropic sources as well as the very real need to preserve existing affordable housing at risk due to timelines on affordability covenants and needs for reinvestment, the deck is really stacked against Hillside Apartments in the currently proposed QAP. Yet, the need for the development is only growing greater.

There are some changes to the QAP that could help a project like Hillside Apartments be more competitive in the LIHTC allocation process, and assist MHFA with the State's 10 Year Plan to End Long Term Homelessness, that are worth consideration by Minnesota Housing Finance Agency that are summarized below:

- Duluth, like Rochester and St. Cloud, are more like metro than outstate Minnesota economies when it comes to construction costs and should be grouped with the Twin Cities Metro Area of the state for application scoring purposes with regard to construction costs.
- Duluth, as a sub-allocator of tax credits that contributes its credits to the state pool, has no say or potential to influence scores by endorsing projects. A sub-allocator contributing its credits to the State pool should have real, but appropriately weighted, impact on project scores for projects it endorses.
- In order to continue to make headway on the 10 Year Plan to End Homelessness, there needs to be greater incentives for LIHTC developments which reserve the majority of units for the long-term homeless families with children. For example, a fifty unit development that provides 4 units of permanent supportive housing (with no intensive on-site services or management presence) would score 5 points and be eligible for the 100 bonus points for homeless prevention projects while a fifty unit development with 50 units of permanent supportive housing (with

the intensive on-site services and management needed to address households with multiple barriers) would score just 5 points more. For reasons listed below, the project that provided 50 units of housing for the long-term homeless would be unlikely to be funded under current scoring criteria because components would need to be part of the development for it to be successful:

- Highly durable construction and finishes: Long-term families moving into harm-reduction model housing have limited or no experience taking care of their homes because of the chaos associated with moving from place to place combined with dealing with the issues that have kept them homeless.
- Higher security: Controlling who enters the building and what activities are happening in common spaces of the building and on the grounds of the building are key maintaining a healthy and supportive culture. This take indoor and outdoor cameras and an entry designed to be monitored by on-site staff twenty-four hours/day.
- More community amenities and on-site staffing: The housing needs to include secure outdoor play space for children, indoor education space for children and adults, laundry facilities, common spaces for community building activities, adequate parking (families with kids have a much harder time being without an auto than do households without kids) and space for on-site managers and social service providers.

These features cost more, but these features are essential to making a significant difference in ending homelessness—a difference that has a positive impact for families who otherwise will continue to pass down a legacy of homelessness to their children.

The continued prioritization of preservation to such an extent without a commensurate increase in prioritization for projects that address homelessness in a significant way (50% or more of units reserved for homeless households) takes away the incentive/motivation for developers to serve the homeless. If One Roof's primary objective was to begin construction on an affordable housing development in 2013—any type of development—it would be putting together a development that included preservation of HUD rental assistance for an apartment with about 50 units that has historically low vacancy, needs minimal renovations, and would serve 4 homeless households. Such a project would have little positive impact on distressed neighborhoods in Duluth and even less positive impact toward ending long-term homelessness. Such a project would almost certainly receive funding. As a community-based developer concerned with having a significant, positive impact in Duluth, we do not feel that such a project is of highest priority in these times because it simply does not address the needs of the most vulnerable in our community.

Thanks in advance for your consideration of these suggestions from a community-based developer working very closely with its partners and the community to end long-term homelessness as you further refine the changes to the QAP for 2013.

Sincerely,

Jeff Corey
Executive Director

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New Orleans, LA 70130
T: 504.299.3444
www.365connect.com

February 10, 2012

Ms. Kasey Kier, Tax Credit Allocation Manager
Minnesota Housing Finance Agency
Multifamily Underwriting - Housing Tax Credit Program
400 Sibley Street, Suite 300
St. Paul, MN 55101-1998

RE: Resident Supportive Services Programs

Dear Ms. Kier;

We would like to request the **2013 Qualified Allocation Plan and Procedural Manual** be modified to include delivering *Supportive Services to Residents Online.* Through delivering services online in a clear, categorized format, a community can reach more residents, deliver more information and greatly supplement its on-site programs.

Our reasons for this modification are as follows:

1. With active lifestyles, families working multiple jobs and children's activity schedules; it is nearly impossible to achieve a good attendance record to any on-site program. Access to resources "On-Demand" is critical to the creation of a complete *Supportive Services Program.*
2. On-site programs are not always convenient to residents, have a history of poor attendance and are expensive to maintain. By not having an additional delivery method of educational content and linkage to local resources, the bulk of the resident population is not being served.
3. According to Nielsen Media Research, over 78% of the population in the United States is connected online. In fact, senior citizens (65+) are the fasting growing segment of Internet users in the market, estimated to reach 49% by 2012. These statistics prove that allowing educational content and linkage to local resources to be delivered online; will increase the reach of any community to its residents. Therefore additional points should be awarded for those that offer online delivery systems.

4. According to Global Research firm IDC, by 2015, access to the Internet by Mobile Devices, such as *Smartphones*, will exceed that of Personal Computer access. In fact, According to Nielsen Media Research, *Smartphones* now make up 40% of all mobile phones in United States. Therefore, additional points should be awarded for those that offer multiple delivery systems to their residents to access educational content and linkage to local resources, through desktop computers and mobile devices.

5. Delivery of educational content online by video is also proven to be critical. In short, today's resident is more likely to consume content by video than written publication. In fact, comScore, a Global Research firm has published a study proving the demand for online video is staggering. According to their study, 82.5% of the U.S. audience views video online. The average length of an online video is 5.1 minutes and the average consumer watches 4.3 hours of online videos per month. Therefore, additional points should be awarded for those that offer educational content to be delivered though online videos to their residents.

6. Linkage to local resources, services and venues is another important function to any resident services program. Through technology, residents can access information in a defined area to where they live, such as Child Care, Schools, Doctors, etc. This information can be delivered in a mapping system format so that residents can not only easily find resources close to them, but obtain directions and even send resource information to their mobile phones. Therefore, additional points should be awarded for those that offer linkage to local resources with a clear and concise mapping resource program.

7. Communication between residents and property managers is vital. Communities that offer a focused online communication system to allow residents to communicate with management, request services and report incidents should be awarded additional points for delivering this system to their residents.

8. An online emergency alert system enables residents to receive emergency alert notices from community management in a single outbound message to their email address or by text message. This valuable feature creates a strong sense of community connection in the event of a crisis. Therefore, additional points should be awarded for those that offer an online emergency alert system.

9. An online system should be put in place to allow residents to view their lease start and end dates, monthly rent rates and a listing of any other monthly charges they may have (water, parking, etc.). Further, payment terms should be displayed on this page so residents can clearly view all associated fees and when payments are due. This feature assists in creating a financially stable community by helping residents to understand their financial responsibly. Therefore, additional points should be awarded for those that offer an online system for residents to view their lease and payment terms.

In summary, providing services to residents is a key component not only for affordable housing compliance, but to building and maintaining a stabilized community. Delivering residents access to services online is being done now in various markets across the country and has a proven success rate. With many *Housing Agencies* now awarding additional points in the scoring process for tax credits to affordable housing developers that provide residents with Internet access, delivering *Resident Services* online is the next logical step. Through allowing residents access to resources such as educational videos, local resources and 24-7 communication tools, the community is able to extend its reach to serve residents on-demand. The statistics (272 million people in the United States have Internet access) clearly point to the majority of the population accessing the Internet, either from Personal Computers or Mobile Devices. Now is the time to advance the delivery of services to residents to include these formats.

Thank you for your consideration of our proposal to modify the *2013 Qualified Allocation Plan and Procedural Manual.*

Sincerely,
365 Connect, LLC

Kerry W. Kirby, President

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Date: February 20, 2012
To: Kasey Kier, Minnesota Housing
From: Gina Ciganik, Aeon
Re: Aeon comment on 2013 Qualified Allocation Plan (QAP) revisions

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Thank you for the opportunity to submit comments related to the 2013 Qualified Allocation Plan and Self-Scoring Worksheet. Aeon offers the following comments:

Item 2. State Designated Basis Boost:

The criteria for determining the potential for a basis boost are generally reasonable. However, we urge MN Housing to broaden the preservation definition to not only include federally assisted buildings, but also to include expired or expiring tax credit projects and those otherwise in MN Housing's portfolio (first or deferred debt). It would seem prudent to allow these important housing resources already created by MN Housing and the community to have access to the boost.

Item 6. Local/Philanthropic Contributions:

Identity of Interest Exclusion: All contributions from the ownership entity should absolutely be counted towards the overall Philanthropic Contributions. Aeon works diligently to receive financial gifts from individuals, corporations, foundations, and organizations such as NeighborWorks and re-directs the funds into projects. When applied to specific projects, these resources often need to be categorized as a general partner loan to avoid tax consequences or for efficiency's sake, but at the core, they are leveraging other dollars, filling the gap, and minimizing local resources. It takes time, energy, and effort to obtain such funds. Deferred developer fee should also be counted towards leverage. Again, a developer is diverting important financial resources that would otherwise be available to the general operations of the organization, into community projects. Excluding GP resources creates disincentive for developers to find and commit alternative resources at a time when typical/local resources are shrinking.

Item 10. Preservation – Federally Assisted/Tax Credit Projects

The definition of preservation generally is too narrowly focused upon projects with Federal/Section 8 assistance, or with significant deterioration. This does not take into account the valuable affordable housing in MN Housing's portfolio and other locally subsidized housing. Though it is important to prevent the loss of affordable housing due to deterioration, this criterion as written could provide an incentive for deterioration rather than motivation to extend the life of a property beyond its 15-year tax credit cycle and/or proactively seek recapitalization prior to the drama of physical or financial ruin.

For tax credit projects, the revised LIHTC definition will force projects to go back into the Agency for funding before year 15 even hits—penalizing those projects maintained in better physical and financial condition that may not need to be recapitalized for another 5+ years. The Agency should give high

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Homes for Generations

priority to expired LIHTC projects serving the lowest incomes that are farthest from their year 15 expirations and remain in good physical and financial standing.

Item 12. Cost Avoidance/Reduction/Containment: The stated cost thresholds/benchmarks are generally reasonable; however they only consider first costs. High-Performance buildings with lower operational costs (utility and maintenance) over the extended life of the building must be considered an important factor in determining cost appropriateness. MN Housing has been a leader in the Green Communities program and this criterion should reflect and encourage the development of high performance, longer-lasting investments. Total Cost of Ownership should be a part of the consideration.

The following comments are related to items in the self-scoring worksheet that were not proposed to be altered by MN Housing:

a. **Experience and Capacity:** MN Housing made a great decision in the 2009 TCAP and Exchange Self-Scoring worksheet when it added a scoring section for experience and capacity. This section should also be added to the2013 QAP and self-scoring worksheet. The best predictor of a high quality development and superior operations is selection a developer/operator with a long track record of positive results. Supporting more projects with experienced developers and operations will improve performance and decrease overall risk.

b. **Economic Integration:** Aeon has built a variety of properties from single site supportive housing, workforce housing, and mixed-income/mixed-use properties. We find value in owning a portfolio and individual properties with a range of housing options. It not only provides flexibility for Aeon, but it supports the various needs and desires of our residents and the overall community. We carefully chose which type of projects will be financially or otherwise feasible to develop and more importantly, operate for the long-term. Mixed-income buildings inherently are more difficult and add more long-term risk, therefore must be carefully considered and planned.

   MN Housing's mission is to create affordable housing and should encourage more, not fewer affordable units. The first test in this section incentivizes the limitation of affordable units to half of the project. We urge MN Housing to increase the stated 50% maximum to 75%. Many times, the "market rate" rents in distressed neighborhoods are within tax credit limitations, yet are higher than average rents in the community. Counting these "market rate" units (i.e. higher than average community rents for similar sized units, yet also tax credit compliant) in basis could help generate more tax credit equity and reduce gap financing needs, while still achieving economic integration for that area.

   Also, market rate rentals in the current environment are at higher risk for vacancy, rent volatility, and likely need concessions to stay competitive, especially in distressed neighborhoods. For these reasons, and others, tax credit investors are less interested in mixed-income projects, especially those with significant market rate components and will adjust tax credit pricing accordingly, or will pass up the deal entirely.

Good Morning Kasey,

I would like to respond to the proposed changes for the Tax Credit Program.

Overall I believe the changes would not affect tribes, except for the points awarded for demonstrated cost containment per unit. This would hurt tribes because of the increase construction costs on reservations. We have to consider TERO fee's, Procurement processes for tribes, Native American Contractor Preference (10%), etc. I also know that on the Bois Forte Reservation we have had to use a Union agreement for the local businesses to get preferred for the subcontractors, this also increases the unit costs. Another concern is the lack of submitted bids from contractors for new construction on reservations. I believe that contractors do not bid on our projects because of the Native American Preference rule (10%), the TERO Fee's and the added costs for building on the remote areas we are located. The past three projects I have built on the reservation only received 2-3 competitive bids for these projects. I also think with the economy the way it is, that many businesses are going out of business, which limits our choices/bids received.

Thank you for listening to our concerns at the meeting in Mille Lacs.

Carol Burr
Commissioner of Housing
Bois Forte Housing Department
218-757-3253
218-780-8624

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BILL REINKE
CENTRAL MINNESOTA HOUSING PARTNERSHIP

COMMENTS REGARDING
2013 HOUSING TAX CREDIT ALLOCATION PLAN

FEBRUARY 22, 2012

My name is Bill Reinke, Executive Director of the Central Minnesota Housing Partnership headquartered in St. Cloud. I would like to thank the board and staff of Minnesota Housing for the opportunity to comment on the 2012 Qualified Allocation Plan. My organization, CMHP, is a regional non-profit affordable housing development, service and management organization working in central Minnesota, in a sixteen-county region from the metro collar counties of Wright and Sherburne in the south to Crow Wing, Cass and Carlton Counties farther north. Our region is predominantly composed of small to more medium-sized cities and towns and rural areas but with a population of about three quarters of a million people, a bit greater than the combined populations of Minneapolis and St. Paul.

CMHP has developed over 25 affordable rental projects, most of which involved Low-Income Housing Tax Credits, and currently property and asset manage over 500 units of affordable housing. In addition, we are

helping communities impacted by foreclosures through the acquisition, rehabilitation and resale of foreclosed homes. We are also very active in efforts to serve the Long-Term Homeless through the regional Continuum of Care (COC).

I would like to address three issues of the 2013 QAP:

1- CMHP recognizes the work of Minnesota Housing to end Long-Term Homelessness. To that end, we expanded our priorities to develop units for the Long-Term Homeless in new projects, adding homeless units to the project mix.

Based on our work we have found that it does not cause major problems and does not create an undue burden to create units for the Long-Term Homeless. Further, we have always been able to recruit service providers for homeless tenant families in our all planned projects. In our project applications, we have shown the commitment of no fewer than five nonprofit agencies to provide service to homeless tenants. There are many organizations that are willing to provide homeless services to projects in greater Minnesota. The local Continuums of Care (COC), with which we network, are composed of these homeless service providers.

We continue to recognize and encourage Minnesota Housing's ongoing prioritization of the effort to end Long-Term Homelessness.

2- As alluded to above, Minnesota has a great number of nonprofit organizations committed to affordable housing development and service, including nonprofits with a strong track record in affordable multifamily housing project development. Eliminating the local preference for nonprofit developers would undermine the goal of supporting the Minnesota network of CHDOs (Community Housing Development Organizations). There is no lack of high quality planned projects coming from the Minnesota's nonprofit sector in the already highly competitive environment of the state's Low-Income Housing Tax Credit application rounds. There exists no sufficient rationale for giving preference to out of state nonprofits, which would only serve to counter the work of Minnesota nonprofit developers.

3- We recommend that the targeting the state's discretion regarding the tax credit basis boost recognize the barriers to development in small town and rural areas, which have fewer subsidy funds than larger urban areas. As opposed to these larger metropolitan areas, small town and rural areas have lower median incomes, which are reflected in lower rents, which means that less debt is able to be supported. A greater subsidy through the basis boost is needed to support rural projects and compete with urban areas, which may already have other resources.

Thank you again for this opportunity to submit these comments.

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CommonBond
COMMUNITIES

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February 15, 2012

Kasey Kier
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

Re: Written Comments Regarding Proposed Changes to the 2013 QAP

Dear Kasey:

CommonBond appreciates the comprehensive, constructive changes Minnesota Housing has proposed for the 2013 QAP. We agree with the majority of the proposed changes but would like to offer our comments on the following items.

1. Floating Rate: We suggest that Minnesota Housing should also apply the fixed 9% rate to a new construction proposal which received a prior partial allocation and can demonstrate that it will place in service prior to December 31, 2013.

2. State Designated Basis Boost: We suggest that Minnesota Housing should clarify that the reference to 'preservation of existing federally assisted buildings' does include all federally assisted/subsidized projects, not just those meeting the Minnesota Housing Preservation definition of properties at risk of losing federal subsidies.

3. Top Growth Communities: The list of Top Growth Communities has changed significantly since last year. We are concerned that Minnesota Housing will designate an entirely new list of eligible Top Growth Communities each year, making it difficult for developers to effectively plan ahead in a strategic manner.

4. Local/Philanthropic Contributions: Minnesota Housing should consider also including city land writedowns (not just donations) in the list of eligible local contributions.

5. Remove Non-Financial Readiness Criteria: CommonBond suggests that there is merit in keeping the criteria that all infrastructure for the project is complete, and that the land use and zoning approvals are in place.

6. Revise the Temporary Foreclosed Properties Criterion: In addition to what Minnesota Housing is proposing re: 'acquire and rehabilitate' foreclosed property, we would also suggest adding extra points for redevelopment of vacant land that contained residential property that was previously involved in a foreclosure action. Acquisition and rehabilitation of foreclosed detached single family homes is not necessarily the most efficient use of tax credit resources. CommonBond suggests that multifamily redevelopment of a larger parcel resulting from the demolition of foreclosed property would address the funders' foreclosure goals in a more effective way.

7. Preservation: For both Preservation of Federally Assisted and Preservation of Existing Housing Tax Credits, CommonBond believes that the criteria regarding properties at risk of losing their federal subsidies or physical deterioration are problematic. These criteria provide a strong

An Equal Opportunity/
Affirmative Action Organization

disincentive to maintain properties and to proactively pursue ongoing stabilization measures. Properties which have demonstrated ongoing viability are penalized.

8. Rental Assistance: This criterion should be clarified to confirm that properties with existing Section 8 project-based HAP contracts with a commitment of 4+ years would be eligible for these points. Additional points should be awarded to a property with a commitment to renew and extend its existing HAP contract.

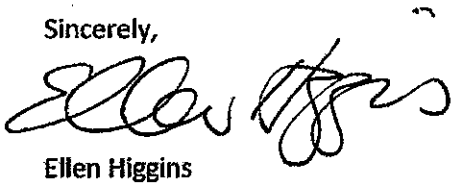
9. Cost Containment: There is recent verifiable industry data indicating that 2012 construction costs (materials and labor) will be 5-7% higher than in 2011 due to rising energy costs and other factors. Developers are also currently experiencing large increases in a number of soft cost categories. Investor reserve requirements continue to increase, plus increasingly developers end up securing extended bridge loan financing for tax credit equity, which improves pricing but greatly increases the amount of capitalized interest in the development budget. In light of this, imposing restrictive unit cost caps will likely result in reduced quality of design and construction. The cost thresholds for rehabilitation in Greater MN are disproportionately low and will severely limit the amount and quality of rehabilitation that can be achieved. It should be noted that tax credit investors typically require rehabilitation budgets of $40,000 or more per unit, and that the Green Communities requirements typically add 3-5% to the cost of rehabilitation. Minnesota Housing's data supporting the differential between costs for the metro area and greater MN should be verified.

10. Preservation Ceiling: CommonBond suggests that MN Housing create a Preservation Set Aside rather than the proposed ceiling.

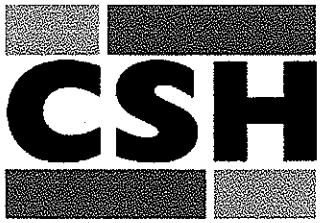
11. Nonprofit Set Aside: Similar to the Iowa and Wisconsin QAP, CommonBond suggests that MN Housing consider awarding points for non profit developers.

Please contact us if there are any questions.

Sincerely,



Ellen Higgins
Vice President of Business Development



February 22, 2012

Kasey Kier, Tax Credit Allocation Manager
Minnesota Housing
400 Sibley Street, Suite 300
Park Square Court Building
Saint Paul, MN 55101

Dear Ms. Kier:

I am writing to you on behalf of the Corporation for Supportive Housing's Minnesota Program (CSH-MN), in regard to the proposed revisions to the 2013 Qualified Allocation Plan (QAP). Before I share any specific concerns, I want to thank Minnesota Housing for your leadership and partnership over the years in ending homelessness through the creation of permanent supportive housing. Despite an extremely challenging economic situation in our state, I am pleased that I continue to hear the agency reiterate that ending long-term homelessness remains top priority. That said, I feel that some proposed revisions don't do enough to underscore this commitment. At a time when the goals of the State's plan are within reach, it strikes me that some changes may have the unintended effect of slowing our efforts at a time when we should be running down the stretch.

Projects that aim to serve the objective of ending long-term homelessness seem to be at a competitive disadvantage when it comes to points. I am concerned that these projects will be inherently ranked lower due to receiving fewer points than preservation projects. Long-term I think it is prudent to adopt a preservation policy to ensure our previous housing investments are maintained, including our aging supportive housing stock. However, at a time when the state is roughly 500 units shy of reaching our goal for supportive housing opportunities, I think it is important to consider stronger incentives and avoid the possibility of slowing our ascent.

In addition to prioritizing housing for persons experiencing long-term homelessness, I have heard from concerned housing providers that proposed cost-containment measures may disproportionately impact their ability to create more supportive housing. Operating and service reserves required by investors often drive up the total development cost (TDC), and materials and the need for supportive service space often make supportive housing more expensive. Moreover, these added costs often create a funding gap that all but eliminates those projects from selection due to the points received by projects that do not seek funds from the Agency. If there is funding for housing included in the 2012 Bonding bill, I am hopeful that the Agency can find a way to use the extra resource to help support projects such as these in need of filling a gap. Lastly on cost, the agency may need to consider segregating out even further the distinction between

metro-area and Greater Minnesota. Acquisition and construction costs in larger Minnesota cities such as Duluth, Mankato, and Rochester etc...are more in line with costs in the metro than with those in smaller rural areas of the state.

There are a number of promising things about the agency's proposed revisions to the QAP, among them including long-term homeless units being eligible for the basis boost and points given to projects that have 100 percent project based assistance. I am hopeful that these will also benefit supportive housing throughout the state. As previously mentioned I believe this is an important time for Minnesota Housing to push forward a strong agenda on ending homelessness and focus resources toward successfully completing our state plan.

Thank you for your consideration,

George Stone
Program Director
Corporation for Supportive Housing-MN

CDA Dakota County Community Development Agency

Minnesota Housing - 2013 Qualified Allocation Plan

Public Hearing 2/22/12

Comments on Proposed Revisions

Proposed Policy Change: Replace Regulatory Cost Avoidance/Cost Reduction with Cost Containment – Per Unit Costs Scoring Criterion

Cost containment is a worthy goal and should be included in the QAP; however, by targeting the lowest cost projects for the highest points, it is not clear how variation in quality and local design requirements will be taken into account. On the issue of quality, it may be that the lowest cost projects for new construction result in higher rehabilitation needs and increased maintenance costs over time. Cost containment should be considered over the lifecycle of the development and include the ongoing maintenance and capital needs of the development, rather than simply the initial cost for construction. In addition, this kind of scoring criterion could result in exclusion of projects in communities with more stringent and costly design standards and less geographic diversity among awards. To the extent that scoring is based on costs alone, we suggest incorporating safeguards to avoid these potential pitfalls. Rather than focusing exclusively on achieving low-cost projects, we suggest expanding this criterion to include points for competitive bidding of contracts in accordance with specified methods. As an experienced developer of affordable housing, we have found competitive bidding to be one of the most effective ways to contain costs.

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Dear Ms. Kier-

Our primary concern with the proposed changes to the 2013 QAP relates to Section 12 regarding cost containment. While we appreciate the goal of providing affordable housing as efficiently as possible, there are a number of potential impacts that we feel will be detrimental to affordable housing development in the long term:

1. Cost cutting will ultimately result in a decrease in the construction quality of the projects. The stigmas associated with the cost containment issues put in place by HUD in the 70s have taken a long time for the industry to overcome, and this would be a step back.
2. Investors are signing up for a 15 year commitment, and sponsors have a 30 year obligation to maintain a tax credit property as decent, safe, and affordable housing. A cheaper product will require more frequent replacement and repairs, increasing the anticipated capital needs schedule and thereby potentially increasing reserve requirements, resulting in fewer equity dollars available to close the deal.
3. Dividing the scoring into eight separate categories is a good start toward recognizing that costs vary significantly by property type and location; however this still doesn't address the fact that there remains a significant range of costs within each category depending on a given property and community, and this measure would tend to exclude desirable properties in desirable (and generally higher cost) communities.
4. Developments will be less likely to explore emerging green ideas as long-term operating expenses will be outweighed by upfront construction costs.
5. Cost containment will limit site selection to cheaper and therefore less desirable areas. This will result in a social cost as these sites are less likely to have good access to services, transportation, and other community amenities.

In short, cost containment seems reasonable in our current economic climate; however, tax credit housing is a long-term investment and we feel any requirement to cheapen the ultimate product will have a negative impact on the industry for the reasons listed above.

The other issue to address is the impact on project feasibility of lowering the 9% credit to its current floating rate, which today would be approximately 7.44%. We ran numbers on a standard new construction tax credit family development of 32 units. Even if you assume total development costs at Minnesota Housing's low cost threshold of $216,000/unit, the soft money required to get such a project to feasibility is over $40,000/unit. Of course, there is still the option of requesting a 130% basis boost on credits, which then reduces the need for soft money by over half. We feel that the 9% rate should be left in place as long as it is legally permissible.

Please contact me with any questions, and thank you for the opportunity to provide our feedback.

Thanks,

Chris Barnes

Vice President and Project Partner
Development
Dominium

2905 Northwest Blvd. Suite 150 Plymouth, MN 55441
Phone 763-354-5610 Cellphone 612-819-1201
DominiumApartments.com

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Duluth Affordable Housing Coalition

January 16, 2012

Kasey Kier, Tax Credit Allocation Manager
Minnesota Housing
400 Sibley Street, Suite 300 - Park Square Court Building
Saint Paul, MN 55101-1998

Dear Ms. Kier:

I write this letter on behalf of the Duluth Affordable Housing Coalition (AHC). The AHC has about 20 organizational members and has a mission to advocate for housing and services for low income individuals and families in our community. AHC members as individuals and as a coalition played an important role in helping the City of Duluth and St. Louis County create the Heading Home plan to end homelessness in ten years, and now are instrumental in monitoring and carrying out the plan. This letter is intended to communicate some changes that the AHC would like to see made to the QAP for tax credit projects for funding in 2013.

First, given our commitment to end homelessness in our community and the increasing need for intensive service provision for the chronically homeless, we would ask that there be additional significant points awarded to projects that reserve a majority of the units for long-term homeless households. We believe that projects that reserve a majority of units for homeless households will have a far greater impact on ending homelessness, and thus merit far more weight in points, than a project that serves only a handful of homeless households. We believe that it is unlikely that chronic homeless households, with multiple barriers to achieving stable housing, will succeed when mixed in as a small minority among main stream households. Some scoring changes need to occur to encourage developers to propose projects that will benefit the chronically homeless, if we are going to change the tide of homelessness in our state.

Second, it is our position that projects that are the priority of sub-allocators of Low Income Housing Tax Credits, such as the City of Duluth, should receive modest, but significant points in the scoring process. It is only fair that sub-allocators have some real input into funding decisions if they are contributing their credits to the state pool.

Finally, we request that the rental assistance criteria be changed, so that projects that receive rental assistance from one or more sources, for 100% of units in a development, receive the maximum score. Currently projects with multiple sources receive the maximum points even when the rental assistance is available to less than 100% of the units. The current scoring system does not achieve the goal of maximizing the number of units receiving rental assistance, allowing housing tax credit development to serve extremely low income people. On behalf of the AHC, thank you for Minnesota Housing's previous investments in our community and your consideration in this matter.

Sincerely,

Martin Lepak
Vice-chair, Duluth Affordable Housing Coalition

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HOUSING AND REDEVELOPMENT AUTHORITY
OF DULUTH, MINNESOTA

222 EAST SECOND STREET
P.O. BOX 16900 • DULUTH, MINNESOTA 55816-0900
PHONE 218/529-6300 • FAX 218/529-6344 • TTY 218/529-6321

EQUAL HOUSING OPPORTUNITY

February 17, 2012

Kasey Kier, Tax Credit Allocation Manager
Multi-Family Underwriting
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101-1998

RE: Low Income Housing Tax Credit Qualified Allocation Plan Comments

Dear Ms. Kier:

On behalf of the Housing and Redevelopment Authority of Duluth, I offer the following comments regarding 2013 Housing Tax Credit Allocation Plan in response to the public hearing notice, for consideration at the hearing on February 22.

Although we understand and concur with the strong priority given for the preservation of affordable housing as reflected in the QAP, we also believe that the State's commitment to end homelessness is extremely important in allocating scarce resources to meet affordable housing needs. With the increasing need for intensive service provision for the chronically homeless, we would ask that there be significant additional points awarded to projects that reserve a majority of the units for long-term homeless households. We believe that projects that reserve a majority of units for homeless households will have a far greater impact on ending homelessness and thus merit far more weight in points than a project that serves only a handful of homeless households. We believe that it is unlikely that chronic homeless households with multiple barriers to achieving stable housing will succeed when mixed in as a small minority among mainstream households. An increased weight in scoring needs to occur to encourage developers to propose projects that will benefit the chronically homeless if we are going to change the tide of homelessness in our state.

We also believe that projects that are the priority of eligible sub-allocators of Low Income Housing Tax Credits, such as the City of Duluth, should receive significant points in the scoring process. It is only fair that sub-allocators have real input into funding decisions if they are contributing their credits to the state pool.

Finally, we request that the rental assistance criteria be changed so that projects that receive rental assistance from one or more sources for 100% of units in a development receive the maximum score. Currently projects with multiple sources receive the maximum points even when the rental assistance is available to less than 100% of the units. The current scoring

when the rental assistance is available to less than 100% of the units. The current scoring system, does not achieve the goal of maximizing the number of units receiving rental assistance.

On behalf of the Duluth HRA, thank you for Minnesota Housing's previous investments in our community and for your consideration of these comments as you consider revising the Qualified Allocation Plan which guides the use of this critically important affordable housing resource.

Sincerely,

Richard W. Ball
Executive Director

Ms. Kasey Kier, Tax Credit Allocation Manager
Minnesota Housing
400 Sibley St. Ste. 300
St. Paul, MN 55101-1998

Re: Minnesota Housing Tax Credit Qualified Allocation Plan Comments

Dear Ms. Kier:

On behalf of the Local Initiatives Support Corporation in Duluth (Duluth LISC), a provider of technical assistance, training, financial support and convening services to local non-profit, public and for-profit developers in Duluth for nearly 15 years, I offer the following comments regarding Minnesota Housing Proposed 2013 Qualified Allocation Plan (QAP). Duluth LISC appreciates the opportunity to submit comments for consideration at your public hearing on February 22, 2012.

We would like to share Duluth LISC's concerns about the QAP from the perspective of an intermediary in a smaller city impacted by many urban issues but which lacks adequate resources to address these needs without substantial state and federal support. Duluth LISC has invested in both housing preservation and new housing development projects which serve a wide range of income levels including supportive housing for homeless individual and families and those addressing workforce housing needs. In our work as a partner with the City of Duluth, local service providers and housing developers, we clearly see a need for housing tax credits and other agency resources to address the full continuum of housing needs, including the preservation of existing affordable housing. However, the QAP scoring, as a proposed, appears to place a higher emphasis on housing preservation than on addressing the State's commitment to ending long-term homelessness. We would urge you to consider the provision of significant added points to projects that both provide extensive supportive services **and** which set aside a majority of their units for long-term homeless households.

We would also request the following in the interest of having greater impact on ending long-term homelessness in Minnesota:

- Increase points for projects that reserve a majority of their units for supportive housing for homeless individuals or families (rather than awarding the same number of points for those setting aside at least 4 units/households for homeless households); and
- Due to the significant cost that these housing providers will incur in providing ongoing supportive services and the cost burden they experience with added service space in the buildings, we would urge you to reassess your "cost" containment cap to include a special designation for projects which are substantially supportive housing developments and to increase the cost thresholds for these projects.

LOCAL INITIATIVES SUPPORT CORPORATION
202 West Superior Street, Suite 401 ▪ Duluth, MN 55802-1915 ▪ Phone 218-727-7761 ▪ Fax 218-727-7769
WWW.LISCNET.ORG

Duluth LISC believes that projects addressing long-term homelessness in a substantial way will incur higher construction, site and operating costs which clearly merit an increase in points and in allowable costs. This is needed for these projects to secure funding and to provide long-term solutions which will help to stabilize lives and move forward statewide efforts to end homelessness.

Second, it has been our observation that Duluth, along with other small, Smash's in Minnesota has construction costs comparable to the Twin Cities metro area. We would encourage you to reassess your cost containment categories in the QAP. Duluth, Rochester, and St. Cloud are similar to metro areas in construction costs and therefore, should be grouped with the Twin Cities metro area, rather than Greater Minnesota, for the application, scoring and review on construction costs. This special review and consideration of Greater Minnesota projects is even more critical since rents are lower in Greater MN communities, securing gap financing is more difficult (especially with the new point system that provides 20 points to projects which meet the non-use of secondary funding requirements) and the pricing of smaller city projects by syndicators presents added challenges.

Third, Duluth LISC would encourage you to provide sub-allocators with greater input into the scoring of projects from their communities since they are contributing to the state pool and can best speak to the top priority needs of their community. We would encourage this to be a part of the application review process and the scoring of projects from sub-allocators.

Finally, we would encourage you to carefully consider the implications of your stricter cost containment policies on housing quality, community and market acceptance and the ability to meet Green Development and Smart Growth criteria. Duluth LISC understands the need to control costs but urges the Agency to carefully consider the impact on server's ability to address long-term homeless and other service needs and maintain housing quality and affordable operating costs if cost containment becomes too restrictive.

Thank you very much for the opportunity to comment on the QAP and for your critical affordable housing investments in our community and throughout the state.

Sincerely,

Pam Kramer
Executive Director
Duluth LISC

LOCAL INITIATIVES SUPPORT CORPORATION
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Kasey Kier | Minnesota Housing | 400 Sibley Street, Suite 300 | Saint Paul, MN 55101
651.284.0078 | 800.657.3647 | tty: 651.297.2361

Minnesota Housing finances and advances affordable housing opportunities for low and moderate income Minnesotans to enhance quality of life and foster strong communities.

[Please consider the environment before printing this e-mail.]
From: Pam Kramer [mailto:PKramer@lisc.org]
Sent: Wednesday, February 22, 2012 12:38 PM
To: Kier, Kasey
Cc: 'Chip Halbach'
Subject: RE: Qualified Allocation Plan, Duluth LISC comments

Dear Kasey- One thing that I neglected to add in my remarks is that we would encourage Minnesota Housing to remove the proposed change which allows non-local nonprofits access to CHDO set-aside credits. We feel that it is critical to our housing and community revitalization work to support Minnesota non-profits who are closer to the community and are in need of support to continue their work in our neighborhoods and communities. Duluth LISC, Twin Cities LISC, MHP and others have spent many years building the capacity of local non-profit CHDOs and would respectfully request that this small local preference be continued.

Please note that I have clipped in a section on this from Chip Halbach's letter, which we endorse.

1. Remove the proposed change allowing non-local nonprofits access to set-aside credits

   The nonprofit set-aside is only 10% of the state's tax credit amount. This set aside represents one policy where the agency supports Minnesota CHDOs carry out CHDO activity. Further, supporting Minnesota nonprofits also supports the community planning that many of these agencies participate in but for which they receive no or very limited compensation. Should this deletion of local preference not be adopted, national nonprofits would still be able to access 90% of Minnesota credits on a fully competitive basis.

Development organizations, whether for-profit or nonprofit remain viable in part through the continued development and ownership of affordable housing developments. With dwindling resources, it will be increasingly challenging for organizations to have a consistent pipeline of funded projects. Removing the requirement that a nonprofit organization applying to the Nonprofit Set-aside must be local, organized and incorporated in the state of Minnesota potentially works against local nonprofits while not necessarily filling an existing need. We recommend that the change not be made. If the Agency believes that there is a lack of nonprofit capacity in the area of affordable housing we recommend that the Agency consider providing some funds for capacity building. While it is not the responsibility of the Agency to assure that nonprofit developers remain viable, it is important to consider whether changes such as this one could inadvertently have a negative impact without a compensating benefit.

Thank you again for this opportunity to provide input.
Sincerely,

Pam Kramer
Executive Director
Duluth LISC
202 W. Superior St. Ste 401
Duluth, MN 55802
pkramer@lisc.org
218.727.7761
www.duluthlisc.org

From: Kier, Kasey [mailto:Kasey.Kier@state.mn.us]
Sent: Tuesday, February 21, 2012 3:12 PM
To: Pam Kramer; Kasey Kier
Subject: RE: Qualified Allocation Plan, Duluth LISC comments

Pam – This is to confirm receipt of your comments which will be written into record.

Kasey Kier| Minnesota Housing | 400 Sibley Street, Suite 300 | Saint Paul, MN 55101
651.284.0078 | 800.657.3647 | tty: 651.297.2361

Minnesota Housing finances and advances affordable housing opportunities for low and moderate income Minnesotans to enhance quality of life and foster strong communities.

[Please consider the environment before printing this e-mail.]
From: Pam Kramer [mailto:PKramer@lisc.org]
Sent: Tuesday, February 21, 2012 1:44 PM
To: Kasey Kier
Subject: Qualified Allocation Plan, Duluth LISC comments

Dear Ms. Kier,

Please find the attached Duluth LISC comments regarding the Qualified Allocation Plan hearing.

Pam Kramer
Executive Director
Duluth LISC
202 W. Superior St. Ste 401
Duluth, MN 55802
pkramer@lisc.org
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www.duluthlisc.org

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February 22, 2012

Ms. Kasey Kier
Minnesota Housing Finance Agency
Multifamily Division
400 Sibley Street, Suite 300
St. Paul MN 55101-1998

RE: Comments on the Proposed 2013 Housing Tax Credit Qualified Allocation Plan

Dear Ms. Kier:

The Greater Minnesota Housing Fund (GMHF) is a non-profit affordable housing intermediary serving the 80 counties of Greater Minnesota. As a funding partner in the Super RFP, GMHF has awarded nearly $50 million in gap financing to approximately 200 affordable multifamily developments since 1996. Additionally, GMHF partners with Minnesota Housing on long-term, comprehensive policy initiatives that address preservation and stabilization of affordable rental housing, ending homelessness, and green and healthy housing. The comments submitted herein address furthering these mutual goals, as well as the interests of our constituent geography of Greater Minnesota.

Preservation & Stabilization

- Federal Contributions Inclusion in Local/Philanthropic Selection Priority: GMHF strongly supports this proposed revision, particularly as it accommodates the subsidy value of 40-50-year terms and low-interest rates of new or existing USDA RD 515 first mortgages. With new federal resources for preservation of federally-assisted housing so scarce, it is important to both recognize and reward the value of this federal investment.

- Project-Based Rental Assistance (RA): GMHF strongly supports both the maximum points for projects with 100% RA, and reducing the contract term to 4-9 years to better accommodate USDA RD RA rules. Additionally, this revision will be useful to capture the rare creation of new federal RA units to supplement the preservation agenda and offset the loss of other federally-assisted units.

- Preservation Award Ceiling: GMHF supports this approach to maintain balance between preservation and new construction, especially where new construction is needed to address homelessness or individual market demands.

- Rural Set-Aside: GMHF has been in ongoing discussions with Minnesota Housing and USDA Rural Development staff about how to improve the $200,000 Rural Set-Aside. In

the past, it was disappointing that non-priority projects got funded (rehab only; not really at risk of loss). Last round, we were pleased that high-priority RD projects fared very well in the Super RFP. GMHF requests consideration that the Rural Set-Aside Pool be increased to $300,000 or $400,000. Our joint internal analysis of the state's 600+ project RD portfolio indicates that approximately 60 (10%) of these developments are both at risk of loss and have a number of other priority features (project-based rental assistance, high occupancy, good rural markets, etc). Most of these 60 projects could be lost within 5 years, and most are small enough that they could compete in this pool. However, with the current $200,000 cap, and without the opportunity to move to the general pool, only one or two projects per year are able to get funded.

- Determination of Market Need: In order to most strategically target LIHTC and subsidy resources to the highest priority preservation projects, GMHF encourages Minnesota Housing to expand its determination of need beyond the immediate risk of market conversion. It would be useful to update the market determination criteria to include need for the particular unit type, configuration and demographics served in that community to be necessary over a long period of time (e.g. the 15-year LIHTC compliance period).

- Development of Specific Criteria to Determine Stabilization Priorities: For future LIHTC and RFP rounds, GMHF strongly encourages Minnesota Housing to work with funding partners (particularly the Minnesota Preservation Plus Initiative partners) to develop specific criteria to sort out stabilization requests (not at risk of opting out of federal programs, but otherwise at risk due to project/sponsor financial condition or physical condition).

Ending Homelessness

- Preference for 100% Homeless Projects vs. Four Units: GMHF encourages Minnesota Housing to increase the number of points for projects serving primarily homeless families or individuals, versus just four units. As long as the sponsor is strong and the project is determined to be financially feasible, preference should be given to projects aggressively seeking to serve the community's lowest-income and most at-risk households. A point preference would also help to balance a community's housing needs between the state's priorities to end homelessness and preserve federally-assisted rental housing.

- Recognition of Rental Assistance Programs for Homeless: To further incentivize developments that primarily serve the homeless, it would be helpful to recognize (through points) the value of rental assistance programs other than project-based Section 8 and USDA Rural Development RA. Homeless projects that can put together 100% RA from a variety of programs including HUD-SHP, Group Residential Housing, tribal RA or master leases, project-based Section 8 vouchers or others should achieve the same number of points as a project-based Section 8 contract.

Green & Healthy Housing

- Sustainable Design Standards for HTC-Only Developments: GMHF strongly supports the requirement that all HTC developments, not only those receiving gap financing, meet the Agency's sustainable design standards (Green Communities with Minnesota Overlay). We were disappointed with the unintended consequences of this oversight last round, and believe this is a positive step. Along with Family Housing Fund, we are interested in exploring future revisions with the Agency for the 2014 QAP, including consideration of a tiered point structure (similar to Michigan) which incentivizes even more aggressive approaches to green building.

General & Greater Minnesota Comments (not otherwise addressed):

- Top Growth Communities Buffer Zone: GMHF supports the addition of a 10-mile buffer zone around designated Greater Minnesota communities, and believes it will better accommodate both the development patterns and housing needs of outstate cities and towns.

- Cost Containment: With resources – especially subsidy – getting scarcer, GMHF fully supports Minnesota Housing's increasing focus on cost containment. However, we encourage consideration of the following factors in order to support other important policy goals:

    - Allowances for extreme durability for supportive housing developments.
    - Evaluation of apartments as a more cost-effective alternative to the current townhome preference.

GMHF appreciates our long-standing partnerships and your consideration of our comments. Please contact me at 651-221-1997, Ext. 107 or whanson@gmhf.com if you have any questions.

Sincerely,

Warren Hanson
President & CEO

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institute on race & poverty

Research, Education and Advocacy

February 20, 2012

Minnesota Housing Finance Agency
Multifamily Underwriting
Housing Tax Credit Program
400 Sibley Street, Suite 300
St. Paul, MN 55101-4451

Re: Orfield Comments on State Qualified Allocation Plan.

To Whom It May Concern:

The Minnesota Housing Finance Agency (MHFA) has a duty to "affirmatively further fair housing."[1] This affirmative duty is "more than an obligation not to discriminate," it is an obligation for MHFA to use its "immense leverage" to further "integrated and balanced living patterns."[2] Minnesota's proposed Qualified Allocation Plan (QAP) does just the opposite. It encourages racial segregation by encouraging the placement of projects in segregated or unstably integrated areas and discouraging projects in high opportunity white or stably integrated areas. The QAP must be amended to conform to the requirements of the Fair Housing Act and strongly encourage the location of the majority of units in pro-integrative locations. Between, 2005-2011, the QAP resulted in the building of 1,200 units in the central cities, areas with segregated, low performing elementary schools. At the same time the state rejected $32,000,000 worth of projects in the suburbs where schools are more likely to be low poverty, high performing schools. Moreover, these suburban projects may actually have been less expensive to build with lower rents than the new projects built in the segregated neighborhoods of the central cities.

MFHA is not just a disinterested banker. It must comply with the Tax Credit statute *and the Fair Housing Act*.[3] To the extent that the State has opted to have a single entity administer both the LIHTC and CDBG/HOME block grant programs, its obligations to affirmatively further fair housing come into play with even greater legal force.[4] The State may be exceptionally

[1] 42 U.S.C. §3608 (d).
[2] NAACP v. Sec'y of Hous. & Urban Dev., 817 F.2d 149,156 (1st Cir. 1987). (citing NAACP v. Harris, 567 F. Supp. 637, 644 (D. Mass. 1983)).
[3] See Inclusive Communities Project v. Texas Dep't of Housing and Community Affairs, 749 F.Supp. 2d 486 (N.D. Texas 2010).
[4] The certification that the State of Minnesota signs, as a precondition of receiving roughly $30 million/year in Community Development Block Grants and other funds says that the State is promising HUD that all of its programs (not just those supported by CDBG and other funds, but the entire housing and community development function) will be operated consistent with affirmatively further fair housing (AFFH) requirements. *See* Fair Housing Planning Guide, vol.1, 1-3 (1993) *available at* http://www.hud.gov/offices/fheo/images/fhpg.pdf. Although a grantee's AFFH obligation arises in connection with the receipt of federal funding, its AFFH obligation is not restricted to the design and operation of HUD-funded programs at the state or local level. The AFFH obligation extends to all housing and housing-related activities in the grantee's jurisdictional area whether publicly or privately funded. The Guide echoes the Civil Rights Restoration Act of 1988 (CRRA), which overruled the Supreme Court's

efficient at producing affordable housing units—whether with LIHTC or otherwise—but the focus on the State as "banker only" and on raw numbers of units ignores one of the most important requirements Judge Cote underscored in her Westchester summary judgment opinion:

> The HUD Guide explains that while it is often the case that minorities are disproportionately represented among the low-income population, simply providing affordable housing for the low-income population "is not in and of itself sufficient to affirmatively further fair housing." This unsurprising statement is grounded in the statutory and regulatory framework behind the obligation to AFFH, which as already discussed, is concerned with addressing whether there are independent barriers to protected classes exercising fair housing choice. As a matter of logic, providing more affordable housing for a low-income racial minority will improve its housing stock but may do little to change any pattern of discrimination or segregation. Addressing that pattern would at a minimum necessitate an analysis of where the additional housing is placed.[5]

The Fair Housing Act forbids building a disproportionate share of low-income housing in poor and segregated, or integrated but resegregating, neighborhoods, when it is possible to build that same housing in low-poverty, high-opportunity white or stably integrated neighborhoods. Under the Fair Housing Act "color blindness is not permissible" in the decision to add low-income housing units to poor segregated neighborhoods or unstably integrated neighborhoods.[6] Courts in these circumstance have held that the "increase … of racial concentration is prima facie likely to lead to urban blight and is thus prima facie at variance with the national housing policy."[7] Moreover the courts have made abundantly clear that "increasing or maintaining racially segregated housing patterns merely because minority groups will gain an immediate benefit would render such persons willing, and perhaps unwitting, partners in the trend toward ghettoization of our urban centers."[8]

Grove City case, and re-established the principle that recipients of federal funds must comply with civil rights laws in all areas, not just in the particular program or activity that received federal funding. *See, e.g .Congress Overrides the President's Veto of the Civil Rights Restoration Act,* The Civil Rights Monitor, vol. 1, no.1 (Mar 1988), available at http://www.civilrights.org/ monitor/march1988 /art1p1.html . Since the language of the AFFH provision of the Fair Housing Act (42 USC §3608, and implementing regulations at 24 CFR Parts 91 and 570) are structurally similar to the civil rights statutes involved in the CRRA the principle is the same: Congress exercised its power under the Spending Clause to say, effectively: "If you take this federal money, then the entire housing and community development function of the state/municipality will be governed by these civil rights principles." If that is the case, then the State has an obligation to govern its own state programs in a manner that complies with AFFH. That includes the LIHTC program, whether operated by the state or legislatively delegated to sub-allocators. The obligation to run an AFFH-compliant program cannot be avoided by handing it off to another agency. The State will have obligations to monitor the entities to whom functions are delegated, and will retain respondent superior liability on top of the statutory, regulatory and contractual AFFH obligations.

[5] See United States of America ex rel Anti-Discrimination Center of Metro New York v. Westchester County, 668 F. Supp. 2d 548, 564-65 (S.D.N.Y. 2009) .

[6] Shannon v. United States Dep't. of Hous. & Urban Dev., 436 F.2d 809, 820 (3d Cir. 1970) (finding that "increase or maintenance of racial concentration is prima facie likely to lead to urban blight and is thus prima facie at variance with the national housing policy" and therefore concluding that housing authorities should not site new housing in racially concentrated areas if there are viable alternatives); *see also* 24 C.F.R. § 941.202 (g) (2010) (requiring public housing sites to be accessible to "*educational,* commercial, and health facilities and services" that are "at least equivalent to those typically found in neighborhoods consisting largely of similar unassisted standard housing" (emphasis added)).

[7] 436 F.2d at 821; 24 C.F.R. § 941.202.

[8] Otero v. New York Hous. Authority, 484 F.2d 1122, 1134 (2d Cir. 1973).

The Fair Housing Act requires Minnesota Housing and all of the state sub-allocators to consider the racial balance of schools attended by government-supported housing recipients [9] The clear implication of this legal requirement is that stably racially integrated schools are a central component of fair housing policy. Similarly, the Supreme Court has repeatedly held that school and housing segregation are reciprocally related and the patterns of illegal housing segregation causes school segregation and, similarly, that illegal school segregation causes segregation in housing.[10]

Moreover, HUD's Fair Housing Equity Assessment Grant Applications require grant recipients, such as the Met Council's Corridors of Opportunity Program, not merely to monitor the racial balance of local schools but their academic performance as well.[11]

On February 23, 2010, Secretary Shaun Donovan clarified HUD's Fair Housing requirements for its state grantees before Congress, stating:

> [S]ustainability also means creating "geographies of opportunity," places that effectively connect people to jobs, ***quality public schools***, and other amenities. Today, too many HUD-assisted families are stuck in neighborhoods of concentrated poverty and segregation, where one's zip code ***predicts poor educational***, employment, and even health outcomes. These neighborhoods are not sustainable in their present state.[12]

Contrary to law, the proposed QAP is not only impermissibly colorblind but goes beyond to create a system of scoring that encourages the placement of housing projects in areas of minority concentration near deeply racially segregated and low-performing schools, or in unstably integrated areas. This system of point scoring ignores Minnesota Housing's clear obligations to affirmatively further fair housing and to use its leverage to create balanced and integrated housing. Indeed, data described below indicate that, despite clear fair housing obligations, the state's fair share law, and a record of pro-integrative location decisions in earlier years, only 17 percent of subsidized units since 1986 are now located in a pro-integrative manner. Eighty-three percent of units are located in ways that now contribute to segregation or resegregation. This outcome is particularly suspect in contrast to MHFA's pro-integrative siting of affordable housing in the period from 1970 to 1986.

The need for more pro-integrative siting incentives in the Twin Cities is clear. According to Minnesota Department of Education data, the number of elementary schools in the region with very high non-white student percentages (above 80 percent) went from 11 schools in 1995 to 55 in 2002. Since 2002, this number has increased still further to 83 schools. Put another way, the number of non-white students in highly segregated schools increased dramatically from just

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[9] Shannon v. United States Dep't of Hous. and Urban Dev., 436 F.2d 809, 822 (3d Cir. 1970); 24 C.F.R. § 941.202 (c)(2)(g); The Fair Housing Acts requires that HUD must consider 1) the racial balance of schools attended by government supported housing recipients, 2) the location of middle income and luxury housing, and 3) the availability of federally guaranteed low cost loans.

[10] *See, e.g.* Swann v. Charlotte-Mecklenburg Bd. of Educ., 402 U.S. 1, 20-21 (1971); Keyes v. Sch. Dist. No. 1, Denver, Colorado, 413 U.S. 189, 202-203 (1973); Milliken v. Bradley, 418 U.S. 717, 755 (1974).

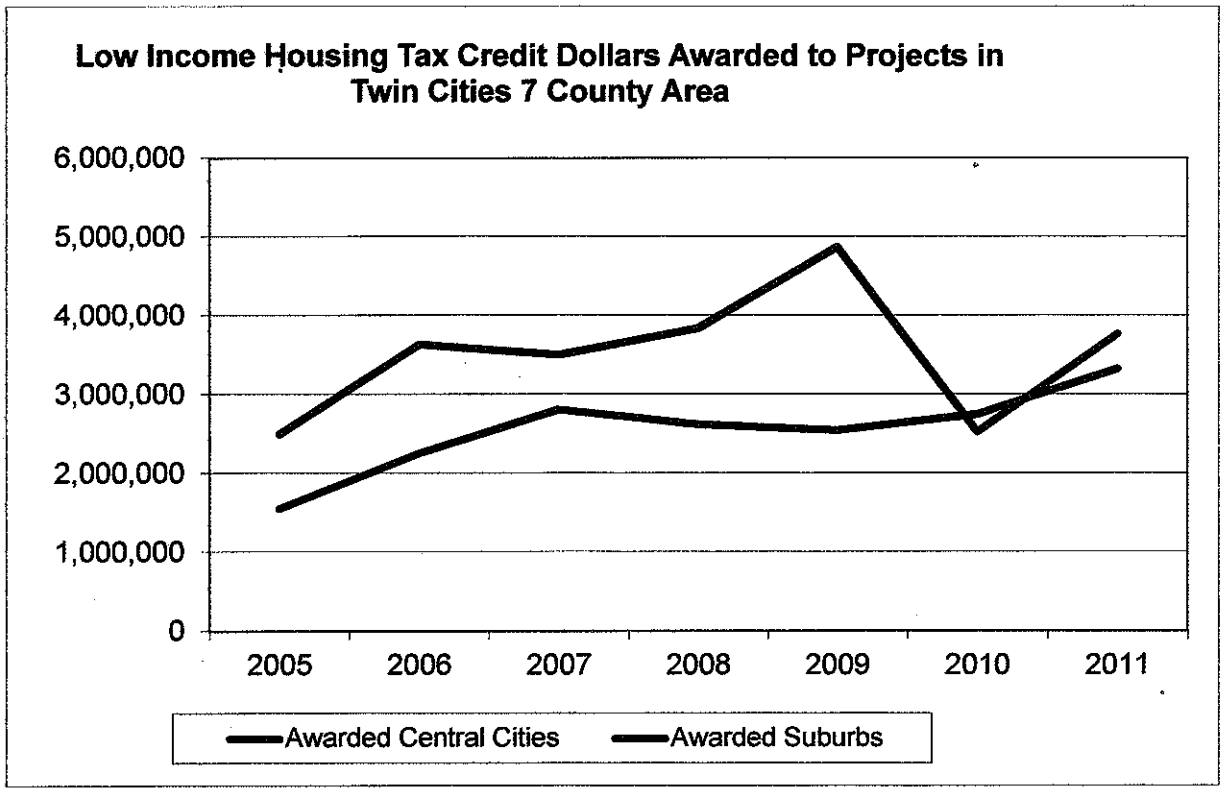
[11] *See* Addressing Equity and Opportunity: The Regional Fair Housing and Equity Assessment (FHEA) Grant Obligation (August 2011), http://www.prrac.org/pdf/Regional_FH_Equity_Assessment_HUD_Aug_2011.pdf.

[12] Press Release, HUD, Written Testimony of Shaun Donovan: FY2011 Budget Request for HUD (Feb. 23, 2010) (emphasis added), *available at* http://portal.hud.gov/hudportal/HUD?src=/press/testimonies/2010/2010-02-23.

3,419 in 1995 (or 8 percent of all students of color in the region) to 20,074 in 2002 (32 percent) and 31,535 in 2010 (36 percent).

Recent trends in the LIHTC Program

Recent research by the Institute on Race and Poverty (IRP), reported in *Region: Planning the Future of the Twin Cities* showed that, in 2002, roughly 50 percent of LIHTC units and 55 percent Section 8 project units were located in the region's two central cities.[13] IRP analysis of more recent tax credit allocation data in MHFA's annual publication of "Housing Tax Credit Awards and Applicants" shows that the percentage of LIHTC awards going to suburbs, measured in dollars, hovered near 60 percent from 2005 to 2009, then dropping to 50 percent in 2010 and 2011 (reflected in the chart below). Thus the central cities with only a quarter of the region's population and deeply racially segregated schools have received roughly 50 percent of the tax credit units and recent tax credit funding.

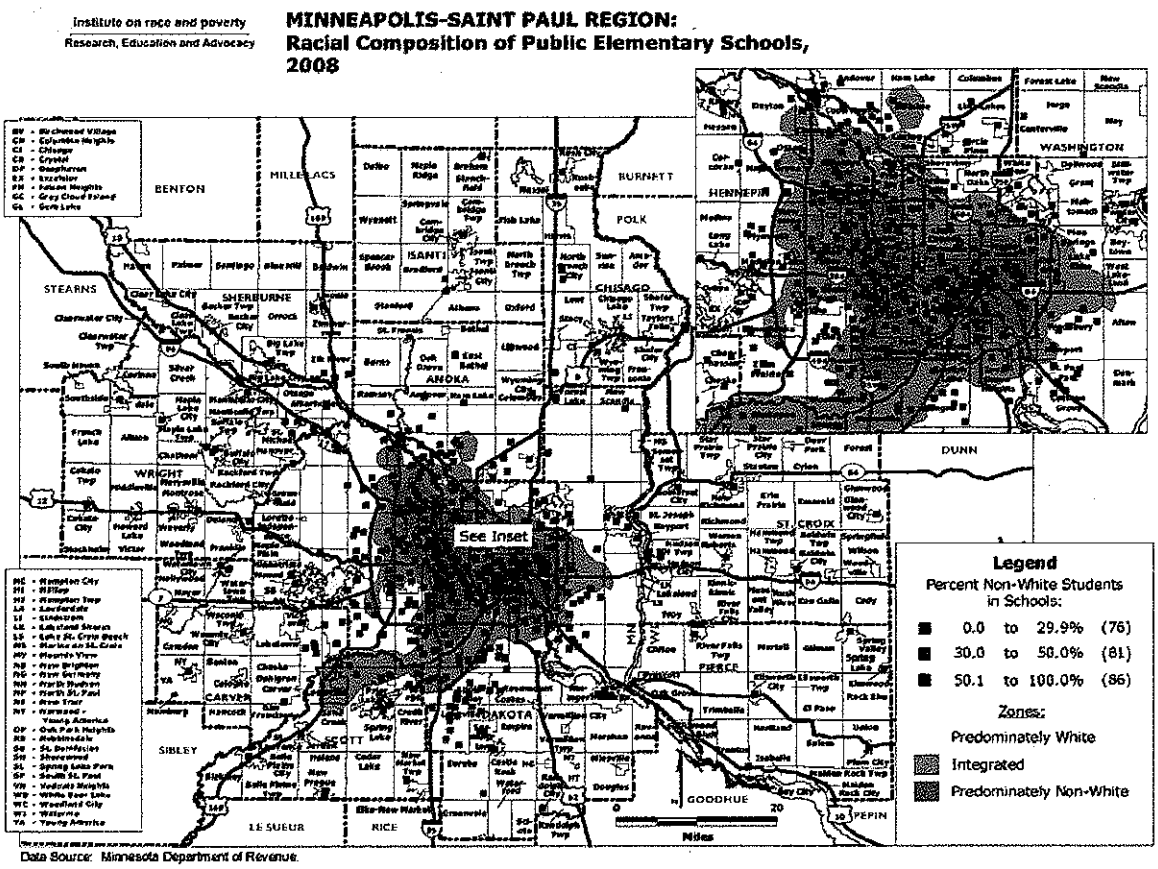


Moreover subsidized housing units in the suburbs since 1986 continue to be located primarily in areas with schools which are predominantly non-white or resegregating. The map below shows the location of elementary schools in the region, divided into three categories—predominantly white (schools with non-white shares between 0 and 30 percent), integrated (non-white shares between 30 and 50 percent), and predominantly non-white (non-white shares

[13] Orfield, Myron and Thomas Luce, *Region: Planning the Future of the Twin Cities*, University of Minnesota Press, 2010, Chapter 3.

greater than 50 percent). The map also shows contours for the parts of the region where schools of each sort predominate. In 2007, nearly two-thirds (64 percent) of all subsidized housing units in the region were inside the red contour where nearly all schools were predominantly non-white. Only 17 percent were in the non-shaded area where schools were predominantly white. This part of the region, of course, is where opportunity structures are strongest—where jobs are growing most quickly and where low-poverty, high quality schools predominate.

This pattern is very similar to neighborhood characteristics (as opposed to schools). Despite multiple levels of law and regulation to the contrary, subsidized units are also still disproportionately in neighborhoods of minority concentration (as defined by HUD) in the Twin Cities. IRP analysis of Housing Link data shows that in 2007, 57 percent of subsidized units (including LIHTC and Section 8 project units) were in census tracts with more than 30 percent minority residents, more than twice the percentage of the region's population living in those tracts.



A simulation by IRP of the potential effects of the placement of subsidized units in 2005 showed that more proactive placement of existing LIHTC units in attendance areas for low poverty schools could have significantly increased school integration at that time.[14] For instance,

[14] See Institute on Race and Poverty, *A Comprehensive Strategy to Integrate Twin Cities Schools and Neighborhoods,* 38, *available at* http://www.irpumn.org.

if LIHTC and project-based Section 8 units had been assigned *randomly* by race and located across the region in the same proportions as overall population, then the region could have been brought nearly one-third of the way to the goal of integrated schools in 2005.[15] It is thus conceivable that pro-integrative placement of new units in low poverty school attendance areas could do most of the work necessary for a racially integrated regional school system.[16] Indeed, in the long run, if housing policy returns to the more pro-integrative strategies of earlier decades it may be possible to have integrated schools with less pro-integrative busing than exists today.

Overall, as the central city schools have collapsed under segregation and poverty, the central cities have been allocated nearly twice their regional fair share of tax credit funding. Most of the tax credit units have been placed in neighborhoods in which the schools are predominately poor and non-white, have failing test sores (whether public or charter) and are growing worse and more isolated from college and middle-income jobs.

Recent MHFA tax credit allocation data also show that between 2005 and 2011, $10 million of new construction added about 1,200 of new units in the central cities, often in segregated neighborhoods, while at the same time, the state rejected about $32 million worth of requests from suburban areas, the part of the region more likely to have higher achieving and more integrated schools. In the suburbs, 85 percent of these LIHTC units are in white or stably integrated area. In the city, 85 percent of the units are in neighborhoods with more than 30 percent minority households and virtually all of the units are in areas with mostly non-white, high poverty and low performing schools. (See the table below and the map on the following page.)

[15] *Id.* at 39.
[16] If a random placement of units does half the work, a pro-integrative placement of all of the units by logical deduction could do even more.

Number of HTC and Affordable Rental Units by Percentage Minority in Census Tracts in the Cities of Minneapolis and Saint Paul, 2005-2011

		Rental Units Affordable at % of Regional Income		
% Minority in Tract	HTC Units	30%	50%	80%
0 to 19%	73	1,246	13,396	23,903
20 to 29%	263	2,135	9,963	16,023
30 to 49%	426	6,123	18,077	28,615
50 to 59%	200	2,915	8,823	12,693
60 to 79%	545	5,840	16,742	23,743
80% or more	329	3,628	6,779	9,690
Total	1,836	21,889	73,780	114,668

Number of HTC and Affordable Rental Units by Percentage Minority in Census Tracts in the Twin Cities Suburbs, 2005-2011

		Rental Units Affordable at % of Regional Income		
% Minority in Tract	HTC Units	30%	50%	80%
0 to 19%	1,127	6,954	26,301	60,473
20 to 29%	507	4,874	23,254	51,749
30 to 49%	282	1,905	12,398	25,412
50 to 59%	22	754	3,854	5,919
60 to 79%	0	295	3,029	4,174
80% or more	0	61	640	1,170
Total	1,938	14,843	69,476	148,897

Share of HTC and Affordable Rental Units by Percentage Minority in Census Tracts in the Cities of Minneapolis and Saint Paul, 2005-2011

		Rental Units Affordable at % of Regional Income		
% Minority in Tract	HTC Units	30%	50%	80%
0 to 19%	4.0	5.7	18.2	20.8
20 to 29%	14.3	9.8	13.5	14.0
30 to 49%	23.2	28.0	24.5	25.0
50 to 59%	10.9	13.3	12.0	11.1
60 to 79%	29.7	26.7	22.7	20.7
80% or more	17.9	16.6	9.2	8.5
Total	100.0	100.0	100.0	100.0

Source: 2005-2011 Minnesota Housing Finance Agency, 2006-2010 American Community Survey

Share of HTC and Affordable Rental Units by Percentage Minority in Census Tracts in the Twin Cities Suburbs, 2005-2011

		Rental Units Affordable at % of Regional Income		
% Minority in Tract	HTC Units	30%	50%	80%
0 to 19%	58.2	46.9	37.9	40.6
20 to 29%	26.2	32.8	33.5	34.8
30 to 49%	14.6	12.8	17.8	17.1
50 to 59%	1.1	5.1	5.5	4.0
60 to 79%	0.0	2.0	4.4	2.8
80% or more	0.0	0.4	0.9	0.8
Total	100.0	100.0	100.0	100.0

Source: 2005-2011 Minnesota Housing Finance Agency, 2006-2010 American Community Survey

It is also possible that suburban units could have been developed at lower expense than central city units. Over the last six years the average subsidy per unit according to MHFA in the central cities was $8,219. In the suburbs it was $7,934. In this light, it is noteworthy that, according to the Dakota County Community Development Agency, rents in the projects they have built are much more affordable in terms of both the government subsidy and the tenant rent than those in equivalent central city units. Such suburban units would have provided not only shelter to children living in them but access to schools with much better graduation and college attendance rates.

The state's system of sub-allocators is also highly segregative. Because it focuses so much effort on the two central cities, it has been a clear impediment to integration which the state does not identify in its Analysis of Impediments to Fair Housing Choice. The placement of the low-income housing tax credit by the Minneapolis and Saint Paul sub-allocators appears to be as segregative as the conduct by the City of Minneapolis which led to the successful fair housing law suit in *Hollman v. Cisneros*.[17] Because of the extremely segregative conduct of the central city sub-allocators, Minnesota Housing's obligation to create a pro-integrative scoring system for proposals is even more clear.

[17] Civ. No. 4-92-712 (D. Minn. filed Apr. 21, 1995); see also Timothy L. Thompson, *Promoting Mobility and Equal Opportunity:* Hollman v. Cisneros, 5 J. Affordable Housing & Community Dev. L. 237, 237 (1996).

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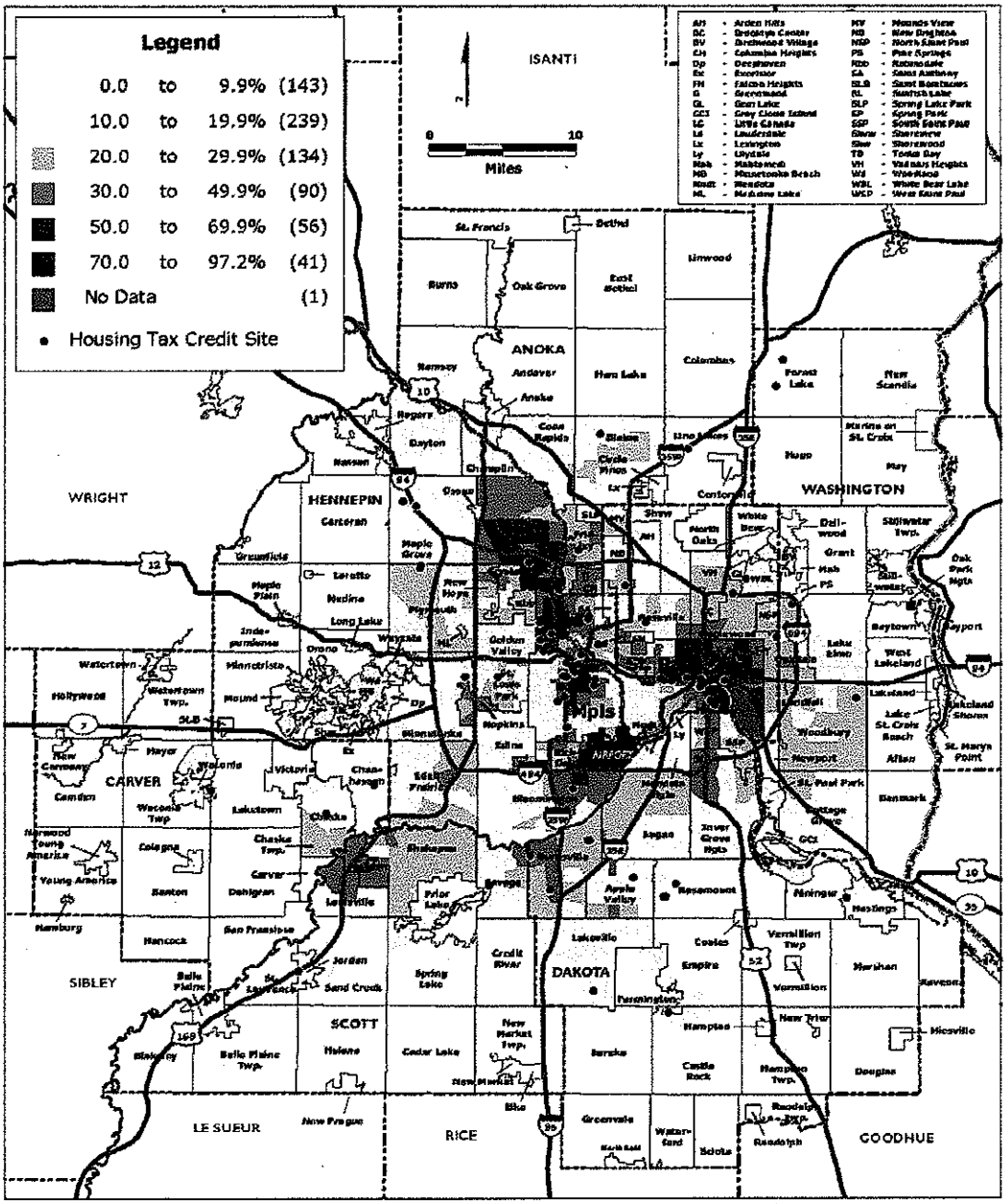
Research, Education and Advocacy

MINNEAPOLIS - SAINT PAUL REGION
Percentage Minority Population by Census Tract, 2010 and Housing Tax Credit Allocation Projects, 2005-2011



Data Sources: U.S. Census Bureau, Minnesota Housing Finance Agency.

Furthermore, under the QAP—contrary to the clear requirements of the Fair Housing Act—Minnesota awards no points for racial integration at all in the proposal evaluation process. Only one or two points are awarded for a potential project in low poverty areas. In contrast, virtually all of the other criteria—worth well over 100 points—appear to promote the placement of units in areas of minority concentration or resegregation. For example, "readiness to proceed" favors areas with less community opposition (24 points). In addition, "rehabilitation of existing structures" (10 points), "being part of community revitalization plan" (2 points), "using existing water or sewer" (10 points), "foreclosed properties" (10 points), "preservation of existing credits" (10 points) "permanent housing for the homeless" (110 points) "minimizing transportation costs" (3 points) "serves lowest income tenants" (13 points), "local philanthropic contribution" (which favors local CDCs operating in segregated neighborhoods) (10 points) would all seem to favor core city projects over areas where the schools are white or integrated and high-performing.[18] Even housing growth (10 points), which would generally appear to be pro-integrative by favoring suburbs, actually prioritized housing in Minneapolis and St. Paul in recent years when the cities led the region in new housing starts. Most recently, in 2010 the state agency added a criterion for "transit oriented development" which, if given effect, could increase the segregation of schools, particularly on the Central Corridor between Minneapolis and Saint Paul.

While some of the proposed changes to the QAP may slightly ameliorate this bias, most of the proposed changes actually make the system more segregative. Specifically, revising the targeting of the State Designated Basis Boost to areas that have community revitalization plans, historic buildings, and a high proportion of government supported housing is segregative. Other changes, such as revising the top growth community criteria, philanthropic contribution credit, and non-financial readiness to proceed could have very minor integrative effects, but will not change the overall segregative character of the QAP scoring criteria.[19]

The QAP must reflect the federal fair housing framework for stable metropolitan racial integration (SMRI) as articulated in the site and neighborhood standards developed under the authority of the 1) Fair Housing Act, 2) the Civil Right Act of 1964, and 3) the equal protection clause of the U.S. Constitution.[20] These site and neighborhood standards are codified at 24 C.F.R. section 941.202.[21]

For purposes of stable metropolitan racial integration, the Fair Housing Act creates three types of metropolitan neighborhoods or communities:

1) "*Areas of minority concentration*,"[22] or neighborhoods or communities with more than 30 percent non-white population in housing and/or neighborhood schools. These are neighborhoods or communities that are largely non-white and poor, or on a clear path toward

[18] See Minnesota Housing, Self-Scoring Worksheet, 2012 Housing Tax Credit Program. (Scoring Criteria) available at http://www.mnhousing.gov/idc/groups/multifamily/documents/webasset/mhfa_010882.rtf..
[19] See Proposed Revisions to the Qualified Allocation Plan (QAP) and Procedural Manual, 2013 Housing Tax Credit Program.
[20] See Orfield, *Racial Integration and Community Revitalization: Applying the Fair Housing Act to the Low Income Housing Tax Credit*, 58 Vand.L.Rev 1747, 1763-1776 (2005).
[21] See also *Shannon v. United States Dep't of Housing and Urban Development*, 436 F.2d 809 (3d Cir. 1970).
[22] 24 C.F.R. § 941.202 (c)(1)(i) (2010).

racial and social segregation and disinvestment caused by housing discrimination. Under the Fair Housing Act, "color blindness is not permissible" in areas of minority concentration and the "increase of racial concentration is prima facie likely to lead to urban blight and is thus prima facie at variance with national housing policy."[23]

2) "*Racially mixed areas*"[24] or neighborhoods or communities that are presently integrated, but where integration is fragile and subject to resegregation. These are neighborhoods or communities with a white and middle income majority, whose racial and economic stability is threatened by illegal and un-redressed housing discrimination including, but not limited to, a) steering by real estate agents, b) individual and geographic credit discrimination, c) discriminatory placement of government sponsored low-income family housing, d) discriminatory drawing of sub district school district attendance area boundaries or catchment areas[25], and e) other discriminatory housing or education practices by state governments or by surrounding local governments. The Fair Housing Act requires HUD to consider the racial balance of schools attended by government-supported housing recipients.[26] The clear implication of this legal requirement is that stably racially integrated schools are a central component of SMRI enforcement.[27]

3) All other neighborhoods or communities that are predominantly white and middle or upper income and under no threat of resegregation caused by housing discrimination. A subset of these neighborhoods includes "high opportunity neighborhoods or communities" (HOC). HOCs are defined to include the region's: a) best performing and best funded local public schools (which must also be either predominantly white and low-poverty or stably racial and economically integrated); b) best health facilities, services, and outcomes; c) best municipal facilities and services at a given tax rate, d) highest growth of entry level employment; e) highest concentration of luxury housing; and f) strongest, federally guaranteed, low cost prime credit market for housing and businesses redevelopment.[28] SMRI policy requires that these types of communities be prioritized for the placement of new government subsidized family housing. Research not only shows this approach is necessary for SMRI, but also shows that placement of housing in HOCs provides the best result for advances in educations and employment success.[29]

The QAP should be redrafted to change the implied pro-segregative incentives to pro-integrative ones. Under the Federal Fair Housing Act, 75 percent of projects should be pro-integrative or, at a minimum, the allocation plan must provide more pro-integrative siting decisions than segregative ones in each cycle.[30] All segregative decisions must occur in the context of a properly prepared community revitalization plan that will actually revitalize the

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[23] *Shannon*, 436 F.2d at 821.
[24] 24 C.F.R. § 941.202 (c)(1)(ii) (2010).
[25] See *Keyes v. Denver School District*, 413 US 189 (1973)(outlined standards for fair drawing of school catchment areas and declaring that housing and school segregation are reciprocally related).
[26] See 436 F.2d at 822
[27] *Keyes*, 413 U.S. at 201 (segregated school boundary drawing and segregated housing patterns have reciprocal effects).
[28] 24 C.F.R. § 941.202 (c)(2)(g); The Fair Housing Acts requires that HUD must consider 1) the racial balance of schools attended by government supported housing recipients, 2) the location of middle income and luxury housing, and 3) the availability of federally guaranteed low cost loans. See *Shannon*, 436 F.2d at 822.
[29] See IRP, "A Comprehensive Strategy to Integrate Twin Cities Schools and Neighborhoods," pp. 9-12, http:www.irpumn.org., for a review the research documenting the benefits of integrated schools.
[30] See *Gautreaux v. Chicago Hous. Auth.*, 304 F. Supp. 736, 737-38 (N.D. Ill. 1969).

neighborhood (as measured by school characteristics, the share of middle-income residents, and local business vitality). A plan that simply represents the status quo regarding segregation is impermissible under Title VIII.

The new criteria must incentivize the placement of units in high opportunity communities, or geographic areas with low-poverty, high-performing schools with less than 30 percent of the children qualifying for free or reduced cost lunch, and with less than 30 percent non-white students. In addition to integrated schools, the QAP should incent housing in cities and school districts with high levels of new entry level job growth, high fiscal capacity and low local tax rates, the best public health statistics, and the lowest crime rates.

The MHFA should redraft its QAP to conform to the requirements of the Federal Fair Housing Act and use its all of its "immense leverage" to further integrated and balanced living patterns.[31] Its scoring system should incent stable racial integration. It is both good policy for the region and it is the law of the land.

Sincerely,

Myron Orfield
Professor of Law
Director of the Institute on Race & Poverty

[31]See NAACP v Sec'y of Hous. & Urban Dev., 817 F.2d 149 (citing NAACP v. Harris, 567 F. Supp. 637, 644 (D. Mass. 1983)). The First Circuit pragmatically argued the legislative history reflects an intention that HUD should "use its grant programs to assist in ending discrimination and segregation, to the point where the supply of genuinely open housing increases." NAACP. 817 F.2d at 155.

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Commissioner Tingerthal:

We are concerned about the proposed cost containment criteria for tax credit funding and the effect it will have on affordable housing development in our service area, which is western Hennepin County. These are wonderful communities to locate affordable housing in – there are quality schools, safe streets, good-paying jobs, health facilities, and many amenities. Families thrive when living in this environment and reflect the success of their fellow community members. Developing affordable housing here helps achieve the economic integration that is a goal of MHFA.

However, it can be more expensive to develop here – land costs are higher and community standards may demand design features that cost more to implement. Focusing on cost containment may reduce quality, and make communities less willing to accept affordable housing. As an industry, affordable housing producers have worked hard to produce quality, visually-appealing structures, thereby countering community prejudices about what such housing will look like. We don't want to backtrack on the considerable progress we have made in this area.

Often these additional costs are supported by members of these communities who donate because they believe such housing is needed and will help support the design features that are needed to blend into the community. We hope you can accommodate these concerns in the cost containment measures, so we do not have yet another obstacle to developing affordable housing in our communities, where it is so desperately needed. Thank You.

Kim Vohs, Housing Director & LaDonna Hoy, Executive Director
Interfaith Outreach & Community Partners, Plymouth, MN

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LEGAL AID SOCIETY OF MINNEAPOLIS
James E. Wilkinson ▪ (612) 746-3784 ▪ jewilkinson@midmnlegal.org

February 22, 2012

Minnesota Housing Finance Agency
Multifamily Underwriting
Housing Tax Credit Program
400 Sibley Street, Suite 300
St. Paul, MN 55101-4451

Re: Qualified Allocation Plan for LIHTC

Colleagues:

The MHFA's efforts to obtain and allocate Tax Credits for housing for low-income Minnesotans are a critical part of its mission. The MHFA is commended for doing this work very efficiently. When resources are low and the poorest Minnesotans have great challenges to improving their health, employment, education and other facets of a productive life, thoughtful allocation of housing resources is obligatory. The following comments are informed by the needs and experiences of Legal Aid's clients who live in and move about the metro area but the suggestions may have applicability across the State.

One means of assuring effective allocation, of seeing that benefits are awarded in a way that supports an equity agenda endorsed by Governor Dayton[1], is to use the lens of "affirmatively furthering fair housing." Doing so also comports with Minnesota's obligation[2], as a recipient of federal housing funds, to act in such a manner as will eliminate impediments to fair housing.

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[1] The Governor has endorsed the equity-focused efforts of the Isaiah coalition in two large public meetings. http://www.startribune.com/politics/statelocal/139196764.html
[2] 42 U.S.C. § 3608(e)(5).

The State, as a condition of its cooperative relationships with HUD, must also take affirmative steps to ensure that protected-class persons, who too frequently live in substandard housing and in housing that is physically segregated from life opportunities, are provided the benefits of equal opportunity housing.

While tax credits are not sourced through HUD, because they are such a large part of the funding for housing program in the state, attention to fair housing consequences of the QAP is necessary both for Minnesota to move towards its goal of increasing equity and to meet its legal obligations under the Fair Housing Act. Furthermore, as developers frequently seek HUD dollars to package in funding for a Tax Credit development, the State should seek to achieve consistency on this factor across all sources. The State should also take into account the impact of other housing-related development activities, such as the decisions by LIHTC sub-allocators, placement of other subsidized housing and the like, even if it does not directly control them. It is important to examine the whole region's practices and challenges and to marshal resources to address the fair housing goals in light of how other actors are making decisions. The State's participation in the Corridors of Opportunity initiative is a good example of how a comprehensive view of development and housing planning should be pursued. The inclusion of transit access as a factor, while not without possible troubles, is an example of such systemic thinking.

The Department of Housing and Urban Development will soon promulgate regulations that specify more explicitly what "affirmatively furthering fair housing" means. We can read in a current funding announcement HUD's approach to the subject. It now insists that HUD-funded projects:

> must address at least one of the following objectives: (1) help overcome any impediments to fair housing choice related to the assisted program or activity itself; (2) promote racially, ethnically, and socioeconomically diverse communities; or (3) promote housing-related opportunities that overcome the effects of past discrimination because of race, color, national origin, religion, sex, disability, and familial status. [3]

The NOFA goes on to state:

> For programs that focus on rehabilitation or new construction of housing, activities that affirmatively further fair housing include those that: (1) ensure that housing is sited in a manner to enhance racial or ethnic diversity; (2) ensure that housing units are affordable to persons of low, very low, and moderate income; (3) to the extent permitted by program requirements, ensure that buildings and housing units are accessible and visitable by peoples with disabilities; (4) to the extent permitted by program and relocation assistance requirements, ensure that any existing residents relocated to facilitate construction are afforded preference or first right of refusal for the new units; and (5) ensure that the units are placed in an area of opportunity, which includes factors such as access to employment centers, effective schools, health care facilities, social services, and public transportation. New construction activities must refrain from geographically concentrating housing for persons with disabilities. Such housing must be placed in the most integrated setting appropriate to the needs of qualified individuals with disabilities. (emphasis added)

We urge the MHFA to push ahead more aggressively using its QAP to affirmatively further fair housing in line with those principles by following up on the suggestions presented here.

The Minnesota QAP needs to ensure continued racial and ethnic diversity of its beneficiaries and more strongly use the QAP to allocate tax credits to "areas of opportunity" to match the new HUD funding requirements. The QAP's past system of point allocations seems to serve the State

[3] Notice of HUD's FY2012 NOFA Policy Requirements and General Section to HUD's FY2012 NOFAs for Discretionary Programs. http://portal.hud.gov/hudportal/documents/huddoc?id=2012gensecNOFA.pdf

well in meeting a goal of serving people of color. The Agency's 2010 report notes that 49% of LIHTC syndication proceeds benefited households of color.[4] This is a significant portion of the population served and the State is due very good marks for this. The figure includes sub-allocators, so the MHFA's specific distribution is unclear. The MHFA should, if it is relying on a combination of factors that result in this high level of support, monitor to ensure that those most in need continue to benefit. If it is not effective over the short and long term, Minnesota must switch to a more focused criterion in the QAP to help racial and ethnic populations gain the base of safe and affordable housing.

This may be particularly important if the MHFA goes ahead with the proposal to delete the "underserved population" factor from scoring and makes it a threshold requirement. As the definition includes, disjunctively, "single head of household with minor children, households of color <u>or</u> persons with disabilities," it is possible that advance planning to serve households of color might be left behind. Affirmative marketing will remain a requirement, of course. But it may be more effective to set up expectations for racial integration by asking for specific commitment for inclusion of people of color as a threshold for tax credit applications.

The 2010 Annual Report does not show the geographic or opportunity-focused distribution of these resources, but Professor Orfield's figures in his February 20, 2012 letter show that in the metro area, a high portion of subsidized housing dollars are spent in the central cities and he raises important questions about whether this distribution harms efforts to increase racial and

[4] It would be useful to know how another very needy population, people with disabilities, benefit from the LIHTC program.

ethnic diversity and access to high opportunity features. Maps recently provided by the Agency do show that areas designated as high priority for economic integration (a factor in the MHFA QAP) generally coincide with areas where elementary schools are not segregated. This is a very good match for at least one of the increased opportunity goals we support and HUD requires. But it is unclear how much this factor shifts the allocation of overall LIHTC and affordable housing resources in the State towards high opportunity areas. Because of the high priority that we give to increasing housing choice in actually or potentially racially integrated communities with high opportunity characteristics, the number of points awarded for economic integration should be increased significantly.

The importance of the MHFA leading the State by setting out fair housing expectations as a central part of the LIHTC program is borne out by fair housing audits our office completed for the Fair Housing Implementation Council in 2010 and 2011. These audits used fair housing testing (secret shoppers) to observe how whites, African Americans, new immigrants from African and Latin America and people with disabilities were treated in publicly supported, privately owned and managed rental properties in the metro area. A number of these properties had tax credit support. The 2011 audit of seventeen properties showed only five instances of equal treatment. All of the tests where different treatment was observed involved either race or national origin factors; none involved disability. We did not label the treatment as discrimination on the basis of a single paired test, or even after multiple tests; we sought only to report on whether there was a material difference in treatment. There were two instances, in fact where white testers encountered less-favorable treatment when trying to rent. Even assuming

that bad customer service explains all of the differences in treatment, the fact that people of color got bad customer service more frequently than whites suggests a problem exists.

This experience, together with fifteen years of experience in representing several thousand tenants in fair housing matters, leads to the suggestion that the MHFA add another threshold criterion. The developer should make a commitment that it or its agent or successor - whoever manages the rental property - will implement a fair housing operations policy. The policy should be crafted to ensure that applicants and tenants are not subjected to unfair or discriminatory treatment, as defined by the Fair Housing Act, the Minnesota Human Rights Act and other applicable federal, state and local laws. Because a majority of the fair housing complaints fielded by Minnesota's legal aid offices and by HUD involve disability discrimination, the policy should provide expressly for making reasonable accommodations for people with disabilities. The policies should be applicable to all operations and staff, should be made known to applicants and residents, and should specify an individual in management who is responsible for training and performance. We can offer a model policy and, as we already do regularly, assist with fair housing training for housing providers.

The MHFA should also consider other ways that agencies elsewhere in the U.S. have worked to support racial integration and look to adopt those that would appear to be effective in this State. A 2008 paper collecting that information: *Building Opportunity: Civil Rights Best Practices in*

the Low Income Housing Tax Credit Program[5] can guide Minnesota towards such best practices for adoption in subsequent years' revisions to the QAP.

In addition, Professor Orfield forcefully argues that certain features of the QAP put too many of Minnesota's overall LIHTC resources in inner city areas and therefore run counter to the pro-integration stance that we also urge here. These ideas need to be seriously weighed in order to address the problem of significant disparities of opportunity afforded to low-income people of color in the central cities. At the same time, many Legal Aid clients have been homeless for too long, live in low cost housing in the cities that needs preservation and reside in places where improving the neighborhood is part of developing opportunities. They may plan to move to where current and planned transit stops will get them to jobs and schools and they appreciate that St. Paul and Minneapolis provide important resources and opportunities not yet found elsewhere in the region. LIHTC allocations cannot simply leave them behind, and Orfield does not suggest that. Addressing Orfield's suggestions must be paired with efforts to address those Minnesotans' immediate and long term needs. We hope that this is the start of new discussions on how to do that.

To summarize, advancing fair housing through Minnesota's QAP would be served by:

1. Ensuring that selection factor continue to benefit people of color (adopt alternative means of achieving that goal if the measures no longer work);

[5] Published by Poverty & Race Research Action Council and Lawyers' Committee For Civil Rights Under Law found at http://www.prrac.org/pdf/2008-Best-Practices-final.pdf

2. Giving more weight to factors that lead to greater racial integration and housing in areas of high opportunity;
3. Revising the threshold criteria relating to underserved populations to require that projects serve people of color (rather than allowing it as one of three subpopulations);
4. Adding a threshold requirement for the adoption of a fair housing operations policy for LIHTC property management; and
5. Reviewing other states' civil rights-focused QAP provisions and other fair housing suggestions for future QAP revisions.

Thank you for your attention to these recommendations.

Sincerely,

James E. Wilkinson
Attorney

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February 22, 2012

Kasey Kier
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

Re: Written Comments Regarding Proposed Changes to the 2013 QAP

Dear Kasey,

The Metropolitan Consortium of Community Developers (MCCD) and our 48 members, appreciates the work that Minnesota Housing has been engaged in thus far in proposing changes to the 2013 QAP. We understand that agencies throughout the country are also looking for ways to contain costs and respond to the changing needs of our communities. We applaud the effort the Agency has made.

As we work on modifying the QAP, one of the challenges that our members struggle with whenever the QAP is revised is receiving enough advance notice so that their development plans can be responsive. Many members already have projects that have received a partial allocation, or are in their own pipeline, and any changes to the QAP risks disrupting the pre-development work that has gone into those projects. As an overarching comment, we suggest that the process of revising the QAP take place as far ahead of implementation as possible.

A number of our members have submitted more detailed comments and suggestions. MCCD is offering our comments on some of the areas of more prevalent concern among membership:

1. Floating Rate: A number of members have suggested that there are projects which can be in service by December 31, 2013, and that the Agency should make the 9% rate applicable to those developments.
2. Cost Containment: A number of concerns arise from this initiative. We understand the importance of fiscal responsibility in these challenging times, but we worry that these restrictions will have unintended consequences. We believe that these limits could make it difficult to build supportive housing, because these projects have higher development costs. These limits could also make building transit-oriented-housing more difficult because those projects typically encounter higher land acquisition and development costs. The acquisition and preservation of historic and or strategically important housing in higher cost areas such as the central cities, growing suburbs and development corridors may also be negatively affected under these provisions. In addition to those concerns, the cost containment provisions seem to conflict with some of the long-standing principals of constructing high-quality, green and durable affordable housing.
3. Nonprofit set-aside: MCCD would prefer that Minnesota Housing preserved our strong infrastructure of nonprofit developers and suggests either keeping the set-aside or modifying it to award nonprofit developers additional points.

Thank you for your consideration,

Jim Roth
Metropolitan Consortium of Community Developers
Executive Director

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Minnesota Housing Partnership www.mhp.org 651.642.1710

2-22-12

Via email: 2-22-12, to kasey.kier@state.mn.us

To: Kasey Kier, Minnesota Housing
From: Chip Halbach, Minnesota Housing Partnership

Comments by Minnesota Housing Partnership regarding the 2013 QAP

The comments below were informed by remarks made on a conference call hosted by MHP on February 17. This call was focused on addressing challenges in using the tax credit program in Greater Minnesota although a number of issues discussed were statewide in nature. Approximately twenty nonprofit and for-profit developers participated in the call. The call was not structured to enable priority setting for the group as a whole, so these comments can only be characterized as representing opinions expressed on the call.

1. Enable some new construction projects to utilize the fixed credit rate

   The agency proposes that developers of new construction projects must utilize the floating credit rate. While this appears reasonable in light of federal law, using the floating rate will significantly reduce the amount of credits that can be awarded a project and place new construction projects at a competitive disadvantage. We believe that the agency should enable new construction projects to use the 9% rate where the developer can demonstrate that the proposed project would be completed by year end 2013. This could include new construction projects that have received prior year tax credit allocations.

2. Revise targeting of state basis boost to level the playing field for rural communities and preservation of tax credit units

   In addition to the project types the agency identifies as qualified for a basis boost, the agency should provide the boost to development proposed for smaller rural communities (towns smaller than Mankato). In these communities, compared to metropolitan areas, lower median incomes and subsequent low rents mean less debt can be supported. More subsidy funds are then required to finance rural projects. Rural Minnesota needs this basis boost in order to compete for rental housing development.

   Considering statewide needs, we support the agency explicitly adding to the basis boost category the preservation of housing funded through the tax credit program.

3. Do not have underserved population as a threshold requirement without greater specificity

   The proposed change appears to take the scoring criteria of marketing or designing a project to be occupied by two populations, single heads of households with minor

children and households of color. If this new proposed threshold could be met by adopting an affirmative marketing plan, the agency should state that in the QAP. If something in addition will be needed to meet the threshold, the agency should identify what that is and allow for public comment before adoption.

4. Create a longer timeframe to respond to major QAP changes

   Although we do not see how it could occur for this funding round, we recommend in 2014 that the agency adopt QAP changes for projects submitted a year after the QAP change is proposed. This will enable developers to more efficiently use their time and seek out competitive projects. The current timeframe where proposed changes are released, late January for project submissions in mid-June, provides too little time to adjust should significant priority shifts in the QAP occur. Alternatively, the agency could limit a one-year notice of a QAP change just to those ranking criteria that are location specific, "Top Growth Communities" for instance. This would enable the agency to make other types of revisions, such as for the points associated with rental assistance commitments, as they are now made in the current QAP cycle.

5. Adjust Cost Containment Factor

   Our general concern is that the current structure of cost caps for the low and moderate threshold criteria will discourage the quality of affordable housing development that Minnesota is now known for. In addition, this criterion could drive development to areas with low land costs. It could also encourage a tradeoff of investor objectives that increase TDC (such as higher reserve levels and for bridge financing) for lower credit rates – and a resulting need for higher subsidies. The proposed TDC caps also discourage development of three/four-bedroom properties or housing that requires office and other space for services.

   A national interest in reducing tax credit development costs driven by reaction to the extremely high project costs found on either coast should not undercut our commitment to quality and other Minnesota objectives.

   Here are some possible amendments to the proposed policy:

   - Instead of using a TDC, utilize an "adjusted TDC," where developers can remove project costs that either are not related to real estate development and/or are not paid by agency, or agency funding partner. This includes adjusting out dollar amounts for social services and reserves required for homeless units, or costs paid by other agencies such as for brownfield remediation. For preservation projects assumed deferred debt should also be excluded in the adjusted TDC.

Minnesota Housing Partnership

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- Instead of a TDC, use per unit tax credit basis for the low and moderate cost thresholds. This approach would eliminate land costs and put properties in higher-priced communities on par with lower cost communities.
- If land prices remain included in the cost criteria used by the agency, have Greater Minnesota metro areas on the same cost scale as communities in the Twin Cities.

In general, criteria other than cost should be used to determine whether a project is developed in a rural area, a Greater Minnesota metropolitan area, a wealthy suburban Twin Cities community or a central city Twin Cities neighborhood.

6. Remove the proposed change allowing non-local nonprofits access to set-aside credits

   The nonprofit set-aside is only 10% of the state's tax credit amount. This set aside represents one policy where the agency supports Minnesota CHDOs carry out CHDO activity. Further, supporting Minnesota nonprofits also supports the community planning that many of these agencies participate in but for which they receive no or very limited compensation. Should this deletion of local preference not be adopted, national nonprofits would still be able to access 90% of Minnesota credits on a fully competitive basis.

7. Rural areas should be isolated from points awarded for homeless units

   Our perspective on the homeless criterion concerns the specific challenges placed on rural areas. First, rural communities are less likely to have a need for four homeless units. Second, developers in rural areas have a much tougher time securing a reliably funded social service partner. Third, it is already difficult to attract tax credit investors to rural areas; securing investors in rural areas for projects with a number of homeless units is nearly impossible.

   Possible solutions:

   - Have a set aside for rural areas during the first funding round.
   - Eliminate the points for projects with 5% homeless units, with a four unit minimum. Instead offer a set-aside for homeless units at a level that supports the agency's homeless plan and reflects available supportive service funding.

Finally, in past years we have commented on the need to allow some level of tax credits to be awarded to housing oriented to seniors. The agency has responded that one-bedroom units in family developments can be so occupied. This is a step in the right direction; but we believe that there is an increasing need for senior housing with services to which the agency should respond. The tax credit program should support some part of that need.

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February 21, 2012

Julie LaSota
Minnesota Housing
400 Sibley Street, Suite 300
Saint Paul, MN 55101

Re: Proposed Changes to Minnesota's 2013 Qualified Allocation Plan

Dear Ms. LaSota:

The National Housing Trust is a national nonprofit organization formed to preserve and revitalize affordable homes to better the quality of life for the families and elderly who live there. NHT engages in housing preservation through real estate development, lending and public policy. Over the past decade, NHT and our affiliate, NHT-Enterprise Preservation Corporation, have preserved more than 22,000 affordable apartments in all types of communities, leveraging more than $1 billion in financing.

We appreciate the opportunity to comment on the proposed changes for Minnesota's 2013 Qualified Allocation Plan. The Trust fully acknowledges and appreciates the entire set of preservation policies and programs established by the Minnesota Housing. The comments below refer directly and specifically to Minnesota Housing's proposed QAP changes as it relates to the tax credit program and are in no way meant to imply a lack of appreciation for your other successful preservation programs and policies or the current challenges in the tax credit market.

Low Income Housing Tax Credits and Preservation in Minnesota

As Minnesota Housing knows, preserving and rehabilitating existing housing is a cost-effective and sustainable method to provide rental housing to low-income families and seniors. Preservation safeguards existing units by prolonging federal investment in affordable housing properties and requires less tax credit equity per unit than new construction developments. **In 2009, preservation projects in Minnesota required an average of 53% less tax credit equity per unit than new construction developments.** Furthermore, preservation projects in Minnesota have helped promote green practices and resource efficiency by salvaging and improving existing buildings.

The Trust commends Minnesota's successful preservation work, which has resulted in **no less than 5,591 units preserved from 2003-2009 using both 9% and 4% tax credits.** This success is truly outstanding. **By awarding points to preservation in the QAP, Minnesota Housing demonstrates a**

strong commitment to preservation and balanced housing policy that helps meet the needs of Minnesota's elderly, disabled, and low-income households.

Preservation and Sustainable Communities

As Minnesota Housing knows, the preservation of existing affordable housing is *fundamentally* green: rehabilitation produces less construction waste, requires fewer new materials, and consumes less energy than demolition and new construction. Using green building strategies, preservation projects can deliver significant health, environmental, and financial benefits to lower-income families and communities. Green technologies promote energy and water conservation and provide long-term savings through reduced utility and maintenance costs, all while providing residents with a healthier living environment and reducing carbon emissions. **As a result, we enthusiastically support the inclusion of Enterprise Green Community standards in the QAP threshold criteria, which encourages green building practices and energy efficiency while recognizing the inherently green nature of preservation.**

The Trust also commends Minnesota Housing for recognizing the importance of transit-connected affordable housing in its 2013 QAP. In a recent analysis of federally subsidized housing near transit, the Trust and Reconnecting America found 4,156 apartments within a half-mile of rail or bus transit in Minneapolis/St. Paul that are at-risk of being lost with contracts expiring by 2014 (see table). By awarding points to projects located in close proximity to public transportation, Minnesota Housing is helping to preserve these at-risk units while further incentivizing location efficiency among low-income housing tax credit applicants. Because transportation and housing are the two largest expenses for households across the country, it also helps ensure that low-income families are able to fit both of these necessities into their budgets.

Furthering Minnesota's Preservation Efforts

By including these preservation, green building, and transportation incentives, Minnesota Housing has established itself as a leader in the preservation of America's vital affordable homes. But despite Minnesota's exemplary success, many affordable units are still at risk (see table). **To help ensure Minnesota's continued success, we suggest that Minnesota Housing consider creating a preservation set-aside in its 2013 QAP.** While preservation projects perform very well under Minnesota Housing's scoring criteria, an established set-aside can serve as a further support for preservation while also helping to maintain a balance between new construction and rehabilitation. Neighbors Wisconsin and Iowa have already prioritized preservation through set-asides. We encourage Minnesota Housing to consider including this type of incentive in the final 2013 QAP.

At-risk properties in Minnesota

Project-based Section 8 properties with contracts expiring by 2017:

- 16,689 assisted units in 347 properties

In Minneapolis/St. Paul, 70% of federally subsidized housing units within a half-mile of transit may be lost by 2014.

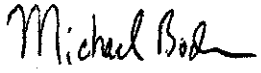
Conclusion

It is fiscally prudent for states to balance tax credit allocations between new construction and preservation/rehabilitation. In addition to helping to build sustainable communities, preservation is significantly more cost-efficient and environmentally friendly than new construction. The National Housing Trust urges Minnesota Housing to continue its support for sustainable communities and the

preservation of Minnesota's existing affordable housing by creating a set-aside for preservation in your final 2013 QAP.

Thank you for the opportunity to comment on this important issue in the State of Minnesota.

Sincerely,



Michael Bodaken
President

Enclosures

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PODAWILTZ DEVELOPMENT CORPORATION

Rec'd Feb 8

February 6, 2012

Commissioner Mary Tingerthal
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

Re: Proposed Revisions to the QAP and Procedural Manual, 2013 Housing Tax Credit Program

Dear Mary:

Thank you for the opportunity to comment on the propped changes to the QAP and Procedural Manual for the 2013 Housing Tax Credit Program.

We take exception with the proposal that would require new construction proposals to use the floating tax credit percentage. The recommendation states that "new construction proposals selected for 2013 HTC will be ***unlikely*** to complete construction and be placed in service before December 30, 2013". The staff recommendation recognizes and states that "utilizing the floating percentages will make it more difficult for projects to be financially feasible without additional gap funding".

We do not believe that MHFA should be making it more difficult for itself and its partners to develop affordable housing in Minnesota by implementing the floating tax credit percentage for all new construction proposals.

The premise of the recommendation appears to be based on the concept that new construction is "***unlikely***" to be completed and placed in service before December 30, 2013. We believe that new construction should be subject to the same standard as preservation proposals if there is a "high level of certainty that the project will be placed in service prior to December 31, 2013 as supported by the project schedule submitted with the application".

New construction proposals without gap financing can meet the December 31, 2013 placed in service date if they are reasonably sized and constructed as townhomes or walkup buildings. We have done this a number of times; the most recent being Burl Oaks Townhomes in Sartell, MN which received Board Selection on November 17, 2011, closed on January 24, 2012 and the final building will be placed in service on October 1, 2012.

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The concept of making all new construction proposals reliant on gap funding does not seem factually justified and seemingly, adds a further strain on the scarce gap financing resources.

If you have any questions please feel free to contact me by phone at 320-255-1719 or by email at jmp@pdcorp.us.

PODAWILTZ DEVELOPMENT CORPORATION

J. Michael Podawiltz

Kasey:

Our comments to the Draft QAP are below. Thank you for confirming oral testimony. Let me know if you have any questions.

Thanks,
Chris

Cost Containment

While PPL supports encouraging ways to reduce unnecessary project costs we are concerned that the TDC limits proposed will negatively impact important projects. The TDC limits as proposed create a competitive disadvantage for projects with the higher or unique costs such as:

- equity bridge financing (the increased credit price achieved more than pays for the added cost)
- commercial space
- underground parking
- amenities expected in the marketplace (in-unit laundry, multiple baths in multi-bedroom units, play areas, etc)
- higher quality building materials (which are sometimes required by land use and zoning standards, or are integral in obtaining community support or advancing the cause of affordable housing generally)
- energy improvements with higher first costs (but lower operating costs)
- supportive housing (for on-site program and office space which reduces service costs and improves outcomes, due to higher required reserves, and for the inclusion of durable materials to reduce ongoing operating costs)
- brownfield redevelopment (soils cleanup and other environmental remediation (lead, asbestos, etc)
- projects in neighborhoods/locations with higher land values (or in redevelopment areas where strategic acquisition is necessary)
- acquisition/rehab deals with soft debt that rolls over into the new partnership
- It could also penalize family projects (3+bedrooms) since the total number of units that can be built on a particular site will likely decrease as unit size increases, especially for townhouse type developments.

Many developments like these should be elevated, not penalized, since these higher costs result in positive community development outcomes and are often paid for by other public and private resources. While this scoring criterion does not preclude these projects from happening, it will make them less competitive. We strongly encourage you to consider one or more of the following:

1. allowing reasonable costs such as these to be subtracted from the TDC;
2. creating a cap for the cost categories which you are most interested in containing (such as a per square foot construction cost cap by project type and location);
3. adding a separate sub-category(ies) for supportive, environmentally impacted, and strategic redevelopment projects; or,
4. if nothing else, consider delaying this change for 12 months to allow time to re-assess projects in our pipeline based on the new criteria

Applicable Percentage for new construction

Another concern is the proposal to underwrite new construction projects with the floating applicable percentage (currently 7.42%) rather than the fixed 9%. This will penalize projects that can place in service by 12.31.2013 by reducing the amount of credits allocated by about 15% and therefore increasing the amount of soft debt required. Clearly, meeting a 2013 PIS deadline will be a challenge for new construction but it's not impossible for projects that are truly ready to go (like projects with partial allocations or those with no deferred financing gap or a gap that can be closed during this funding round). The result of this change could be that more projects will be selected this round, each with fewer credits and larger gaps. We would like to see some flexibility added to allow projects to be underwritten at 9% (and therefore qualify for a higher amount of annual credits without having to apply in a future round) if they can illustrate that they can be placed in service by the end of 2013 or if the 9% floor legislation passes. Perhaps developers could be required to refund a portion of the reservation to the Round 2 pool if they do not meet certain benchmarks.

Underserved populations

If this criterion becomes a threshold requirement, provide further definition on how to meet the requirement and whether credits could be re-captured if not continually met during the compliance period. If it is the case that all or almost all of the applicants are awarded these points wouldn't another option be to create a sliding scale so the project that best meet this goal are awarded the most points?

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Assoc. Director of Real Estate Development
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****
PPL: Helping people help themselves

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COMMENTS REGARDING THE PROPROSED REVISIONS TO THE MINNESOTA HOUSING TAX CREDIT ALLOCATION PLAN.

Revise Project Location - Top Growth Community scoring criterion.

We support the decrease in points from 10 to 5, although this scoring area has effectively eliminated all tribal communities as well as most of Greater Minnesota. We understand the state's intent to focus on areas experiencing growth, but it should also consider the great need for housing on the reservations – even more so than in areas where the economy is seeing a rebound. This criterion also excludes tribes in the area of economic integration which includes projects with mixed use or located in high income areas. These standards cannot be considered for tribes because of the income levels of families in the tribal communities.

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

The cost to construct projects on the reservations is higher than the cost to construct off the reservation due to the remote locations, and also due to the additional procurement requirements that tribes must abide by. Tribes are required to follow applicable State, Federal and tribal laws in procurement, such as Indian Preference Requirements and Tero, which also increases the cost per unit. The levels listed are extremely low and would most likely prevent tribes from scoring in this category also. We propose that consideration should be made for projects consisting of single family detached housing.

NOTE:

We are of the opinion, that the proposed changes now harm the chances of tribal communities to compete for the tax credits and favor's the urban projects which are situated in areas of higher economic growth and lower construction costs.

Richard Barrett

Richard Barrett, Chairman – Board of Commissioners

Board of Commissioners
Richard Barrett, Sr., Chairperson • Adrian Beaulieu, Vice-Chairperson • Lucille Auginash, Secretary
James Brun, Commissioner • Myron Kingbird, Commissioner • Lisa Defoe, Commissioner

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Saint Louis County

Second District Commissioner • 100 North 5th Avenue West • Duluth, MN 55802
Phone: (218) 726-2359 • Fax: (218) 726-2469 • Email: oneils@stlouiscountymn.gov

Steve O'Neil
County Commissioner

February 21, 2012

Ms. Kasey Kier, Tax Credit Allocation Manager
Minnesota Housing
400 Sibley Street, Suite 300 – Park Square Court Building
St. Paul, Minnesota 55101-1998

RE: Comments on the 2013 Housing Tax Credit Allocation Plan

Dear Ms. Kier,

Below are some suggestions for changes to the Qualified Action Plan that would help larger projects be more competitive in the Low Income Housing Tax Credit process that are worth consideration by the Minnesota Housing Finance Agency.

1. Duluth's economy is more like the metro economy than outstate Minnesota when it comes to construction costs and it should be grouped with the Twin Cities Metro Area of the state for application scoring purposes with regard to construction costs.

2. Duluth, as a sub-allocator of tax credits that contributes it credits to the state pool, has no say or potential to influence scores by endorsing projects. A sub-allocator contributing its credits to the State pool should have real, but appropriately weighted, impact on project scores for projects it endorses.

3. In order to continue to make headway on the 10 year plan to end homelessness, there needs to be greater incentives for LIHTC developments which reserve the majority of units for the long-term homeless families with children.

4. There should be significant additional points allocated for projects that include:
   - Highly durable construction & finishes
   - Increased security
   - Projects that rank high in local support
   - More community amenities such as:
     - Secure play areas for children
     - Indoor education space for children and adults
     - Laundry facilities
     - Common spaces for community building activities
     - Adequate parking
     - Space for on-site managers and social service providers

   These features cost more, but they are essential to making a significant difference in ending homelessness for families. This difference impacts families who may otherwise continue to pass down a legacy of homelessness to their own children.

In greater Minnesota we have few developers that have real interest and experience in taking on significant, larger housing projects for homeless households. The continued prioritization of preservation of low income housing that excludes projects that address homelessness in a significant way (50% or more of units reserved for homeless households) takes away the incentive for developers to serve the homeless.

Duluth and St. Louis County have made a serious commitment to the 10 year plan to end homelessness in Minnesota. We get very few opportunities for larger projects like the Hillside Apartment project. The Hillside Apartment project will make a significant impact on ending homelessness for families. Please work with us so we can continue to dramatically reduce homelessness in our community.

Thank you for your consideration of these suggestions as you further refine the changes to the Qualified Action Plan for 2013.

Sincerely,

Steve O'Neil
County Commissioner

Southwest Minnesota Housing Partnership

"Putting Together the Pieces of Community Development"

February 21, 2012

Ms. Kasey Kiers
Minnesota Housing Finance Agency
400 Sibley Street, Suite 3
St. Paul, MN 55101-1998

RE: Written Testimony in Response to the Proposed 2013 Housing Tax Credit, Qualified Allocation Plan and Procedural Revisions.

Dear Ms. Kiers,

The Southwest Minnesota Housing Partnership wishes to provide the following responses to your proposed changes to the 2013 Housing Tax Credit Program, Qualified Allocation Plan and Procedural Manual revisions.

We are in agreement to the proposed revisions to the Qualified Allocation Plan, QAP, in the following areas:

1. Require new construction proposals to utilize floating tax credit percentage rate – **Excepting the circumstance when a supplemental request for 2013 credits is received for a project funded with a previous year's credits**
2. Revise targeting of the State Designated Basis Boost
3. Combine Large Family Housing, Single Room Occupancy and Special Populations into one household targeting criterion
4. Revise Project Location – Top Growth Communities scoring criteria
5. Eliminate the duplicative Regulatory Cost Avoidance/Cost Reduction scoring criteria
6. Revise the Local/Philanthropic Contributions scoring criterion to incorporate federal contributions
7. Remove the Non-Financial Readiness to Proceed items from the Readiness to Proceed scoring criterion
8. Remove the Underserved Populations scoring criterion and make it a threshold requirement
9. Revise the Temporary Priority – Foreclosed Properties scoring criterion
10. Combine Preservation of Federally Assisted and Preservation of Existing Housing Tax Credits as separate options into one scoring criterion and clarifying language to Preservation of Existing Housing Tax Credits
11. Revise the Rental Assistance scoring criteria to provide maximum points for projects with 100% Project Based Rental Assistance Contracts and reduce the term of the extended commitment from five years to four years
13. Set a Preservation award ceiling at 2/3 of each regional pool

NeighborWorks CHARTERED MEMBER

Center for Regional Development
2401 Broadway Avenue
Slayton, MN 56172-1142

Phone: 507.836.8673
Fax: 507.836.8866

Email: swmhp@swmhp.org
Website: www.swmhp.org

14. Require that Housing Tax Credit developments without RFP funding adhere to architectural design and sustainable housing design requirements consistent with RFP Design standards

We understand the political implications and are not categorical opposed to the proposed revision #12 *"Replace Regulatory Cost Avoidance/Cost Reduction with Cost Containment – Per Unit Cost Limit scoring criterion"* but are generally opposed for two reasons.

1) We feel that insufficient research has been conducted in order to fully understand and appropriately model the financial impacts on this revision. A likely consequence of this policy will be the movement of investor costs and mandates from the lower to upper tier resulting in lower LIHC pricing and greater developer restrictions. In addition, the cost containment measures will result in less basis-able costs reducing per-project allocation resulting in an increased reliance on very scarce soft secondary financing. In addition, the effects will be magnified for smaller projects; particularly those located in Greater Minnesota which already experience difficulty attracting investors and are given depreciated pricing largely due to smaller tax credit allocations.
2) The proposal does not conform and is inconsistent with other stated policy objectives. The proposal fails to categorize for projects that obtain higher costs thresholds because of their location on transit corridors, redevelopment and brownfield sites, historic and adaptive re-use and other smart growth objectives. The proposal penalizes for the provision of appropriate units for larger family sizes. The cost containment categories are much too simple and need to be expanded to acknowledge cost differentials resulting from project development difficulty and population targeting.

We are opposed to revision #15 *"Remove the requirement that a non-profit organization applying to the Nonprofit Set-aside must be local, organized and incorporated in the State of Minnesota"*. There are many strong non-profit development organizations that were incorporated and operate within the State of Minnesota. A priority of the State should be to support those organizations that provide employment and drive other economic development within the State. The State of Minnesota has provided a substantial investment in capital and effort to develop its non-profit capacity. This proposed revision does not seem to support any policy objective since the non-profit set-aside is small and there is no shortage of quality non-profit developed and operated affordable housing product within the State.

I am available at 507-836-1602 if you require further clarification. We appreciate the ability to respond to these proposed changes to the QAP.

Sincerely,

Rick Goodemann
Southwest Minnesota Housing Partnership

TWIN CITIES HOUSING DEVELOPMENT CORPORATION
400 SELBY AVENUE • SUITE C
SAINT PAUL, MINNESOTA 55102
(651) 292-0211

February 21, 2012

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

RE: Proposed Revisions to the Qualified Allocation Plan (QAP) and Procedural Manual, 2013 Housing Tax Credit (HTC) Program

Dear Ms. Kier:

Thank you for the opportunity to comment on this year's proposed revisions to the QAP. We appreciate the effort that was clearly made to clarify the existing priorities and streamline the scoring process. Our organization has chosen to comment only on those areas where we feel we have substantive input. The numbering of the items corresponds to the numbering in the Proposed Revisions to the QAP.

8. Remove the Underserved Populations scoring criterion and make it a threshold requirement.

The proposed change does not specifically show how this change will be reflected as a threshold requirement. This makes it difficult to determine whether there could be any unintended consequences of such a change. We recommend that the change be considered in a future QAP when there is an opportunity to review the specific change.

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

Cost containment is a challenging issue. Those of us in the affordable housing community have worked very hard for many years to dispel stereotypes about affordable housing and its impact on communities, through high quality design and ownership of properties. While the NIMBY perspective still exists, the situation seems to be improving. High quality design is an important component of this increasing acceptance, particularly in those communities where there is a limited amount of affordable housing. In particular, federally subsidized properties, such as older Section 8 developments are usually in severe need of significant updates to all major building systems. Projects such as these will tend to have costs at the higher

end of the spectrum. Cost containment could have unintended consequences of negatively impacting some of these other goals.

Cost containment can be approached in several ways. The choice of total development cost (TDC) as the benchmark presents some unique challenges. The focus on TDC ignores the fact that some projects with higher costs, such as historic preservation, bring with them unique sources, such as the Historic Tax Credit. Often times local communities have specific requirements that they are willing to fund with local resources. If these unique sources/uses have not been considered in designing the cost containment priority it would be worth evaluating which sources may be allowable as offsets to the related costs in arriving at TDC.

One example that we think is particularly important is the assumption of debt on an acquisition rehab project. Over the past fifteen to twenty years, the Minnesota funding community has been particularly effective at stabilizing existing affordable housing developments for an interim period of time. Many of these projects must eventually undergo a major rehabilitation and recapitalization, typically with tax credits as part of the financing plan. The acquisition of these properties, through the assumption of debt, can contribute significantly to the TDC, although the acquisition does not require a significant cash outlay or new source. Properties with significant amounts of debt which lenders are willing to have assumed and terms modified as necessary, will have higher TDC and will generally be less competitive under the proposed scoring system. We would recommend that assumed debt be removed from the calculation of TDC.

15. Remove the requirement that a nonprofit organization applying to the Nonprofit Set-aside must be local, organized and incorporated in the state of Minnesota.

Minnesota has a number of highly qualified and experienced nonprofit organizations focused on the development and long-term ownership of affordable housing. In the 2012 application of MHFA and sub-allocators, seven projects sponsored by nonprofit organizations were awarded tax credits.

Development organizations, whether for-profit or nonprofit remain viable in part through the continued development and ownership of affordable housing developments. With dwindling resources, it will be increasingly challenging for organizations to have a consistent pipeline of funded projects. Removing the requirement that a nonprofit organization applying to the Nonprofit Set-aside must be local, organized, and incorporated in the state of Minnesota potentially works against local nonprofits while not necessarily filling an existing need. We recommend that the change not be made. If the Agency believes that there is a lack of nonprofit capacity in the area of affordable housing we recommend that the Agency consider providing some funds for capacity building. While it is not the responsibility of the Agency to assure that nonprofit developers remain viable, it is important to consider whether changes such as this one could inadvertently have a negative impact without a compensating benefit.

Intermediary Costs

While there were no changes proposed to Intermediary Costs we do believe that the definition of those costs should be revisited. We understand the concern about controlling those costs, however there are some project costs, like relocation costs, that we believe should be excluded from Intermediary Cost category. Temporary relocation expenses are prescribed and mandated when certain funding sources are part of the project. These costs are not negotiable.

Timing and Implementation of Changes to the QAP

In general it takes many months to evaluate a potential project and determine whether the project has a good chance of being competitive for the increasingly scarce sources of financing. When a final QAP, with significant changes, is issued in April and project applications are due in June it is difficult to incorporate the changes in that short period of time. We recommend that the Agency consider a different timeline that would allow much more time in between when the QAP is finalized and the first application in which it is to be utilized. So for example, this revised QAP could be implemented in the June 2013 application round, rather than June 2012.

Thank you for your consideration.

Sincerely,

Barbara M. McQuillan
Executive Director

Enc.

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Three Rivers Community Action, Inc.
Serving people in Goodhue, Rice, and Wabasha Counties

February 22, 2012

Kasey Kier
Minnesota Housing
400 Sibley Street, Suite 300
St. Paul, MN 55101-1998

RE: Proposed QAP Revisions

Dear Kasey:

Thank you for the opportunity to comment on the proposed revisions to the Qualified Allocation Plan (QAP) for the 2013 Housing Tax Credit Program. Three Rivers is committed to developing and preserving affordable rental properties in southeast Minnesota and the tax credit program is an essential tool in these efforts. In order for the program to continue to serve the needs of growing communities in Greater Minnesota, we strongly feel that modifications to the proposed QAP revisions are needed as outlined below.

Revise Targeting of the State Designated Basis Boost-- The new criteria for obtaining the basis boost should be amended to specifically include Preservation of Existing Housing Tax Credits. This would enhance the feasibility of preserving existing tax credit units and align well with the proposed consolidation of the two preservation scoring categories. Three Rivers also supports extending the basis boost to developments in smaller communities in Greater Minnesota where the rent levels are less able to support amortizing debt.

New Cost Containment Scoring Category- Three Rivers recognizes that Minnesota Housing's resources are limited, but this category, as it is currently crafted, penalizes developers working in Greater Minnesota in several ways. The cost containment category makes no allowances for communities that are experiencing a need for larger (3 bedroom), townhome-style units. These units are more expensive to build but play a vital role in housing larger working families. It also groups all of Greater Minnesota into one category when there are significantly higher costs associated with developing in rapidly-growing areas like Rochester or near-metro locations like Northfield. By focusing on Total Development Costs rather than unit construction costs, this category also makes it more difficult to develop projects where there is new infrastructure or site remediation costs, even if these costs are paid for through tax increment financing or other sources. And in smaller communities where properties tend to contain fewer units, the TDC per unit may appear much higher simply because it is more difficult to spread fixed soft costs over a smaller number of units.

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Faribo Town Square
Faribault, MN 55021
Phone: 507-333-6450 Voice/TTY
Fax: 507-333-6462

1414 North Star Drive, Zumbrota, MN 55992
Phone: 507-732-7391
TTY: MN Relay Service: 1-800-627-3529
Fax: 507-732-8547
www.threeriverscap.org

611 Broadway Avenue
Wabasha, MN 55981
Phone: 507-732-7391
Fax: 651-565-2754

Equal Opportunity Employer

Reasonable Accommodations Are Available
ADA

Equal Housing Opportunity

We feel that the Cost Containment Category also runs counter to other worthy goals promoted by Minnesota Housing. Three Rivers and other developers have worked hard to develop attractive, well-constructed properties that break down the stereotypes that have historically surrounded affordable housing. In recent years, we have also incorporated more energy-efficient and sustainable building practices into our developments. These efforts tend to increase the initial development costs but are recouped through higher occupancy rates and lower operating costs over the life of the property.

Preservation Award Ceiling- Three Rivers is in favor of Minnesota Housing's efforts to ensure that one new construction proposal is funded in each region of the state. However, given the demand for new rental housing in many areas of the state, we feel that the Agency will need to find even more ways to bring new units online in the next few years.

Removal of local, Minnesota-based nonprofit status for set-aside – Minnesota has a strong track record of nonprofit housing development. Given the small size of the Nonprofit Set-aside, we believe that the proposed change allowing out of state nonprofits to compete for the set-aside is unwarranted.

Minimum Threshold for Long-Term Homelessness (LTH) Units—Although no changes were proposed to this category, Three Rivers supports modifying this category to allow points to be awarded to smaller-unit developments that include less than 4 units of LTH units. In many Greater Minnesota communities, the need for LTH units or supportive services available does not make the inclusion of 4 homeless units in one property feasible.

While Three Rivers supports many of the proposed revisions to the QAP, we are concerned that the changes highlighted above will diminish the opportunities to develop much-needed rental housing that is responsive to the needs of Greater Minnesota communities. If you have any questions regarding these comments, please feel free to contact Jenny Larson at (507) 732-8510 or Susan Strandberg at (507) 732-8557.

Sincerely,

Mike Thorsteinson
Executive Director

Jenny Larson
Community Development Director

Susan Strandberg
Community Development Officer

TRAVOIS™

310 W. 19th Terrace
Kansas City, MO 64108

February 22, 2012

Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101-1998

Ladies and Gentlemen:

We appreciate the opportunity to comment on the 2013 Housing Tax Credit Program QAP and Procedural Manual that will be discussed at the February 22nd Public Hearing. Over the past decade, Travois has had the privilege of working with several Indian Tribes in Minnesota on almost twenty-five Low Income Housing Tax Credit Projects. On behalf of Travois and its Indian Country clients, please accept the following comments with regards to the proposed 2013 procedures.

QAP and/or Procedural Manual – Comments to Proposed Changes

- **Top Growth Communities Scoring**

  We support the decrease in points from 10 to 5 as it levels the playing field for tribes who are in rural and remote areas that have not benefited from economic growth but are in desperate need of affordable housing. We understand Minnesota Housing's desire to encourage projects in growth areas, but at the same time, this goal does not satisfy the immense need for affordable housing that exists on reservations throughout the state. While there may be need for additional affordable rental housing in areas where the economy is seeing a rebound, there is even a greater need for housing on tribal land. It is impossible for Minnesota Housing to deny the immense poverty that exists in tribal communities. We therefore invite Minnesota Housing to go beyond reducing the Top Growth Communities Scoring and specifically add a point category for projects located on tribal land. By doing so, Minnesota would join the list of forerunners—Arizona, North Dakota, and New Mexico—that already give points or have specific set-asides for tribal projects.

  Additionally, tribes cannot obtain the Economic Integration points offered in the allocating round. The Economic Integration points target mixed-use projects and projects located in high income communities, and neither of these scenarios exist on reservations.

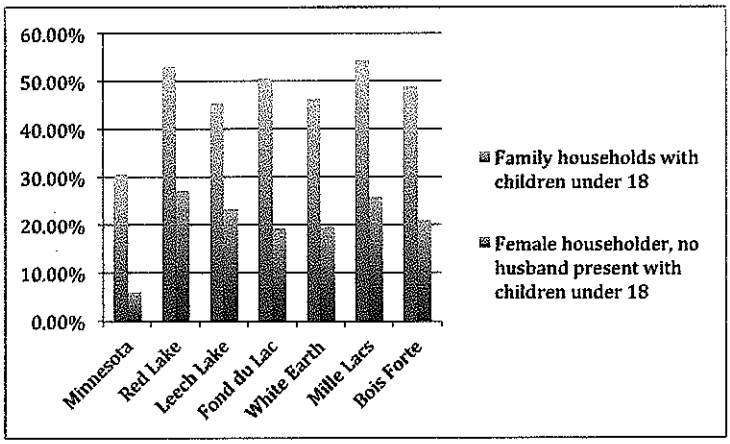
- **Removal of the Non-Financial Readiness to Proceed Items from the Readiness to Proceed category**

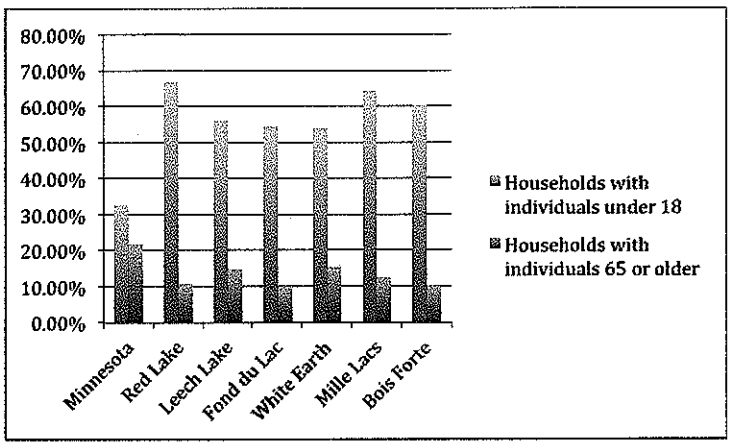
  We request that points still be awarded to projects that provide non-financial related items (e.g. land use and zoning approvals, survey, infrastructure, building permits). While these items may be difficult to obtain, projects that do secure them should receive additional points because the project can proceed faster than projects that must still obtain the necessary

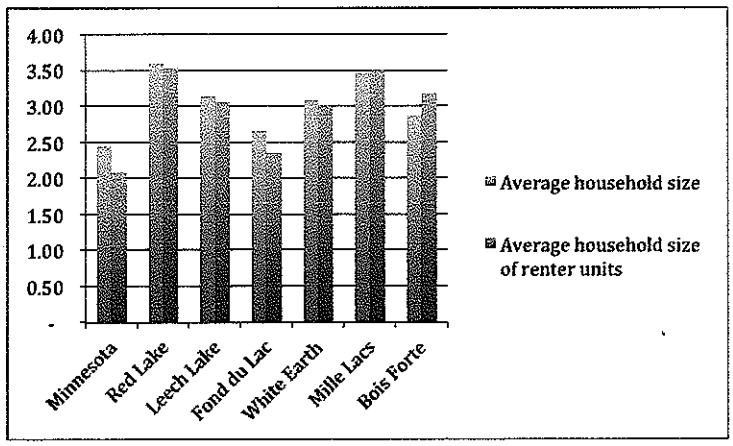
approvals. If the land use approvals and building approvals are in-hand or are not applicable to a project, which is often the case with tribal projects, then those projects should receive a competitive advantage in the form of additional points.

- **Removal of the Underserved Populations scoring criteria**

We agree that this category should become a threshold requirement if all applicants are receiving the maximum points possible. In its place, however, Minnesota Housing should award points to projects located on tribal land. As the statistics below demonstrate, families and households living on reservations comprise the greatest population in the state in need of affordable housing (data obtained from the 5-year ACS estimates for MN 2006-2010 and the 2000 Census for tribal information – factfinder2.census.gov):



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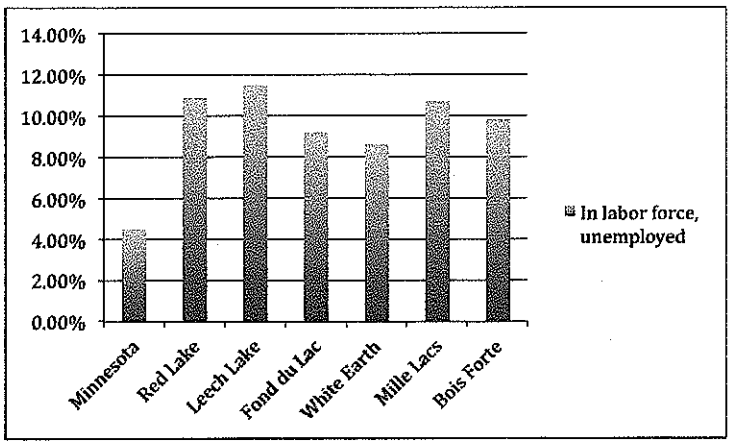
Minnesota
Red Lake
Leech Lake
Fond du Lac
White Earth
Mille Lacs
Bois Forte
Average household size
Average household size of renter units


14.00%
12.00%
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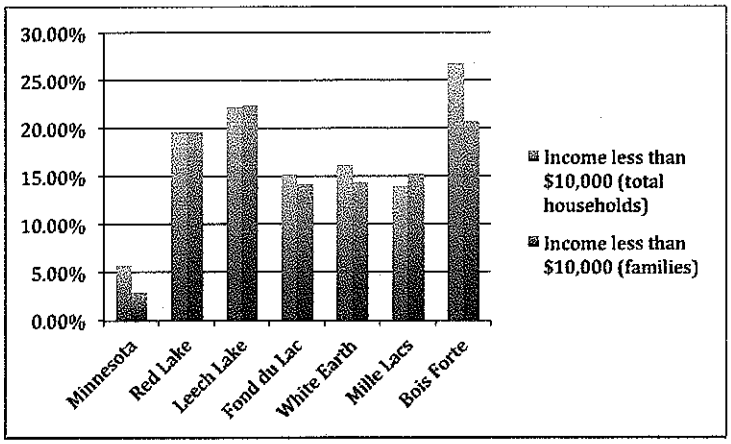
8.00%
6.00%
4.00%
2.00%
0.00%
Minnesota
Red Lake
Leech Lake
Fond du Lac
White Earth
Mille Lacs
Bois Forte
In labor force, unemployed


30.00%
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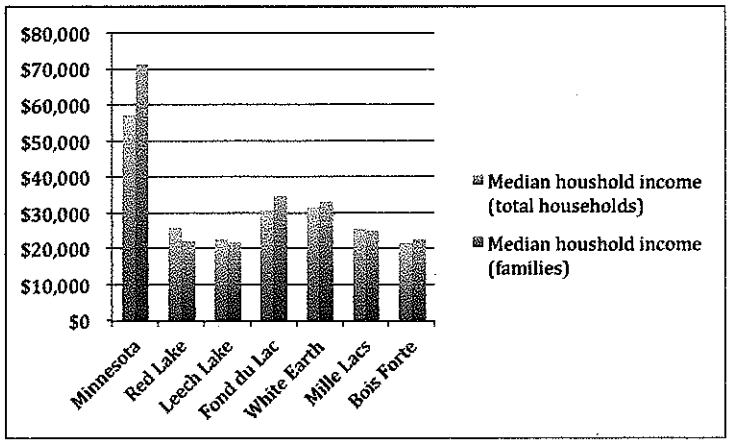
Minnesota
Red Lake
Leech Lake
Fond du Lac
White Earth
Mille Lacs
Bois Forte
Income less than $10,000 (total households)
Income less than $10,000 (families)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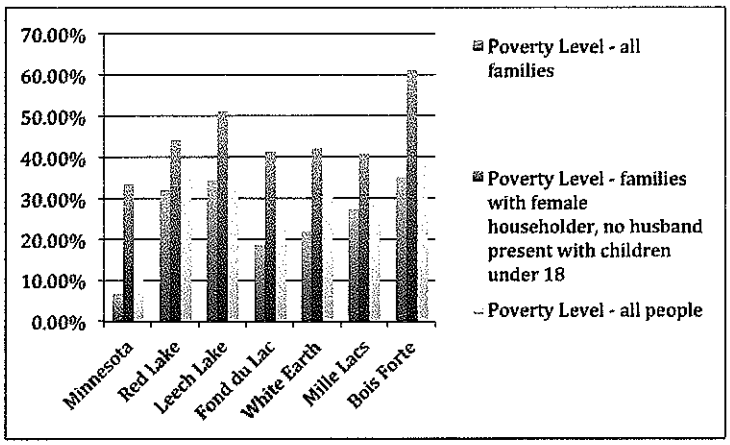
Minnesota
Red Lake
Leech Lake
Fond du Lac
White Earth
Mille Lacs
Bois Forte
Median houshold income (total households)
Median houshold income (families)


70.00%
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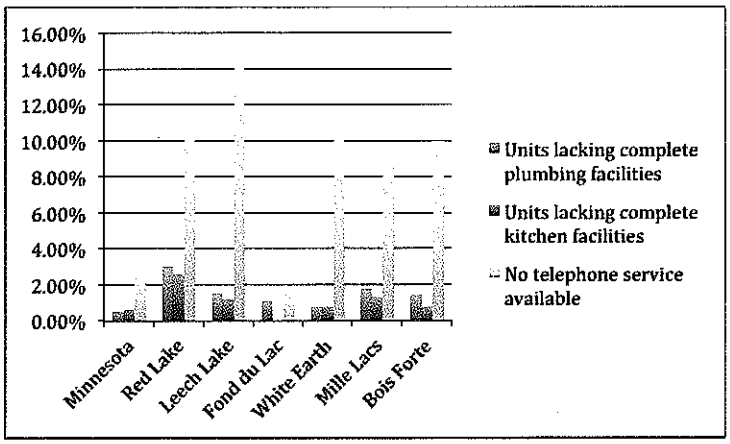
Minnesota
Red Lake
Leech Lake
Fond du Lac
White Earth
Mille Lacs
Bois Forte
Poverty Level - all families
Poverty Level - families with female householder, no husband present with children under 18
Poverty Level - all people


16.00%
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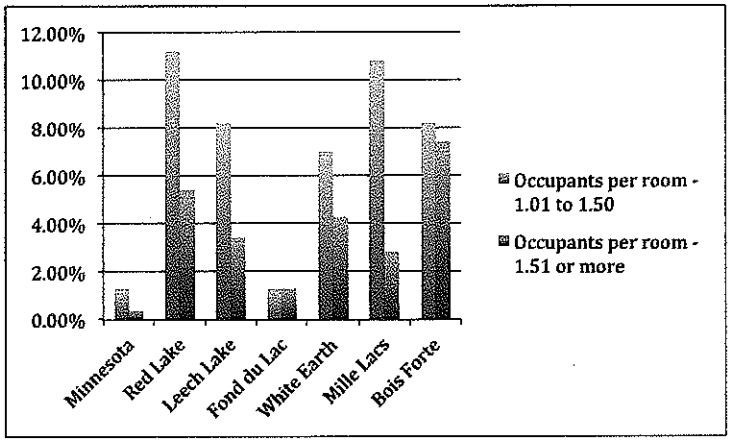
Minnesota
Red Lake
Leech Lake
Fond du Lac
White Earth
Mille Lacs
Bois Forte
Units lacking complete plumbing facilities
Units lacking complete kitchen facilities
No telephone service available



- **Minimizing Transportation Costs and Promoting Access to Transit**

  We ask that Minnesota Housing not require that "dial-a-ride" services be located in a census tract that is within five (5) miles of 2,000 low- and moderate-wage jobs. On-demand transportation should qualify for points no matter its proximity to low- and moderate-wage jobs. Tribes may not have the benefit of developing a project in an area that would meet the current conditions for points under this category, but a majority do have access to dial-a-ride transportation services for residents. Such services are a benefit to residents and should earn points for eligible projects.

- **Cost Containment – Per Unit Cost Limits scoring criterion**

  The cost to construct projects on Indian reservations is inherently higher than the cost to construct off the reservation. Not only are there added costs due to the remote locations of the projects (e.g. added fuel and transportation costs, increased labor expense), but tribes must also abide by governmental procurement policies that drive up construction costs. Additionally most, if not all, tribal construction consists of building or rehabilitating single-family detached housing, which is more costly than the construction or rehabilitation of multi-family attached units. When comparing Minnesota Housing's$95,000(low)/$118,750(moderate) rehab limits and the $165,000(low)/$181,500(moderate) construction limits to the typical Total Development Costs to construct or rehab units on a reservation, Minnesota Housing's levels are extremely low and would likely prevent any tribe from receiving points in this category. Adjustments to these figures should be made for projects consisting of single-family detached housing so that these projects are not prevented from being awarded points in this category.

  For example, here are some per unit costs for completed tribal projects over the past several years. Note, none of these projects consisted of elaborate construction.

  - Red Lake 11 (per final cost cert)
    30 units (new construction)
    TDC of $5,941,038 and a **$198,034** per unit cost

  - Leech Lake 4 (per final cost cert)
    25 units (new construction)
    TDC of $5,908,210 and a **$236,328** per unit cost

- Leech Lake 5 (per final cost cert)
  50 units (acq/rehab and new construction)
  TDC of $8,873,877 and a **$177,477** per unit cost

- White Earth 4 (under construction – closing figures)
  30 unit (new construction)
  TDC of $7,389,704 and a **$246,323** per unit cost

- White Earth 5 (proposed 2011 – not funded)
  46 units (acq/rehab)
  TDC of $8,155,969 and a **$177,304** per unit cost

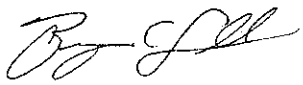
QAP and/or Procedural Manual – Additional Comments

- **Preservation of Federally Assisted Units**

  We ask that Minnesota Housing extend the definition under this scoring criterion to include projects receiving federal assistance under the Indian Housing Block Grant (IHBG) – also known as NAHASDA. The amount of IHBG funds allocated to the tribe each year is based on a calculation of units in the tribe's current assisted stock (CAS). The number of units in a tribe's CAS cannot increase because the figure is based on a fixed number of housing units developed under the United States Housing Act of 1937. Tribes are at risk of a reduction in the CAS when units are placed out of service or become inhabitable; the result is that the amount of IHBG funds available for rehab, modernization, unit subsidies, housing services and model activities is also reduced. Tribes rely heavily on their IHBG allocation to subsidize the operations of CAS units. We feel that by acknowledging NAHASDA in this scoring category, Minnesota Housing will more accurately fulfill its mission of preserving affordable housing units across the state.

Thank you for the opportunity to provide comments on the 2013 QAP. If you have any questions regarding the suggestions above, please do not hesitate to contact Travois for further discussion.

Sincerely,



Bryan Schuler
Development Director

2013 Housing Tax Credit Program, QAP and Procedural Manual
Proposed Revisions

At the January, 2012 Board meeting, staff presented a proposed 2013 Qualified Allocation Plan (QAP) for the Housing Tax Credit program. Public comments on the proposed 2013 QAP were submitted to the Agency last month. Staff has carefully reviewed and considered all of the comments. Changes made as a result of comments are detailed below.

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.

Statutory

No statutory changes are proposed.

Qualified Allocation Plan and/or Procedural Manual

The following are proposed revisions to priorities made to accommodate special circumstances of the Housing and Economic Recovery Act of 2008 (HERA):

1. **Require new construction proposals to utilize the floating tax credit percentage rate.**

   The Housing and Economic Recovery Act of 2008 (HERA) set the applicable percentage for non-federally subsidized new buildings that are placed in service after July 30, 2008 and before December 31, 2013 at a flat 9 percent applicable percentage (i.e. 70 percent present value credit). New construction proposals selected for 2013 HTC will be unlikely to complete construction and place in service before December 30, 2013. Calculating tax credits based on the 9 percent applicable fraction could result in large funding gaps, therefore, new construction proposals will be required to utilize the IRS published floating rate (The 70 Percent Value Credit for January 2012 is 7.44% - IRS Revenue Ruling 2012-2). Preservation proposals may use the fixed 9 percent rate only if there is a high level of certainty that the project will place in service prior to December 31, 2013 as supported by the project schedule submitted with the application.

   Utilizing the floating applicable percentage will make it more difficult for projects to be financially feasible without additional gap funding. The pending Extender's Bill in Congress proposes to extend the 9 percent applicable percentage; and if not extended, this issue will begin to have an effect on HTC allocations made by state agencies over the next year. The long-term goal of the National Council of State Housing Agencies (NCSHA) and housing advocates is to permanently fix the credit percentage to the 9 percent flat rate which would eliminate uncertainty and financial risk of the floating rate system, simplify state administration, and provide predictability to investors and developers.

Public Comments Summary:
- Allow new construction proposals to utilize the 9% rate
- Allow new construction proposals that have previously been awarded tax credits that apply for a supplemental amount of tax credits to utilize the 9% rate

Proposed change resulting from public comment:

Allow new construction proposals to utilize the 9% rate if there is a high level of certainty that the project will place in service prior to December 31, 2013 as supported by the project schedule submitted with the application. In order to increase the potential for new construction projects to meet the deadline, new construction projects that utilize the 9% flat rate must close on financing and begin construction no later than February 28, 2013 and will not be considered for any additional deferred loan funding to fill the gap created by their inability to meet the placed in service deadline.

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 <u>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</u>
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) and rural projects 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:

Clarify that expiring tax credit projects, as defined in the Self Scoring Worksheet, are considered federally assisted and eligible for the basis boost.

The following are refinements to existing priorities based on experience and additional data:

3. Combine Large Family Housing, Single Room Occupancy and Special Populations into one Household Targeting scoring criterion.

Points may be taken in only one of the following categories: Large Family Housing, Single Room Occupancy or Special Populations. Combining these categories into one single Household Targeting selection criteria will simplify the Self-scoring worksheet by clarifying that only one household targeting type may be selected and reducing the number of Household Targeting selection priorities from three to one. The proposed revision is not a policy change and does not result in any changes to content or points.

Public Comments Summary:
- The agency received one letter of support

Proposed change resulting from public comment: No proposed change

4. Revise Project Location – Top Growth Communities scoring criterion.

In the 2012 QAP, the project location scoring criterion was revised. The previous criterion awarded points to projects that were located in one of the top twenty counties in either job or household growth where housing is needed to increase or sustain the supply of affordable housing. The proposed criterion scores on the top cities/townships, which more effectively targets resources to areas of growth. To take into account geographic differences, points were awarded to the top 10 cities/townships in the 7 county metro area and top 20 cities/townships in Greater Minnesota with the highest household or job growth from 2000-2010. Following an assessment of the new criterion, staff proposes adding a 5-10 mile buffer area around the cities/townships eligible for points (5 mile buffer around the metro area cities and a 10 mile buffer around greater Minnesota cities/townships) and decreasing the maximum point value from 10 to 5, providing equal priority to growth cities/townships and simplifying the determination of points eligibility with the expanded buffer areas. The buffer is intended to recognize normal commuting patterns. Workers may live in a community adjacent to the one experiencing job growth and actually live closer to the job than someone living in the community with the job growth. Refer to Attachment 2, where Tables 1 and 2 identify the top growth cities/townships and the map displays the buffer area eligible for points. The map will be a layer in the community profiles interactive mapping tool so applicants can easily check location in relation to these areas.

Public Comments Summary *(staff responses italicized)*:
- The agency received one letter supporting the change and two additional letters supporting the decrease in points from 10 to 5.
- Keep cities/township lists more stable for site location planning
  2012 was the first year of prioritizing cities/townships rather than counties. The wider variation of eligible cities/townships from the 2012 to 2013 QAP resulted from switching from estimated 2009 household counts (nine years after the last Census) for the 2012 QAP to actual 2010 household counts from the 2010 Census for the 2013 QAP. The availability of more reliable 2010 Census resulted in the changes. When we use estimated 2011 household counts next year in the 2014 QAP, the list should be relatively consistent with this year's because it is only one year after the 2010 Census.
- Tribal housing does not qualify for top growth communities and does not recognize tribal housing needs

Prioritizing projects in areas of household and/or job growth has been a long-standing Agency priority that encourages housing to be built in areas that can demonstrate the need for housing as evidenced by their household and/or job growth.

Proposed change resulting from public comment: No proposed change

5. Remove the duplicative Regulatory Cost Avoidance/Cost Reduction scoring criterion.

Contributions from local units of government are taken into account and will be more accurately measured in the Local/Philanthropic Contributions selection criteria. Applicants previously had the option of taking the value of the cost avoidance/cost reduction measure in the Regulatory Cost Avoidance/Cost Reduction scoring criterion or in the Local/Philanthropic Contributions selection priority, but not in both scoring criterion. Applicants routinely provided documentation that did not accurately demonstrate cost avoidance or cost reductions making its value difficult to assess. Removal of the duplicative Regulatory Cost Avoidance/Cost Reduction scoring criterion will allow a more accurate measure of local government contributions based on the contribution value within the Local/Philanthropic selection priority. The Local/Philanthropic scoring criterion will be revised to incorporate all missing items from the Regulatory Cost Avoidance/Cost Reduction category as shown below:

One point for each box checked, with a maximum of 7 points

- ☐ Donation or waiver of project specific local government development fees
- ☐ Donation or waiver of project specific assessments or infrastructure costs
- ☐ Density bonus (an increase in density granted under specific provisions of the zoning ordinance above the maximum density otherwise allowed in the applicable zoning district.)
- ☐ Flexibility in zoning code requirements
- ☐ WAC/SAC reductions
- ☐ Fast-track permitting and approval
- ☐ Historic tax credits (at time of application, submit letter from State Historic Preservation Office (SHPO) confirming historic nature of building)

Public Comments Summary:

- The agency received one letter of support

Proposed change resulting from public comment: No proposed change

6. Revise the Local/Philanthropic Contributions scoring criterion to incorporate federal contributions.

Rename the Local/Philanthropic Contributions selection priority to Federal/Local/Philanthropic Contributions and allow for federal contributions to be included in the calculation. Points are currently awarded for projects that have secured external contributions from local units of government, local employers and philanthropic contributions. The purpose of this scoring criterion is to promote leveraging of non-state resources which should include capital federal funding and resources. This revision also adds the inclusion of the net present value of the added benefit of Historic Tax Credits and federal below market rate loans such as Native American Housing and Self Determination Act (NAHASDA) and USDA Rural Development 515 loans.

Current:
Points are awarded for projects that are receiving contributions from a local unit of government; an area employer; and/or a private philanthropic, religious or charitable organization.

Identity of Interest exclusion: Contributions from any part of the ownership entity will be considered general partner cash and excluded from the calculation unless the contributions are awarded by local units of government or nonprofit charitable organizations pursuant to a funding competition.

Total local/philanthropic contributions $_____ divided by Total Development Cost $_____ equals (rounded to the nearest tenth)

☐ 20.1% and above – *10 points*

☐ 15.1 – 20% – *8 points*

☐ 10.1 – 15% – *6 points*

☐ 5.1 – 10% – *4 points*

☐ 2.1 – 5% – *2 points*

☐ 0 – 2% – *0 points*

Local/Philanthropic Contributions include:

- Monetary grants/donations
- Tax increment financing - calculate Net Present Value (NPV) by using NPV discounted by Applicable Federal Rate (AFR)
- Tax abatement (calculate NPV by using NPV discounted by AFR)
- Land donation of the development site
- In-kind work and materials donated at no cost
- Local government donation/waiver of project specific costs, assessments or fees (e.g. SAC/WAC)
- Reservation land not subject to local property taxes
- Reservation land with long-term low cost leases
- Deferred loans with a minimum term that is co-terminus with the HTC Declaration with an interest rate at or below the AFR
- Grants from nonprofit charitable organizations converted to deferred loans with a minimum term that is co-terminus with the HTC Declaration with an interest rate at or below the AFR. Award letter from the nonprofit charitable organization contributor must be provided at the time of application verifying the project specific (restricted) contribution

Proposed (revisions underlined):

Points are awarded for projects that are receiving contributions from <u>the federal government</u>; a local unit of government; an area employer; and/or a private philanthropic, religious or charitable organization.

Identity of Interest exclusion: Contributions from any part of the ownership entity will be considered general partner cash and excluded from the calculation unless the contributions are awarded by local units of government or nonprofit charitable organizations pursuant to a funding competition.

Total <u>federal/</u>local/philanthropic contributions $_____ divided by Total Development Cost $_____ equals (rounded to the nearest tenth)

☐ 20.1% and above – *10 points*

☐ 5.1 – 10% – *4 points*

☐ 15.1 – 20% – *8 points*

☐ 10.1 – 15% – *6 points*

☐ 2.1 – 5% – *2 points*

☐ 0 – 2% – *0 points*

Federal/Local/Philanthropic Contributions include:

- Monetary grants/donations
- Tax increment financing - calculate Net Present Value (NPV) by using NPV discounted by Applicable Federal Rate (AFR)
- Tax abatement (calculate NPV by using NPV discounted by AFR)
- Land donation of the development site
- In-kind work and materials donated at no cost
- Local government donation/waiver of project specific costs, assessments or fees (e.g. SAC/WAC)
- Reservation land not subject to local property taxes
- Reservation land with long-term low cost leases
- Deferred loans with a minimum term that is co-terminus with the HTC Declaration with an interest rate at or below the AFR
- Grants from nonprofit charitable organizations converted to deferred loans with a minimum term that is co-terminus with the HTC Declaration with an interest rate at or below the AFR. Award letter from the nonprofit charitable organization contributor must be provided at the time of application verifying the project specific (restricted) contribution
- Below Market Interest Rate (BMIR) Loans –calculate NPV based on the difference between the AFR and the BMIR rate (e.g. RD 515, NHASDA first mortgage).
- Historic Tax Credits

Public Comments Summary *(staff responses italicized)*:

- The agency received two letters of support
- Remove the Identity of Interest exclusion and count GP contributions as contributions as a Local/Philanthropic contribution
  The Local/Philanthropic scoring criterion prioritizes proposals that are able to leverage external resources. Due to the difficulty in valuing general partner cash, the QAP was changed to specify that if there is an identity of interest, it may be included as a contribution if the funding is awarded by a local unit of government or nonprofit charitable organization pursuant to a funding competition. General partner cash and deferred developer fees are taken into account in the Readiness to Proceed scoring criterion.
- Add city land write downs as an eligible contribution
  City land write downs are currently counted as an eligible contribution with proper documentation of the value of the write down. Language will be added to clarify as described below.

Proposed change resulting from public comment:
Add clarification to the scoring criterion as follows (change to existing language bolded and underlined):

Land donation **or city write down** of the development site

7. Remove the Non-Financial Readiness to Proceed items from the Readiness to Proceed scoring criterion.

In the 2012 QAP, the Board approved the addition of Non-Financial Readiness to Proceed items intended to give priority to developments more ready to proceed towards closing and construction. Following review and assessment of submittals of the items and documentation received, the submissions were preliminary, sometimes

problematic for local jurisdictions to provide, and did not demonstrate a development's readiness to proceed. Staff proposes eliminating the Non-Financial Readiness to Proceed section detailed below:

Non-Financial Readiness to Proceed – (1 point for each box checked up to a maximum of 4 Pts)

Points will be awarded to projects that evidence Non-Financial Readiness to Proceed by submitting verification of the following;

- ☐ Land use and zoning approvals
- ☐ Project Specific Title Commitment and Survey* (if project is located on tribal trust land, only the survey needs to be submitted to be eligible)
- ☐ Verification that all infrastructure for the project is complete
- ☐ Draft Building permits

Public Comments Summary *(staff responses italicized)*:

- The agency received one letter of support
- Keep the non-financial readiness to proceed items for points
  Documentation that applicants submitted to support non-financial Readiness to Proceed was preliminary and did not demonstrate that a project was more ready to proceed.

Proposed change resulting from public comment: No proposed change

8. Remove the Underserved Populations scoring criterion and make it a threshold requirement.

Points are awarded for projects that target and market to underserved populations, defined in Agency statutes as single head of household with minor children, households of color or persons with disabilities. Through scoring analysis, almost all proposals are awarded maximum points in this selection priority. Making targeting and marketing to underserved populations a threshold requirement will change the option into a requirement. Applicants will continue to be required to provide a description of their marketing efforts or project design features that will be used to attract underserved populations including describing collaborations and partnerships proposed with members or organizations, addressing the needs of underserved populations, and describing past successful experiences in marketing to or working with underserved populations. In addition, in accordance with Fair Housing laws, owners may not discriminate and owners will continue to be required to affirmatively further fair housing and market to those least likely to apply for the housing.

Public Comments Summary:

- The agency received one letter of support to but recommended keeping points for projects located on tribal land
  Targeting and marketing of underserved populations should be threshold for all proposals.
- Add clarity to how a project will meet threshold, is it through an Affirmative Fair Housing Marketing Plan (AFHMP)? If so state as such, if not, allow for additional comments.
  Yes, to meet threshold, the Agency will require all projects to submit an AFHMP at the time of application. All tax credit projects and projects with federal funds are currently required to submit the AFHMP after selection so this change will result in earlier submission for the projects and will not replace the final Agency approved AFHMP submitted post selection.

Proposed change resulting from public comment:
Projects will be required to submit an AFHMP at the time of application. An Agency approved AFHMP will also continue to be a requirement and condition of Carryover and 8609.

9. Revise the Temporary Priority - Foreclosed Properties scoring criterion.

Points are awarded to applications proposing to acquire and rehabilitate a foreclosed property or are located in a Foreclosure Priority area identified by Minnesota Housing that has been heavily impacted by the foreclosure crisis. Foreclosure recovery is one of the Agency's five strategic priorities. Staff proposes revising the criteria by eliminating the points for being located in a priority area for the third round of funding under the Neighborhood Stabilization Programs (NSP3) and redistributing the tiering of point values. The NSP3 priority areas are highly targeted, tightly defined areas. Foreclosure remediation efforts are needed in larger target areas. Separate criteria in the metro and Greater Minnesota areas were previously developed due to the lack of NSP3 designated areas in Greater Minnesota. With the removal of the additional priority points for NSP3 areas, the separate criterion for the metro area and Greater Minnesota is no longer needed, and the maximum 10 point value will be redistributed and applicable statewide. Refer to Attachment 3 for the revised Foreclosure Zip Codes Map and table of high need zip codes eligible for points.

Current:

Priority is given to applications proposing to acquire and rehabilitate a "Foreclosed Property" (A home or residential property has been foreclosed upon if any of the following conditions apply: a) the property's current delinquency status is at least 60 days delinquent under the Mortgage Bankers of America delinquency calculation and the owner has been notified of this delinquency, or b) the property owner is 90 days or more delinquent on tax payments, or c) under state, local, or tribal law, foreclosure proceedings have been initiated or completed, or d) foreclosure proceedings have been completed and title has been transferred to an intermediary aggregator or servicer that is not an NSP grantee, subrecipient, contractor, developer, or end user.) or a property located in a NSP3 Target Area or Foreclosure Priority Area identified by Minnesota Housing. In cases where the project involves a "Foreclosed Property", the proposed project cannot be a conversion (adaptive reuse/conversion to housing from another use).

The project must consist of a minimum of 12 units and all units must be located on one parcel or contiguous site.

Metropolitan Area:
Points may be claimed for only one of the following (maximum of ten (10) points):

- ☐ For applications proposing to acquire and rehabilitate a Foreclosed Property which is located in one of the Minnesota Housing designated NSP3 target areas. – 10 points
- ☐ For applications proposing to acquire and rehabilitate a Foreclosed Property which is located in one of the designated Foreclosure Priority Areas. – 5 points
- ☐ For applications proposing a project that is located is a Minnesota Housing designated NSP3 target area. – 5 points
- ☐ For applications proposing to acquire and rehabilitate a Foreclosed Property which is not located in one of the designated Foreclosure Priority Areas. – 3 points
- ☐ For applications proposing a project to acquire and rehabilitate a property that is located in one of the designated Foreclosure Priority Areas. – 3 points

Greater Minnesota:

Points may be claimed for only one of the following (maximum of five (5) points):

☐ For applications proposing to acquire and rehabilitate a Foreclosed Property which is located in one of the designated Foreclosure Priority Areas. – 5 points

☐ For applications proposing to acquire and rehabilitate a Foreclosed Property which is not located in one of the designated Foreclosure Priority Areas. – 3 points

☐ For applications proposing a project to acquire and rehabilitate a property that is located in one of the designated Foreclosure Priority Areas. – 3 points

Proposed:

Priority is given to applications proposing to acquire and rehabilitate a "Foreclosed Property" (A home or residential property has been foreclosed upon if any of the following conditions apply: a) the property's current delinquency status is at least 60 days delinquent under the Mortgage Bankers of America delinquency calculation and the owner has been notified of this delinquency, or b) the property owner is 90 days or more delinquent on tax payments, or c) under state, local, or tribal law, foreclosure proceedings have been initiated or completed, or d) foreclosure proceedings have been completed and title has been transferred to an intermediary aggregator or servicer that is not an NSP grantee, subrecipient, contractor, developer, or end user.) or a property in a Foreclosure Priority Area identified by Minnesota Housing. In cases where the project involves a "Foreclosed Property", the proposed project cannot be a conversion (adaptive reuse/conversion to housing from another use).

The project must consist of a minimum of 12 units and all units must be located on one parcel or contiguous site.

Points may be claimed for only one of the following (maximum of ten (10) points):

☐ For applications proposing to acquire and rehabilitate a Foreclosed Property which is located in one of the designated Foreclosure Priority Areas. – 10 points

☐ For applications proposing to acquire and rehabilitate a Foreclosed Property which is not located in one of the designated Foreclosure Priority Areas. – 5 points

☐ For applications proposing a project to acquire and rehabilitate a property that is located in one of the designated Foreclosure Priority Areas. – 5 points

Public Comments Summary:

- The agency received one letter of support
- Add points for the redevelopment of vacant land that contained residential property that was previously involved in a foreclosure action. Redevelopment of larger parcels resulting from demolition of foreclosed properties are more efficient than acquisition/rehabilitation of single family detached homes

Proposed change resulting from public comment (proposed changes bolded and underlined):
Points may be claimed for only one of the following (maximum of ten (10) points):

☐ For applications proposing to acquire and rehabilitate a Foreclosed Property **or redevelop vacant land involved in a foreclosure action** which is located in one of the designated Foreclosure Priority Areas. – 10 points

☐ For applications proposing to acquire and rehabilitate a Foreclosed Property **or redevelop vacant land involved in a foreclosure action** which is not located in one of the designated Foreclosure Priority Areas. – 5 points

☐ For applications proposing a project to acquire and rehabilitate a property that is located in one of the designated Foreclosure Priority Areas. – 5 points

10. Combine Preservation of Federally Assisted and Preservation of Existing Housing Tax Credits as separate options into one scoring criterion and add clarifying language to Preservation of Existing Housing Tax Credits.

Combining the currently separate priorities of Preservation of Federally Assisted Housing and Preservation of Existing Housing Tax Credits into one will simplify the Self-scoring worksheet by combining related preservation scoring into one selection priority and highlight the importance of preservation within the QAP.

Within the Preservation of Existing Housing Tax Credits section, clarify that developments that have already exercised their option to opt out under the Qualified Contract Process are not eligible for points and add clarifying language that all of the listed criteria (1-4 below) must be met. The revised underlined language is proposed as follows:

To obtain the related points, the existing tax credit housing must meet all of the following:

1. The development received a Minnesota Housing allocation of housing tax credits and is eligible to and will exercise their option under the provisions of Section 42(h)(6)(E)(i)(II) and 42(h)(6)(F) (Qualified Contract) within the next 12 months (developments that have exercised their option to opt out under the Qualified Contract process are not eligible for points in this category).
2. Applicant agrees to maintain the Housing Tax Credit Units in the development for at least 30 years.
3. The proposal will not result in the displacement of existing low and moderate income residents;

AND either 4a. or 4b below (check one)

4. ☐ a. Units must be considered at risk of going to market rents, where the market rents of comparable units exceed the tax credit rent limits by 10 percent and the proposed rents will increase by more than 30 percent within two years of the Housing Tax Credit Application date. The risk of conversion must be supported by information contained in the application and with final determinations made by Minnesota Housing;

   ☐ b. Tax credit units would no longer remain decent, safe, and affordable due to physical deterioration or deterioration of capacity of current ownership/management entity.

Public Comments Summary *(staff responses italicized)*:

- The agency received one letter of support
- Expand the preservation definition to include:
- Projects that have existing Minnesota Housing deferred or first mortgage financing
- Projects that proactively seek recapitalization prior to deterioration (projects not at risk)
- Projects that have NAHASDA/Indian Housing Block Grant Funding
- Projects that are expiring tax credit projects that serve the lowest incomes that are farthest from their expirations that remain in good physical and financial standing

Preservation projects receive significant priority in the QAP. The additional scoring criterion of Preservation of Federally Assisted Units allows a higher priority for preservation developments that are truly at risk of losing their

federal subsidies over preservation developments that are not at risk.

Proposed change resulting from public comment:

- Add a provision to allow projects that are effectively project based by written contract (e.g. NAHASDA) **(change bolded and underlined in the proposed language)**.
- Current and proposed language for the Preservation of Federally Assisted scoring criterion is detailed below. With the exception of the language added for projects that are effectively project based, the proposed language clarifies the existing requirements that are detailed in the Application Narratives. The clarifying language does not change the current requirements.

Current:

☐ **Preservation of Federally Assisted Units – 20 Points**

DEFINITION - Any housing receiving project based rental assistance, operating subsidies, or mortgage interest reduction payments. This includes public housing, Section 236 and Section 221(d)(3) interest reduction payments, and any development with project based Section 8, rent supplement, or rental assistance payments contract.

Preserves federally assisted low income housing which, due to mortgage prepayments or expiring rental assistance, would convert to market rate use or due to physical deterioration or deterioration of capacity of current ownership/management entity would lose its federal subsidies. Minnesota Housing, at its sole discretion, must agree that a market exists for a conversion to market rate housing.

To obtain the related points, the federally assisted housing must meet all of the following:

1 Units must be considered at risk of losing assistance within two years of the Housing Tax Credit Application date as supported by information contained in the application and with final determinations made by Minnesota Housing.
2 Applicant must agree to continue renewals of existing project based housing subsidy payment contract for as long as the assistance is available.
3 Applicant must agree to maintain the Housing Tax Credit Units in the development for at least 30 years.

Except for "good cause" applicant must not evict existing subsidized residents and must continue to renew leases for those residents.

Following selection, developments awarded points through this category which have an identity of interest will be required to provide an as-is appraisal acceptable to Minnesota Housing to substantiate the acquisition price reflected in the application. Prices which are unsubstantiated or inconsistent with comparable current market pricing will be subject to re-evaluation and adjustment of the tax credits or RFP award, up to and including the total recapture of tax credits or RFP funds.

Proposed:

☐ **Preservation of Federally Assisted Units – 20 Points**

These points are available to projects that are at risk of loss of project based federal assistance within two years.

DEFINITION - Any housing receiving project based rental assistance, operating subsidies, or mortgage interest reduction payments. This includes public housing, Section 236 and Section 221(d)(3) interest reduction

payments, and any development with project based Section 8, rent supplement, rental assistance payments contract, **or are effectively project based by written contract (e.g. NAHASDA).**

In order to obtain the related points, the owner shall continue renewals of existing project based housing subsidy payment contract(s) for as long as the assistance is available; and shall maintain the Credit units in the Project for at least 30 years and shall agree that sections 42(h)(6)(E)(i)(II) and 42 (h)(6)(f) of the code shall not apply to the project. Except for "good cause" the owner must not evict existing subsidized residents and must continue to renew leases for those residents.

Please indicate the reason why property is at risk of loss within two years (check all that apply):

☐ 1. Prepayment/opt-out/mortgage maturity and conversion to market rate housing. Minnesota Housing, at its sole discretion, must agree that a market exists for a conversion to market rate housing. Attach evidence, including eligibility dates, with copies of relevant expiring contracts, filing documents of intent to opt out, loan documents that describe the ability to pre-pay the financing including required approvals and/or penalties AND documentation to fully evidence 1a. or 1b. below (check the box(es) that apply):

☐ 1a. Conversion risk due to strategic location:

- Attach the strategic location along with maps (i.e. specific proximity to services, transit-oriented development, or employment centers).

☐ 1b. Conversion risk due to market differential:

- Attach at least three market comparables for each bedroom size to indicate what market rents might be achievable at the property without the federal assistance restrictions.

☐ 2. Serious physical condition issues:

- Attach evidence with a copy of the most recent REAC inspection report or other evidence of physical deterioration that would threaten the HAP contract.

☐ 3. Deterioration of capacity of current ownership/management entity:

- Attach a narrative description of the history and issues.

Following selection, developments awarded points through this category which have an identity of interest will be required to provide an as-is appraisal acceptable to Minnesota Housing to substantiate the acquisition price reflected in the application. Prices which are unsubstantiated or inconsistent with comparable current market pricing will be subject to re-evaluation and adjustment of the tax credits or RFP award, up to and including the total recapture of tax credits or RFP funds.

11. Revise the Rental Assistance scoring criteria to provide maximum points for projects with 100% Project Based Rental Assistance Contracts and reduce the term of the extended commitment from five years to four years.

Points are awarded to applications with commitments of project based rental assistance (PBA). Currently, only projects with less than 100 percent PBA contracts are able to achieve maximum points in the selection priority because 100 percent PBA projects are unable to claim points for cooperatively developing a housing plan/agreement to provide "other" Rental Assistance because they have no need for "other" rental assistance. The proposed change will ensure that the owner maximizes the use of all of the available units of PBA and is able to achieve maximum points in this selection priority.

In addition, USDA RD 515 rent assistance contracts are structured as renewable rental assistance contracts with a **maximum** contract term of 4 years, and staff is recommending a decrease to the extended contract term requirement from a minimum of five years to four years to accommodate and acknowledge the importance of this historically stable source of rental assistance.

Staff proposes:

1. Adding option (A) below to give maximum points and prioritize proposals with project based rental assistance contracts for 100 percent of the units.
2. Revise option (F) below to reduce the contract term from a 5-9 year contract term to 4-9 year term.

Proposed Revisions are underlined in options (A) and (F) below:

- ☐ (A) For developments agreeing to set aside and having the required binding commitment for 100 percent of the total units for project based rental assistance – *17 points*
- ☐ (B) For developments agreeing to set aside and having the required binding commitment for at least 51 percent of the total units for project based rental assistance – *13 points*
- ☐ (C) For developments agreeing to set aside and having the required binding commitment for at least 20 percent but under 51 percent of the total units for project based rental assistance – *10 points*
- ☐ (D) For developments agreeing to set aside and having the required binding commitment for at least 10 percent but under 20 percent of the total units for the project based rental assistance – *6 points*
- ☐ (E) For selection components A, B or C above, if, in addition, the above binding commitments are coupled with a binding commitment to provide the project based rental assistance for a minimum 10 year contract term – *4 points*
- ☐ (F) For selection components A, B or C above, if, in addition, the above binding commitments are coupled with a binding commitment to provide the project based rental assistance for a ~~5~~ 4 to 9 year contract term – 2 *points*
- ☐ (G) For developments that cooperatively develop a housing plan/agreement to provide **other** Rental Assistance (e.g. Section 8, portable tenant based, formal recommendation for McKinney Vento Shelter Plus Care rent assistance, or other similar programs approved by Minnesota Housing) to meet the existing need as evidenced at application by a letter of intent signed by both the applicant and the local housing authority or other similar entities – *4 points*

Public Comments Summary *(staff comments italicized):*

- The agency received two letters of support
- Clarify that properties with existing Section 8 contracts with a remaining commitment of 4 or more years are eligible for extended term contract points
  See proposed language below
- Award points to a project with a commitment to renew and extend it's existing HAP contract
  Projects with a commitment to renew and extend are already eligible for points in this scoring criterion.
- Give maximum points for projects that have 100% project based assistance
  This is already part of the 2013 proposed changes (see Letter A above).
- Expand language to include other types of Rental Assistance (GRH, HUD SHP, Tribal RA, vouchers)
  Language will be added for projects that are effectively project based by written agreement.

Proposed change resulting from public comment (Revisions bolded and underlined):

☐ (E) For selection components A, B or C above, if, in addition, the above binding commitments are coupled with a binding commitment to provide the project based rental assistance for a minimum 10 year **new or remaining** contract term – *4 points*

☐ (F) For selection components A, B or C above, if, in addition, the above binding commitments are coupled with a binding commitment to provide the project based rental assistance for a 4 to 9 year **new or remaining** contract term – 2 *points*

The following are proposed revisions based on policy changes:

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 the 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 threshold, 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.

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

13. Set a Preservation award ceiling at 2/3 of each regional pool.

The 2013 QAP strikes a balance between preservation of existing affordable housing and adding to the supply of rental housing through new construction. Economic conditions and demographics account for the increased demand for rental housing. The increasing share of households who are renters is due in part to the job market and slow climb out of the Great Recession. Homeowners who are unable to sustain homeownership add to the demands for rental housing. According to a 2011 study by the Harvard Joint Center on Housing Studies, between 1999 and 2009, there was a 28% net loss of low-cost rental housing units nationwide. New housing construction in Minnesota dropped dramatically between 2005 and 2010, interrupting the normal process of replacing demolished units or units otherwise removed from the housing supply. Rental housing vacancy rates in the Twin Cities metro area are under 3%, well below the 5% rate that is considered a balanced market. Areas of Greater Minnesota are also experiencing vacancy rates under 5%. As the demand for rental housing increases, rents are likely to inflate putting further pressure on the need for affordable rental housing.

The proposed revision reserves one-third of each Agency administered pool of tax credits for new construction projects. Staff has determined that this is an amount sufficient to ensure that at least one new construction project is funded from each pool. The proposed preservation award ceiling is the counterweight to the high number of points available for preservation projects. In all other respects under the QAP, preservation projects and new construction projects are competitive with one another. The policy goal of balancing preservation and new construction needs would not be achieved without a set-aside of a sufficient amount of credits to allow at least one new construction project to be funded.

Public Comments Summary *(staff responses italicized)*:

- The agency received four letters of support
- Create a preservation set-aside

A specific set-aside for preservation is not necessary as the points eligible for preservation projects provide significant priority to preservation projects.

Proposed change resulting from public comment: No proposed change.

14. Require that Housing Tax Credit developments without RFP funding adhere to architectural design and sustainable housing design requirements consistent with RFP Design standards.

In the 2012 QAP, points were added for proposals that are ready to proceed without a request of deferred loan funding through the RFP. A record number of proposals were submitted that were able to proceed without RFP deferred loan funding or LMIR first mortgage financing. In an effort to ensure that Housing Tax Credit only proposals meet minimum design and sustainability requirements, they will be required to meet the Agency's design and sustainable housing design standards.

Public Comments Summary:

- The agency received two letters of support

Proposed change resulting from public comment: No action needed

15. Remove the requirement that a nonprofit organization applying to the Nonprofit Set-aside must be local, organized and incorporated in the state of Minnesota.

Section 42 requires that states allocate a minimum of 10 percent of the state's volume cap to eligible nonprofit organizations within the meaning of Section 42. The requirement that the nonprofit organization be local, organized and incorporated in the state of Minnesota was originally included to prevent sham nonprofit organizations being created to be eligible to apply to the nonprofit set-aside. Based on Agency experience, there are experienced national nonprofit organizations with demonstrated capacity and history of developing and managing the affordable housing for the long-term and the requirement that the nonprofit organization be local and organized in Minnesota is no longer necessary. Staff proposes revising the language as follows:

> The nonprofit must ~~be local, organized and incorporated in the state of Minnesota and~~ have significant experience ~~in Minnesota~~ as a sponsor, owner, or manager of low-income housing. The nonprofit must have the fostering of low-income housing as one of its exempt purposes and must "materially participate" in the ownership, development and operation of the low-income project through the term of the Declaration.

Public Comments Summary:

- Keep the requirement that to apply to the nonprofit set-aside, the nonprofit organization be local, organized and incorporated in the state of Minnesota.
  The Agency agrees that Minnesota has a strong nonprofit housing development community and proposes to drop the proposed change.
- Provide points for nonprofit developers
  Nonprofit organizations have continuously scored competitively within the competitive funding rounds.

Proposed change resulting from public comment:

- Eliminate the proposed change, nonprofit organizations will continue to be required to be local, organized and incorporated in the state of Minnesota to access the nonprofit set-aside.

Additional Public Comment Summary resulting in QAP changes *(staff responses italicized):*

RD/Small Projects Set-Aside:

- Increase the RD set-aside from $200,000 to $300,000 or $400,000

Proposed Change Resulting From Public Comment:
The RD set-aside will be increased to $300,000

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 units 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 for all supportive housing developments. In addition, it would be difficult to develop clear and measurable scoring criterion to consistently assess degrees of service levels.

- Increase incentives for projects that have a higher percentage of LTH units
  Syndicators require large up-front reserves for the LTH units to account for the uncertainty of the continuance of rental assistance, operating subsidies and/or service funding. 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

Additional Public Comment Summary *(staff responses italicized):*

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.

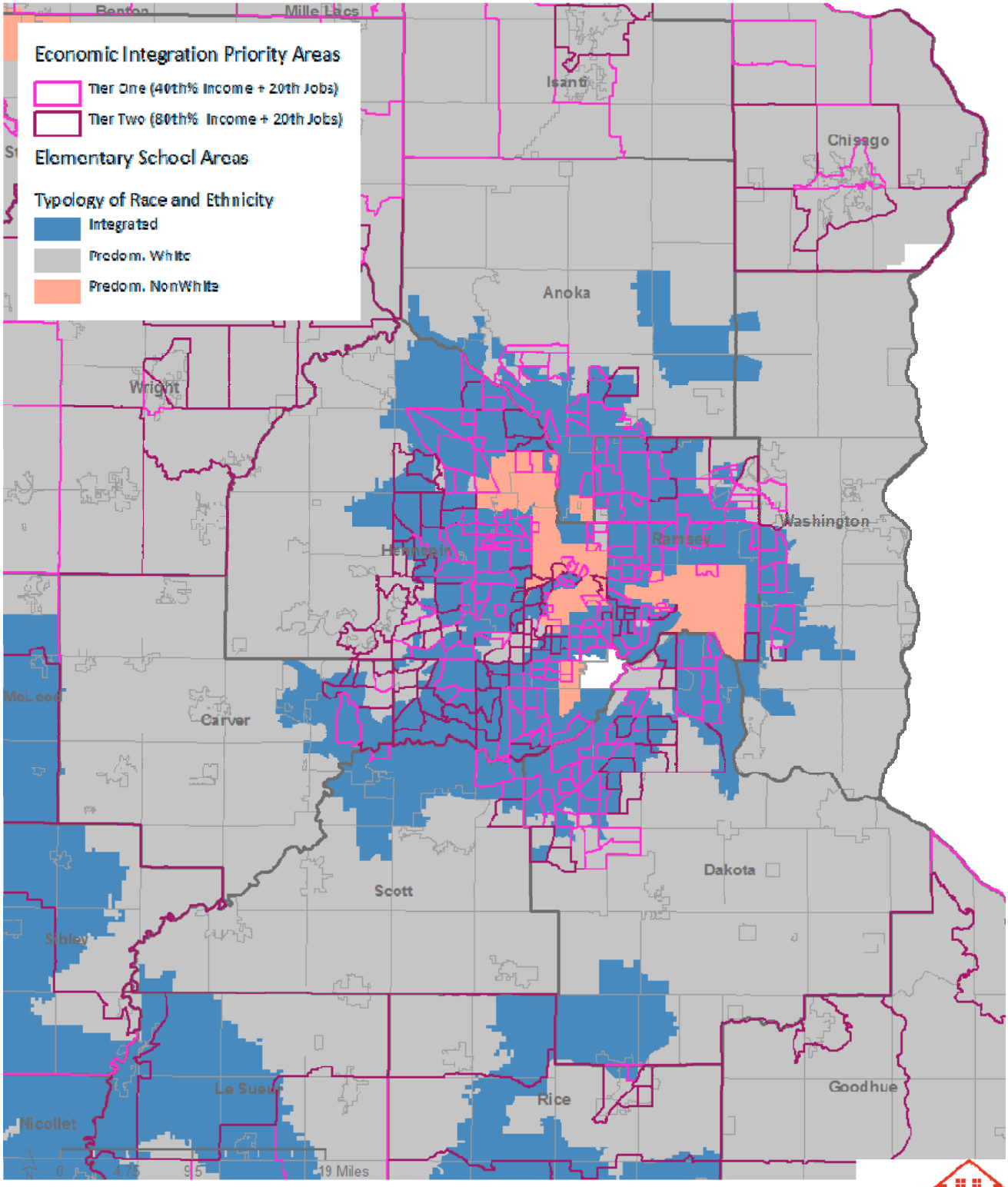
The following analysis is based on all developments that applied to Minnesota for HTCs during allocation years 2006 through 2012 (including TCAP and 1602 but excluding round 2 of 2012). The developments were identified as either "selected" or "not-selected." "Selected" developments were selected by Minnesota 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 developments 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 outlined in pink and maroon in the attached map (Relationship of Economic Integration Priority Areas to Race and Ethnicity of Elementary Schools). As the maps shows, the vast majority of census tracts are in attendance areas for elementary schools that are classified as integrated or predominantly white.

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



Source: Minnesota Housing analysis of Housing Tax Credit applications 2006 through 2011, Current Section 8 FBCA 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: 8/18/2012

Minnesota Housing
Finance Agency

Additional Public Comment Summary *(staff responses italicized):*

Joint Powers Suballocators:

- 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 Suballoocator 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). Suballocators may choose to not enter in to a Joint Powers Agreement with the Agency and allocate their own credits under their Qualified Allocation Plans.

Developer Experience and Capacity:

- Give points to experienced developers
  Development team experience and capacity are reviewed as a threshold criterion.

Economic Integration:

- Project Economic Integration points are currently only awarded to projects that have at least 25 percent but not greater than 50 percent of the total units at HTC units, increase the percentage from 50 percent to 75 percent.
  As part of President Obama's 2013 proposed budget, a change to the tax credit program is proposed that provides incentives for creating mixed-income housing by allowing tax credit projects to elect an average-income criterion where the project meets the minimum set-aside of 20% at 50% AMI or 40% at 60% AMI and no rent-restricted unit occupied by households with incomes over 80% AMI. The proposed federal law will make it easier to achieve economic integration within a project. Rather than making a change now, this priority will be reviewed again next year after action is taken on the federal legislation.

Senior Housing:

- Allow some level of tax credits to be awarded to housing oriented to seniors
  Senior housing projects are eligible to apply and are selected if they are competitive.

Access to Transit:

- Allow points to dial-a-ride in tribal areas.
  Points are awarded to Greater Minnesota projects if the proposed housing is within a census tract that is within 5 miles of 2,000 low and moderate wage jobs (see Attachment 5) and are either within 1 mile of at least four different types of facilities OR have access to dial-a-ride services. In addition, some Minnesota Tribal areas also have fixed route transit systems that are eligible for points under the Minimizing Transportation Costs and Promoting Access to Transit scoring criterion.

Intermediary Costs:

- Revisit the definition of Intermediary Costs (e.g. Relocation expenses)
  Points are awarded to projects with the lowest Intermediary (soft costs) based on tiered scoring, the prioritizing projects with lower intermediary costs assists in the containment of total project costs.

QAP Timing:

- Increase lead time from QAP changes to application submission to the selection of projects or increase timing for the location criteria.
  Staff will be looking at the QAP timeline over the next year to assess options that will allow applicants more lead time while allowing staff to analyze the previous round's selections for effectiveness, while being able to respond to changing market conditions.

Scoring Criteria Impact:

1. **Large Family Housing, Single Room Occupancy and Special Populations scoring criterion:**

   Combining the three household targeting scoring criterion into one has no impact on scoring, the applicant may only select one household type and the maximum 10 point value remains unchanged.

2. **Project Location – Top Growth Communities scoring criterion:**

   The proposed revision removes the point tiering (5 or 10 points) and decreases the maximum point value from 10 to 5.

3. **Regulatory Cost Avoidance/Cost Reduction scoring criterion:**

   Deletion of the scoring criterion removes its 7 point value.

4. **Local/Philanthropic Contributions scoring criterion:**

   The proposed revision maintains the maximum 10 point value.

5. **Non-Financial Readiness to Proceed scoring criterion:**

   Deletion of the scoring criterion removes its 4 point value and decreases the Readiness to Proceed maximum point value from 24 to 20.

6. **Underserved Populations scoring criterion:**

   Deletion of the scoring criterion removes its 10 point value.

7. **Temporary Priority - Foreclosed Properties scoring criterion:**

   The proposed revision changes the tiering of the points and increases the maximum points from 5 to 10 points in Greater Minnesota. The maximum 10 point value remains unchanged.

8. **Preservation of Federally Assisted and Preservation of Existing Housing Tax Credits scoring criterion:**

   Combining the preservation scoring criterion decreases the combined maximum point value from 30 to 20.

9. **Rental Assistance scoring criterion:**

The proposed revision adds an additional 17 point tier; the maximum point value of 21 remains unchanged.

~~10. **Cost Containment – Per Unit Cost Limits scoring criterion:**~~

~~The addition of the scoring criterion adds a 10 point value.~~

10. Long-Term Homeless Households:

The proposed revision adds an additional 7 point tier; the maximum point value of 10 points in addition to 100 Bonus Points remains unchanged.

General Administrative and Clarifications:

Perform various administrative checks for spelling, formatting, text and instruction corrections and clarifications within QAP, Manual, Self-Scoring Worksheet, and other 2013 tax credit program related documents.

Attachments 5 and 6 are for informational purposes. There are no changes to the Minimizing Transportation Costs and Promoting Access to Transit and Economic Integration Methodologies. The attachments represent updated maps and lists of qualifying census tracts eligible for points using updated data.

Project Location - Top Growth Communities Methodology

Minnesota Housing awards 5 points for proposed housing located in or near a top growth city in households or jobs. In the Twin Cities 7 County Metro, project locations must be within 5 miles of a top growth city. In Greater Minnesota, project locations must be within 10 miles of a top growth city. Tables 1 and 2 list the top growth cities, and map 1 depict the cities and areas within the 5 and 10 mile buffers.

Top growth Cities in households and jobs

Table 1: Top Twin Cities 7 County Metro Cities

Top 10 Cities - Household Growth					Top 10 Cities - Job Growth**				
	2010 HH	2000 HH	Change	Rank		2010 Jobs	2000 Jobs	Change	Rank
Woodbury (Washington)	22,594	16,676	5,918	1	Maple Grove (Hennepin)	30,030	18,205	11,825	1
Maple Grove (Hennepin)	22,867	17,532	5,335	2	Maplewood (Ramsey)	27,150	18,703	8,447	2
Shakopee (Scott)	12,772	7,540	5,232	3	Eagan (Dakota)	49,316	42,741	6,575	3
Blaine (pr. Anoka)	21,077	15,898	5,179	4	Shakopee (Scott)	18,327	13,903	4,424	4
Lakeville Dakota)	18,683	13,609	5,074	5	Richfield (Hennepin)	15,408	11,565	3,843	5
Forest Lake (Washington)	7,014	2,805	4,209	6	Golden Valley (Hennepin)	33,552	30,074	3,478	6
Plymouth (Hennepin)	28,663	24,820	3,843	7	Woodbury (Washington)	19,260	16,077	3,183	7
Eden Prairie (Hennepin)	23,930	20,457	3,473	8	Lakeville (Dakota)	13,540	10,583	2,957	8
Farmington (Dakota)	7,066	4,169	2,897	9	Mendota Heights (Dakota)	11,360	8,479	2,881	9
Hugo (Washington)	4,990	2,125	2,865	10	Blaine (pr. Anoka)	20,045	17,419	2,626	10

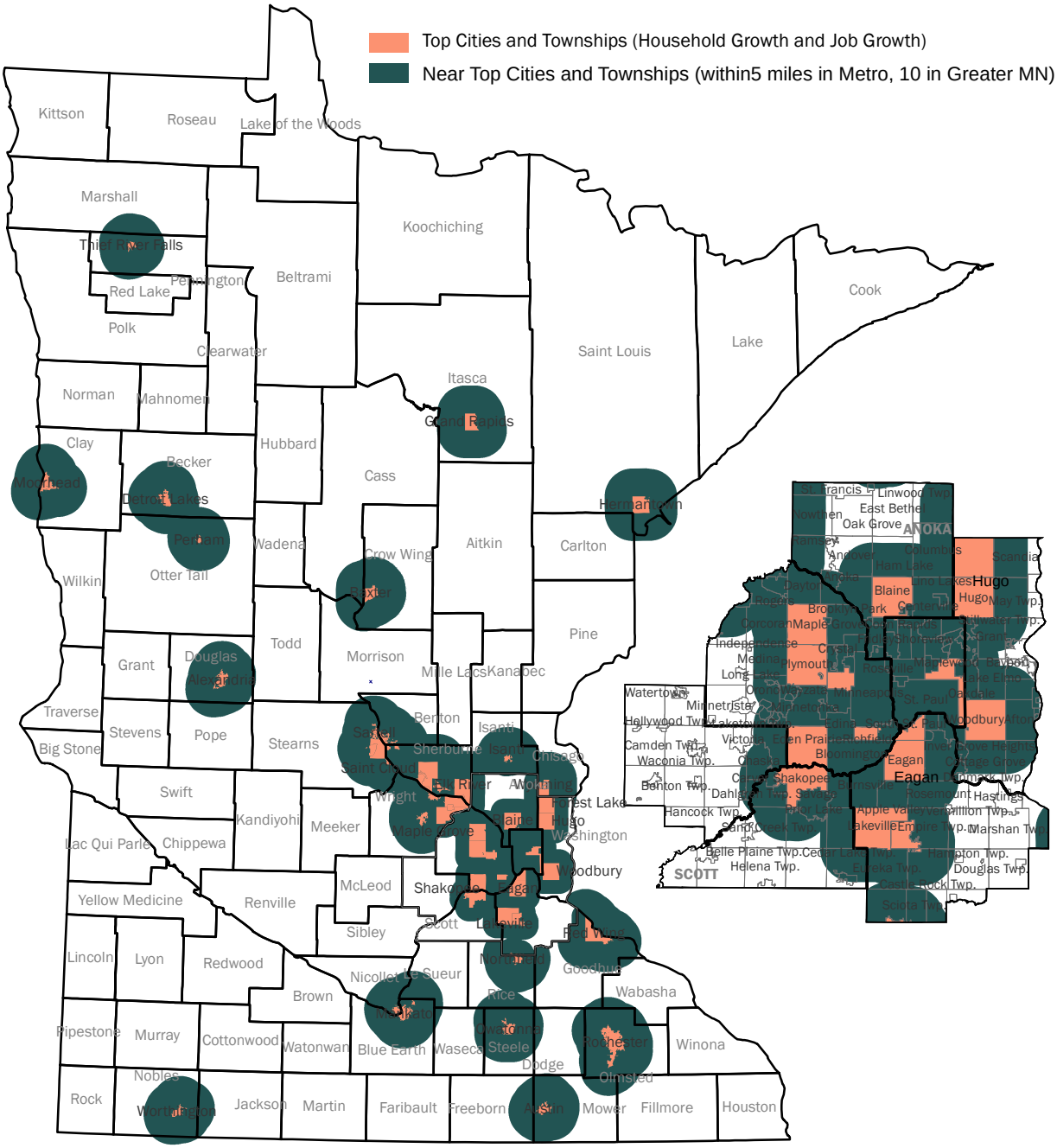
Table 2: Top Greater Minnesota Cities and Townships

Top 20 Cities/Townships - Household Growth					Top 20 Cities/Townships - Job Growth**				
	2010 HH	2000 HH	Change	Rank		2010 Jobs	2000 Jobs	Change	Rank
Rochester (Olmsted)	43,025	34,116	8,909	1	Rochester (Olmsted)	81,480	77,835	3,645	1
St. Cloud city (pr. Stearns)	25,439	22,652	2,787	2	Baxter (Crow Wing)	7,079	3,641	3,438	2
Otsego (Wright)	4,736	2,062	2,674	3	Mankato (Blue Earth)	30,719	27,916	2,803	3
Moorhead (Clay)	14,304	11,660	2,644	4	Red Wing (Goodhue)	13,033	10,649	2,384	4
Mankato (pr. BlueEarth)	14,851	12,367	2,484	5	Worthington (Nobles)	8,368	6,172	2,196	5
Sartell (pr. Stearns)	5,859	3,443	2,416	6	Elk River (Sherburne)	10,933	8,864	2,069	6
Elk River (Sherburne)	8,080	5,664	2,416	7	Albertville (Wright)	3,211	1,155	2,056	7
St. Michael (Wright)	5,239	2,926	2,313	8	Sartell (largely Stearns)	4,536	3,049	1,487	8
Buffalo (Wright)	5,699	3,702	1,997	9	Monticello (Wright)	6,990	5,562	1,428	9
Monticello (Wright)	4,693	2,944	1,749	10	North Mankato (Nicollet)	8,653	7,325	1,328	10
Wyoming (Chisago)	2,738	1,023	1,715	11	Hermantown (Saint Louis)	3,632	2,439	1,193	11
Owatonna (Steele)	10,068	8,704	1,364	12	Detroit Lakes (Becker)	8,533	7,597	936	12
Becker (Sherburne)	1,496	169	1,327	13	Moorhead (Clay)	14,155	13,333	822	13
Big Lake (Sherburne)	3,377	2,117	1,260	14	Buffalo (Wright)	7,289	6,490	799	14
Alexandria (Douglas)	5,298	4,047	1,251	15	Saint Michael (Wright)	2,965	2,208	757	15
Grand Rapids (Itasca)	4,615	3,446	1,169	16	Perham (Otter Tail)	3,809	3,160	649	16
Albertville (Wright)	2,377	1,287	1,090	17	Northfield (Rice)	9,202	8,562	640	17
Isanti (Isanti)	1,871	816	1,055	18	Thief River Falls (Pennington)	7,645	7,160	485	18
Baxter (Crow Wing)	2,963	1,921	1,042	19	Waite Park (Stearns)	6,727	6,305	422	19
Sauk Rapids (Benton)	4,960	3,921	1,039	20	Austin (Mower)	13,538	13,128	410	20

*"pr." designates primary county of multicounty cities.
** Cities and townships need at least 2,000 jobs in 2010 to be included in the top growth cities and townships.

Areas surrounding top growth cities in jobs and households

The below maps display the top cities and townships in household and job growth in orange. The areas in green represent areas surrounding these communities (within five miles surrounding these communities in the Twin Cities 7 County Metro and within ten miles in Greater Minnesota). This map will be available as a layer in the community profiles interactive mapping tool so applicants can check location in relation to these areas.


Top Cities and Townships (Household Growth and Job Growth)
Near Top Cities and Townships (within5 miles in Metro, 10 in Greater MN)
Kittson
Roseau
Lake of the Woods
Marshall
Koochiching
Red Lake
Polk
Beltrami
Cook
Lake
Saint Louis
Clearwater
Itasca
Norman
Mahnomen
Hubbard
Clay
Becker
Cass
Wadena
Aitkin
Carlton
Wilkin
Otter Tail
Todd
Morrison
Pine
Grant
Douglas
Mille Lacs
Kanabec
Traverse
Stevens
Pope
Stearns
Benton
Big Stone
Swift
Kandiyohi
Meeker
Wright
Lac Qui Parle
Chippewa
Yellow Medicine
Renville
McLeod
Sibley
Lincoln
Lyon
Redwood
Brown
Nicollet
Le Sueur
Rice
Wabasha
Pipestone
Murray
Cottonwood
Watonwan
Blue Earth
Waseca
Steele
Dodge
Olmsted
Winona
Rock
Nobles
Jackson
Martin
Faribault
Freeborn
Mower
Fillmore
Houston
Woodbury
Washington
Hugo
Forest Lake
Eagan
ANOKA
SCOTT
Blaine
Maple Grove
Brooklyn Park
Minneapolis
St. Paul
Bloomington
Shakopee
Apple Valley
Lakeville
Eagan
Hugo
Woodbury
Cottage Grove
Inver Grove Heights
Hastings
Marshan Twp.
Douglas Twp.
Hampton Twp.
Rock Twp.
Empire Twp.
Vermillion Twp.
Belle Plaine Twp.
Helena Twp.
Hancock Twp.
Sand Creek Twp.
Dahlgren
Benton Twp.
Camden Twp.
Waconia Twp.
Hollywood Twp.
Minnetrista
Watertown
Independence
Medina
Long Lake
Orono
Plymouth
Corcoran
Maple Grove
Dayton
Rogers
Ham Lake
Blaine
Columbus
Scandia
Linwood Twp.
East Bethel
Oak Grove
Nowthen
Ramsey
Andover
Lino Lakes
Hugo
May Twp.
Grant
Lakeville
Eden Prairie
Victoria
Chanhassen
Chaska
Carver
Shakopee
Savage
Burnsville
Rosemount
Farmington
Eagan
Inver Grove Heights
Cottage Grove
Woodbury
Afton
Oakdale
Lake Elmo
Baytown Twp.
Grant
Stillwater Twp.
Pine Springs
Lake Elmo
Oak Park Heights
Stillwater
Bayport
Newport
Cottage Grove
Inver Grove Heights
Hastings
Vermillion Twp.
Marshan Twp.
Douglas Twp.
Hampton Twp.
Rock Twp.
Sciota Twp.
Empire Twp.
Eureka Twp.
Cedar Lake Twp.
Belle Plaine Twp.
Helena Twp.
Sand Creek Twp.
Apple Valley
Lakeville
Eagan
Shakopee
Savage
Burnsville
Bloomington
Eden Prairie
Victoria
Chanhassen
Chaska
Carver
Waconia Twp.
Camden Twp.
Hollywood Twp.
Minnetrista
Watertown
Independence
Medina
Long Lake
Orono
Plymouth
Corcoran
Maple Grove
Dayton
Rogers
Ham Lake
Blaine
Columbus
Scandia
Linwood Twp.
East Bethel
Oak Grove
Nowthen
Ramsey
Andover
Lino Lakes
Hugo
May Twp.
Grant
Stillwater Twp.
Pine Springs
Lake Elmo
Oak Park Heights
Stillwater
Bayport
Newport
Cottage Grove
Inver Grove Heights
Hastings
Vermillion Twp.
Marshan Twp.
Douglas Twp.
Hampton Twp.
Rock Twp.
Sciota Twp.
Empire Twp.
Eureka Twp.
Cedar Lake Twp.
Belle Plaine Twp.
Helena Twp.
Sand Creek Twp.
Hancock Twp.
Benton Twp.
Dahlgren
Camden Twp.
Waconia

Notes on buffered areas

In the Twin Cities Metro, over 92% (2.6 of 2.8 million) of the population is within the five mile areas around top growth communities. In Greater Minnesota, 48% (1.2 of 2.5 million) of the population is within 10 miles of a high growth community.

When mapping the 5 and 10 mile buffers around high growth cities, a 1/2 sliver along the Minneapolis and St. Paul border and a small segment in northeast Duluth was excluded. For geographic consistency, Minnesota Housing included the 1/2 mile sliver in Minneapolis/St. Paul and the small segment in northeast Duluth in the buffered area.

Also of note is that the major cities of Duluth, Minneapolis, and Saint Paul, while not on a high growth community list, are covered by the buffers around other high growth communities.

Foreclosure Priority Methodology

Foreclosed priority areas identify high need zip codes with the greatest foreclosure need. This document describes the high need zip codes as well as an alternative method for quantifying foreclosure need in a community.

High Need Zip Codes Defined

Based on zip code data purchased from LPS Applied Analytics[1], Minnesota Housing identified the 77 residential zip codes (out of 883 statewide) with the greatest foreclosure need. Need was based on each zip code's:

- Post Sale Foreclosure/REO rate,
- Pre Sale Foreclosure rate,
- Delinquency rate, and
- Change in the unemployment rate (for the county in which the zip code is primarily located).

Each factor received the following weights:

- Post Sale Foreclosure/REO: 40%
- Pre Sale Foreclosure: 30%
- Delinquency: 20%
- Unemployment: 10%

See Map 1 for the high-need zip codes. Table 1 lists the zip codes by county. If a development is in one of the listed zip codes, it is eligible for this priority.

Alternative to High Need Zip Codes

Because zip codes can contain up to 20,000 households, some high need areas are not identified by the zip code analysis. One section of a zip code may have a very high foreclosure rate, while the remaining parts of the same zip code may have a low rate, giving the zip code a lower foreclosure rate overall. To account for this shortcoming in the analysis, an applicant working outside one of the 77 zip codes can still receive credit for the foreclosure priority if the development is in a community or neighborhood with at least a 10% sheriff-sales rate. The rate is calculated by identifying the community or neighborhood around the development and computing the number of residential sheriff sales that occurred during 2009, 2010, and 2011 in the community or neighborhood and then dividing the three year total by the number of residential parcels in the community or neighborhood. To be eligible for the foreclosure priority, the community or neighborhood boundaries must be acceptable to Minnesota Housing and contain at least 200 residential parcels. Isolated small pockets of foreclosures are not eligible for this priority.

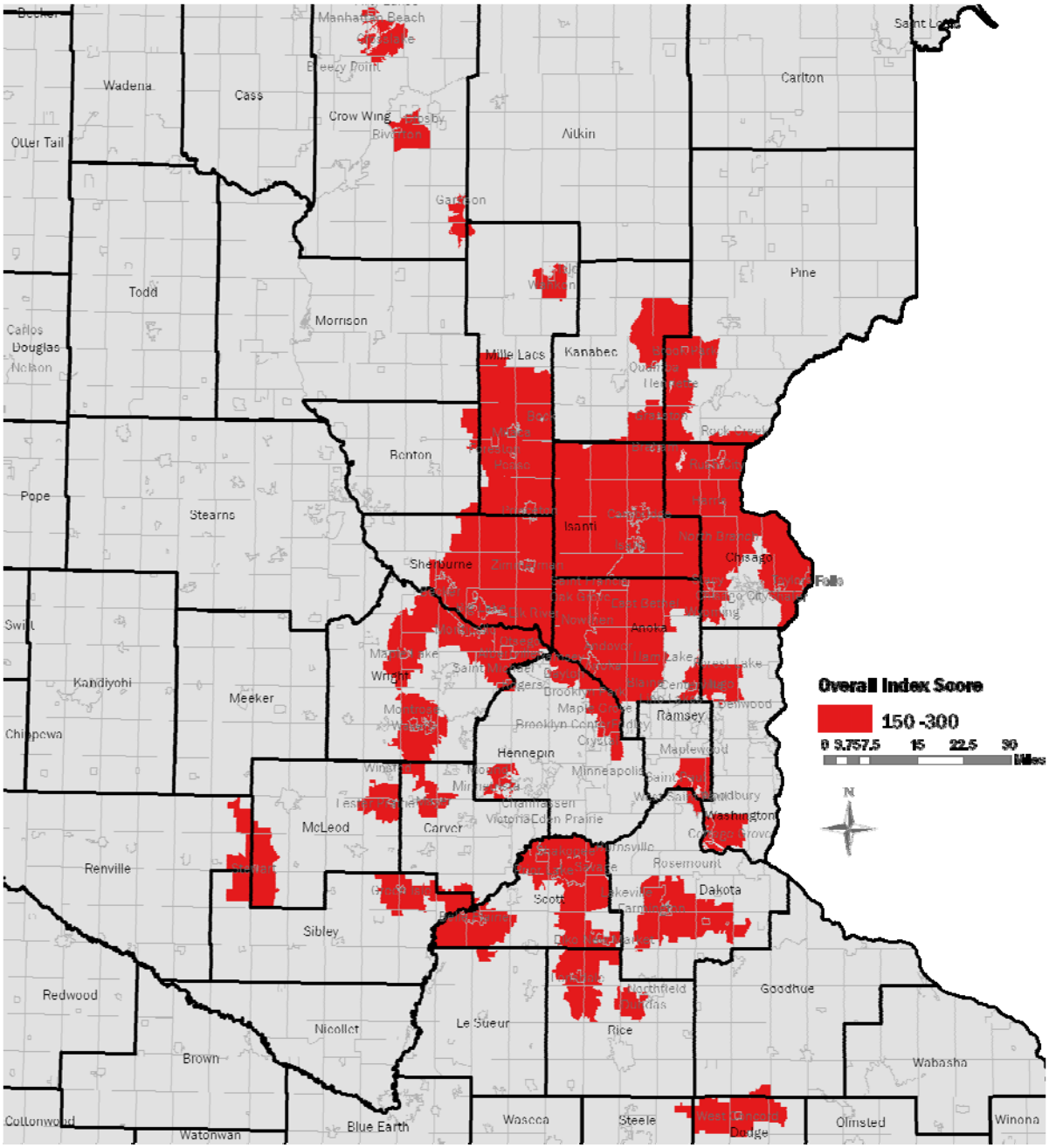
Each applicant seeking credit for a development in a high-need foreclosure area under the alternative definition (outside an identified high-need zip codes) must provide the following information:

1. A map showing the boundaries of the community or neighborhood and the development's location within it;
2. The number of sheriff sales that occurred in the identified community or neighborhood during 2009, 2010, and 2011 (with a separate figure for each year); and
3. The number of residential parcels in the identified community or neighborhood (not the number of residential households).

Finally, new subdivisions that are partially completed are not eligible to be counted in the sheriff sales calculation. A partially-completed, new subdivision is defined as a development where less than 90% of the lots have been fully developed with a residential structure and are ready to be occupied or less than 90% of the fully-developed residential structures have been occupied at some point.

[1] The data provider and final zip code list for the priority areas will be finalized with the most current data available by March, 2012.

MAP 1 - HIGH NEED FORECLOSURE ZIP CODES



Overall / Composite Foreclosure Score
Statewide-Rate: Index = 100
Source: Minnesota Housing analysis of data from LPS Applied Analytics.

Notes: The index is based on each zip code's composite score based on post sale foreclosures / including REO (40%), pre sale foreclosure (30%), delinquency (20%), and County September unemployment (10%). Each zip code's rate is divided by the statewide rate to compute the index score. An index score of 200 means the zip code's rate is twice the state rate, while an index score of 50 means the zip code's rate is half the state rate.

Table 1 - Listing of High Need Zip Codes

Primary County	Zip Code
Anoka	55005
Anoka	55011
Anoka	55070
Anoka	55303
Anoka	55304
Anoka	55433
Anoka	55434
Anoka	55448
Anoka	55449
Carver	55360
Chisago	55012
Chisago	55032
Chisago	55056
Chisago	55069
Chisago	55074
Chisago	55079
Chisago	55084
Chisago	55092
Crow Wing	56442
Crow Wing	56450
Crow Wing	56455
Dakota	55024
Dakota	55031
Dakota	55075
Dodge	55985
Hennepin	55316
Hennepin	55327
Hennepin	55364
Hennepin	55411
Hennepin	55412
Hennepin	55429
Hennepin	55430
Hennepin	55443
Hennepin	55444
Hennepin	55445
Isanti	55006
Isanti	55008
Isanti	55017
Isanti	55040
Isanti	55080
McLeod	55354
McLeod	55385

Primary County	Zip Code
Mille Lacs	55371
Mille Lacs	56330
Mille Lacs	56353
Mille Lacs	56386
Pine	55007
Pine	55030
Ramsey	55101
Ramsey	55106
Ramsey	55107
Ramsey	55119
Ramsey	55130*
Rice	55019
Rice	55046
Rice	55088
Scott	55020
Scott	55054
Scott	55372
Scott	55378
Scott	55379
Scott	56011
Sherburne	55308
Sherburne	55309
Sherburne	55330
Sherburne	55398
Sibley	55338
Washington	55016
Washington	55038
Washington	55071
Wright	55301
Wright	55341
Wright	55358
Wright	55362
Wright	55363
Wright	55376
Wright	55390

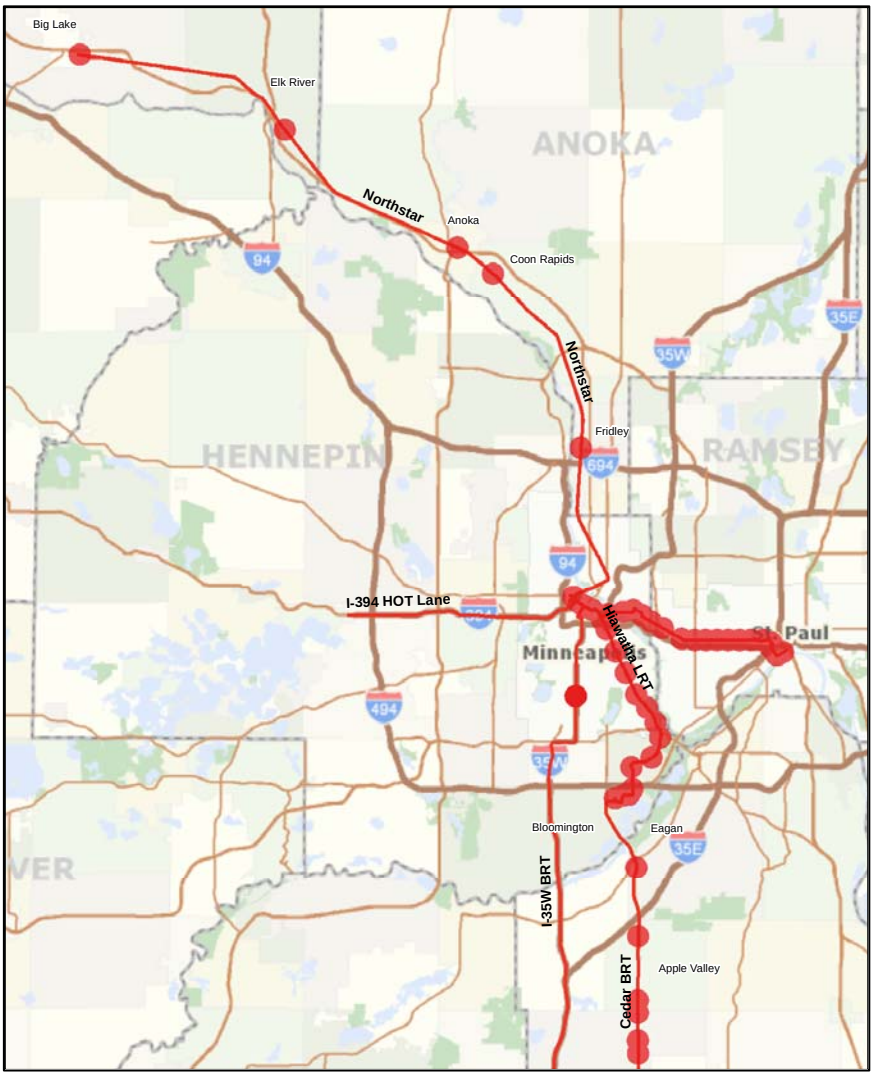
*** 55130.** This zip code on Saint Paul's East Side is relatively new. While local data support that this zip code has significant foreclosures, the analysis did not pick up this area as a hot spot for foreclosure and was altered to be included as a high need zip code. Census tract listing based on analysis of LPS Applied Analytics data for June 2011. The list will be updated in March 2012 with best available data.

Minimizing Transportation Costs and Promoting Access to Transit Methodology

Access to transportation is defined by Minnesota Housing in two tiers (two or three points) for the 7 County Metro and in one tier (three points) for Greater Minnesota.

Detailed map series will be made available at the city level to assist applicants in determining their location in these areas. Furthermore, Minnesota Housing staff will have access to tools to help applicants define their location.

MAP 1 - TRANSIT ORIENTED DEVELOPMENT - METRO



First Tier Metro – Transit Oriented Development (3 Points)

Minnesota Housing defines Transit Oriented Development areas as areas within one half mile of planned or existing LRT, BRT, or Commuter Rail Stations with locations finalized[2]. These areas are in red in map at right.

Lines include: Hiawatha and Central Corridor LRT, Northstar Commuter Rail, and stations of the Cedar Ave and I-35W BRT lines that are finalized or completed.

[2] Data from Metropolitan Council and MetroTransit, December 2011.

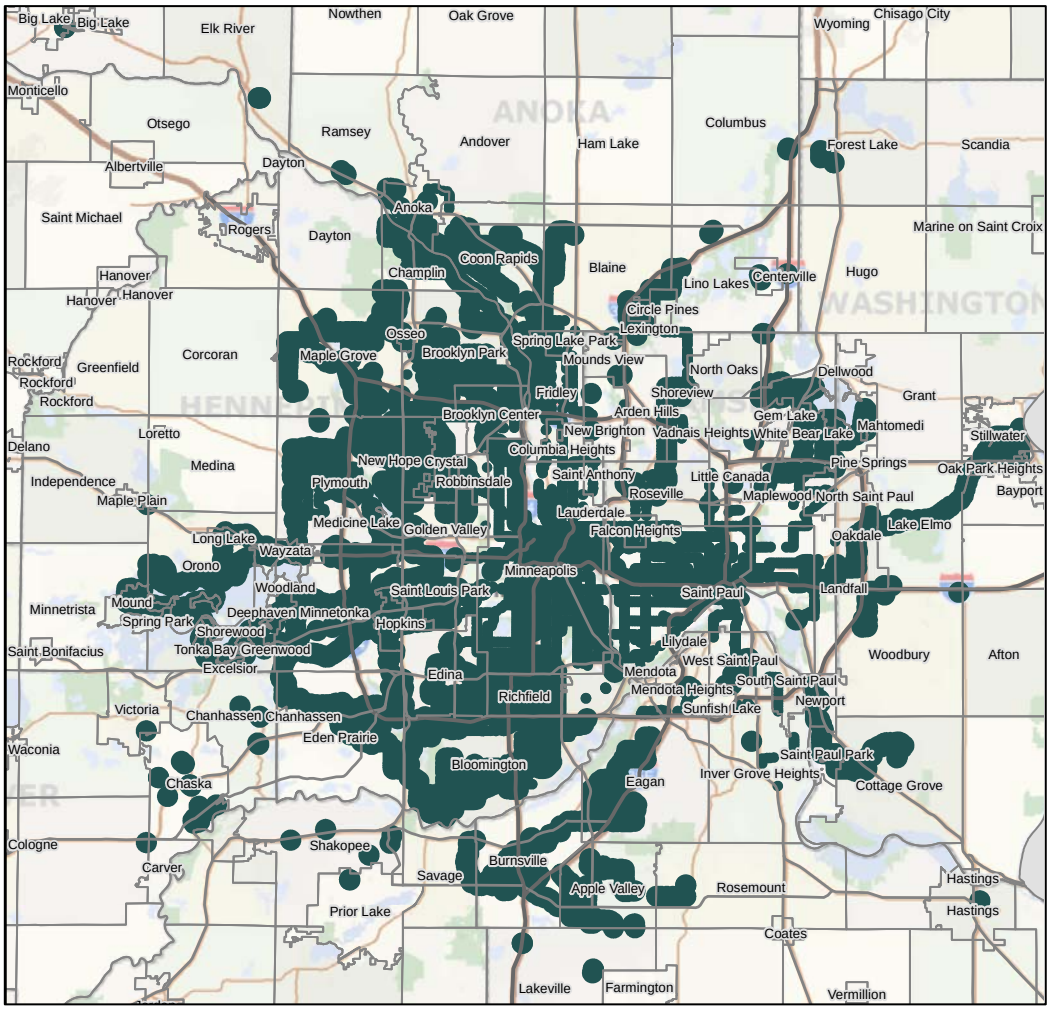
Second Tier Metro – Access to Public Transportation (2 points)

Access to public transportation for the Twin Cities 7 County Metro is defined by Minnesota Housing as areas:

- Within one quarter mile of a high service[3] public transportation fixed route stop; or
- Within one half mile of an express route bus stop or park and ride lot; or
- Located within a Transit Improvement Area[4] designation by MN Department of Employment and Economic Development (DEED).

The geographic coverage of these areas are displayed on the below map. More detailed maps will be available at the city level and the data layer will be available to applicants on the interactive mapping tool of the community profiles.

MAP 2 - METRO HIGH SERVICE TRANSIT



[3] High service fixed route stop defined as those serviced during the time period 6 AM through 7 PM and with service approximately every half hour during that time.

[4] DEED has designated 53 station areas near commuter rail, light rail, and bus rapid transit stations in the Twin Cities. The TIAs encompass a ½ mile radius around stations. More information at http://www.positivelyminnesota.com/Government/Financial_Assistance/Site_Cleanup,_Redevelopment,_Transit_Funding/Transit_Improvement_Areas.aspx

Greater Minnesota (3 Points)

In Greater Minnesota, applicants can receive points if one of the following are met, access to fixed route transit, or access to demand response/dial-a-ride service or proximity to facilities and close to jobs. These options are described below.

Fixed Route Transit

Developments in Greater Minnesota must be located within one half mile of a public transportation fixed route stop (including express bus stop and park and ride locations) or be located within a Transit Improvement Area designation by MN Department of Employment and Economic Development (DEED).

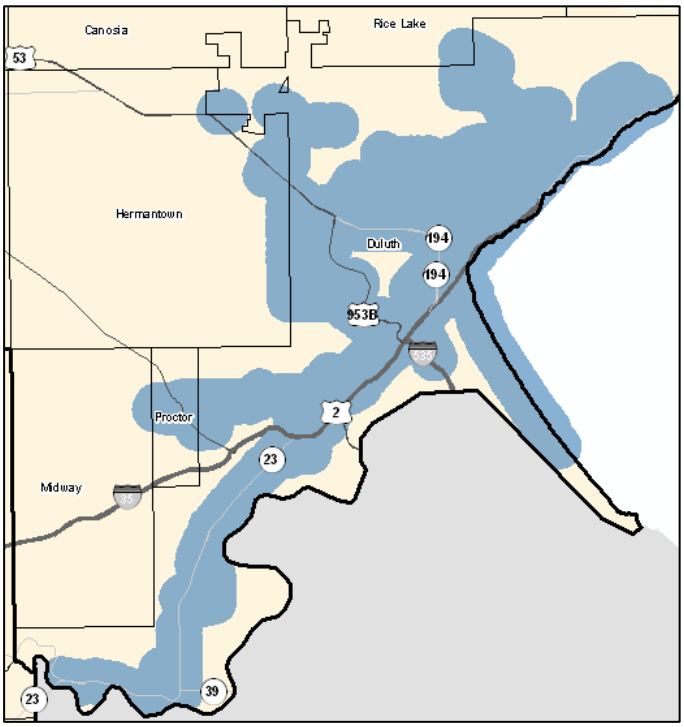
The maps on the followings page display fixed route stops in Duluth, Rochester, and St. Cloud. More detailed maps will be made available for these cities, and a data layer will be including in the community profiles interactive web tool.

Other cities may have fixed route public transportation, particularly the large urban systems listed above. For fixed route transit outside of Duluth, Rochester, and St. Cloud, applicants must provide maps and sufficient detail of fixed route service.

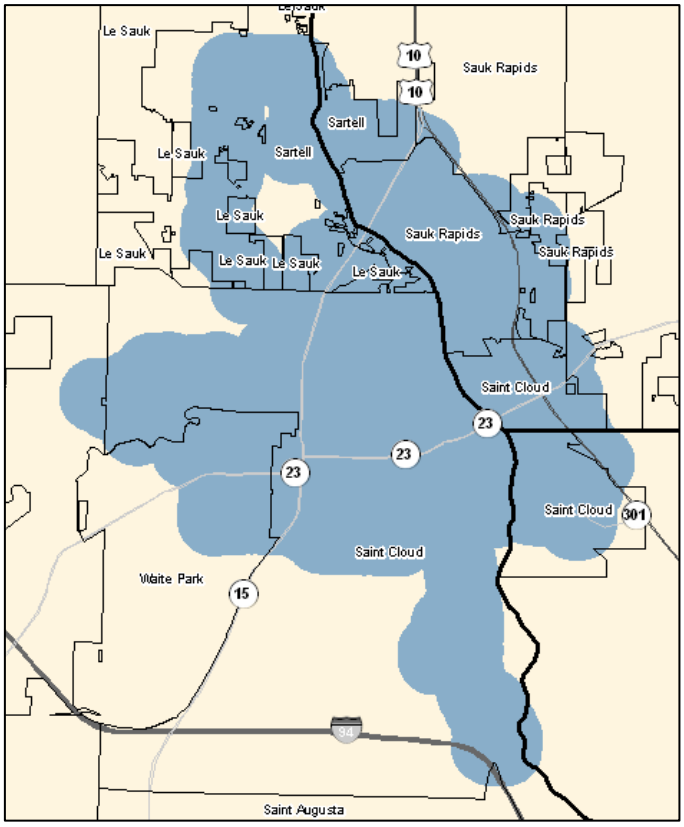
Applicants for a development in Greater Minnesota must submit a map identifying
the location of the project with exact distances to the eligible public transportation station/stop and include a copy of the route, span, and frequency of services. Applicants can find service providers by county or city at the MN Department of Transportation Transit website: http://www.dot.state.mn.us/transit/riders/index.html.

Maps of Fixed Route Service Areas in Duluth, Rochester and St. Cloud

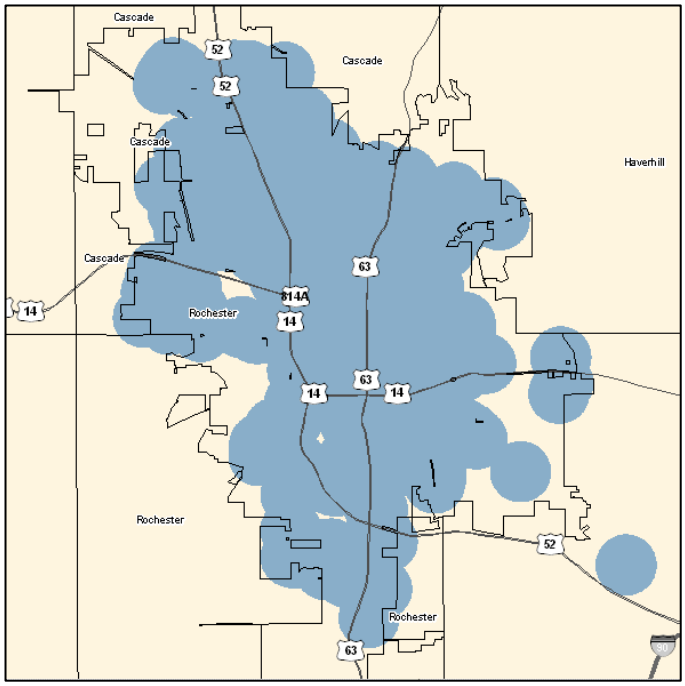
MAP 3 - DULUTH FIXED ROUTE STOPS



MAP 5 - SAINT CLOUD FIXED ROUTE STOPS



MAP 4 - ROCHESTER FIXED ROUTE STOPS



Access to demand response/dial-a-ride service or proximity to facilities, and close to jobs

The proposed housing is within a census tract that is within 5 miles of 2,000 low and moderate wage jobs[5] (see listing in table 1); and one of the two criteria need to be met.

- The proposed housing is within 1 mile of at least four different types of facilities. The facility types include: supermarket/ convenience store, public school, library, licensed child care center, usable park space/dedicated walking or biking trails, bank, medical or dental office, post office, laundry/dry cleaner, pharmacy, place of worship, community or civic center that is accessible to residents, arts or entertainment center, police station, fire station, fitness center/gym, restaurant, neighborhood-serving retail, office building/employment center.

-OR –

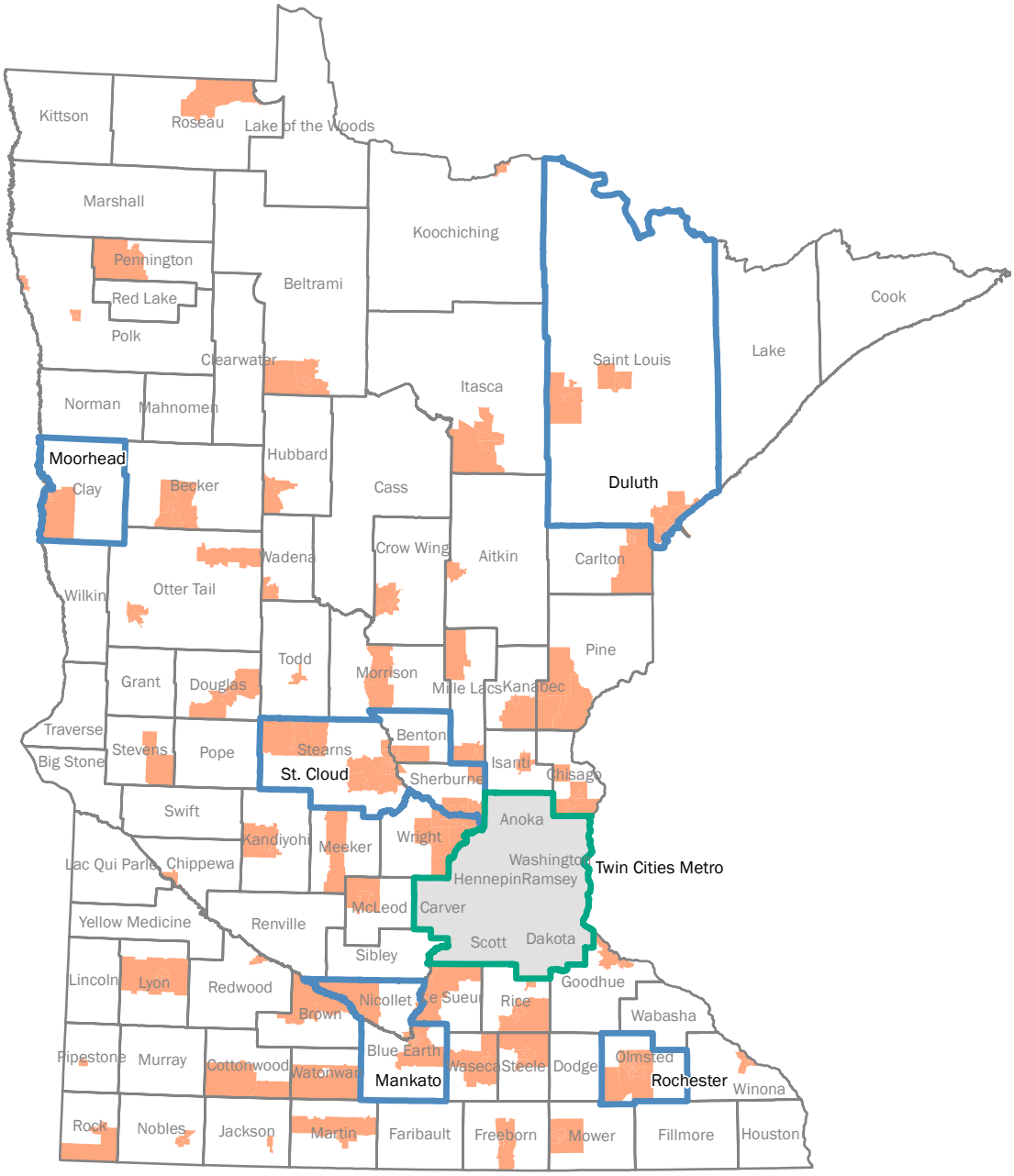
- The proposed housing has access to regular demand-response/dial-a-ride transportation service Monday through Friday during standard workday hours (6:30 AM to 7:00 PM). Applicants must provide documentation of access and availability of service and describe how the service is a viable transit alternative that could be used for transportation to work, school, shopping, services and appointments. Applicants can find service providers by county or city at the MN Department of Transportation Transit website: http://www.dot.state.mn.us/transit/riders/index.html.

[5] Low to moderate wage jobs are those with monthly earnings $3,333 per month and less, based on data from the Local Employment Dynamics program of the US Census Bureau.

Jobs in Greater Minnesota

The below map shows Census Tracts with 2,000 and more jobs within 5 miles. Counties in blue are metropolitan statistical areas (not including the twin Cities Metro). In the metropolitan statistical areas, 2,000 jobs reflect the 25th percentile. In the balance of Greater Minnesota, 2,000 jobs reflect the 65th percentile for tracts. A listing of these tracts by county follows in table 1.

MAP 6 - CENSUS TRACTS WITH 2000+ JOBS WITHIN 5 MILES



Map Source: US Census Local Employment Dynamics program 2009. Includes low-to-moderate wage jobs with earnings less than $40,000 annually.

TABLE 1 CENSUS TRACTS WITHIN 5 MILES OF 2,000 OR MORE JOBS IN GREATER MINNESOTA

Tracts by County
Aitkin
770300
Becker
450300
450400
450500
450600
450700
Beltrami
450100
450200
450600
450701
450702
Benton
020206
020300
021101
021102
021200
Blue Earth
170200
170300
170400
170500
170600
170700
170800
171101
171202
171300
171600
Brown
960101
960102
960200
960300
960400
960500

Carlton
070100
070200
070300
070400
Chippewa
950600
Chisago
110301
110302
110401
110501
110502
110600
Clay
020100
020202
020300
020400
020500
020600
030102
030103
030104
030106
Cottonwood
270300
270400
Crow Wing
950900
951000
951100
951200
951301
951302
Douglas
450500
450600
450701
450702
450900

Freeborn
180400
180500
180600
180700
180800
180900
Goodhue
080101
080102
080200
Hubbard
070500
070600
Isanti
130301
130302
Itasca
480700
480801
480802
480900
Jackson
480400
Kanabec
480300
480400
Kandiyohi
770900
780500
780600
780700
780800
781000
Koochiching
790100
790200
Le Sueur
950100
950200
950600

Lyon
360200
360300
360400
360500
Martin
790200
790500
790600
McLeod
950200
950300
950400
Meeker
560300
560400
560500
Mille Lacs
170600
170700
970200
Morrison
780300
780600
780700
Mower
000100
000200
000300
000410
000600
000800
000900
001000
Nicollet
480100
480300
480400
480501
480502
480600

Nobles
105400
105500
105600
Olmsted
000100
000200
000300
000400
000500
000600
000901
000902
000903
001000
001100
001201
001202
001203
001301
001302
001401
001402
001501
001502
001503
001601
001602
001603
001701
001702
001703
002200
002300
Otter Tail
960500
960900
961000
961100
Pennington
090200

090300
090400
090500

Pine

950500
950600
950700
950800

Pipestone

460200
460300

Polk

020100
020200
020300
020600
020700

Redwood

750200
750300

Rice

070400
070501
070503
070504
070601
070602
070700
070800
070901
070902

Rock

570200
570300

Roseau

970100
970300

Saint Louis

000100
000200
000300
000400
000500
000600
000700
000900
001000
001100
001200
001300
001600
001800
001900
002000
002300
002400
002600
002900
003000
003300
003400
003600
003700
010100
010200
010300
010400
012100
012200
012300
012400
012500
012600
012800
013000
013100
013200
013300
013500
015600
015700
015800

Sherburne

030102
030402
030403
030502
030503
030504
031500

Stearns

000301
000302
000401
000402
000500
000601
000602
000701
000801
000901
001001
010101
010102
010500
010600
011301
011302
011304
011400
011500
011600

Steele

960100
960200
960300
960400
960600
960700

Stevens

480200
480300

Todd

790600

Wadena

480300

Waseca

790300
790400
790500

Watonwan

950300

Winona

670200
670300
670400
670500
670600
670700

Wright

100100
100202
100203
100204
100701
100702
100703
100801
100802
100900
101000

Community Economic Integration Methodology

Community economic integration is defined by Minnesota Housing in two tiers based on median family income and access to jobs.

For applicants to be awarded one or two points for community economic integration, the proposed housing is located in a community (census tract) with the median family income meeting or exceeding the region's[6] 40th percentile for median family income based on data published by the American Community Survey (ACS) for 2010. For each region, the 40 percent of census tracts with the lowest incomes are excluded. The census tract must also meet or exceed the region's 20th percentile for low and moderate wage jobs[7] within five miles based on data published by the Local Employment Dynamics program of the US Census for 2009. For each region, the 20 percent of census tracts with the fewest low and moderate wage jobs within five miles are excluded. To promote economic integration, the criteria identify higher income communities that are close to low and moderate wage job centers.

This document includes maps of the census tracts that meet the following two tiers of community economic integration as well as a list of census tracts by county for each tier. Table 1 shows the number of jobs within five miles that achieves the 20th percentile by region and both the 40th and 80th percentile for Median Family Income by region. Maps 1 and 2 display the Census tracts that meet these criteria.

First Tier Community Economic Integration – 1 Point
Meet or exceed the 40th percentile of median family income (but less than the 80th percentile) and meet or exceed the 20th percentile of jobs within 5 miles.

Second Tier Community Economic Integration – 2 Points
Meet or exceed the 80th percentile of median family income and meet or exceed the 20th percentile of jobs within 5 miles – 2 points.

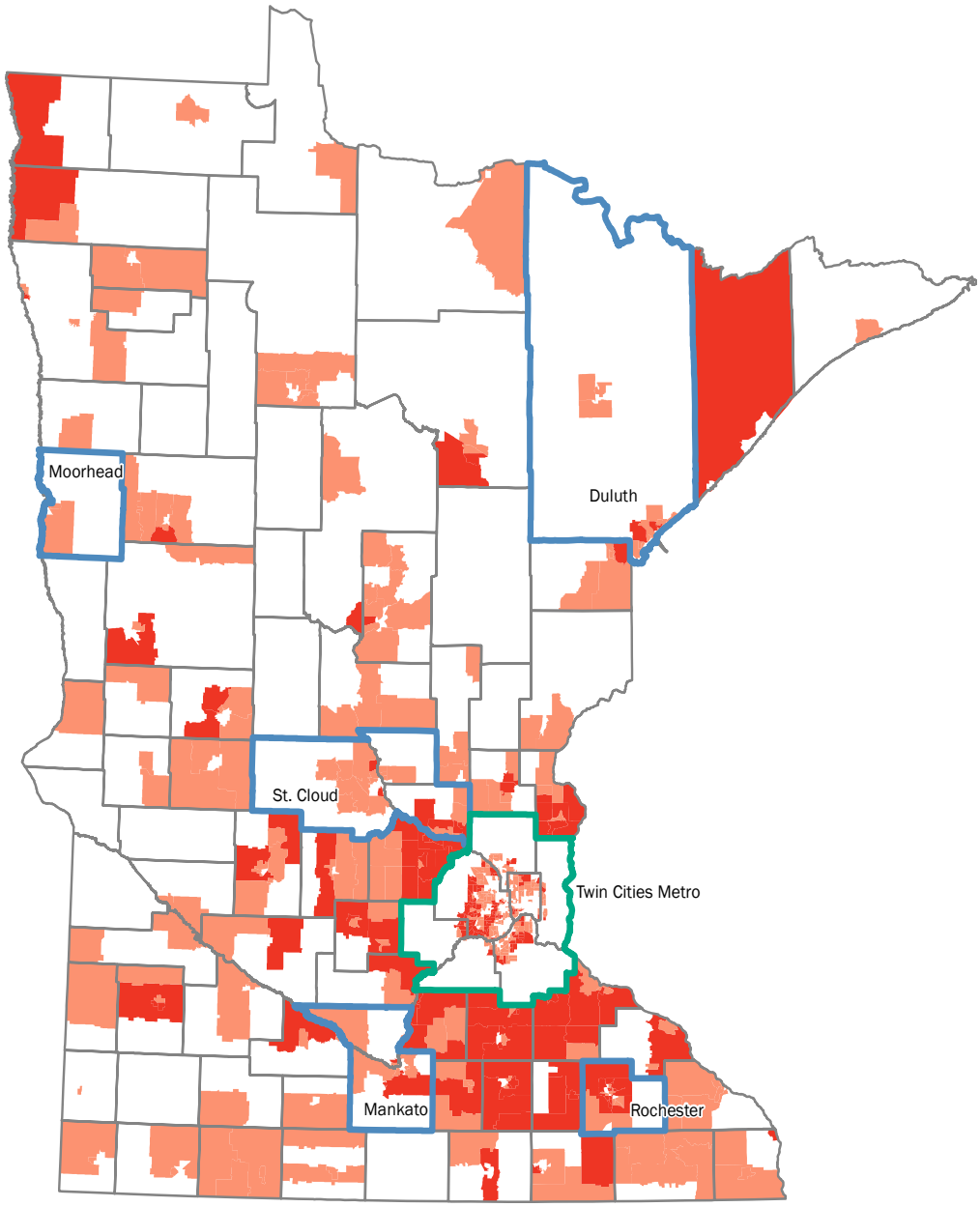
[6] For the purpose of assessing income and access to jobs, Minnesota Housing is defining three regional categories: 1) Twin Cities 7 County Metro, 2) Counties that include the five largest non-metro cities (Duluth, St. Cloud, Rochester, Mankato, and Moorhead), and 3) Balance of Greater Minnesota. The purpose of the regional split is to acknowledge that incomes and access to jobs varies by region. A higher income community close to jobs in the metro is very different than a higher income community close to jobs in rural Greater Minnesota.

[7] Low and moderate wage jobs are those with a monthly earning less than or equal to $3,333, using LED data from the US Census (2009).

TABLE 2 – JOBS AND MEDIAN FAMILY INCOME THRESHOLDS BY REGION

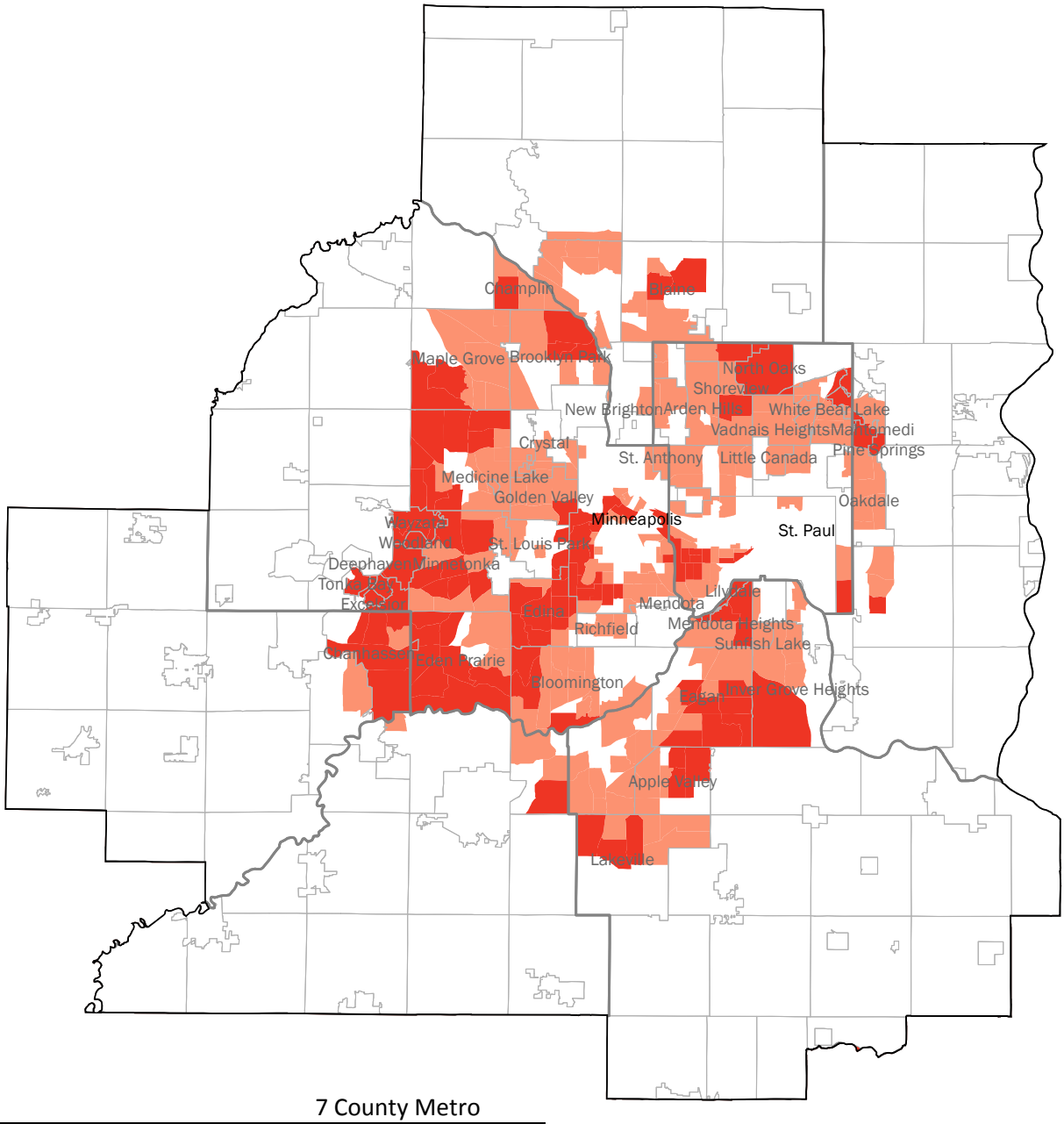
Community Economic Integration / percentile	7 County Metro (Outlined in Green)	Non Metro Counties with Large Cities (Outlined in Blue)	Greater Minnesota
Jobs within 5 miles / 20th	20,752	1,137	409
Med Family Income / 40th	$71,250	$61,477	$56,280
Med Family Income / 80th	$103,257	$78,015	$66,995

MAP 7 – CENSUS TRACTS MEETING REGION'S 40TH AND 80TH PERCENTILE THRESHOLDS FOR MEDIAN INCOME & 20TH PERCENTILE FOR TOTAL JOBS WITHIN 5 MILES



*Note, map displays where median family income thresholds are met along with the jobs threshold.

MAP 8 – TWIN CITIES 7 COUNTY METRO DETAIL - CENSUS TRACTS MEETING REGION'S 40TH AND 80TH PERCENTILE THRESHOLDS FOR MEDIAN INCOME & 20TH PERCENTILE FOR TOTAL JOBS WITHIN 5 MILES



	7 County Metro
Jobs within 5 miles / 20th	20,752
Med Family Income / 40th	$71,250
Med Family Income / 80th	$103,257

Census Tract Listing by County for Economic Integration

* 80th percentile	* 80th percentile	* 80th percentile	* 80th percentile	* 80th percentile
Greater Minnesota	110700	080101*	780600	950600
Becker	**Clay**	080102	780700*	950700*
450300*	030106	080200*	781200*	Meeker
450400*	**Cook**	080300	Kittson	560100*
450600*	480200*	080400	090200	560200*
450700	**Cottonwood**	080500	**Koochiching**	560400*
450800*	270300*	080600	790200*	560500
450900*	**Crow Wing**	080700	790300*	**Mille Lacs**
Beltrami	950204*	080800*	**Lake**	170400*
450100*	950501*	080900	370100	170600*
450200*	950502*	**Grant**	**Lake of the Woods**	970100*
450300*	950800*	070100*	460300*	**Morrison**
450701*	950900*	**Houston**	**Le Sueur**	780300*
Brown	951301	020100	950100	780500*
960102*	951302*	020300*	950200	780800*
960200*	951400*	020500*	950300*	**Mower**
960400	951700*	020900*	950400	000200
960500*	**Dodge**	**Isanti**	950500*	000800*
Carlton	950100	130200*	950600	000900
070100*	950200	130301	**Lincoln**	001000*
070200*	950400	130302	201001*	001300*
070300	950500	130501*	**Lyon**	001400
070400*	**Douglas**	130502*	360100*	**Nobles**
070500*	450500*	130600*	360200	105100*
Cass	450702*	**Itasca**	360300	105600*
940001*	450800*	480700	360400	**Norman**
960801	450900	480801	360500*	960300*
Chippewa	451000	480802*	**Marshall**	**Otter Tail**
950300*	**Fillmore**	480900*	080300	960102*
950600*	960100*	**Jackson**	080400*	961100*
Chisago	960200*	480100*	**Martin**	961700
110200*	960300*	480200*	790100*	**Pennington**
110301*	960400*	480300*	790300*	090100*
110302	960600*	480400*	790500*	090300*
110401	**Freeborn**	**Kandiyohi**	**McLeod**	**Pine**
110402	180200*	780100	950100*	950600*
110501*	180400	780300*	950200	950800*
110502	180700	780400*	950300*	**Pipestone**
110600	**Goodhue**	780500*	950400	460300*

* 80th percentile	* 80th percentile	* 80th percentile	* 80th percentile	* 80th percentile
Polk	960500	101000	001202	030404
020100*	960600*	101100	001203	030502
020200*	960700	101200*	001301*	030503*
020300	960800	101300*	001302	030504
	Stevens	**Yellow Medicine**	001402	**Stearns**
020600*	480200*	970100*	001501	000402
020800*	480300*	970200*	001502	001001*
Pope	**Traverse**	Non Metro MSA	001503	010101
970100*	460100*	**Benton**	001601*	010102*
970200*	**Wabasha**	020206*	001602	010200*
970300*	490100*	020300*	001603	010401*
Red Lake	490200	021101*	001702*	010402*
010200*	490600*	021102*	001703	011301*
Redwood	**Waseca**	**Blue Earth**	001800*	011302*
750200*	790100*	170200*	001900	011304*
750400*	790200*	170500*	002200*	011400*
Renville	790300	170700*	002300	Twin Cities Metro
790200	790400*	170800*	**Saint Louis**	**Anoka**
790300*	790500*	170900*	000100*	050208*
Rice	**Watonwan**	171300	000200*	050605*
070100	950300*	171600	000300*	050609*
070200	**Winona**	**Clay**	000400	050610*
070300	670100*	020100*	000500	050707*
070400	670200*	020202*	000600*	050709*
070501	670300*	020500	000700	050711*
070503	670400*	030102*	001000	050712*
070504	670600*	030104*	001100	050809*
070601*	670900*	**Nicollet**	002300*	050811*
070602*	671000*	480100*	002900*	050813*
070700*	**Wright**	480400*	003600*	050819
070800	100100	480501*	010100*	050820*
Rock	100202	480502	010200*	050821
570100*	100203	480600*	010300	051203*
570200*	100204	**Olmsted**	010400*	**Carver**
Roseau	100300	000100	012800*	090502
970300*	100400*	000400	013200*	090503
Sibley	100500*	000600*	013400*	090601*
170198	100701*	000901*	015700*	090602
170400*	100702	000902*	**Sherburne**	090701
Steele	100703	000903	030101*	090702
960100	100801	001000*	030102*	090900*
960200	100802	001100	030402*	**Dakota**
960300*	100900	001201	030403	060103*

* 80th percentile	* 80th percentile	* 80th percentile	* 80th percentile	* 80th percentile
060202*	060818*	023700	026206	027400
060302*	060819*	023801	026207*	027501
060505*	060822	023802	026208*	027504
060506*	060823	023901	026301	101200*
060507*	060824*	023902	026302*	103000*
060508	060825	023903	026402*	103600*
060603	**Hennepin**	024003*	026403*	104400*
060604	000300*	024005*	026404	105100
060605*	000603*	024006	026505*	105201*
060606	003800*	024200*	026507*	105400*
060709*	008100*	024400*	026508	105500
060713*	010600	024500*	026509	106500
060714*	010700	024700*	026510*	106600*
060716	011000*	024801*	026511*	107500*
060717*	011703*	025301*	026512*	107600*
060726*	011704*	025601*	026605	108000
060727*	011800*	025603*	026606	108900*
060728	011998*	025605*	026609	109000
060729	012001*	025701*	026610	109100
060730	020101*	025702*	026611*	109800
060731	020102*	025801*	026612	109900*
060732	020902*	025802*	026613	110200*
060733*	020903*	025805	026706*	110500*
060734	021001*	025903*	026707*	110800*
060735*	021002*	025905	026708*	111100*
060738*	021200*	025906	026710*	111200
060739*	021400*	025907*	026711*	111300
060741*	021504*	026005	026712*	111400
060742*	021505*	026007*	026713*	111500
060744*	021601*	026013	026715	111600
060745*	021602*	026014	026716	122600*
060746*	021700*	026015	026807*	125600
060748*	021800	026016	026811*	126100
060749*	021900*	026018	026812*	126200
060750*	022200*	026020*	026815*	**Ramsey**
060806*	022301*	026021	026820	030100*
060811*	022801	026022	026822	030201*
060812*	022901	026101*	026823	030300*
060813	022902	026103	026903*	030602*
060814*	023100	026104*	026906*	033200*
060815	023501*	026201	026907	033300*
060816	023502	026202	026908*	033900*
060817*	023600	026205	027300	034900

* 80th percentile
035000
035100
035200
035300*
035500*
035700
035800
036300
036400
036500*
036600*
037500*
037601*
040200
040301*
040302*
040401*
040402*
040503*
040504*
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040603*
040604*
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040704*
040705*
040706
040707*
040801*
040803*
041001*
041002*
041104*
041105*
041106*
041301*
041302*
041500*
041601*
041700*
041900*
042102*
042301*

* 80th percentile
042503
042504*
042602*
042900*
043000
Scott
080201*
080203*
080205
080500*
Washington
070303
070304*
070906*
070907*
070909*
070911*
070912*
071006*
071013*
071014

DISTRIBUTION OF TAX CREDITS FOR 2013
Round 1 Closing Date – June 12, 2012

Below is a listing of the estimated distribution of tax credits for Minnesota Housing and the cities and counties administering the tax credits in their respective jurisdictions:

GREATER MINNESOTA	
Duluth	$308,181
St. Cloud	$168,305
Rochester	$240,707
Rural Development /Small Project Set-Aside (Minnesota Housing Administered)	$300,000
Minnesota Housing Administered	$2,973,481
Subtotal	**$3,990,674**
METROPOLITAN AREA	
Minneapolis	$1,326,961
St. Paul	$989,035
Washington County	$510,470
Dakota County	$942,806
Minnesota Housing Administered	$2,741,826
Subtotal	**$6,511,098**
SUBTOTAL	**$10,501,772**
NONPROFIT SET ASIDE ADMINISTERED BY MINNESOTA HOUSING*	
Metropolitan Area	$723,455
Greater Minnesota Area	$443,408
Subtotal	**$1,166,863**
TOTAL TAX CREDITS FOR STATE	**$11,668,635**

* *Subject to final publication of population figures by the IRS.*

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AGENDA ITEM: 9.B.2
MINNESOTA HOUSING BOARD MEETING
March 22, 2012

ITEM: Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2012 Series A, 2012 Series B, 2012 Series C, and 2012 Series D

CONTACT: Don Wyszynski, 651-296-8207
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Joe Gonnella, 651-296-2293
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REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

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

☑ Other: Bond Transaction

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Agency staff is preparing to issue bonds to provide financing for mortgage loans purchased under its single family first-mortgage programs. Kutak Rock LLP, the Agency's bond counsel, will send the resolution and Preliminary Official Statement describing the transaction under separate cover. The Board will be asked to adopt a resolution approving the terms of the bond issue on a not-to-exceed basis.

FISCAL IMPACT:
The proposed bond issue includes an economic refunding of certain outstanding bonds and a new money portion to provide funds for the single family lending program. The proposed structure of the bond issue maximizes the Agency's interest-rate spread because of the subsidy created by the economic refunding of bonds that financed higher rate mortgage loans.

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):
None.

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AGENDA ITEM: 9.C.(1)
MINNESOTA HOUSING BOARD MEETING
March 22, 2012

ITEM: Program Changes, Fix-up Fund Program

CONTACT: Robert Russell, 651-296-9804
robert.russell@state.mn.us

Kathy Dipprey Aanerud
kathy.aanerud@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:

Staff is hereby requesting Board approval for recommended Fix-up Fund program changes described below. These changes are the result of a thorough program review and are designed to better serve current homeowner needs and incent increased lender participation. It is anticipated these program changes will be effective May 7, 2012. Staff is bringing the program changes for concept approval this month so that these program changes can be reviewed with a cross-section of our lender network prior to implementation. Next month, staff intends to bring the Fix-up Program Procedural Manual for Board approval.

FISCAL IMPACT:

Fix-up Fund is funded with Pool 2 and Pool 3 resources. These program changes will guide the use of the funds allocated to Fix-up Fund and should position the Agency to better meet its production goals. The AHP allocated $20,000,000 of Pool 2 funds for an estimated production of 1,220 loans. The AHP also allocated $465,000 for the proposed Community Recovery Program, which is being accommodated within the Fix-up Fund through the proposed changes.

MEETING AGENCY PRIORITIES:

☐ Provide 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):

- Background
- Table of Program Changes

BACKGROUND:
The Agency has offered its home improvement loan program – currently marketed as the Fix-up Fund – continuously since 1976. It has been recognized as the most successful home improvement loan program offered by a state housing finance agency anywhere in the country. Even though program terms and conditions have changed throughout the years based on changes in the lending environment and availability of Agency funding resources, the program has been a consistent resource in assisting modest income homeowners with affordable financing for critical improvements to their homes.

Loan volume has varied throughout the program's history. Traditional activity has been declining in recent years reflecting the economic decline in the broader home improvement sector. Although recent volume has appeared strong, it has been stimulated by the availability of Energy Saver Rebates. Without these rebates, volume has been relatively light.

The Agency has identified the preservation of the existing housing stock as one of its strategic priorities, which includes preserving the stock of existing, owner-occupied homes throughout the state. Competitive and affordable home improvement loan programs are important to achieving the Agency's strategic priority. As a result, a thorough product review of the Fix-up Fund was identified as an important business activity during the development of the 2012 Affordable Housing Plan (AHP).

This product review was performed over the course of several months and used input from a variety of sources: research data from both internal and external sources; the Agency's Finance Division; the Agency's Legal staff; other housing finance agencies; and lender input in the form of lender visits and calls as well as a lender survey. In light of this input, staff has developed a number of recommendations designed to make the Fix-up Fund program more mission-driven, user-friendly and competitive.

The attached table outlines the proposed Fix-up Fund program changes. There are several changes of note, described in further detail below:

- First, it is recommended that the Agency re-introduce unsecured loans as a way to increase financing options for homeowners with nominal cost improvements and/or higher loan-to-value ratios as well as for lien-averse homeowners. The unsecured option will also be used to meet the goals of the proposed Community Recovery Program outlined in the AHP. The goal of the Community Recovery Program is to assist borrowers with strong credit histories who are unable to access home improvement financing because of the declining housing market in their community. The unsecured option will allow these borrowers to have access to Fix-up Fund financing since loan to value is not an underwriting consideration with unsecured loans.

  It is anticipated that unsecured loans will increase program production and yield. Pricing for unsecured loans will be higher (6.99%) than that of secured loans (5.99%) in order to compensate for increased risk. Risk will be further managed with a minimum credit score as described below and an interest rate reduction incentive for borrowers agreeing to automatic debit payments on their loan.

- Second, the prepayment penalty will be eliminated. The penalty has not reversed prepayment trends, nor has it generated sufficient income to offset yield losses associated with prepayments. There is

also evidence to indicate that it has discouraged program production. The majority of lenders from the lender survey indicated the prepayment penalty should be removed.

- The third recommendation is a 1% rate reduction (4.99%) for loans that will finance energy conservation or home accessibility. Making these key home improvements more affordable is in response to homeowner needs. Loan amounts will be limited to $7,500 and a maximum repayment term of 10 years. Eligible improvements for energy conservation are being finalized in conjunction with a review of the successful Energy Saver Rebates. Eligible accessibility improvements will be finalized with input from community rehab advisors. The finalized eligible items will be presented in the procedural manual next month.

- Fourth is a recommendation that clarifies our underwriting guidelines. Historically, the Agency has required each lender to have and utilize "acceptable underwriting standards." Given recent market realities, the credit the Agency receives from Moody's for rating purposes, and the desire from lenders for more clarity on certain underwriting guidelines, staff recommends establishing minimum credit scores. Specifically, the minimum credit scores will be 620 for secured loans and 680 for unsecured loans. In conjunction with this minimum credit score requirement, staff recommends phasing out the non-prime loan option under the Community Fix-up Fund. Production for non-prime loans has waned over the last several years. Staff is also considering additional clarifications of prudent underwriting . Upon final analysis, the expanded clarifications will be presented in the procedural manual next month.

  Currently loans with a borrower credit score below 620 make up only four percent (4%) of our portfolio, but these loans make up a disproportionate percentage (20%) of inactive or written off loans. Further, the delinquency trends of these loans are almost 8 times higher than that of loans with a borrower credit score of 680 or better. The delinquency rate for loans with a borrower credit score of 680 or better is less than 1%.

- Lastly, staff recommends that lender fees paid by the Agency be increased to $400 for secured loans and be set at $250 for unsecured loans. In late 2006, the lender fee was decreased from $450 to $200, which is the current lender fee. Since then, the dissatisfaction related to the decreased lender compensation has been voiced by lenders and confirmed in the recent lender survey. It is also evidenced by the increase in the program's average loan size. Larger loans increase the compensation received by the lender from the 1% origination fee, and when added to the Agency-paid lender fee make the program worthwhile. Ensuring lenders are adequately compensated should increase their willingness to make more loans and their willingness to serve customers who only need smaller loans. Smaller loans are predominately used by lower income households. Thus, increasing lender appetite for smaller loans should increase service to lower income households.

Staff feels that the above changes respond favorably to lender input and homeowner needs in the current real estate environment while prudently managing the agency's resources.

TABLE OF PROGRAM CHANGES:

Programmatic Area	Secured			Unsecured
	Fix-up Fund (Regular)	**Fix-up Fund (Energy/ Accessibility)**	**Community Fix-up Fund**	**Fix-Up Fund (Regular)**
Geographically Targeted	No	No	Yes, Initiative Dependent	No
Interest Rate	5.99%	4.99%	5.75%	6.99%
First Lien Adjustment	Yes, to Fed Reserve	Yes, to Fed Reserve	Yes, to Fed Reserve	No
Minimum Credit Score	620	620	620	680
Minimum Loan Amount	$2,000	$2,000	$2,000	$2,000
Maximum Loan Amount	$35,000	$7,500	$35,000	$10,000
Minimum Loan Term	1 year	1 year	1 year	3 years
Maximum Loan Term	Up to $10,000: 10 yrs $10,001-$35,000: 20 yrs	10 years	Up to $10,000: 10 yrs $10,001-$35,000: 20 yrs	10 years
Loan to Value	Up to 110%	Up to 110%	Up to 110%	N/A
Debt to Income	48%	48%	48%	48%
ACH Incentive	No	No	No	Yes, interest rate reduction

Note: Highlighted areas denote program changes or new program features.

Programmatic Area	Secured			Unsecured
	Fix-up Fund (Regular)	**Fix-up Fund (Energy/ Accessibility)**	**Community Fix-up Fund**	**Fix-up Fund (Regular)**
Lender Fee	$400	$400	$400	$250
Origination Fee	1%	1%	1%	None
Other Allowable Fee	Can be financed in loan amount: • Origination Fee • Actual cost of title search • Actual cost of flood certification • Actual cost of document preparation, not to exceed $50, Paid in cash at loan closing: • Credit investigation fee, up to $15, • Recording fee for mortgage, • Recording fee for assignment of mortgage, • Mortgage registration tax	Can be financed in loan amount: • Origination Fee • Actual cost of title search • Actual cost of flood certification • Actual cost of document preparation, not to exceed $50, Paid in cash at loan closing: • Credit investigation fee, up to $15, • Recording fee for mortgage, • Recording fee for assignment of mortgage, • Mortgage registration tax	Can be financed in loan amount: • Origination Fee • Actual cost of title search • Actual cost of flood certification • Actual cost of document preparation, not to exceed $50, Paid in cash at loan closing: • Credit investigation fee, up to $15, • Recording fee for mortgage, • Recording fee for assignment of mortgage, • Mortgage registration tax	Can be financed in loan amount: • Actual cost of document preparation, not to exceed $50, Paid in cash at loan closing: • Credit investigation fee, up to $15

Note: Highlighted areas denote program changes or new program features.

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AGENDA ITEM: 9.C.(2)
MINNESOTA HOUSING BOARD MEETING
March 22, 2012

ITEM: Neighborhood Stabilization Program 3 (NSP3) Action Plan Substantial Amendment

CONTACT: Ruth Simmons, 651-297-5146
ruth.simmons@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:
Staff hereby requests Board approval of Minnesota Housing's Neighborhood Stabilization Plan (NSP3) substantial amendment and corresponding reallocation recommendation.

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):
- Background.
- Reallocation Recommendation.
- Draft copy of the Neighborhood Stabilization Program 3 (NSP3) Action Plan Substantial Amendment.

BACKGROUND:
The Housing and Urban Development's (HUD's) Neighborhood Stabilization Program (NSP3), was authorized under the Wall Street Reform and Consumer Protection Act of 2010 (Frank-Dodd Act of 2010), Notice 75 FR 64322 of October 19, 2010. It provides targeted emergency assistance to local governments to acquire, redevelop, and resell foreclosed properties, benefiting households with incomes of 120% Area Median Income (AMI) or below.

Minnesota Housing was named a grantee of $5 million under this authority. The criteria for selection was as follows: cities and counties previously receiving NSP funds; significant foreclosure impact; access to employment and/or transit; areas with high to moderate levels of rental housing; and marketability. In February of 2011 six cities and counties were approved by this board to receive funds: City of Minneapolis; City of St. Paul; Hennepin County; Ramsey County; Dakota County; and City of Big Lake. With these funds, each subrecipient must maximize the revitalization and stabilization impact on neighborhoods, preserve affordable housing opportunities in the targeted neighborhoods, complement and coordinate their efforts with other federal, state and local investments in the targeted neighborhoods.

REALLOCATION RECOMMENDATION

Acceptance of Big Lake's relinquished funds

In reviewing Minnesota Housing's NSP3 sub-recipients' progress, staff confirmed the slowdown of Big Lake's activities. In addition to having lost key NSP staff, the city faced multiple challenges in both their NSP1 and NSP3 target areas. Although Big Lake has expended 98% of its NSP1 funds, the slowdown has impacted their NSP3 program, putting at risk their obligations and expenditures, and making it more difficult for Minnesota Housing staff to engage the city concerning the administration and development of its projects. After reviewing its progress, the City of Big Lake on January 11, 2012 relinquished $766,114.47 of NSP3 funds to Minnesota Housing for reallocation to other sub-recipients. Through this substantial amendment, Minnesota Housing will reallocate $500,000 to Hennepin County. The balance will be deobligated from Big Lake and reallocated to other sub-recipients at a later date. Big Lake City staff felt it was best to maintain a good standing with Minnesota Housing rather than risk not being able to meet the requirements of the NSP3 grant agreement.

Reallocation evaluation process:

Staff's reallocation recommendation is based principally upon the current level of need in each NSP3 target area and sub-recipients' readiness to commit additional funds. Minnesota Housing staff has considered sub-recipients' current commitment and expenditure levels under NSP1 and NSP3, any issues identified with the NSP3 target areas, their ability to reach required expenditure thresholds, their current success in meeting the required low-income beneficiary count, and their percentage of funds documented as expended in Minnesota Housing's system.

Hennepin County is the only NSP3 sub-recipient that has committed all of its funds. The county has requested additional resources for a time-sensitive, multi-family rental preservation project in Brooklyn Park. To accommodate Hennepin County's timeline and because other sub-recipients are not currently ready to proceed with additional projects, staff is proceeding with a recommendation to reallocate a portion of the Big Lake funds to Hennepin County and will continue to work in the next 30 days with other eligible sub-recipients to determine the reallocation of the remaining funds.

Hennepin County – Shingle Creek Reallocation Recommendation:

Minnesota Housing staff has worked with Hennepin County to confirm the time-sensitivity of the Shingle Creek rental project, its financing gap, and ability to garner additional resources. Based on the findings, staff recommends reallocating $500,000 of the Big Lake funds to Hennepin County to support the Shingle Creek project. Other factors examined were: strategies for stabilization, key area assets, consistency with NSP3 priorities, and partner's capacity and degree of readiness. Staff analyzed this information as provided by Agency's internal data, the Housing and Urban Development (HUD) data, and Hennepin's narrative to assess program feasibility, including impact, low income households, rental preference, marketing, and vicinity hiring.

$500,000 will cover a portion of Shingle Creek's rehabilitation gap. Of the 122 units, NSP will assist 34 units, of which 25 will benefit families with incomes at or below 120% AMI and nine will benefit families with incomes of 50% AMI or below. The average investment per unit will equal $14,999, resulting in a five year affordability compliance period. Administrative funds recommended total is $4,355.43.

The estimated market value established by the assessor in January 2, 2010 was $5,803,000. Minnesota Housing approved $1.6 million in loans and grants for the project in January 2012. This request for additional NSP3 funding is expected to meet most of the financing needs of the project and enable it to move forward. Multifamily staff has indicated that $500,000 in NSP funds would leave a gap that can be reasonably addressed by other County resources.

Recommendation to approve the NSP3 Substantial Action Plan Amendment draft:
Staff recommends approval of the NSP3 Action Plan Substantial Amendment reflecting the deobligation/reallocation recommended today (see attached draft Substantial Amendment). The public comment period for the draft Substantial Amendment concludes on Wednesday, March 21, 2012. Comments received during the comment period will be provided at the March 22 board meeting.

Timeline
Staff will submit the NSP3 Action Plan Substantial Amendment for HUD's approval following Minnesota Housing's Board approval. The Substantial Amendment will be posted for a 15 day public comment period, from March 6^{t}, 2012 to the end of business March 21, 2012. Reposting will include any public comments received. Staff will provide a revised Board memo to include public comments not received prior to the distribution of this Board memo. The Agency anticipates HUD's approval of the Amendment within two to three weeks of receipt. This should provide sufficient time for Hennepin's contract execution with the developer in April, and County Board approval of their agreement on May 1, 2012.

Upcoming proposals from NSP subrecipients:
Staff will be contacting the remaining NSP3 sub-recipients for proposals for the remaining $260,000 of the funds to be de-obligated from Big Lake. Evaluation criteria will include past performance, ability to attain 50% expenditures by March 2013, ability to reach an area impact of approximately 20%, ability to meet the affordability threshold, and administrative budget. Target area amendments may be proposed by sub-recipients as part of the proposal. Staff also plans to contact NSP 1 sub-recipients for proposals to use up to $400,000 in program income.

THE NEIGHBORHOOD STABILIZATION PROGRAM (NSP3) ACTION PLAN SUBSTANTIAL AMENDMENT

Jurisdiction(s): Minnesota State	NSP Contact Person:	Ruth Simmons
		Minnesota Housing
Minnesota Housing Finance Agency	Address:	400 Sibley Street, Suite 300
	Telephone:	651-297-5146
Jurisdiction Web Address:	Fax:	651-296-8292
www.mnhousing.gov	Email:	ruth.simmons@state.mn.us

Introduction

The Housing and Urban Development's (HUD's) *Neighborhood Stabilization Program (NSP3*) is authorized under the Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Financial Reform Act of 2010), Notice 75 FR 64322 of October 19,2010, and represents a third round of funding to provide targeted emergency assistance to stabilize neighborhoods whose viability has been, and continues to be, damaged by the economic effects of properties that have been foreclosed upon and abandoned. $1 billion was announced to stabilize neighborhoods hard hit by foreclosure across the nation.

Minnesota Housing is the grantee for the State of Minnesota NSP3 funds in the amount of $5 million under this authority. The focus of this program is the purchase, rehabilitation, management and resale of foreclosed and abandoned properties for the purpose of stabilizing neighborhoods. Unless provided differently by the Act, grants must comply with Community Development Block Grant (CDBG) requirements. The plan describes Minnesota Housing's NSP3 goals for the program, high need targeting criteria, distribution plan, assignment decisions, application requirements, eligible uses and activities, and performance evaluation for NSP funds.

To date, there have been two other rounds of NSP funding. Under the first round (NSP1 authorized under the Housing and Economic Recovery Act of 2008 (HERA)), Minnesota Housing was named a grantee and awarded $38.8 million.

Minnesota Housing will sub grant NSP3 funds to eligible local units of government with experience administering CDBG funds who have demonstrated capacity and success in the management of Minnesota Housing's NSP1 funds granted in their jurisdictions in March of 2009. Subrecipients are expected to be knowledgeable about and adhere to the laws and regulations governing the CDBG program as well as the Neighborhood Stabilization Program. Subrecipients must commit and expend funding in accordance with NSP3 funding guidelines and the targeting requirements described in the Action Plan.

Timelines and Non-competitive Assignment Process

The $5 million in NSP3 funds administered by Minnesota Housing was awarded in February 2011. The NSP3 Program Concept and preliminary assignment recommendations were approved by Minnesota Housing's Board at its December 2010 meeting, after a comprehensive analysis by Agency staff. The Action Plan is informed by subsequent input from each subrecipient local government preliminarily assigned NSP3 funds, including preliminary program descriptions which were due January 4, 2011 and final program descriptions delivered shortly thereafter. Each subrecipient's program description included information on final target areas proposed, corresponding strategies for achieving stabilization, and their implementation method including administrative funds needed. Other factors examined were leverage and/or area assets, public and or private investments, made or anticipated, consistency with NSP3 priorities, and capacity/degree of readiness. The draft NSP3 Action Plan was posted for public comment on January 14, 2011 with a 15 day public comment period that ended on January 30, 2011.

The final Action Plan and awards for these NSP3 funds was presented for approval at Minnesota Housing's February 2011 Board meeting. The final Action Plan was delivered to HUD by March 1, 2011, and posted to Minnesota Housing's web site at www.mnhousing.gov.

Minnesota Housing intends to monitor subrecipients' progress on obligations and expenditures over the term of their contracts. Awarded funds may be recaptured if a subrecipient is not making sufficient progress. Reallocations of funding may occur during the award period to the best performing subrecipients if awarded funds are recaptured. Fifty percent of grant funds must be expended 24 months into the program and 100% must be expended at 36 months.

The projected timeline for NSP3 can be viewed on Minnesota Housing's website.

March 2012 Substantial Amendment to State of Minnesota NSP3 Action Plan

After reviewing its progress using NSP3 funds, the City of Big Lake on January 11, 2012 relinquished $766,114.47 of NSP3 funds to Minnesota Housing for reallocation to other subrecipients. Through this Substantial Amendment, Minnesota Housing will reallocate $500,000 of the returned NSP3 funds to Hennepin County. The $266,114.47 balance will be de-obligated from Big Lake and reallocated to subrecipients at a later date.

Reallocation evaluation process:
The proposed reallocation to Hennepin County is based principally upon the current level of need in each NSP3 target area and subrecipients' readiness to commit additional funds. Minnesota Housing considered subrecipients' current commitment and expenditure levels under NSP3 and NSP1, any issues identified with the NSP3 target areas, their ability to reach required expenditure thresholds, their current success in meeting the required low income beneficiary count, and their percentage of funds documented as expended in Minnesota Housing's system.

Hennepin County is the only NSP3 subrecipient that has committed all its funds. The County has requested additional resources for a time-sensitive multi-family rental preservation project in Brooklyn Center. To accommodate Hennepin County's timeline and because other subrecipients are not currently ready to proceed with additional projects, Minnesota Housing will reallocate $500,000 of the Big Lake funds to Hennepin County and will consider reallocating the remaining funds to NSP3 subrecipients in the coming weeks.

Hennepin County – Shingle Creek Reallocation Recommendation:
Reallocating $500,000 of the Big Lake funds to Hennepin County will support preservation of the Shingle Creek Apartments (AKA View point at Shingle Creek), Shingle Creek Tower, 6221 Shingle Creek Parkway, Brooklyn Center., Minnesota Housing staff will present its recommendation at its March 2012 Board meeting. In making this reallocation, Minnesota Housing considered Hennepin County's capacity and degree of readiness to proceed, strategies for stabilization, key area assets, and consistency with NSP3 priorities, through an evaluation of Minnesota Housing's internal data, the Housing and Urban Development (HUD) data, and Hennepin County's narrative, to assess program feasibility, including impact, low income households, rental preference, marketing, and vicinity hiring.

Timeline/Public comment period
Staff will submit the NSP3 Action Plan Substantial Amendment for HUD's approval following Minnesota Housing's Board approval of the Substantial Amendment at its March 2012 Board meeting. The Substantial Amendment will be posted for a 15 day public comment period, from March 6th, 2012 to the end of business March 21, 2012. Reposting will include any public comments received. Staff will provide a revised memo to its Board, including public comments not received prior to the distribution of its preliminary Board memo. The Agency anticipates HUD's approval of the Substantial Amendment within two to three weeks of receipt. This should allow sufficient

time for Hennepin County's contract execution with the developer in April and County Board approval of their contract on May 1, 2012.

A. Areas of Greatest Need

Overview

Under NSP3 HUD has provided Minnesota Housing $5,000,000 for allocation across the state. Outlined below is the methodology that Minnesota Housing used to identify areas of greatest need and to assign initial funding distributions around the state.

To stabilize a neighborhood, HUD recommends that grantees select target areas small enough so that at least 20 percent of the foreclosures in the target area receive NSP 3 assistance. HUD has estimated, by block group, the number of REO properties and foreclosure starts between July 2009 through June 2010, and the number of properties that need assistance to have a stabilizing impact. Given that Minnesota Housing only received $5 million of funding, Minnesota Housing first identified seven local communities that met the agency's selection criteria and then worked with the potential awardees to identify very narrow target areas, encompassing one to five block groups.

Target Area Selection Criteria

Minnesota Housing used five criteria to select areas for potential funding. To be targeted for funding, census tracts had to meet each of the following criteria:

Primary Requirements

- **Previous recipient of NSP-1 funds** (City or County).
- **Significant foreclosure impact**.
  - HUD provides a foreclosure need score for each census tract in the state and considers a score of 17 and above to be a high need area. Each census tract is ranked on a scale of 1 to 20, with 20 being the highest. All target areas have a foreclosure score of 17 or higher.
  - In addition to considering the HUD score, Minnesota Housing narrowed the foreclosure impact areas to those that either have a high foreclosure score based on internal analysis of LPS Applied Analytics foreclosure data (one of the country's primary sources of loan performance data) OR areas that were previously targeted areas in NSP1.

Local Market Priorities

- **Access to transit OR Access to jobs.** Census tracts within close proximity to jobs or transit were selected.
- **Moderate to high rates of rental.** HUD noted a preference towards rental housing in NSP3. Census tracts with rental rates at the 25th percentile or above for their region, were targeted. The regions for analysis include: the core cities of Minneapolis and Saint Paul, suburban seven county metro, and Greater Minnesota. 13 rental units are anticipated in our plan to contribute to the stabilization of neighborhoods.
- **Marketability.** To assess the general market conditions of an area, month's supply of home sale inventory was evaluated. Zip codes with less than four months supply represent an active market while four to ten months of inventory indicates a moderate to slow market. A market with more than ten months of inventory is very slow. This information was used to assist in program design and further target area refinement.

In addition to the criteria described above, Minnesota Housing eliminated from consideration communities which had NSP1 funds deobligated or where the identified target areas had less than 100 foreclosures.

Conclusion

Minnesota Housing analyzed five criteria for selecting target areas: previous recipient of NSP1 funds, significant foreclosure impact, access to transit or access to jobs, areas of high to moderate levels of rental housing, and marketability. In the target selection areas meeting these criteria, an estimated 1,142 properties would require assistance to have a stabilizing impact. To reduce the properties needing assistance to more closely match the

available funding, Minnesota Housing further narrowed the target areas by considering grantee capacity and the level of need (the number of foreclosures in the potential target area). The resulting set of potential grant awardees included four entitlement communities: Anoka County, Hennepin County, City of Minneapolis, and City of Saint Paul. In non-entitlement communities, the potential awardees included, in the metro, Dakota County and Ramsey County, and in Greater Minnesota, the City of Big Lake. Six local units of government are identified as the final awardees in the program. Anoka County withdrew from consideration because it concluded that the administrative funds to be received were insufficient to cover its projected expenditures.

Further details on the targeting methodology and a list of block groups being targeted are available on Minnesota Housing's website.

- NSP3 List of Block Groups
- NSP3 Revised List of Block Groups

B. Distribution and Uses of Funds – State NSP Goals and Impact

Minnesota Housing has three goals for the NSP funding:

- To maximize the revitalization and stabilization impact on neighborhoods;
- To preserve affordable housing opportunities in the targeted neighborhoods;
- To complement and coordinate with other federal, state and local investment in the targeted neighborhoods.

Subrecipient goals at the neighborhood/block-group level were evaluated to be consistent with Minnesota Housing's goals for the program.

In order to respond to rising foreclosures and falling home values, Minnesota Housing's goals have a primary focus on neighborhood stabilization with tight target areas. Subrecipients are expected to have measurable impact, mitigating housing decline and market collapse.

To stabilize a neighborhood, subrecipients selected target areas small enough so that at least 20 percent of the foreclosures in the target area could receive assistance. Subrecipients with access to non-NSP3 sources for interim funding were able to project the number of properties to be assisted based on the assumption that each property will receive an average of $50,000 in subsidy. Subrecipients relying solely on NSP3 funds needed to base their projections on an average total development cost. Due to limited funding, subrecipients were required to narrow their targeting to a few blocks. Target areas are characterized by moderate to low demand, a market insufficient to correct itself yet not collapsed (see "Marketability" in Section A).

Eligible Recipients of NSP3 Funding

Previous NSP1 recipients that demonstrated capacity and success in the management of their grant were identified as eligible for assignment of NSP3 funds. As with NSP1, this limited eligibility to cities or counties experienced in administering CDBG funding. Furthermore, only local units of government operating in the high need target areas, subjected to the targeting criteria developed by Minnesota Housing, which includes areas identified under HUD's mapping tool as high need demonstrating a Need Index Score of 17-20, were eligible for assignment. An index score of 17-20 is considered high need under HUD's methodology criteria. Information on Minnesota Housing's NSP3 Evaluation Criteria for Targeting Areas may be reviewed in Section A of this Action Plan.

Minnesota Housing assigned NSP3 funds to the following six local governments in an aggregate amount of $4,500,000 for the purpose of acquiring, rehabbing, and reselling ~~74~~ 91 units of housing, ~~59~~ 48 for homeownership purposes and ~~15~~ 43 for rental. An additional $250,000 is recommended to cover awardee administrative

expenditures under the program. The Agency will retain $250,000 for its own administrative expenditures. See chart below for further detail.

NSP3 Awardees

Awardee	Geographic Area	Activity	Total Funds, plus admin	Unit Count
Big Lake	Greater Minnesota	Acquisition/rehabilitation, demolition, redevelopment	~~$ 822,000~~ $ 322,000	~~18~~ 1
St. Paul	Metro	Acquisition/rehabilitation	$ 744,640	9
Minneapolis	Metro	Redevelopment	$ 765,804	12
Ramsey	Suburban Metro	Acquisition/rehabilitation	$ 609,372	12
Dakota	Suburban Metro	Acquisition/rehabilitation, financing mechanism	$ 638,242	4
Hennepin	Suburban Metro	Redevelopment	~~$ 1,169,942~~ $ 1,669,942	~~19~~ 53
		Grand Total Funds	$4,750,000	~~74~~ 91

Subrecipients are encouraged to work with experienced housing developers and property management companies and other local units of government in meeting the stabilization needs of their identified target areas.

Eligible Uses and Activities

Eligible NSP3 Activities are for housing purposes -homeownership and/or rental. Transitional housing is not eligible. Except for certain limitations, all eligible uses identified in the Dodd-Frank Act will be available to the subrecipients**:**

- Financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties
- Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon in order to sell, rent or redevelop.
- Establish and operate land banks for homes and residential properties that have been foreclosed upon.
- Demolish blighted structures- limited to 10 percent of total grant funds.
- Redevelop demolished or vacant properties as housing.
- Administration costs- limited to 10 percent of total grant funds.

Restrictions on Redevelopment of Commercial Properties

NSP3 funding through Minnesota Housing may only be used for redevelopment of commercial properties if the properties' new use will be as residential structures serving households at or below 120% AMI or a public facility. Minnesota Housing's NSP funds may not be used to pay for the installation of non-housing facilities.

Restrictions on Demolition

NSP3 funding through Minnesota Housing may only be used for demolition of blighted residential structures if the structures will be replaced with housing. Redevelopment activities using NSP3 funds must be for housing. Demolition must be part of a plan for redevelopment of the targeted neighborhoods. No more than 10% of funds may be used for demolition. Subrecipients should re-use cleared sites in accordance with a comprehensive or neighborhood plan. All demolition sites should be planned for re-use within the term of a subrecipient's NSP grant as replacement housing, for use as a community resource, or to provide an environmental function. Examples include community gardens, pocket parks, or floodplain impoundment areas.

Program Design and Requirements

Program Design

The Agency will implement a subrecipient model. The projected count of units to be treated in each target area meets a 20% impact threshold ~~required~~recommended by HUD. To maximize the unit count, with such limited funds, awardees will self-finance or seek private financing for construction development and Minnesota Housing will reimburse the value gap subsidy for each project. The anticipated value gap subsidy ranges between $33,600 and $78,572. Although resources are limited, the target area selections are much more precise and are based on current conditions in the neighborhood in order to secure stabilization. Therefore, Minnesota Housing will need to file a Substantial Amendment to its plan should conditions change.

Minnesota Housing has included only census tracts with a moderate to high level of rental housing as target areas in order to give a preference to the development of affordable rental housing. In addition, target areas were limited to areas whose market is neither too "hot" nor too "cold", but rather are moderate to slow, in order to concentrate on areas where intervention is likely to have an impact. The final target areas were examined for alignment with their corresponding stabilization plan.
In the program descriptions subrecipients demonstrated knowledge of their target areas with sufficient detail for Minnesota Housing to evaluate the extent in which the funds will stabilize and revitalize neighborhoods and generate a healthy living environment. Subrecipients had to demonstrate awareness of the problems experienced in the area or community as a result of the prolonged foreclosure crisis and abandonment of properties.

Subrecipients described existing or anticipated targeted improvements efforts to:

- Stabilize the residential structures,
- Provide housing opportunities for eligible households,
- Prevent additional foreclosures,
- Encourage commercial development,
- Improve safety,
- Improve schools,
- Develop and improve parks and recreation,
- Improve transportation and streets,
- Improve landscaping, sidewalks, and medians, and
- Engage residents in neighborhood stabilization.

Subrecipients had to describe the activities for which NSP3 funds will be used and how those activities will address the identified problems through NSP3 eligible uses, contribute to the stabilization of the targeted neighborhoods or blocks, develop new housing opportunities in the targeted neighborhoods or blocks, and/or preserve land for future redevelopment. Effectiveness of the activities to be undertaken could be demonstrated by describing past experience with the activity (either by the subrecipient or others) and the measurable outcomes.

Subrecipients were required to describe milestones expected at each six month interval, beginning at month nine, in terms of numbers of commitments entered into for acquiring, rehabilitating or demolishing properties. Subrecipients progress in meeting the projected number of properties assisted with awarded funds will be evaluated at regular intervals following the original start date of the grant. Overall program outcomes described the final disposition of property or funds, such as the number of properties the entity intends to hold or reuse, the anticipated and desired community outcome, the use to which the redeveloped property will be put, and whether the property will be owner-occupied or rental.

Subrecipients described any additional funding anticipated as leverage and were expected to consider all funding resources, programs, and partners available to them, including those available through utility companies for energy efficiency improvements. Subrecipients were encouraged to access other resources for interim financing and thereby request minimal per property commitment of NSP funds. This implementation process maximizes the

number of properties to be assisted prior to recycling program income and thereby impacts the allowable size of the target area. Subrecipients unable to secure other interim financing resources will need to use NSP to finance total development costs. Subrecipients were asked to specify the area(s) into which they will expand their activities once they have impacted 20 percent of the projected REOs and have program income they can use for additional activity. Minnesota Housing will file a Substantial Amendment to HUD, as needed, in accordance with the changing needs of subrecipient target areas.

Activities or projects proposed included a line-item budget detailing the cost of the activity(s) and the anticipated outcomes in terms of units assisted, type of housing rehabilitated or redeveloped, the affordability range, units serving households up to 120% AMI or below 50% AMI, and the proposed end use, for homeownership or for rental. If a subrecipient intends to contract with another entity to administer NSP3 awarded funds, the entity was required to be reflected in the program description. Program descriptions may be viewed in the Activities section of the draft Action Plan, see Section H and corresponding links contained in each plan.

Program Requirements

- Activities must benefit middle and low- to moderate-income homebuyers and renters with household incomes not exceeding 120 percent of area median income.
- 25 percent of total grant funds must benefit low income households with incomes at 50 percent of area medium income or below.
- Subrecipients shall acquire properties at a minimum discount of 1 percent of the appraised value.
- Subrecipients shall, to the maximum extent feasible, provide for the hiring of employees who reside in the vicinity or contract with small businesses that are owned and operated by persons residing in the vicinity of projects funded with NSP3. Vicinity is defined as each NSP3 target area. The following are suggested procedures. Additionally, see Section H to view the procedures to be incorporated by each subrecipient.
    - Outreach to workforce services, commercial associations, local churches, civic clubs, and other agencies/organizations
    - Identify business phone numbers, search zip code lists
    - Develop email distributions or mailers
    - Utilize employment agencies
    - Develop documents such as flyers, program sheets, and other general materials that provide additional information to community members
    - Citizen participation process.
- If subrecipients are unable to develop hiring or business opportunities to residents in the vicinity of the project, they must encourage employment of Section 3 residents and Section 3 businesses.
- All persons purchasing NSP3-assisted homeowner housing must receive at least 8 hours of homebuyer counseling from a HUD-approved housing counseling agency. In addition, subrecipients intending to use NSP funds for homeownership opportunities for low-income households (below 50% of area median) were required to describe steps to promote successful homeownership, e.g. pre and post-purchase counseling and the costs of such services, and identify the providers of such services and the source of funding for the support services.
- Subrecipients using NSP funds for demolition were required to describe short-term and long-term plans for the use of the land, including how and who will maintain the vacated property until it is redeveloped and the timeframe for likely redevelopment of the property. Demolition plans should include a strategy for assembling land for redevelopment and not simply demolition on a case-by-case basis. Subrecipients are encouraged to plan interim community uses for vacant land such as community gardens, playgrounds and parks.
- Subrecipients intending to use NSP funds for land banking were required to describe how the use of the land bank will facilitate housing affordable to the targeted incomes and how it will assist in stabilizing neighborhoods. Land banks must operate in specific, defined geographic areas.
- Subrecipients were required to describe any continuing affordability restrictions that they may impose beyond the minimum required by Minnesota Housing.

Funding Decisions
Final funding awards were based on the extent to which a subrecipient's program description demonstrated that:

- The funding request is part of a comprehensive plan or strategy to stabilize a neighborhood(s) or blocks including efforts to improve living conditions, preserve affordable housing opportunities, stabilize home values, address public safety, school performance, job creation and other economic development need;
- It is feasible to use the requested funding within the required timeframe;
- The subrecipient is maximizing opportunities to leverage other resources, both private and public; and
- The identified outcomes are achievable.

Time is of the essence, 50% and 100% of grant funds must be expended 24 months and 36 months respectively after HUD signs Minnesota Housing's Grant Agreement. Interim evaluations of awardees' performance in the obligation of funds will be conducted. Should insufficient progress be noted in the expenditure of funds, Minnesota Housing may re-allocate resources to best performing subrecipients or offer direct assistance in order to meet the expenditure timeline. Should Minnesota Housing offer direct assistance, it may undertake any activity included in this Action Plan.

Reporting Requirements/ Evaluation
Subrecipients will be required to submit actual outcome numbers as compared to projected numbers as stated in their agreement with Minnesota Housing. Minnesota Housing will undertake an evaluation of the uses and outcomes achieved with NSP3 funding.

Success in the use of NSP3 funds is viewed not merely in the numbers of houses bought, demolished or rehabilitated, but in the extent to which neighborhoods have been restored or stabilized, meeting the criteria of a functioning market. Subrecipients will be required to submit information necessary to evaluate the success of the program.

C. DEFINITIONS AND DESCRIPTIONS

(1) Definition of "blighted structure" in context of state or local law.

Minnesota will allocate its funds to subrecipients in several local government jurisdictions. Though the State of Minnesota does not have a definition of "blighted structure," Minnesota Housing has modified the State's definition of "blighted area" to apply to structures. The State of Minnesota's definition of "blighted area," as modified to define a "blighted structure," follows:

Blighted structure: Blighted structure is one which, by reason of dilapidation, obsolescence, overcrowding, faulty arrangement or design, lack of ventilation, light, and sanitary facilities, excessive land coverage, deleterious land use, or obsolete layout, or any combination of these or other factors, is detrimental to the safety, health, morals, or welfare of the community.
Subrecipients may use either the local jurisdiction's definition of "blighted structure" or Minnesota Housing's definition. Listed below is the definition they will use:

1) Ramsey will use Minnesota Housing's definition
2) St. Paul will use their definition: A structure is blighted when it exhibits signs of deterioration sufficient to constitute a threat to human health, safety, and public welfare, or has serious structural deficiencies and the cost to rehabilitate to property standards will exceed 50% of the appraised value after rehabilitation. "Blighted Structure" is not defined in local codes, but this definition is consistent with the definition of a "dangerous structure" found in local code.
3) Hennepin will use Minnesota Housing's definition
4) Dakota will use Minnesota Housing's definition
5) Big Lake will use Minnesota Housing's definition

6) Minneapolis will use their definition– Blighted structure is defined by the City of Minneapolis code or Ordinances Chapter 249 standards for nuisance.

249.30 – "Nuisance condition defined; waiver of waiting period. (a) A building within the city shall be deemed a nuisance condition if:
1) It is vacant and unoccupied for the purpose for which it was erected and for which purpose a certificate of occupancy may have been issued, and the building has remained substantially in such condition for a period of at least six (6) months; or
2) The building is unfit for occupancy as it fails to meet the minimum standards set out by city ordinances before a certificate of code compliance could be granted, or is unfit for human habitation because it fails to meet the minimum standards set out in the Minneapolis housing maintenance code, or the doors, windows and other openings into the building are boarded up or otherwise secured by a means other than the conventional methods used in the original construction and design of the building, and the building has remained substantially in such condition for a period of at least sixty (60) days; or
(3) Evidence, including but not limited to neighborhood impact statements, clearly demonstrates that the values of neighborhood properties have diminished as a result of deterioration of the subject building; or
(4) Evidence, including but not limited to rehab assessments completed by CPED, clearly demonstrates that the cost of rehabilitation is not justified when compared to the after rehabilitation resale value of the building.
(b) When it is determined by the director of inspections or the city fire marshal that a building constitutes an immediate hazard to the public health and safety, and after approval by the city council, the sixty-day waiting period set out in this section may be waived and the other procedures, as set out in this chapter, may be implemented immediately.
(c) Notwithstanding the foregoing provisions, accessory buildings such as garages, barns and other similar structures, not intended to be used for human habitation, shall be deemed to constitute a nuisance condition when such buildings are in violation of section 244.1560 of the housing maintenance code which regulates non-dwelling structures or when such accessory buildings are structurally unsound in the opinion of the director of inspections. (76-Or-102, § 1, 7-9-76; 77-Or-226, § 2, 11-10-77; 78-Or-233, § 2, 11-9-78; 79-Or-016, § 1, 1-26-79; 80-Or-181, § 1, 8-8-80; 84-Or-095, § 1, 6-15-84; 86-Or-236, § 1, 10-10-86; 91-Or-157, § 1, 8-9-91; 92-Or-110, § 2, 9-11-92; 93-Or-142, § 1, 10-1-93; 94-Or-123, § 2, 9-16-94; 2006-Or-059, § 1, 5-26-06)

(2) Definition of "affordable rents."

Minnesota Housing will adopt the definition of affordable rents that is contained in 24 CFR §92.252(a), minus utility allowances where tenants pay utilities. Rents are the cost of occupancy and utilities. If rent includes the cost of utilities then the owner may charge the maximum rent. If the tenant pays the utilities, the owner may only charge rent that does not exceed the maximum minus the amount of the "utility allowance."
This definition is consistent with the continued affordability requirements of the same section that Minnesota will adopt for the NSP program.

(3) Continued affordability for NSP assisted housing.

Subrecipients will be required to include in their loan documents the affordability requirements of 24 CFR §92.252(a), (c), (e) and (f), and §92.254. Affordability requirements for rental properties will be specified in the loan and/or mortgage documents, and a deed restriction or covenant similar to the HOME program. Mortgages and deed restrictions or covenants will be recorded against the property and become part of the public record. Affordability of owner-occupied housing will be enforced by either recapture or resale restrictions. Each subrecipient will design its own recapture or resale provisions, which will be applied uniformly within their program. NSP may fund rehabilitation of units that are being purchased by individuals, or are being rehabilitated by a legal entity that will sell the property to a homebuyer. Although NSP may not always finance both the purchase and rehabilitation, Minnesota Housing will consider these activities to fall under the affordability

requirements of §92.254(a) "Acquisition with or without rehabilitation." To meet the requirements of the NSP statute and Notice, rehabilitation funding must be provided simultaneously with the purchase financing.

Forms implementing continued affordability must be reviewed by Minnesota Housing before being implemented.

(4) Housing rehabilitation standards that will apply to NSP assisted activities:

Assessment: In addition to property assessment standards already required by local, state, and federal regulations, properties shall also be assessed for the following: (Results of all assessment activities shall be disclosed to the purchaser prior to sale.)

- Any visible mold or water infiltration issues.
- Compliance with smoke detectors, carbon monoxide detection, and GFCI receptacle protection as noted below in Required Rehabilitation Activities.
- Remaining life expectancy of major building components such as roof, siding, windows, mechanical systems and electrical systems, as well as any immediate cosmetic improvements necessary in order to sell or rent the residential property.

Building Codes and Local Housing Standards: NSP-assisted housing that is rehabilitated must be rehabilitated in accordance with the State Building, Electrical, and Plumbing Codes. Upon completion, the housing must be in compliance with local housing standards. If local housing standards do not exist, the housing must meet the minimum housing quality standards (HQS) of 24 CFR 982.401.

Where local housing standards exist, subrecipients must identify the standards that will apply to their projects and provide a copy to Minnesota Housing. As projects are rehabilitated, the subrecipients must document how each project meets the local standard, or HQS if there is no local standard, for Minnesota Housing's monitoring review.

Subrecipients must identify in their program descriptions whether they will permit individuals purchasing homes for their own occupancy to conduct or contract for rehabilitation, the date by which such homebuyer rehabilitation must be completed, how the subrecipient will monitor progress of the rehabilitation, and the remedies the subrecipient will take if rehabilitation is not completed by the deadline.

Required Rehabilitation Activities: In addition to remediation of any deficiencies resulting from property assessment required by local, state, and federal regulations, rehabilitation activities shall include the following:

- Mold and/or water infiltration mitigation, if mold or water infiltration is observed during the assessment. Any moldy materials that cannot be properly cleaned must be removed.
- Installation of U.L. approved smoke detection in all locations as required for new construction. At least one smoke detector must be hardwired (preferably located near sleeping rooms).
- Installation of GFCI receptacle protection in locations as required for new construction.
- Installation of carbon monoxide detection equipment in accordance with the 2006 state legislation.
- Application of relevant Green Communities Criteria with the Minnesota Overlay to any building component that is modified or altered during a financed activity; including selecting Energy Star qualified products.
- Water efficient toilets, showers, and faucets, such as those with the Water Sense label, must be installed.
- Where relevant, the housing should be improved to mitigate the impact of disasters (e.g., earthquake, hurricane, flooding, and fires).

Rehabilitation or stabilization of hazardous materials such as lead-based paint and asbestos must be in accordance with applicable Federal, State, and Local laws, regulations, and ordinances.

Gut Rehabilitation and New Construction: All gut rehabilitation (i.e. general replacement of the interior of a building that may or may not include changes to structural elements such as flooring systems, columns, or load

bearing interior or exterior walls) or new construction of residential buildings up to three stories must be designed to meet the standard for Energy Star Qualified New Homes.

Multifamily Housing: Gut rehabilitation or new construction of mid or high rise multifamily housing must be designed to meet American Society of Heating, Refrigerating, and Air-Conditioning Engineers (ASHRAE) Standard 90.1-2004, appendix G plus 20 percent (which is the Energy Star standard for multifamily buildings piloted by the Environmental Protection Agency and the Department of Energy).

Demolition: If a site will not be redeveloped within three months after demolition, the subrecipient must ensure that soil on the site does not pose a health hazard to the community by either verifying that the soil meets lead clearance levels, removing and replacing the soil with soil that meets clearance levels, or covering the soil with sod or some other barrier to prevent the disbursement of lead dust.

Minnesota Housing does not expect any demolitions of low income units. Therefore a conversion from a low income unit to a middle income unit is not anticipated. Subrecipients preferred the redevelopment activity because of the flexibility it provides.

D. Low Income Targeting – Income Restrictions

At least $1,250,000 of the grant funds administered by Minnesota Housing and 25% of program income will be used to house individuals and families with incomes not exceeding 50% of AMI.

Activities funded with NSP funds must benefit households with incomes at or below 120% of area median income (low, moderate and middle income households). For activities that do not benefit individual households, the activity must benefit areas in which at least 51% of the residents have incomes at or below 120% of area median income.

Each subrecipient must use at least 26.4% of its funding award to house individuals and families with incomes at or below 50% of area median income. ~~This percentage may be revised upon receipt of subrecipient's final program description.~~

E. Acquisitions and Relocations

Minnesota Housing will award its NSP3 funds to subrecipients. $500,000 of the NSP funds granted to Minnesota Housing will be allocated to administration and planning.

At least $4.5 million of the funds granted to Minnesota Housing will be used for projects. Based on an expected average per unit cost to NSP3 of approximately $61,000, Minnesota Housing anticipates ~~74~~ 91 units will be assisted with the original allocation, and a few more units with the use of program income. Of those units, it is estimated that 16-25 units will be available for households at or below 50% of AMI. This estimate assumes that $4.5 million will be used for value and affordability gap assistance. If funds are used for other purposes, such as loans or land banking, the number of units will be lower.

Demolition or conversion of low-, moderate- and middle-income dwelling units may be deemed an important part of neighborhood stabilization by subrecipients. Only one subrecipient has indicated their intent to demolish units, but others may determine that it is necessary if a blighted structure is beyond repair.

When acquiring property, the subrecipient must ensure that the owner is informed in writing of what the subrecipient believes to be the market value of the property; and that the subrecipient will not acquire the property if negotiations fail to result in an amicable agreement (see 49 CFR 24.101(b)(1) & (b)(2)). Relocation assistance under the NSP Program must comply with the requirements of the Uniform Relocation Act of 1970, as amended and with relocation assistance requirements at 42 U.S.C. 5304(d). The subrecipient must document its

efforts to ensure that the initial successor in interest in a foreclosed upon dwelling or residential real property (typically in a property acquired through foreclosure is the lender) has provided bona fide tenants with the notice and other protections outlined in the Recovery Act. Subrecipients may assume the obligations of such initial successor in interest with respect to bona fide tenants. Subrecipients who elect to assume such obligations are reminded that tenants displaced as a result of the NSP funded acquisition are entitled to the benefits outlined in 24 CFR 570.606. The use of NSP funds for acquisition of such property is subject to a determination by the subrecipient that the initial successor in interest complied with the requirements of the act.

F. PUBLIC COMMENT

Response to Public Comments
State of Minnesota Substantial Amendment to its 2011 Action Plan
Neighborhood Stabilization Program (NSP3)

On January 14, 2011, Minnesota Housing posted the draft Substantial Amendment and a notice of the draft's availability on its website. On January 14, 2011, Minnesota Housing emailed a notice of availability of the Substantial Amendment and public comment period and public hearing to 5,600 organizations and individuals who had signed up for "E-NEWS Alert," an email publication of items of interest to Minnesota Housing's stakeholders. Official legal notices were published in the January 10, 2011 State Register and the Sunday, January 9, 2011 statewide edition of the Minneapolis Star Tribune. There were no comments received.

March 2012 Substantial Amendment to State of Minnesota NSP3 Action Plan
The March 2012 Substantial Amendment will be posted on Minnesota Housing's website for a 15 day public comment period, from March 6th, 2012 to the end of business March 21, 2012. On March 6, 2011, Minnesota Housing emailed a notice of availability of the Substantial Amendment and public comment period and public hearing to 5,600 organizations and individuals who had signed up for "E-NEWS Alert," an email publication of items of interest to Minnesota Housing's stakeholders. Reposting will include any public comments received. Official legal notices were published in the statewide edition of the Minneapolis Star Tribune on Tuesday, March 6, 2012.

G. NSP3 Eligible Uses

NSP Eligible Uses	Correlated Eligible Activities From the CDBG Entitlement Regulations
(A) Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-seconds, and shared-equity loans for low- and moderate-income homebuyers	As part of an activity delivery cost for an eligible activity as defined in 24 CFR 570.206. Also, the eligible activities listed below to the extent financing mechanisms are used to carry them out.
(B) Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties To be illustrated in DRGR as follows: • B1 – for purposes of homeownership • B2 – for rental purposes	24 CFR 570.201(a) Acquisition (b) Disposition, (i) Relocation, and (n) Direct homeownership assistance (as modified below); 24 CFR 570.202 eligible rehabilitation and preservation activities for homes and other residential properties.
(C) Establish and operate land banks for homes and residential properties that have been foreclosed upon	24 CFR 570.201(a) Acquisition and (b) Disposition.
(D) Demolish blighted structures	24 CFR 570.201(d) Clearance for blighted structures only.
(E) Redevelop demolished or vacant properties as housing To be illustrated in DRGR as follows • E1 – for purposes of homeownership • E2 – for rental purposes	24 CFR 570.201(a) Acquisition, (b) Disposition, (c) Public facilities and improvements, (i) Relocation, and (n) Direct homeownership assistance (as modified below). 24 CFR 570.202 Eligible rehabilitation and preservation activities for demolished or vacant properties. 24 CFR 570.204 Community based development organizations. New construction of housing is eligible as part of the redevelopment of demolished or vacant properties.
(F) Administration	24 CFR 570.206

National Objective: (Must be a national objective benefiting low, moderate and middle income persons, as defined in the NSP3 Notice—i.e., ≤ 120% of area median income).

These activities meet the Dodd-Frank Act low-, moderate- and middle-income national objective by providing housing that will be occupied by households with incomes at or below 120% of area median income.

Limited Conditions: Administration and Demolition costs are each limited to 10% of grant funds. Subrecipient's allowable administrative cost is specified in their contract with Minnesota Housing.

Projected Start Date: HUD signing Minnesota Housing's agreement

Projected End Date: 2014

Responsible Organization: The responsible organizations that will implement Minnesota's State Grant are Hennepin County, City of Minneapolis, City of St. Paul, Dakota County, Ramsey County, and the City of Big Lake. Additional information regarding their programs may be found in the Program Description Section H of the Action Plan.

Minnesota Housing Finance Agency is the state's responsible organization. 400 Sibley Street, Suite 300; St. Paul, MN 55101 Agency Contact: Ruth Simmons; (651) 297-5146; ruth.simmons@state.mn.us

H. SUBRECIPIENT PROGRAM DESCRIPTIONS

MARCH 2012 – NSP3 ACTION PLAN ~~BY ACTIVITY~~SUBSTANTIAL AMENDMENT

	Total State of MN Units and Households Served	Total Funds Awarded	Total # of properties	Total # of Units	Total # of home-ownership units	Total # of rental units	Funds to be used for households at or below 120% AMI	Funds to be used for households at or below 50% AMI	% of funds to be used for households at or below 50% AMI
A	A. Financing mechanisms: Foreclosed home and residential properties								
	Down payment assistance - buyer driven	$0.00	0	0	0	0	$0.00	$0.00	N/A
	Rehab assistance - buyer driven	$0.00	0	0	0	0	$0.00	$0.00	N/A
B1	B1. Acquisition rehab- Homeownership	$1,745,715.00	27	27	27	0	$1,534,286.00	$211,429.00	12%
B2	B2. Acquisition Rehab - Rental	$684,285.00	5	9	0	9	$0.00	$684,285.00	100%
C	C. Land banking								
D	D. Demolition - Blighted properties	$50,000.00	3	3	3	0	$0.00	$0.00	0%
~~E1~~	~~E1. Redevelopment- Homeownership~~	~~$1,668,000.00~~	~~29~~	~~29~~	~~29~~	~~0~~	~~$1,359,000.00~~	~~$309,000.00~~	~~19%~~
E2	E2. Redevelopment - Rental	$352,000.00	3	6	0	6	$100,000.00	$252,000.00	72%
	Total	$4,500,000.00	67	74					
	Sum of NSP Activities	$4,500,000							
	F. Administration (No More than 5.0%)	$250,000	5.00%						
	Total of NSP Activities	$4,750,000	67	74	59	15			
	Low Income Targeting - no less than 26.4%	$1,254,000	$1,254,000					$1,456,714	31%
	Grand Sum of Grant	$4,750,000							
									25.1%

	Total State of MN Units and Households Served	Total Funds Awarded	Total # of properties	Total # of Units	Total # of home-ownership units	Total # of rental units	Funds to be used for households at or below 120% AMI	Funds to be used for households at or below 50% AMI	% of funds to be used for households at or below 50% AMI
A	A. Financing mechanisms: Foreclosed home and residential properties								
	Down payment assistance - buyer driven	$0.00	0	0	0	0	$0.00	$0.00	N/A
	Rehab assistance - buyer driven	$0.00	0	0	0	0	$0.00	$0.00	N/A
B1	B1. Acquisition rehab- Homeownership	$1,700,070.00	21	21	21	0	$1,431,526.00	$268,544.00	16%
B2	B2. Acquisition Rehab - Rental	$484,285.00	3	5	0	5	$0.00	$484,285.00	100%
C	C. Land banking								
D	D. Demolition - Blighted properties	$0.00	0	0	0	0	$0.00	$0.00	#DIV/0!
E1	E1. Redevelopment- Homeownership	$1,568,000.00	27	27	27	0	$1,259,000.00	$309,000.00	20%
E2	E2. Redevelopment - Rental	$747,645.00	3	38	0	38	$360,654.00	$386,991.00	52%
	Total	$4,500,000.00	54	91					
	Sum of NSP Activities	$4,500,000							
	F. Administration (No More than 5.0%)	$250,000	5.00%						
	Total of NSP Activities	$4,750,000	54	91	48	43			
	Low Income Targeting - no less than 26.4%	$1,254,000	$1,254,000					$1,448,820	31%
	Grand Sum of Grant	$4,750,000							
									25.1%

The Action Plan described above does not include the $250,000 which Minnesota Housing will use in administration costs, representing five percent (5%) of the total grant amount.

All subrecipients may need to modify their activities based upon the dynamics of the target area throughout the duration of their program. Should the subrecipient need to modify the activities in their plan midstream to improve impact, Minnesota Housing will conduct an internal evaluation and determine/approve additional Eligible Uses A, B, C, D, or E accordingly.

As noted in Section B, subrecipients were asked to specify whether they can access interim financing and thereby request minimal per property commitment of NSP funds or whether they will need to use NSP to finance total development costs. Access to interim financing influenced the number of properties to be assisted prior to recycling program income and thereby impacted the allowable size of the target area. A Substantial Amendment to HUD will be submitted as needed to accommodate target area changing needs and/or revolving program income.

Although Minnesota Housing's NSP3 grant will be used to cover the subsidy/value gap, subrecipients will be required to draw their funds during the acquisition period of the transaction and not at the end of the transaction. The draw amount to be requested will equal the acquisition price or the pro-forma anticipated value gap, whichever is less. After closing, the subrecipient must determine if the amount drawn was ultimately equal to, higher, or lower than the final gap left in the unit. If it is higher, then the surplus will be revolved into another NSP activity as program income. If the draw was less than the value gap incurred, then another draw will be authorized to cover the shortage. All subrecipients will be required to follow this process except for Dakota County who was not able to access interim financing. At the end of each transaction, the subrecipient will need to make sure if a direct benefit to the homebuyer will occur to be able to use a resale program, by confirming that the purchase price is below the fair market value of the property.

The Financing Mechanisms activity is intended to be used for revolving program income in subrecipients' target areas. However, Minnesota Housing will remain flexible should the need arise to use this activity with original funds allocated.

Census tracts with rental rates at the 25th percentile or above were targeted to ensure Minnesota Housing incorporated rental preferences in the plan.

Minnesota Housing is will use up to 5% of the total grant funds towards administration costs. The individual subrecipient budgets below include the remaining portion of the total 10% in administration funds available under the grant. This is identified as Eligible Use F in the final Action Plan.

The table below summarizes the activity proposed by Minnesota Housing's subrecipients. Detailed program descriptions follow.

	NSP Need Score Avg	Total Estimated Units to achieve impact (based on target areas)	Proposed Unit Count
City of Big Lake	17	15	~~18~~ 1
City of Minneapolis	20	8	12
City of Saint Paul	20	6	9
Dakota County	18	3	4
Hennepin County	~~19.8~~ 20	~~16~~ 21	~~19~~ 53
Ramsey County	17	8	*12*
All Areas	~~**18.3**~~ **18.6**	~~**60**~~ **61**	~~***74***~~ ***91***

revised: 2/2011

The planning data reports received from HUD after drawing the target areas did not include maps. But, the areas are consistent with the maps incorporated in the action plan

The City of Big Lake		
Subrecipient Name	The City of Big Lake	
Uses	Select all that apply: ☐ Eligible Use A: Financing Mechanisms ☒ Eligible Use B: Acquisition and Rehabilitation ☐ Eligible Use C: Land Banking ☒ Eligible Use D: Demolition ☒ Eligible Use E: Redevelopment	
CDBG Activity or Activities	See Section G in the Action Plan.	
National Objective	Low Moderate Middle Income Housing (LMMH) Low-Income Housing to Meet 25% Set-Aside (LH25)	
Activity Description	The City ~~will utilize~~utilized development partners who ~~have~~ participated in NSP1 activities. The city ~~intends to use~~used other funds to acquire and rehabilitate properties, relying on NSP funds for an average subsidy of $50,000 per unit. ~~Homes will be~~The City sold one home to homeowners at ~~120~~50% AMI and below. ~~25%~~Due to capacity issues, the City of ~~the City's NSP~~Big Lake has decided to relinquish their NSP3 funds ~~are intended to address rental properties.~~ remaining. Reallocation will occur in a two step process. Initial reduction of $500,000 has been reallocated to Hennepin County with additional adjustments to follow.	
Location Description	The City has chosen a target area which has moderate demand with higher supply of eligible properties. See the link below for a target area map.	
Budget	**Source of Funding**	**Dollar Amount**
	NSP3 (including administration)	~~$822,000~~ $322,000
	Other funding source –subrecipient will seek their own financing for the acquisition and rehabilitation of units.	$
	The City will leverage other resources from FHLB in the amount of $150,000 to increase impact in the target area. No specific dollars are committed at this time.	$
Total Budget for Activity		~~$822,000~~ $322,000
Performance Measures	According to HUD reports, the average NSP needs score is 17 and the total estimated units to achieve impact is 15 for the target area (20% of foreclosure). The City ~~will acquire and rehabilitate 18 units, 12 single family homes of which three will be demolished with NSP resources and redeveloped with private resources. Sixadditional units will be rental redevelopments. The subrecipient anticipates the subsidy left in could be lower than $50,000. Leverage funding expected from Greater Minnesota Housing Fund. See link below for expanded program description.~~acquired and rehabilitated 1 single family home. Due to capacity issues, Big Lake decided to relinquish their NSP3 funds remaining. Funds will be redistributed in a two step process with $500,000 being de-obligated immediately and the remainder to follow.	
Projected Start Date	5/1/2011	
Projected End Date	5/1/2014	
Responsible Organization	**Name**	The City of Big Lake
	Location	160 Lake Street North Big Lake, MN 55309
	Administrator Contact Info	Jim Thares 763.263.2107 jimt@ci.big-lake.mn.us

Big Lake target area
Big Lake expanded program description
Big Lake planning data

City of Minneapolis		
Subrecipient Name	City of Minneapolis	
Uses	Select all that apply: ☐ Eligible Use A: Financing Mechanisms ☐ Eligible Use B: Acquisition and Rehabilitation ☐ Eligible Use C: Land Banking ☐ Eligible Use D: Demolition ☒ Eligible Use E: Redevelopment	
CDBG Activity or Activities	See Section G in the Action Plan.	
National Objective	Low Moderate Middle Income Housing (LMMH) Low-Income Housing to Meet 25% Set-Aside (LH25)	
Activity Description	The City will utilize developer partners who have participated in NSP1 and NSP2 activities. NSP3 funds will be used to redevelop and resell units to homeowners at 120% AMI and below. The program design calls for developers to acquire and rehab homes with an average subsidy of $60,000 per unit. The City also plans for developers to redevelop rentals for households at 50% AMI or below.	
Location Description	The City has chosen the Hawthorne Eco-Village area which has moderate demand with higher supply of eligible properties. See the link below for a target area map.	
Budget	**Source of Funding**	**Dollar Amount**
	NSP3 (including administration)	$765,804
	Other funding source - developers will seek their own financing for acquisition and rehabilitation of units. For interim financing purposes Minneapolis has $1,000,000 from the Twin Cities Community Land Bank, $200,000 from the Hennepin County AHIF, and $200,000 from the City of Minneapolis AHTF.	$
	Minneapolis will leverage other resources to increase impact in the target area, such as the Minneapolis Advantage program in the amount $50,000 to be used for down payment assistance.	$
Total Budget for Activity		**$765,804**
Performance Measures	According to HUD reports, the average NSP needs score is 20 and the total estimated units to achieve impact is eight for the target area (20% of foreclosure). The City of Minneapolis will redevelop eight single family homes and two rental duplexes making the total unit count 12. See link below for expanded program description.	
Projected Start Date	5/1/2011	
Projected End Date	5/1/2014	
Responsible Organization	**Name**	The City of Minneapolis Dept. of CPED
	Location	105 Fifth Avenue South, Suite 200 Minneapolis, MN 55401-2534
	Administrator Contact Info	Cherie Shoquist 612.673.5078 cherie.shoquist@ci.minneapolis.mn.us

Minneapolis target area
Minneapolis expanded program description
Minneapolis planning data
Minneapolis Budget

City of St. Paul		
Subrecipient Name	City of St. Paul	
Uses	Select all that apply: ☐ Eligible Use A: Financing Mechanisms ☐ Eligible Use B: Acquisition and Rehabilitation ☐ Eligible Use C: Land Banking ☐ Eligible Use D: Demolition ☒ Eligible Use E: Redevelopment	
CDBG Activity or Activities	See Section G in the Action Plan.	
National Objective	Low Moderate Middle Income Housing (LMMH) Low-Income Housing to Meet 25% Set-Aside (LH25)	
Activity Description	The City will utilize developer partners who have participated in NSP1 and NSP2 activities. NSP3 funds will be used to acquire, rehabilitate, and resell units to homeowners at 120% AMI and below. The program design calls for the City to acquire and demolish while the developer partner will redevelop and resell. The average subsidy of $78,751 will remain in each project. The City also plans for developers to redevelop rental duplexes for households at 50% AMI or below.	
Location Description	The City has chosen the Payne-Maryland-Arcade area which has moderate demand with higher supply of eligible properties. See the link below for a target area map.	
Budget	**Source of Funding**	**Dollar Amount**
	NSP3 (including administration)	$744,640
	Other funding source - will seek their own financing for acquisition and rehabilitation of units	$
	St. Paul will leverage other NSP3 direct resources in the amount of $2,059,877**.** To increase impact in the target area, NSP1 and NSP2 were also used with the target area.	$
Total Budget for Activity		**$744,640**
Performance Measures	According to HUD reports, the average NSP needs score is 20 and the total estimated units to achieve impact is six for the target area (20% of foreclosure). The City of St. Paul will rehabilitate five single family homes and two rental duplex making the total unit count nine. See link below for expanded program description.	
Projected Start Date	5/1/2011	
Projected End Date	5/1/2014	
Responsible Organization	**Name**	The City of St. Paul Dept. of PED
	Location	25 West Fourth Street, Suite 1100 Saint Paul, MN 55102
	Administrator Contact Info	Joe Musolf 651.266.6594 joe.musolf@ci.stpaul.mn.us

St. Paul target area
St. Paul expanded program description
St. Paul planning data
St. Paul Budget

Dakota County		
Subrecipient Name	Dakota County	
Uses	Select all that apply: ☒ Eligible Use A: Financing Mechanisms ☒ Eligible Use B: Acquisition and Rehabilitation ☐ Eligible Use C: Land Banking ☐ Eligible Use D: Demolition ☐ Eligible Use E: Redevelopment	
CDBG Activity or Activities	See Section G in the Action Plan.	
National Objective	Low Moderate Middle Income Housing (LMMH) Low-Income Housing to Meet 25% Set-Aside (LH25)	
Activity Description	The County will directly administer NSP3 and procure contractor services. NSP3 funds will be used to acquire, rehabilitate and resell units to homeowners at 120% AMI and below. Their program design calls for the County to acquire and rehab homes with an average TDC of $200,000. The County also plans to rehabilitate a rental property for households at 50% AMI or below. Program income is anticipated to be revolved in the target area. The subrecipient will mix a down payment assistance program with program income to complement its acquisition rehab activities.	
Location Description	The County has chosen West St. Paul as its primary area for its initial allocation. Additional block groups of West and South St. Paul are being considered for the future application of program income. A Substantial Amendment to include these additional block groups will be filed with HUD should the need arise. Both areas have moderate demand with higher supply of eligible properties. See the link below for a target area map.	
Budget	**Source of Funding**	**Dollar Amount**
	NSP3 (including administration)	$638,242
	The County will leverage other resources to increase impact in the target area. No specific dollars are committed at this time, but HOME funds are anticipated in the amount of $50,000.	$
	Other funding source	$
Total Budget for Activity		**$638,242**
Performance Measures	According to HUD reports, the average NSP needs score is 18 and the total estimated units to achieve impact is three for the target area (20% of foreclosure). The County will rehabilitate three single family homes and one rental property making the total unit count four. See link below for expanded program description.	
Projected Start Date	5/1/2011	
Projected End Date	5/1/2014	
Responsible Organization	**Name**	Dakota County CDA
	Location	1228 Town Centre Drive Eagan, MN 55123
	Administrator Contact Info	Dan Rogness 651-675-4464 drogness@dakotacda.state.mn.us

Dakota County target area
Dakota County expanded program description
Dakota County planning data

Hennepin County		
Subrecipient Name	Hennepin County	
Uses	Select all that apply: ☐ Eligible Use A: Financing Mechanisms ☐ Eligible Use B: Acquisition and Rehabilitation ☐ Eligible Use C: Land Banking ☐ Eligible Use D: Demolition ☒ Eligible Use E: Redevelopment	
CDBG Activity or Activities	See Section G in the Action Plan.	
National Objective	Low Moderate Middle Income Housing (LMMH) Low-Income Housing to Meet 25% Set-Aside (LH25)	
Activity Description	The County will utilize local subrecipients and developer partners who have participated in NSP1 and NSP2 activities. NSP3 funds will be used to redevelop and resell units to homeowners at 120% AMI and below. The program design calls for developers to acquire and rehab homes with an average subsidy of $50,000 per project. ~~The~~ Due to reallocation of NSP3 funds Hennepin County will receive $500,000 in additional funds. As previously noted in the Substantial Amendment the County has ~~included~~ a rental preference in ~~their~~the plan ~~to serve special needs populations or address a 122~~and will develop the multifamily property ~~should the opportunity present itself. A substantial amendment to HUD will be filed should the need arise.~~ previously proposed.	
Location Description	The County has chosen Brooklyn Park and Brooklyn Center areas which have moderate demand with higher supply of eligible properties. See the link below for a target area map.	
Budget	**Source of Funding**	**Dollar Amount**
	NSP3 (including administration)	~~$1,169,942~~ $1,669,942
	Other funding source –subrecipient will seek their own financing for acquisition and rehabilitation of units	$
	Funding will also leverage work completed under NSP1 & NSP2 Direct, and city investments.	$
Total Budget for Activity		~~**$1,169,942**~~ $1,669,942
Performance Measures	According to HUD reports, the average NSP needs score is ~~19.8~~ 20 and the total estimated units to achieve impact is ~~16~~ 21 for the target area (20% of foreclosure). The County will redevelop 19 single family homes~~.~~ and 34 multifamily rental units. See below for the expanded program description.	
Projected Start Date	5/1/2011	
Projected End Date	5/1/2014	
Responsible Organization	**Name**	Hennepin County
	Location	417 North 5th Street, Suite 320 Minneapolis, MN 55401
	Administrator Contact Info	Kevin Dockry 612.348.2270 kevin.dockry@co.hennepin.mn.us

Hennepin County Target Area
Hennepin County Expanded Program Description (revised)
Hennepin County Planning Data
Hennepin County Budget
Hennepin County Revised Target Area
Hennepin County Planning Data (Target Area Expansion)
Hennepin County Revised Budget

Ramsey County		
Subrecipient Name	Ramsey County	
Uses	Select all that apply: ☐ Eligible Use A: Financing Mechanisms ☒ Eligible Use B: Acquisition and Rehabilitation ☐ Eligible Use C: Land Banking ☐ Eligible Use D: Demolition ☐ Eligible Use E: Redevelopment	
CDBG Activity or Activities	See Section G in the Action Plan.	
National Objective	Low Moderate Middle Income Housing (LMMH) Low-Income Housing to Meet 25% Set-Aside (LH25)	
Activity Description	The County will utilize developer partners who have participated in NSP1 activities. NSP3 funds will be used to acquire, rehabilitate, and resell units to homeowners at 120% AMI and below. The program design calls for developers to acquire and rehab homes with an average subsidy of $-33,600 - $50,000 per project.	
Location Description	The County has chosen the West Maplewood area between Arcade and White Bear (north of Larpenteur) which has moderate demand with higher supply of eligible properties. See the link below for a target area map.	
Budget	**Source of Funding**	**Dollar Amount**
	NSP3 (includes administration)	$609,372
	Other funding source – developer will seek their own financing for acquisition and rehabilitation of units	$
	Ramsey will leverage other resources from HOME funds in the amounts of $200,000 for foreclosure remediation, $75,000 for acquisition/rehabilitation, and $180,000 for buyer assistance to increase impact in the target area.	$
Total Budget for Activity		**$609,372**
Performance Measures	According to HUD reports the average NSP needs score is 17 and the total estimated units to achieve impact is eight for the target area (20% of foreclosure). Ramsey County will rehabilitate twelve single family homes. Should subsidy be less for each property, Ramsey will be able to impact additional properties. Therefore it projects a range between 12-14 properties. See below link for expanded property description.	
Projected Start Date	5/1/2011	
Projected End Date	5/1/2014	
Responsible Organization	**Name**	Ramsey County HRA
	Location	250 Courthouse 15 West Kellogg Boulevard St. Paul, MN 55102
	Administrator Contact Info	Denise Beigbeder 651.266.8005 denise.beigbeder@co.ramsey.mn.us

Ramsey County target area
Ramsey County expanded program description
Ramsey County planning data
Ramsey County Budget

AGENDA ITEM: 9.D.(1)
MINNESOTA HOUSING BOARD MEETING
March 22, 2012

ITEM: Yorkdale Townhomes, Edina – D0489

CONTACT: Julie LaSota, 651-296-9827
julie.lasota@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

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

☑ Other: Debt Forgiveness

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Adoption of a resolution authorizing the Agency to forgive $2,700,000 in debt financed under the Section 8 loan program to facilitate a debt restructuring that will stabilize the Yorkdale Townhomes development, helping to ensure its long-term viability as a deeply subsidized low income housing resource.

FISCAL IMPACT:
The current debt structure has led to significant negative amortization, resulting in over-leveraged bond financed debt. The loans on this property are allocated to Rental Housing Bonds 2004 Series C, which is earning excess yield. Forgiving unserviceable debt on Yorkdale is advantageous to the Agency to stabilize a troubled development and help the Agency to bring the 2004 Series C bond issue into yield compliance for IRS purposes. There is no financial loss to the Agency, as the amount of the loan forgiveness will reduce our current accrued liability to the Federal Government for excess yield on a dollar for dollar basis.

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):

- Background
- Resolution

Yorkdale Townhomes is a 90 unit development located in Edina, Minnesota that was originally developed by Ryan Companies and financed by the Agency in 1978 under its Section 8 program in conjunction with issuance of tax-exempt debt. The original principal balance of the bond financed Section 8 mortgage was $3,004,090 with interest accruing at the rate of 7.25 percent per annum. The development has the benefit of a project based Housing Assistance Payment (HAP) Section 8 contract covering all of the units. This Section 8 contract expires on June 11, 2019.

In 1987 Community Development Corporation for the Archdiocese of St. Paul and Minneapolis (now known as CommonBond and referred to herein as "Borrower") acquired the property by assuming the existing bond financed first mortgage and entering into a Loan Agreement whereby Minnesota Housing provided the Borrower with an additional $2,306,937 loan from the Housing Investment Fund ("Pool 2") to cover the difference between the purchase price and the remaining principal balance on the original mortgage. This additional financing was secured by a Mortgage and an Additional Mortgage Note and bears interest at the rate of 9 percent per annum with minimum annual payments of $70,000 and unpaid interest added to the principal balance of the loan, creating a negative amortization situation. Per the conditions under the loan documents, the combined outstanding balance of the two loans is not to exceed $6 million and any excess is forgiven. The Agency has written off any accrued but unpaid interest that would cause both loans to exceed this amount. It also is worth noting that the Borrower is not allowed any distribution, and that any excess cashflow from operations has either gone to debt service on the second mortgage or to the property's Residual Receipts account, which is controlled by the Agency.

The property is on the Agency's "Watchlist" based primarily on the unmet physical needs of the property, which exceed $5 million. Furthermore, the debt service on the two loans is unlikely to be paid through operations or sale. The current combined unpaid principal balance on the two loans is roughly $5.9 million and the property can realistically support $3.875 million in amortizing debt at current interest rates.

In 2004 both loans were allocated to the Rental Housing Bonds 2004 Series C, which was an economic debt refunding. Because that bond issue deliberately created excess yield for use as an asset management tool to stabilize troubled properties allocated to the bond issue, the Agency has some flexibility to work out a viable solution to address the current over leveraged situation and the physical needs of the development. The Borrower has failed at its three attempts to secure an allocation of nine percent housing tax credits through the competitive RFP process and has requested that the Agency forgive $2.7 million of its debt to accommodate a comprehensive recapitalization plan that involves the sale of the property to a new tax credit limited partnership with debt provided through the Agency's issuance of new tax-exempt bonds and 'automatic' four percent housing tax credits. The proposed debt forgiveness will greatly assist the Agency with bringing the 2004 Series C Bonds into yield compliance for IRS purposes while at the same time stabilizing the development and positioning it to compete well in the marketplace for the long term. Moreover, because of the overcollateralization of the Rental Housing Bond Resolution, the Agency does not need to contribute additional funds to the resolution as a result of this debt forgiveness.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street - Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 12-

RESOLUTION APPROVING DEBT FORGIVENESS
SECTION 8 PROGRAM

WHEREAS, the Minnesota Housing Finance Agency (Agency) has made both first and second mortgage loans in the aggregate original principal amount of $5,311,027 in two separate transactions for a multifamily rental housing development known as Yorkdale Townhomes in Edina, MHFA Development No. 0489 (the Development); and

WHEREAS, the terms of the Agency financing are such that the current unpaid principal balance, with certain unpaid interest added to the principal balance, is approximately $5,900,000, and

WHEREAS, the owner has requested the Agency's assistance to recapitalize the Development in order to address the unmet physical needs of the Development and to stabilize the operations for the long term; and

WHEREAS, the owner and Agency staff have proposed an agreement to facilitate the continued operation of the Development whereby the Agency will forgive up to $2,700,000 in outstanding principal on the existing first and second mortgage loans conditioned on a full prepayment of the balance of the mortgage loans in conjunction with the sale of the Development, which will enhance the long term preservation of the Development.

NOW THEREFORE, BE IT RESOLVED:

The Board approves the forgiveness of up to $2,700,000 in outstanding principal on the first and second mortgage loans for the above described Development, so long as such forgiveness is contingent upon and made contemporaneously with the closing of the loan transaction described in the March 22, 2012 Board Agenda Item 9.D.(2).

Adopted this 22nd day of March, 2012.

_____
CHAIRMAN

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AGENDA ITEM: 9.D.(2)
MINNESOTA HOUSING BOARD MEETING
March 22, 2012

ITEM: Yorkdale Townhomes, Edina – D0489

CONTACT: Julie LaSota, 651-296-9827
julie.lasota@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:

Agency staff recommends the selection of the development for processing and the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment of approximately $3,875,000, a Low and Moderate Income Rental Bridge Loan (LMIR BL) program commitment in the approximate amount of $4,790,000 and a HOME Affordable Rental Preservation program commitment in the amount of $2,895,000 subject to the review and approval of the Mortgagor and completion of underwriting and technical review along with the terms and conditions of the Agency mortgage loan commitment.

FISCAL IMPACT:

The current Affordable Housing Plan includes $20 million in new LMIR/LMIR BL activity to be financed from the proceeds of new bond issues and also includes $6.8 million in federal HOME funds for new preservation activity. Funding for the above referenced loans falls within the approved budgets and the loans will be made at an interest rate and on terms consistent with the AHP. The HOME Affordable Rental Preservation loan is funded from federal appropriations. Funding of this loan will assist the Agency in meeting its spend-down requirements with HUD and will avoid the potential loss of the funds. The LMIR loan will generate approximately $129,000 in fee income (construction oversight fee and origination fee) as well as ongoing interest income to the Agency.

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):

- Background
- Development Summary
- Resolution

Yorkdale Townhomes is a 90 unit family development located in Edina that was initially financed by the Agency under its Section 8 program in 1979 with an original principal balance of $3,004,090. In 1987 the Agency facilitated a transfer of ownership to the current owner (now known as CommonBond Communities) by providing an additional $2,306,937 in financing. The terms of this financing are fully described in Board Agenda Item 9.D.(1). In that agenda item, Agency staff is requesting authorization to forgive a portion of the current debt as the first step in an effort to stabilize and preserve Yorkdale Townhomes for the long term.

Over the past two years Agency staff has worked with CommonBond to develop a sustainable financing structure. At the October, 2010 meeting, the Board approved (in conjunction with the approvals under the Consolidated RFP) an award of $1 million (EDHC) in Challenge deferred loan funding as an impetus to leverage other financing. CommonBond was able to secure an additional $1,300,000 in deferred loan funding from the Metropolitan Council and Hennepin County, and the Agency is recommending additional deferred loan support through the HOME Affordable Rental Preservation program (the previously approved EDHC funding will be swapped out with the HOME funds, thereby freeing up the EDHC funding to be used in the upcoming RFP). CommonBond was also successful in generating interest in a Tax Exempt Bond financed, 4% tax credit transaction from Enterprise Social Investment Corporation (at a price of $1.00 per credit dollar) which closed the funding gap.

Agency staff recommends the selection of the development for processing and the adoption of a resolution authorizing the issuance of: a Low and Moderate Income Rental (LMIR) program commitment of approximately $3,875,000; a Low and Moderate Income Rental Bridge Loan (LMIR BL) program commitment in the approximate amount of $4,790,000: and a HOME Affordable Rental Preservation program deferred loan commitment in the amount of $2,895,000. All commitments are subject to the review and approval of the Mortgagor and completion of underwriting and technical review along with the terms and conditions of the Agency mortgage loan commitments.

DEVELOPMENT SUMMARY

DEVELOPMENT: D0489

Name:	Yorkdale Townhomes			App#:	M16174
Address:	7429 York Avenue				
City:	Edina	County:	Hennepin	Region:	MHIG

MORTGAGOR:

Ownership Entity:	Yorkdale Townhomes LP
General Partner/Principals:	CommonBond Investment Corporation

DEVELOPMENT TEAM:

General Contractor:	Frerichs Construction Company, Vadnais Heights
Architect:	ESG Architects, Minneapolis
Attorney:	Winthrop & Weinstine, PA, Minneapolis
Management Company:	CommonBond Housing, Saint Paul
Service Provider:	CommonBond Communities, Saint Paul

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$ 3,875,000 LMIR First Mortgage (Bond Financed)

Funding Source:	RH2012A
Interest Rate:	5.75% (est.)
MIP Rate:	0.25%
Term (Years):	35
Amortization (Years):	35

$ 4,790,000 LMIR BL (bond financed)

Funding Source:	RH2012B
Interest Rate:	2.00% (est.)
Term (Years):	2.5

$ 2,895,000 HOME Affordable Rental Preservation

Funding Source:	HOME
Interest Rate:	0%
Term (Years):	35

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORDABILITY*
1 BR - LTH/HTC	2	786	$793	$793*	30% of HH Income
1 BR - HTC	8	786	$793	$793*	30% of HH Income
2 BR - LTH/HTC	3	963	$949	$949*	30% of HH Income
2 BR - HTC	53	963	$949	$949*	30% of HH Income
3 BR - HTC	20	786	$1,090	$1090*	30% of HH Income
4 BR - HTC	4	1505	$1,159	$1159*	30% of HH Income
TOTAL	90				

**NOTES: ***Please note that this property is subject to a Section 8 Housing Assistance Payment (HAP) Contract on all units. The amounts indicated under Agency Limit are the HUD approved rents. Residents pay 30% of household income towards housing. Under the Housing Tax Credit program, income at initial occupancy will be limited to 60% of Area Median Income.

Purpose:
Preservation/Stabilization of Federally Assisted Housing: This proposal calls for debt restructuring and a comprehensive rehabilitation of a 90 unit family townhome development in Edina that has the benefit of a project based Section 8 Housing Assistance Payment (HAP) contract on 100% of the units. Part of the Agency's Traditional Contact Administration portfolio, the HAP contract is fully funded through June 11, 2019 at which time it will go through an initial renewal with the expectation of entering into a 20 year renewal contract.

Completed in 1979, Yorkdale Townhomes is a mix of one, two, three and four bedroom townhomes that have suffered from deferred maintenance as a result of a precarious financing structure. Transferring ownership to a new tax credit limited partnership, restructuring the debt and completing necessary upgrades to the site, common areas (including an expanded Advantage Center for supportive services) and unit improvements should ensure that this housing remains viable for the long term.

Target Population:
CommonBond, in its twenty five years of owning and managing this community, has served households of color, single headed households and persons with disabilities. With a mix of units, the property serves a range of household types from small to large families. Five of the units (through attrition) will be targeted to serve families experiencing long term homelessness.

Project Feasibility:
Yorkdale Townhomes is a significant affordable housing resource in Edina, with its close proximity to major transportation routes (I494, Hwy 62) and major employment centers (Southdale Shopping Center and its surrounding strip malls and office buildings, Fairview Hospital and related medical clinics, Best Buy Headquarters and I494 retail, office and light industrial complexes). Over the past year, site occupancy

outperformed the budgeted expectations with an occupancy rate of 99%. The percentage of minorities on the site greatly exceeds that of the census tract percentages (35% vs. 9%, respectively).

Agency LMIR amortizing debt (financed through the issuance of new tax exempt bonds) and HOME deferred loan funding will be leveraged by tax credit syndication equity (tax credits are allocated automatically in conjunction with tax exempt bond financing) along with significant deferred loan investments from the Met Council (granted through the City of Edina) and Hennepin County. The costs of stabilizing these units for the long term is far below the cost of constructing similar units new, assuming land would even be available in this fully developed suburb. Additionally, this transaction will leverage a present value of $11 million in future HAP payments over the 35 year term of the loan; a 4 to 1 return on the Agency's deferred loan investment.

Development Team Capacity:
The development team consists of affiliates of CommonBond Communities as the developer, property manager and service provider, ESG Architects and Frerichs Construction. Minnesota Housing has had successful history with this development team with similar preservation transactions.

CommonBond Communities was established in 1971 and currently has an estimated 73 developments with a total of 4,087 units, some of which involve Minnesota Housing first mortgage financing. Their current portfolio consists of Section 8, tax credit, Hollman, Section 236, 202 & 811, Project Rental Assistance Contract and market rate units and more recently, supportive housing units. As a developer, property manager and service provider, CommonBond has the necessary capacity to complete the development proposal.

Physical and Technical Review:
Existing development contains (8) two story town house buildings and (5) detached garage buildings for a total of 90 residential units. Project is proposing moderate rehabilitation and new construction of a standalone Advantage Center; which is a community building. This community building will more adequately house service programs already in place. This existing project is in a very high demand area and is lucky to have ample green space surrounding the townhome buildings. Work scope costs estimated are reasonable. Architect is qualified and architectural fees are acceptable given the project scope. The new Advantage Center contains community spaces including a community room with kitchen, computer lab, offices and support spaces. Rehabilitation of the interior of the town home units is much needed; including building systems, mechanical unit replacements, appliances and other replacements based on tailored needs throughout the complex. The exterior building remodel includes replacement roofing, windows and doors. The exterior siding renovation includes cement board siding on the first floor and vinyl siding on the second floor. An alternate is included in the bid documents such that all siding will be cement board as budgets permit. Some site and parking lot reconfiguration is planned based on the community building construction.

Market Feasibility:
Edina is a second tier suburb that is nearly fully developed. Over 60% of the renter households in the census tract spend more than 30% on housing. Yorkdale Townhomes has the benefit of 100% project

based Section 8 with residents paying 30% of their household income towards housing. There are 431 households currently on the Yorkdale waiting list with six units turning over in the previous 12 months.

Supportive Housing:

Yorkdale has Advantage Services on site providing resources and services for both adults and children, including study buddies for children, a computer lab, arts and crafts, leadership, field trips, book mobile, camps and tax help for adults. CommonBond will work with Catholic Charities, Hennepin County Case Management and others for referrals of individuals and families for the 5 Long Term Homeless units.

DEVELOPMENT COST SUMMARY (estimated):

	Total		Per Unit
Total Development Cost	$17,366,876		$192,965
Acquisition Cost	$7,516,000		$83,511
Gross Construction Cost	$6,176,546		$68,628
Developer Fee	$1,750,000		$19,444
Soft Costs (excluding Reserves)	$1,672,227		$18,580
Reserves	$422,948		$4,699
Total LMIR perm mortgage (Including 4% DCE)	$3,875,000		$43,056
LMIR Bridge Loan (bond financed – interim loan)	$4,790,000		$53,222
Mortgage Loan-to-Cost Ratio during construction		50%	
Agency Deferred Loan Sources			
HOME Affordable Rental Preservation	$2,895,000		$32,167
Total Agency Sources during construction	$11,740,000		$130,444
Total Loan-to-Cost Ratio during construction		67%	
Total Agency Sources - permanent	$6,770,000		$75,222
Total Loan-to-Cost Ratio - permanent		39%	
Other Non-Agency Sources			
Seller Loan	$4,150,000		$46,111
Accrued Interest on Seller Note	$110,980		$1,233
Hennepin County AHIF	$300,000		$3,333
Syndication Proceeds	$4,293,000		$47,700
NOI during construction	$47,537		$528
Met Council LHIA	$250,000		$2,778
CBC Reserves	$166,000		$1,844
Deferred Developer Fee	$529,359		$5,882
Hennepin County HOME	$750,000		$8,333
Total Non-Agency Sources	$10,596,876		$117,743

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 12-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR), LOW AND MODERATE INCOME RENTAL BRIDGE LOAN (LMIR BL) and HOME AFFORDABLE RENTAL PRESERVATION (HOME) PROGRAMS

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide construction and permanent financing for a multiple unit housing development to be occupied by persons and families of low and moderate income, as follows:

Name of Development:	Yorkdale Townhomes
General Partner:	Yorkdale Townhomes LLC, with affiliates of CommonBond Communities and Outreach Development Corporation as members
Location of Development:	Edina
Number of Units:	90
General Contractor:	Frerichs Construction, Vadnais Heights
Architect:	ESG Architects, Minneapolis
Amount of Development Cost:	$17,424,393
Amount of LMIR Mortgage:	not to exceed $4,500,000*/**
Amount of LMIR Bridge Loan (but not limited to):	$4,790,000**
Amount of HOME Deferred Loan:	$2,895,000

* Interest rate and maximum mortgage amount is subject to change based on market conditions at time of the bond sale. Any decrease in LMIR first mortgage as a result of an increase in the interest rate may be offset by a commensurate increase in deferred developer fee.

** The total of the two bond issuances (LMIR and LMIR BL) cannot exceed $9,350,000. The amount of the bridge loan will be based on a formula to ensure that the development meets the '50%' test for housing tax credits.

WHEREAS, the Agency has determined that such applicant is an eligible sponsor under the Agency's rules; that such construction and permanent mortgage loans are not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the construction of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, the Agency has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations and policies;

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide construction and permanent mortgage loans to said applicant from the sale of new tax-exempt bonds (under the LMIR and LMIR Bridge Loan programs) and from federal appropriations (under the HOME Preservation Program)for the indicated development, subject to the following terms and conditions:

1. The amount of the LMIR loan is estimated at $3,875,000, the amount of the LMIR Bridge Loan is estimated to be $4,970,000 and the amount of the HOME Affordable Rental Preservation loan shall be $2,895,000; and

2. The Initial Closing of the LMIR, the LMIR Bridge Loan and HOME Affordable Rental Preservation loans shall be on or before September 30, 2012; and

3. The LMIR and LMIR Bridge Loan transactions are to be financed with the proceeds of tax-exempt bonds of the Agency, and the commitment is subject to the ability of the Agency to sell bonds on terms and conditions, and in a time and manner acceptable to the Agency; and

4. The LMIR permanent loan amount is estimated at $3,875,000 based on an estimated rate of 5.75 percent plus 0.25 percent HUD MIP and a 35-year amortization, however the interest rate on the construction and permanent mortgage shall be set at the time of bond sale, and will be up to the maximum rate permitted under federal tax-exempt bond law and the maximum mortgage amount and interest rate is subject to change based on market conditions at the time of bond sale and initial loan closing and any change in the LMIR first mortgage as a result of a change in the final interest rate may be offset by a commensurate change in deferred developer fee; and

5. The term of the permanent LMIR Mortgage Loan shall be 35 years plus up to a two year interest only period; and

6. The interest rate pursuant to the Bridge Loan will be based on the interest rate on the series of bonds issued to finance the Bridge Loan plus up to the maximum allowable spread, and is estimated to be 2.50 percent per annum payable in a balloon payment no more than 30 months after closing; and

7. The interest rate on the HOME Affordable Rental Preservation loan shall not exceed 1 percent with payments deferred until maturity and with a term that is co-terminus with the LMIR permanent loan; and

8. The Mortgagor shall enter into a binding commitment with the Agency agreeing to remain in the Section 8 program (or any successor project based rental assistance program offered by HUD) for the term of the HOME Affordable Rental Preservation loan; and

9. Agency review and approval of the Ownership Entity and the Mortgagor; and

10. The terms and conditions of all equity contribution - grants and loans; and

11. The terms and conditions of an Agency Bridge Loan Commitment with terms embodying the above in form and substance acceptable to Agency staff; and

12. The Mortgagor shall execute an Agency Mortgage Loan Commitment with terms and conditions embodying the above in form and substance acceptable to Agency staff; and

13. CommonBond Communities (or an affiliate entity approved by the Agency) shall guarantee the mortgagor's payment obligations under the LMIR Building Loan Agreement, LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

14. The sponsor, the builder, the architect, the mortgagor, and such other parties as the Agency in its sole discretion deems necessary shall execute all such documents relating to said loan, to the security therefore, to the construction of the development, and to the operation of the development, as the Agency in its sole discretion deems necessary.

Adopted this 22nd day of March, 2012

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CHAIRMAN

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