MEETINGS SCHEDULED FOR JANUARY

Location:

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

THURSDAY, JANUARY 26, 2017

Regular Board Meeting
State Street Conference Room – First Floor
1:00 p.m.

NOTE: The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on Thursday, January 26, 2017.

Items requiring approval are neither effective nor final until voted on and approved by the Minnesota Housing Board.

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

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Minnesota Housing Finance Agency
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Equal Opportunity Housing and Equal Opportunity Employment

AGENDA
Minnesota Housing Board Meeting
Thursday, January 26, 2017
1:00 p.m.

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. (page 5) Regular Meeting of December 22, 2016
5. **Reports**
   A. Chair
   B. Commissioner
   C. Committee
6. **Consent Agenda**
   None.
7. **Action Items**
   A. (page 13) Downpayment and Closing Cost Loan Programs Changes
   B. (page 21) Amendment, Qualified Allocation Plan (QAP) and Procedural Manual, and Self-Scoring Worksheet, 2018 Housing Tax Credit (HTC) Program
   C. (page 181) One Time Allocation of Minnesota Housing Tax Exempt Bonding Authority
   D. (page 183) Approval of Participants for the Minnesota City Participation Program
8. **Discussion Items**
   A. (page 189) 2017 Division Work Plan Summary
   B. (page 195) Underwriter Performance Review
9. **Information Items**
   A. (page 201) Post-Sale Report, Residential Housing Finance Bonds 2016 Series DEF
10. **Other Business**
   A. (page 209) Report on Commissioner's Evaluation *This portion of the meeting will be closed pursuant to Minnesota Statutes Section 13D.05.*
11. **Adjournment**

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Draft Minutes

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, December 22, 2016
1:00 p.m.
State Street Conference Room – First Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order.**
Chair John DeCramer called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 1:01 p.m.
2. **Roll Call.**
Members present: John DeCramer, Joe Johnson, Craig Klausing, Rebecca Otto, Stephanie Klinzing, and Terri Thao.
Minnesota Housing staff present: Christina Akinola, Ryan Baumtrog, Dan Boomhower, Kevin Carpenter, Erin Coons, Jessica Deegan, Matthew Dieveney, Ruth DuBose, Heidi Erickson, Rachel Franco, Cassie Gordon, Anne Heitlinger, Darryl Henchen, Summer Jefferson, Shannon Jones, Kasey Kier, Tresa Larkin, Carrie Marsh, Sarah Matala, Eric Mattson, Henry Morimoto, John Patterson, Paula Rindels, Gayle Rusco, Megan, Ryan, Becky Schack, Anne Smetak, Kim Stuart, Mary Tingerthal, Katie Topinka, Heidi Welch, Karin Wilbricht.
Others present: Chip Halbach, Minnesota Housing Partnership; Cory Hoeppner, RBC Capital Markets; Ramona Advani, Office of the State Auditor.
3. **Agenda Review**
Chair DeCramer announced an information item regarding the 2017 Housing Tax Credit Program Round 2 Selections had been added to the agenda. Chair DeCramer also announced a correction the number of clients who have exited the Enhanced Financial Capacity Initiative program. The correct number was 309.

   Becky Schack announced the following information had been distributed to members at the start of the meeting:
   - Comment letters regarding the proposed QAP amendments from the City of Lexington and North Metro Mayors.
   - The PowerPoint presentation from the Agency's QAP webinar.
   - A revised agenda.
   - The report for new agenda item 9.C.
   - The PowerPoint presentation to accompany the presentation on Agency marketing activities.
4. **Approval of the Minutes.**
A. Regular Meeting of November 17, 2016
Joe Johnson moved approval of the minutes as written. Stephanie seconded the motion. Motion carries 6-0.
5. **Reports**
A. Chair
There was no report from the Chair.
B. Commissioner
Commissioner Tingerthal reported that the Agency had received approval of its National Housing Trust Fund allocation plan. Next, Commissioner Tingerthal stated it was a busy period with activity related to the proposed Qualified Allocation Plan (QAP) amendments, which have included a webinar with more than 80 attendees, and several meetings with developers. Commissioner Tingerthal added that in early January there is a session regarding the Agency's QAP cosponsored by the Family Housing Fund and ULI Minnesota that will be geared toward community leaders.

Additional information about these activities will be shared with the board at its January meeting, when staff will bring the next set of recommendations regarding the QAP.

The following information was also shared:

- Commissioner Tingerthal is continuing to work to get the open board seat filled. The last candidate withdrew their application. An informational interview was held with a new candidate earlier that morning.
- Commissioner Tingerthal, Deputy Commissioner Barb Sporlein, and Indian Housing Liaison Rick Smith had tribal consultation visits with the Boise Forte and Fond du Lac tribes earlier in the month.
- Federal tax reform potential is resulting in a lot of uncertainty for the low-income housing tax credit (LIHTC). The Agency has had good luck with investors holding the line on pricing for projects closing in December. Commissioner Tingerthal met with Congressman Paulsen, who has been a vocal advocate of the LIHTC and sits on the Ways and Means committee and knows the chairman of that committee very well. The committee has held a retreat to put in place their framework for approaching tax reform and at the retreat had a vote where the majority of the members expressed a need to keep the LIHTC in any approach to tax reform. Commissioner Tingerthal expressed her appreciation for the congressman working with the Agency, learning about the program over the past few years, and becoming an advocate.
- The Agency is currently hosting an art exhibit entitled “Through Our Eyes,” which brings to light the experience of urban indigenous youth. The photos were taken by kids living at the American Indian Community Housing Organization’s Gimaajii building in Duluth, which Minnesota Housing helped fund. Rick Smith and Rachel Franco put in a lot of effort to bring this photo exhibit to Minnesota Housing.

The following employee introductions were made:

- Debbi Larson introduced Cynthia Gray, who has joined the accounting department as a technician. Ms. Gray was previously employed as an accounting technician in the private sector and holds a Bachelor’s in Business and is pursuing her Master’s degree.
- Gayle Rusco introduced Sarah Matala. Ms. Matala has many years of affordable housing asset management experience. Ms. Matala holds a Bachelor’s in History and a Master’s in Public Administration and was most recently employed with CHDC.
- Cassie Gordon introduced Shannon Jones, who has joined the Multifamily Division as an HMO performing audits and monitoring compliance for PBCA properties. Ms. Jones has 11 years of asset management experience and was most recently employed with Bigos Management.

C. Finance and Audit Committee of November 17, 2016

Chair DeCramer reported the Finance and Audit Committee had met and staff provided an overview of private activity bonding and a summary of the use of that authority over the past few years.
MOTION: Craig Klausing moved to accept the committee report. Terri Thao seconded the motion. Motion carries 6-0.

6. Consent Agenda

A. Selection/Commitment, Bridges Rental Assistance - Rice County HRA, D1248

B. 2017 Meeting Schedule

MOTION: Stephanie Klinzing moved approval of the consent agenda and the adoption of Resolutions No. MHFA 16-055. Joe Johnson seconded the motion. Motion carries 6-0.

7. Action Items

None.

8. Discussion Items

A. Overview of Marketing Efforts
Megan Ryan, Communications Director, began the presentation, stating she was happy to share some information with the board about things they do not often hear about. Ms. Ryan stated the Single Family Business Development Representatives (BDR) have been across the state engaging with our partners and laying the groundwork for doing business with the Agency. Tools have also been created to create more effective ways of connecting with our customers.

Kasey Kier, Assistant Commissioner for Single Family, added that the BDRs work closely with the Communications Division to market and promote our programs, while acting as relationship managers for the lender network. BDRs attend community events, and work with real estate professionals and partner organizations to promote the Agency's programs. Their work helped the Agency to surpass its goal for serving emerging markets, with 32% of production serving households of color, which is almost three times Minnesota's industry average, and for which the Agency received a Better Government award.

Next, the BDRs – Heidi Erickson, Henry Morimoto, and Christina Akinola - shared information about their roles in promoting the Agency's programs, which include the following: Establishing new relationships and strengthening existing ones; bringing feedback from partners to colleagues to be used in program change considerations; participate in cultural, industry, and community events; give presentations, including courses for which real estate professionals can receive continuing education credits. Ms. Erickson shared that many people do not realize that Minnesota Housing programs are not just for first time homebuyers, low-income households, or renters, and the work of the BDR team helps to educate consumers and professional partners about the breadth of programs offered by the Agency. Mr. Morimoto added that the events in which the BDRs participate are critical to communicating the programs offered by the Agency and participating in these events with our partners bolsters our production. The events in which the Agency participates help us to achieve our mission, reach diverse markets, and accomplish the Agency's vision. Ms. Akinola shared that the Agency has more than 100 lending partners statewide, and relationships with the lenders helps the Agency to make program changes that can help clients throughout the state. Ms. Akinola also shared that she leads an internal advisory group that meets quarterly to brainstorm how to best reach minority communities in Minnesota. The Agency incorporates these outreach aspects in all training materials.

Ms. Ryan stated that the Agency has made great progress by changing our approach and using business development staff; all of whom have great presentation skills and can get people engaged with the programs. Ms. Ryan added that the Communications team works closely with partners on promotional materials, which are high quality, easy to order, and available in multiple languages. Each year, the Agency conducts an extensive lender survey and that information is used to update marketing materials.

Next, Ms. Ryan described the "Top Producing Loan Officer" program, which allows our best delivery partners access to co-branded marketing materials, and inclusion in press releases, and social media postings. During 2016, the Agency launched an online lender search tool which has had 21,000 visits since April. This tool allows consumers to search by ZIP code, location, name, and other features and supports our top producing lenders, while giving all lenders exposure. Ms. Ryan added that the relationship building work by the BDRs has increased the Agency's Facebook followers and website hits.

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Ms. Ryan concluded by stating the Communications team is working with Single Family and Research on identifying the key areas of focus for the summer marketing campaign. For 2017, staff will continue to refine existing tools and increase awareness with homebuyer educators while implementing a new state brand.

Mr. Craig Klausing inquired if there is any continuing education requirement for affordable housing. Ms. Erickson responded that Commerce does not specifically require affordable housing related coursework, but they do seek topics to be added as required components and Minnesota Housing does submit topics.

Ms. Terri Thao inquired about targeting marketing to people of color who may be two or three years from homeownership. Ms. Ryan responded that staff is in the process of redesigning marketing materials to address preparing for homeownership through education and additional outreach will be done during 2017 with homebuyer educators. The second phase is to make sure that people who are ready to purchase are fully aware of how to reach lending partners.

Mr. Joe Johnson stated he has been working with Minnesota Housing for more than thirty years and he believes that lenders feel good about the recognition they receive through the Top Producing Lender program. Mr. Johnson congratulated staff for the work they've been doing and encouraged them to keep it going.

Chair DeCramer thanked staff for the presentation, stating it was very interesting and well presented.

B. Future Use of Tax-Exempt Private Activity Bond Volume Cap for Multifamily Housing Projects

Commissioner Tingerthal stated that several developers have approached the Agency on an informal basis about issuing bonds from its entitlement allocation for non-preservation projects and the purpose of today's discussion was to review with the board the debt management policy and treatment of these requests.

Kevin Carpenter, Chief Financial Officer, described the debt management policy of the board, which provides the broadest structure regarding bond issues and which was most recently amended in July of 2015. Mr. Carpenter stated the policy governs the issuance of all bonds by Minnesota Housing, regardless of type, and the specifics of each issue is outlined in a resolution adopted by the board for that set of bonds. Mr. Carpenter described the key principles of the debt management policy.

Commissioner Tingerthal stated that every year a strategy of maximizing resources is applied by finding a best fit of resources and projects. For example, the National Housing Trust Fund is a resource that must be focused on very low-income households, so the resources are matched with a project that is already targeting those households.

Mr. Carpenter added that there is a need to have a view on the future that will provide a path for future events and maximize resources over time, not just the current point in time or for the RFP. Mr. Carpenter stated that some requests that come through may be to issue conduit bonds. Mr. Carpenter described conduit bonds, and stated the Agency's debt management policy has an explicit list of conditions that must be met to consider a conduit issue. Mr. Carpenter added that conduit issues use Agency volume cap and staff is working on a formal process to review those requests. Requests that meet the Agency's criteria are brought before the board for approval, and the board will also be informed of requests that do not meet that criteria.

In response to a question from Ms. Terri Thao, Commissioner Tingerthal stated the conduit requests received over the past several months have not met the criteria within the debt management policy and staff will be informing requestors that the requests will not be processed.
Auditor Otto inquired why there have been more requests for conduit financing. Commissioner Tingerthal responded that, for the first time in about 10 years, there were more applications than available dollars in MMB's housing pool, so developers have been reaching out to Minnesota Housing for bonds. Kevin Carpenter added that the issuance of conduit debt is done by a governmental entity, but the borrower is the developer of the project. Commissioner Tingerthal added that, in accordance with the debt management policy, Minnesota Housing will consider issuing conduit bonds only for preservation projects, and the project must also meet the other requirements of the debt management policy. Commissioner Tingerthal stated that a lack of bonding authority has not been an issue for a very long time and there is not currently a clear path to make a request, so staff felt it was a good idea to publicly state the debt management policy and create a procedure for making a request.

Ms. Stephanie Klinzing inquired what other states are doing in this situation. Commissioner Tingerthal responded that the conditions in the Twin Cities metro area are relatively unusual due to a combination of a robust economy, a high median income, and rents for tax credit developments being close to market. Commissioner Tingerthal stated that this combination means owners can generate a lot of revenue from buildings, particularly with interest rates at historic lows. Tax credits are also at historic highs and deals can work with very little subsidy, with cities able to bridge funding gaps through the use of tax increment financing or tax abatement, and developments not needing to seek additional funding through the Agency's RFP to be feasible.

Mr. Carpenter added that there are some helpful ideas from other states, but the allocation of private activity bonds differs in every state. It is very hard to find a situation comparable to our own. Commissioner Tingerthal added there are about 15 states already facing critical shortages, but these types of multifamily deals with minimal subsidy do not work for the vast majority of states and those states do not have a bond shortage.

Commissioner Tingerthal stated that it appeared that on January 3, when MMB opens applications for the $182 million housing pool, it is highly likely there will be more applications for bonds than there are bonds available. The MMB allocation process is to take all the preservation deals, allocate among those, and if there is anything remaining, allocate to general occupancy. Senior proposals are not eligible to apply to the pool until May 15. Commissioner Tingerthal asked that board consider at a future meeting a potential proposal that the Agency allocate on a one-time basis enough authority to "top off" one deal so that it could be done, suggesting that scoring criteria from the Qualified Allocation Plan be used to assess the application. Commissioner Tingerthal added that the Agency would consider this action because, if there are more applications than funds available, the state could be in a situation where no projects could move forward. The proposed action may allow a project in the pipeline to move forward with a minimum amount of bonds from Minnesota Housing's allocation. Commissioner Tingerthal added that if the board was open to this idea, a special meeting likely would be scheduled in January to take action because MMB bond allocations must be issued within 120 days, so it is important that action be taken quickly.

Mr. Joe Johnson inquired what negatives there may be with taking this action. Mr. Craig Klausing inquired about the risks. Commissioner Tingerthal responded that the biggest risk is communities expecting that the Agency use more of its authority in this manner. Mr. Carpenter stated using the authority now makes it unavailable for future projects that meet our priorities, adding there is a broad parameter within the debt management policy specifically about conduit issues not causing a significant loss for the operation of other programs. If an inordinate amount of projects were “topped off,” that volume cap would no longer be available for future projects.

Auditor Otto inquired if there may be a feeling that the rules have been changed. Mr. Carpenter responded that staff is communicating now to allow people to know the basis upon which we would choose a project. The Agency is at this time signaling to people that our board is either considering or not considering taking this path. Auditor Otto stated that she was thinking about the comments regarding senior housing relative the proposed QAP amendments and inquired if the Agency was aware of any senior projects converting to general occupancy. Auditor Otto stated she was open to having a project to consider if that project meets the Agency’s priorities.

Mr. Craig Klausing inquired about the criteria that would distinguish a chosen project from one that was not chosen. Commissioner Tingerthal responded that the scoring criteria from the QAP, including income targeting, location, and planned community development, that encompasses the strategic priorities would be used to make the choice. The 2017 QAP states a project must have a minimum of 30 points. Commissioner Tingerthal suggested the highest scoring project be selected, because a higher score indicates a higher number of priorities have been met. Mr. Carpenter added that this “top off” proposal is subject to how allocations unfold in January and there are many unknown parameters at this time. Commissioner Tingerthal suggested that if communities know that we are using the points from our QAP, they may go back to their city council and request more resources in order to have more affordable units, or they may partner with a PHA and agree to accept some Section 8 vouchers, which would allow more public policy to be incorporated in the building. Ms. Stephanie Klinzing responded that she would be okay with looking at this idea if it would accomplish incorporating more public policy.

Ms. Terri Thao inquired about the impact if the volume cap does get used up, the Agency says it will offer this opportunity, and then decides not to offer it. Commissioner Tingerthal responded that the Agency has no control over which projects get in the queue at MMB; no one know what projects are out there until they apply. Mr. Carpenter stated this is an opportunity to put a little relief out there and get a little bit more affordable housing built. Commissioner Tingerthal stated that if allocations from MMB are too small, it may result in nothing moving forward. This action could help get at least one deal done.

Chair DeCramer asked that members be prepared for a special meeting in January to consider this action.

C. Agency Risk Profile

Mr. Will Thompson, Chief Risk Officer, presented this item and described the features of the report. Mr. Thompson stated that movement of risks indicate lower assessed impact and likelihood, and movement is attributed to process, product, and information systems that the Agency continues to introduce and refine. Mr. Thompson shared the process for completing the risk profile, which involves reviews by members of the Agency Risk Management Committee, as well as by additional reviewers. Mr. Thompson stated no risk source was plotted as “hot” and all assessed levels for 2016 remained good, or could be improved, with nothing rated as poor or ineffective. The number of high risk sources remained at five, with counter party risk moving up in the rankings. Mr. Thompson stated that IT had the lowest residual score since the risk assessment process began.

Mr. Joe Johnson stated the profile is very helpful for board members to get a handle on what are the risks in the business. Mr. Johnson inquired when the assessment was conducted, and Mr. Thompson responded that the assessment was completed in October, and some participants did update their scores following the election. Mr. Thompson added that the idea of the profile is to share with the board the different risk sources and levels of assurance for them.

Mr. Craig Klausing requested clarification regarding the information in the narratives. Mr. Thompson confirmed that, for Counterparties, the risk is described as “improved,” because there was a decrease in impact.

Commissioner Tingerthal added that each year, the members of the Risk Management Committee, compares notes, talk at length and challenges each other as the risks are assessed, characterized the process as similar to a performance evaluation.

Mr. Klausing inquired how “unknown unknowns” are handled. Commissioner Tingerthal responded that staff talk about risk all the time and focuses on the areas in which we can act to mitigate the risks and what actions can be taken to reduce risk, providing as an example her own meeting with Congressman Paulsen to talk about the low-income housing tax credit program, and the Agency’s practice of hedging its Single Family pipeline against interest rate risk.

Auditor Otto thanked staff for the work they have done on operational capacity, stating it is critical. Auditor Otto acknowledged the Agency has undertaken ambitious projects in IT, stating they are a lot of work and do not go quickly.

Ms. Stephanie Klinzing stated the reporting at the meeting is an important part of the process and makes the information public, which she finds to be important. Ms. Klinzing thanked staff.

Mr. Thompson stated that the Agency has had two new Chief Financial Officers, a new general counsel, and many new leadership team members since the assessment process began. Mr. Thompson stated that new members bring their own experience and background to the process. Commissioner Tingerthal added that the software the agency uses for the assessment carries the remarks from the previous year, allowing new staff to see their predecessor’s considerations and it is nice to have that continuity.

9. **Informational Items**
    - **A. Quarterly Status Report, Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity)**
    - **B. Report of Complaints Received by Agency or Chief Risk Officer**
    - **C. 2017 Housing Tax Credit Program (HTC) Round 2**

    Informational items. No action.
10. **Other Business**

    None.
11. **Adjournment.**

    The meeting was adjourned at 2:42 p.m.

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John DeCramer
Chair

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Minnesota Housing Finance Agency

Board Agenda Item: 7.A
Date: 1/26/2017

Item: Downpayment and Closing Cost Loan Programs Changes

Staff Contact(s):
Laura Bolstad, 651.296.6346, laura.bolstad@state.mn.us
Kimberly Stuart, 651.296.9959, kim.stuart@state.mn.us

Request Type:

☒ Approval
☒ Motion
☐ Resolution

☐ No Action Needed
☐ Discussion
☐ Information

Summary of Request:
Staff recommends changes to the downpayment and closing cost loan programs to more effectively serve low-and moderate-income borrowers in a market with increasing home prices, low inventory of homes for sale, fewer seller-paid closing costs, and rising interest rates. Staff requests approval for: 1) a modest increase to the Deferred Payment Loan income limits; 2) changing household size requirements for the Deferred Payment Loan income limit structure; 3) increasing the maximum loan amounts available through the Deferred Payment Loan, Deferred Payment Loan Plus, and the Monthly Payment Loan; and 4) approval for corresponding changes to the Start Up, Mortgage Credit Certificate, and Step Up Program Procedural Manuals.

Fiscal Impact:
There is no immediate request for additional Agency resources. Staff will monitor production closely and may request additional resources if funds are available to support production demand. Staff believes these program changes, if adopted, will result in more overall production than would occur without these changes.

Meeting Agency Priorities:
☒ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☒ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Background
- Request Details
- Start Up, Mortgage Credit Certificate, and Step Up Program Procedural Manuals

Background:
Staff project home mortgage production will be unlikely to reach our $600 million goal under the current program structure due to changing market factors that create more difficult home buying conditions for low- and moderate-income homeowners:

- Low inventory, down 21% since October 2015
- Increasing home prices, currently averaging 8.5% higher than transactions from October 2015
- Continued unavailability of seller-paid closing costs, increasing the amount of cash to close needed by borrowers
- Rising interest rates, up by 0.75 points since November 2016 and likely to continue to rise

Given these changing market conditions, current downpayment and closing cost loan amounts will result in fewer borrowers projected to be served in 2017 without proposed program changes. In the 2017 buying season, we anticipate the typical out-of-pocket costs for Deferred Payment Loan (DPL) and Deferred Payment Loan Plus (DPL Plus) borrowers will be $3,700 and $4,300 respectively, more than double the amount of out-of-pocket costs for similar borrowers in 2015.

Without the proposed program changes, we project that we will serve fewer overall borrowers, and the borrowers most likely to be impacted will be households of color or Hispanic ethnicity, who are more likely to be asset-constrained. A review of borrowers served under this program during the time period when house prices notably appreciated (2015-present) indicates that while the percentage of households of color or Hispanic ethnicity served through DPL Plus is strong (74%), the actual number of borrowers served is decreasing. From August through October 2016 we served 24% fewer DPL Plus borrowers per month than the same period in 2015. This decrease in DPL Plus borrowers served, along with the substantial entry cost barriers highlighted above, suggest that we need a greater differentiation between the loan amounts offered in the standard DPL and DPL Plus programs in order to meet the level of need for our most mission-rich borrowers.

In addition to entry cost barriers, rising interest rates and purchase prices will likely push our lowest income borrowers out of the market. The DPL, which currently represents 56% of our overall home mortgage volume, targets our lowest income borrowers. DPL is available only to first-time homebuyers through the Start Up program and has income limits below that of Start Up. A modest increase in the DPL income limits, which have not been adjusted in over two years, will allow our programs to continue to serve the most income-targeted first-time homebuyers who are able to purchase homes available for sale under current market conditions. Additionally, we recommend aligning the DPL income limits to match the income tier structure used for our other first-time homebuyer programs, allowing a 1-2 person income limit, and different income limits for each household size above that.

The Monthly Payment Loan (MPL), representing 35% of loan production, serving 32% households of color or Hispanic ethnicity, and serving moderate-income first-time and repeat homebuyers, will also be important to keep strong as we move into the spring buying season. Consequently, we recommend a modest $2,000 increase to the MPL maximum loan amounts.

Request Details:
Staff recommend increasing the maximum loan amounts for DPL, DPL Plus, and MPL as outlined in Table 1 below, increasing the DPL income limits from 80% to 95% of the area median income (AMI) and changing the DPL income limit structure as outlined in Table 2 below.

Table 1: Proposed Downpayment Loan Maximum Loan Amounts

Program	**Proposed Maximum**	**Current Maximum** (effective 6/29/16)
DPL	$ 8,000	$ 7,500
DPL+	$ 10,000	$ 8,500
MPL	$ 12,000	$ 10,000

Table 2: Proposed Deferred Payment Loan Income Limits and Income Tier Structure

Proposed DPL Income Limits

Household Size	**Metro and Rochester**	**Greater Minnesota**
1-2 Person	$ 65,000	$ 59,000
3 Person	$ 73,000	$ 66,000
4 Person	$ 82,000	$ 73,000
5 Person	$ 88,000	$ 79,000
6 Person	$ 95,000	$ 84,985
7+ Person	$ 99,500	$ 89,000

Current DPL Income Limits (effective 10/1/14)

Household Size	**Metro and Rochester**	**Greater Minnesota**
1-3 Person	$ 60,000	$ 55,000
4 Person	$ 66,500	$ 59,500
5 Person	$ 72,000	$ 64,000
6 Person	$ 77,000	$ 69,000
7 Person	$ 82,500	$ 73,500
8 Person	$ 88,000	$ 78,500
9 Person	$ 93,000	$ 83,000
10+ Person	$ 96,485	$ 84,985

Chapter 6 – Downpayment and Closing Cost Loans

The downpayment and closing cost loan options available with Start Up include the Deferred Payment Loan, the Deferred Payment Loan Plus, and the Monthly Payment Loan. The three options provide assistance to pay for eligible expenses including downpayment and customary buyer closing costs.

Homebuyer Education. Homebuyer Education is required for at least one of the Borrowers who receive a Deferred Payment Loan or Monthly Payment Loan.

Homebuyer education may be delivered either by instructors trained under Home Stretch or NeighborWorks® America in a classroom setting or via the Minnesota Home Ownership Center's Framework, an online home buyer education platform. Homebuyer education must be completed before closing.

The above-noted requirements are satisfied when at least one Borrower per household provides a certificate of completion.

Cash Investment. A minimum cash investment of the lesser of 1% of the purchase price or $1,000, including prepaids, is required. The cash investment must come from the Borrower's assets and may not be a gift, grant, loan, or sweat equity contribution.

6.01 Deferred Payment Loan Program

The Deferred Payment Loan program is available to Lenders who participate in Start Up. The two Deferred Payment loan options available are:

- Deferred Payment Loan
- Deferred Payment Loan Plus

The Deferred Payment Loan Program provides assistance to pay for eligible expenses including downpayment, customary buyer closing costs, and principal write down. The Deferred Payment Loan and the Deferred Payment Loan Plus:

- Are available only in conjunction with a first mortgage loan purchased by the Master Servicer under a Minnesota Housing Mortgage Revenue Bond (MRB) program
- May be combined only with Minnesota Housing First-Time Homebuyer loan products with a 30-year term
- FHA 203K Streamlined Purchases are available in increments of $100. Maximum loan amount includes purchase price plus cost of repairs.
- Are a junior lien
- Must be paid in full when, among other things:
    - The maturity date of the Deferred Payment is reached

- The property is sold or transferred
- The first mortgage is paid in full, upon a refinancing or otherwise
- The first mortgage is in default or is declared to be due and payable in full
- Cannot be assumed

The **Deferred Payment Loan**:

- Is available in increments of $100 up to ~~$7,500~~ $8,000

The **Deferred Payment Loan Plus**:

- Is available in increments of $100 up to ~~$8,500~~ $10,000

6.04 Monthly Payment Loans

The Monthly Payment Loan provides assistance to pay for eligible expenses, including downpayment and customary buyer closing costs. Monthly Payment Loans:

- Are available only in conjunction with a Minnesota Housing first mortgage loan
- Are available in increments of $100 up to ~~$10,000~~ $12,000
- Must occupy second lien position when combined with a non-Minnesota Housing Community Second Mortgage
- Have an interest rate equal to that of the first mortgage
- Are fully amortizing and are payable in level monthly payments over a 10-year term
- Are due on the first of each month, beginning with the due date of the initial monthly payment for the first mortgage
- Must be paid in full upon:
  - Sale or refinance of the property
  - Transfer of title to the property
  - Payment in full of the first mortgage at maturity
  - The first mortgage is declared due and payable whether through default or other event
- May not be assumed

Chapter 6 – Downpayment and Closing Cost Loans

The Monthly Payment Loan is available with MCC (with First Mortgage). The loan may be applied towards the downpayment and customary buyer closing costs. The amount of the Monthly Payment Loan is included in the certified indebtedness amount as it relates to the MCC Program.

6.01 Monthly Payment Loans

Monthly Payment Loans:

- Are available only in conjunction with a Minnesota Housing first mortgage loan
- Are available in increments of $100 up to ~~$10,000~~ $12,000
- Must occupy second lien position when combined with a non-Minnesota Housing Community Second mortgage
- Have an interest rate equal to that of the first mortgage
- Are fully amortizing and are payable in level monthly payments over a 10-year term
- Are due on the first of each month, beginning with the due date of the initial monthly payment for the first mortgage
- Must be paid in full upon:
    - Sale or refinance of the property
    - Transfer of title to the property
    - Payment in full of the first mortgage at maturity
    - The first mortgage is declared due and payable whether through default or other event
- May not be assumed

Chapter 6 – Downpayment and Closing Cost Loans

The Minnesota Housing downpayment and closing cost loan option available with Step Up is the Monthly Payment Loan.

6.01 Monthly Payment Loan Requirements

The Monthly Payment Loan provides assistance to pay for eligible expenses, including downpayment and customary buyer closing costs. The Monthly Payment Loan is the only Minnesota Housing downpayment and closing cost option available with Step Up. Monthly Payment Loans:

- Are available only in conjunction with a Minnesota Housing first mortgage loan, however, they are not available with the premium service release premium (SRP) option
- Are available in increments of $100 up to ~~$10,000~~ $12,000
- Must occupy second lien position when combined with a non-Minnesota Housing Community Second Mortgage
- Have an interest rate equal to that of the first mortgage
- Are fully amortizing and are payable in level monthly payments over a 10-year loan term
- Are due on the first of each month, beginning with the due date of the initial monthly payment for the first mortgage
- Must be paid in full upon:
  - Sale of the property
  - Transfer of title to the property
  - Payment in full of the first mortgage at maturity
  - The first mortgage is declared due and payable whether through default or other event
- May not be assumed

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Board Agenda Item: 7.B
Date: 1/26/2017

Item: Amendment, Qualified Allocation Plan (QAP), Procedural Manual, and Self-Scoring Worksheet, 2018 Housing Tax Credit (HTC) Program

Staff Contact(s):

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Request Type:

☒ Approval
- ☒ Motion
- ☐ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:

Staff requests approval of an amendment to the 2018 Housing Tax Credit Program Qualified Allocation Plan (QAP), Procedural Manual, and Self-Scoring Worksheet. Following an additional public comment period from January 26, 2017 until February 9, 2017, staff will seek final approval of these amendments at the February 2017 board meeting.

Fiscal Impact:

Housing Tax Credits are a federally sponsored program and will not have any direct fiscal impact on the Agency's financial condition. However, recommendations contained in this board memo and the proposed amendments to the QAP may have a significant impact on the ability of the Agency to have access to tax-exempt private activity bonding authority to conduct its single family and multifamily program activities.

Meeting Agency Priorities:

☒ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota's Changing Demographics
☒ Preserve Housing with Federal Project-Based Rent Assistance
☒ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):

- Background
- Summary of Proposed Revisions
- Revised Cost Containment Methodology
- Amended 2018 Housing Tax Credit documents (changes made since October are tracked)
- Public Hearing Comments
- Written Public Comments

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 each allocating agency develop a Qualified Allocation Plan (QAP) for the distribution of the tax credits within its 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 support State housing priorities.

Minnesota Housing's HTC Program administration includes use of the following documents: a Qualified Allocation Plan (described above); a Procedural Manual that includes detailed definitions and procedures for implementation of the QAP, and a Self-Scoring Worksheet that assigns points for how well a project meets the funding priorities of Minnesota Housing's HTC Program. The HTC Program is generally reviewed and revised each year to ensure it meets IRS requirements and supports State housing priorities.

Copies of the current QAP and Procedural Manual are available on the Agency's website, www.mnhousing.gov (Home -> Multifamily Rental Partners -> Funding -> Tax Credits -> 2017 Procedural Manual and Documents).

A draft set of proposed changes to the 2018 QAP and Procedural Manual in the form of a blackline version of the Self-Scoring Worksheet was approved by the board at its October 19, 2016 board meeting. On October 23, 2016, in accordance with Section 42, the Agency published a notice soliciting public comment on the proposed changes. Minnesota Housing staff held the public hearing on Thursday, November 16, 2016. In response to the large number of comments, the Agency extended the public comment period until November 30, 2016. The Agency also continued to gather feedback in December and January by hosting a webinar and separate developer, city and advocate listening sessions. A developer session was held on December 15, 2016, and additional sessions were held on January 12 and January 13, 2017.

A summary of the proposed changes was made available to the public in advance of and at the hearing for review and comment. Seven members of the general public attended the hearing in person and provided oral comments on the QAP, and 60 comments were submitted. Copies of the written comments are attached.

Staff is now presenting a revised set of proposed amendments to the 2018 QAP, Procedural Manual and Selected Criteria. This report includes a blackline of the QAP, Procedural Manual, and Self-Scoring Worksheet, reflecting the revisions currently being proposed. A summary of these revisions, the rationale for them, public comments and staff responses are also attached.

Summary of Proposed Revisions to the Amended 2018 Tax Credit Program, Qualified Allocation Plan (QAP), and Procedural Manual

At the October and November 2016 board meetings, staff proposed certain amendments to the Qualified Allocation Plan (QAP) for the Housing Tax Credit Program. Public comments on the proposed amendments to the 2018 QAP were submitted to the Agency in November. In December and early January, the Agency continued to gather feedback and engaged with a number of stakeholders regarding the impact of the proposed changes. The Agency hosted a webinar, as well as developer, city, and advocate listening sessions for people to learn more about the proposed amendments and take part in the discussion. Staff carefully reviewed and considered all of the comments. Changes made as a result of comments and additional analyses by staff are detailed below.

Recommended changes to the Qualified Allocation Plan, Procedural Manual, and/or Self-Scoring Worksheet

At the May 26, 2016 board meeting, the Minnesota Housing board approved the 2018 Qualified Allocation Plan (QAP), including several revisions to the original draft of the 2018 QAP. These revisions were proposed partially in response to public comments concerning the increasing scarcity of tax-exempt Private Activity Bonds (PAB) allocated to the state by federal law. The commenters requested that the Agency closely manage the allotment of authority for PAB for affordable housing assigned by Minnesota statute to governmental issuers. When projects receive an allocation of PAB for affordable rental housing, they must separately request an allocation of 4% housing tax credits from Minnesota Housing (or from the City of Minneapolis, the City of St. Paul, Dakota County or Washington County for projects located in those jurisdictions) if they wish to use such credits. Accordingly, Minnesota Housing and the other tax credit sub-allocators must address the requirements for allocating 4% housing tax credits within their QAPs.

At that time, staff recommended and the board approved a 40 point minimum score in order to receive an allocation of 4% credits under the 2018 QAP, increased from a previous minimum score of 30 points. The board also approved a new policy that Minnesota Housing will not allocate 4% tax credits to support an allocation of PAB in an amount greater than 53 percent of a project's eligible cost basis, as defined in low-income housing tax credit rules.

Staff recommends that the proposed QAP amendments and policy changes apply to: projects that submit an application for 4% tax credits on or after October 1, 2016; and projects that submitted an application for 4% tax credits prior to October 1, 2016 but have not been recommended for non-selection (either as part of the RFP or as a pipeline application) on or prior to the date of this board report. The requirements of the QAPs for 4% tax credit allocations in effect on September 30, 2016 will apply to all projects for which an application has been received by Minnesota Housing prior to October 1, 2016 and for which Minnesota Housing has not recommended non-selection.

Staff is now proposing amendments to the 2018 QAP as a means of ensuring that 4% housing tax credits are awarded to projects that meet the highest priority affordable rental housing needs in the state of Minnesota. Staff recommends that the board approve the following changes to the 2018 QAP and the related policy recommendations.

1. **Initial Recommendation - Increase the minimum score required to receive an allocation of 4% tax credits to 50 points.**

Public Comments Summary (staff responses italicized):

- **The Agency received one letter in support of the proposed revisions.**
- **The minimum point threshold for 4% projects has been 30 points for several years. The proposed point requirement is too high; the Agency should consider reducing it back to 30 points.**
  In the 2018 QAP adopted in May 2016, the Agency restored the minimum score required for 4% credits to 40 points. The minimum score had previously been reduced from 40 points to 30 points in April 2013 for the 2014/2015 QAP in response to a public comment that pointed out that tax-exempt bonding authority was not at the time a scarce resource, and was going unused. To maximize use of tax-exempt bonding for multifamily affordable housing development, which would have otherwise gone unused, Minnesota Housing decreased the score to 30 points. For the previous ten years, the minimum score required for 4% projects was 40 points, and prior to that it was 50 points.
- **Increased scoring will prohibit certain types of projects, such as senior housing, family housing, 80-20, and developments serving individuals at 60% AMI from being developed.**
- **A 50 point threshold will require very specific siting of housing within communities.**
- **This 50 point requirement will effectively reduce access to Minnesota Housing resources.**
- **Will reduce housing affordable to household earning 60% of AMI, who are underserved.**

  In our current Strategic Plan, Minnesota Housing has a principle of targeting affordable housing resources to households that face the highest barriers to obtaining stable, affordable housing. Addressing specific and critical local housing needs is also a strategic priority.

  As tax exempt bond resources become scarce, finding the appropriate threshold for 4% tax credits is critical to meeting both of these objectives in a way that is fair for communities across the state. The QAP is designed to support developments that meet a variety of different community needs, including access to jobs, access to high quality schools, and serving households with barriers to accessing high quality affordable housing. The QAP also provides points to projects that have local contributions and developments that are part of a larger community planning process.

  With this combination of objectives, the goal is to ensure that projects that meet a compelling community need can successfully access necessary resources. While not every project will be successful because there are not enough tax exempt bonds available to support every development, we expect that a variety of developments will access resources to meet a range of community needs.

  The Agency has completed a scoring analysis to ensure that the point level is not too high and is a good fit for various types of developments. This research revealed that a score of 50 points could prohibit certain types of projects, thus Minnesota Housing is proposing to maintain the minimum score of 40 points. Given the increased scarcity of bonding authority, returning the point to the threshold to the previous level is appropriate. Historically, this was the threshold for years from 2004 to 2014 and Agency analysis shows that it is reasonable. In addition, the Agency is proposing an additional 13 possible point for 4% tax credit deals. This results in an overall increase in the possible scoring for 4% developments. Additional details are discussed later in Items 3 and 5 of the report.

- **In order to meet the increased scoring, the project will have to incorporate supportive housing, homelessness, and deep rent restriction to qualify. This will require an additional gap subsidy that is not currently available.**
  The Agency is proposing to maintain the threshold at 40 points. Staff analysis concludes that meeting the 40 points will be possible without an additional gap subsidy, especially given that the Agency is proposing an increase in potential points for 4% tax credit deals.

Final Recommendation - Proposed Change Resulting from Public Comment: Maintain the current minimum score for 4% tax credits at 40 points. This change is reflected in the corresponding documentation (QAP, HTC Manual, and Self-Scoring Worksheet).

2. **Initial Recommendation - Add the requirement that a project must meet at least one Strategic Priority Policy Threshold in the QAP under which the project was selected.**

   The current QAP, which requires 9% projects to meet at least one of the Strategic Priority Policy Thresholds (Access to Fixed Transit, Greater Minnesota Workforce Housing, Economic Integration, Tribal Housing, Planned Community Development, Preservation, and Supportive Housing), does not apply to projects using Private Activity Bonds and 4% tax credits. Staff is proposing that all housing tax credit projects meet at least one Strategic Priority Policy Threshold.

Public Comments Summary (staff responses italicized):

- **The Agency received two letters in support of the proposed revisions.**
- **The Agency should consider analyzing the access to fixed transit and economic integration strategic priorities. There are certain geographic areas that appear to be missing.**
- **The Agency should consider adding Naturally Occurring Affordable Housing to be included under Preservation.**
  The Agency has not proposed any changes to the current methodologies or categories in the 2018 QAP. All of the methodologies will be reviewed and revised in conjunction with the 2019 QAP development. The Agency encourages stakeholders to provide any input during the public comment period for the 2019 QAP.
- **Senior housing is not included, and this is a priority for many local communities.**
  The Planned Community Development strategic priority was created specifically for housing created in response to the needs of local communities. Senior housing could meet this priority.

Final Recommendation - Proposed Change Resulting from Public Comment: No proposed change

3. **Initial Recommendation - Require that owners of projects qualifying for 4% tax credits under the 2018 QAP maintain the credit units in the projects for at least 30 years and Sections 42(h)(6)(E)(i)(II) and 42(h)(6)(F) of the Internal Revenue Code shall not apply to the projects.**

   The QAP currently requires 9% projects to maintain affordability for a minimum of 30 years. This does not apply to projects using Private Activity Bonds and 4% tax credits. Owners of such projects retain the right to terminate the restrictions at the end of the 15-year compliance period in the event Minnesota Housing does not present the owner (if requested by owner) with a qualified contract for the acquisition of the project, as allowed for by IRS regulations**.**

Staff proposed a revision to the QAP to require 4% projects to waive the Qualified Contract Process and maintain affordability for 30 years.

Public Comments Summary (staff responses italicized):

- **The Agency received several comments in support of the change.**
- **The Agency should only require waiver of the right to Qualified Contract if it is providing 9% credits or other scarce state resources, as 4% projects have a different financial structure, one that relies more heavily on debt and lender requirements, and this requirement will make those deals more difficult, if 30 years of affordability is required.**
  The priority of the Agency is to provide affordable housing to low income Minnesotan's and ensure its long-term affordability. The Agency understands that this proposed requirement may affect the financial structure of some 4% deals; however to accommodate for this the Agency is recommending a new scoring criterion point system that allows flexibility but also incentivizes the developer to extend the affordability period.
- **Historically the Agency has only required a 30-year LURA if it has allocated 9% credits or invested other scarce state resources.**
  The Agency has always required a 30-year LURA. Section 42 requires a 30-year extended use period for all Tax Credit properties. The Agency requires owners of 9% projects to waive their right to terminate via Qualified Contract. Historically, the requirement for 4% projects varied. In 2002, the Agency removed the option for Qualified Contract and the 30-year minimum was required for all projects, and in the 2007 QAP the option for Qualified Contract for tax-exempt deals was restored.

Final Recommendation - Proposed Change Resulting from Public Comment: Staff's recommendation is to require owners of projects qualifying for 4% tax credits under the 2018 QAP to maintain affordability for at least 20 years. In addition, staff is proposing to create a new scoring criterion titled Long Term Affordability (Scoring Criterion 1.g) under the Greatest Need – Tenant and Affordability Targeting. (Scoring Criterion 1 on the Self-Scoring Worksheet). This new category would provide an additional 7 points to 4% projects that agree to waive the Qualified Contract for 30 years.

4. **Initial Recommendation - Minnesota Housing will institute a new pre-application for determination of 4% tax credit eligibility.**

   This process will be available to developers as a means of receiving a tax credit scoring determination prior to submitting an application for Private Activity Bonds to MMB or Minnesota Housing. Developers will be strongly encouraged to submit such a pre-application. Most affordable rental housing projects will not have a viable financing plan unless the projects also receive an allocation of 4% housing tax credits. Given the proposed changes, staff is also recommending that developers use a new pre-application for determination of 4% tax credit eligibility prior to applying for an allocation of Private Activity Bonds so they know whether the projects they are proposing will meet these new, higher standards.

Public Comments Summary (staff responses italicized): No public comments received.

Final Recommendation - Proposed Change Resulting from Public Comment: No proposed change.

5. **Initial Recommendation - Minnesota Housing will require a waiver from the board for any project seeking 4% tax credits whose total development costs exceed the predictive model by more than 25%.**

   Staff recommends that the total development costs of all projects requesting 4% tax credits be reviewed for comparison with the Agency's predictive cost model. Any project with costs exceeding the predictive model by more than 25% will require a waiver from the board.

Public comments Summary (staff responses italicized):

- **Several comments were received in support of this cost containment requirement, particularly from city and county staff.**
- **The predictive model requirement could cause possible timing delays and would lead to more risk to for 4% developments.**
  The Agency received a number of comments concerning the predictive model process and how it could negatively impact developments if they had to pursue board approval prior to preliminary determination and closing. We understand that there are a number of timing issues to take into consideration with bond projects, particularly for developments with an allocation of bonds from MMB. In order to accommodate for this, the Agency will incorporate the predictive model determination into the pre-application process. Predictive model analysis and board approval can be pursued earlier than the submission of the 42M application. Developers will submit a one page pre-application document with the required information provided by the applicant and will receive a determination letter upon approval. The determination letter will consist of Agency approval, expiration date of approval, the project's per unit costs as a percentage of the predictive model, and the project cost cap beyond which a board waiver will be required. This change in process and on-going national scrutiny regarding total development costs justifies the requirement to analyze project costs, regardless of whether there are non-Agency funding sources to pay for higher costs.
- **The Agency's predictive model does not adequately account for the higher costs in historic adaptive re-use deals.**
  The Agency received a number of comments expressing concern that the predictive model cannot accommodate for projects with different financial structures, including bonds, historic preservation, and adaptive reuse. The predictive model calculation accommodates for a number of parameters. This includes different financial structures and various types of developments. It also incorporates controls for historic tax credits and adaptive reuse projects. Since 2009, we have closed 10 historic preservation adaptive re-use projects, and only one of the nine required a waiver to the predictive model.

Final Recommendation - Proposed Change Resulting from Public Comment: Staff will incorporate the predictive model determination into the pre-application determination process. In addition, the Agency is proposing that 4% deals to be eligible for the six points under the Cost Containment scoring category (Scoring Criterion 5.c) under the Efficient Use of Scarce Resources (Scoring Criterion 5 on the Self-Scoring Worksheet). Points will be awarded based upon cost containment thresholds established in RFP/HTC Round 1. For each of the four competition groups, the cost per unit of the proposal at the 50th percentile in Round 1 will determine the per unit total development cost cap for 4% developments claiming the points. Thresholds will be released no later than September 30 for projects receiving bond allocations during the following year.

6. Public Comments Received Not directly Related to the Changes Proposed in October.

Public Comments Summary (staff responses italicized):

- **The Agency received one letter in support of the withdrawal of the 2017 amendment.**
- **The Agency received two letters in support of the expanded public input process.**
- **The Agency should be clear about the reasoning for the change.**
- *For the first time in more than 10 years, the amount of carryover of tax-exempt bonding authority available for rental housing will substantially decrease. Additionally, for the first time since 2007, nearly the entire allocation of resources in the affordable housing pool was used for affordable housing. Prior to 2016, there were un-used housing pool funds that flowed to the unified pool. This is no longer the case.*
- **The Agency should consider the timing of the amendment and ramifications to developments in process and allow a reasonably long effective date so participants have an opportunity to accommodate for the potential impact of these rule changes.**
  Staff proposed at the November 17 board meeting to withdraw the amendment to the 2017 QAP, and the board approved the recommendation. In addition, staff recommended continued dialogue on an amendment to the 2018 QAP, which provides approximately one year's notice to the development community of the revisions.
- **The Agency should engage all stakeholders and allow for public input to ensure the creation of a QAP that meets the priorities of state and of local governments.**
  Minnesota Housing became aware that a significant number of rental projects were expected to be submitted for private-activity bonding authority in 2017, but had no way of knowing all of the projects that could be affected by an amendment. Therefore, we recommended to the Minnesota Housing board that they immediately commence a public comment period, with broad notification of the comment period, so that every effort could be made to reach sponsors and local communities that may be affected. The public comment process allows us to gain input from stakeholders and a better understanding of the potential consequences of the proposed changes. It is our opportunity to hear from stakeholders and help us craft a final policy. Because the proposed amendments may impact projects that are already in the planning stages, we felt that the only way to ensure that all projects are treated fairly is to notify the public and invite comment through a formal public comment process.
  In response to initial public comment, Minnesota Housing has now withdrawn the amendment to the 2017 QAP, the public comment period was extended for the 2018 QAP, and dialogue sessions were held in December and January. In addition, another public

comment period will commence following board approval. We look forward to continuing this dialogue and welcome comments to the revised recommendation.

- **The Agency should consider the long-term ramifications in the affordable housing marketplace including fewer affordable multifamily units being built, fewer construction jobs, and a lack of trust and predictability for developers working in Minnesota.**
The intent of the proposed revision was not to reduce the number of affordable housing units being constructed or renovated. Due to current scarcity, not all projects currently proposed can move forward. Projects will be limited due to scarcity of bonds, not due to these changes. These changes are a recommendation on how to prioritize projects for this limited resource to handle this scarcity. The Agency has addressed the lack of trust and predictability by withdrawing the amendment for the 2017 QAP. In addition, the Agency has expanded the public comment process.
- **The QAP and application process is too complex and should be simplified. Complexity increases costs, makes it difficult for new developers to receive funding and difficult for all developers to assess competitiveness.**
While the Agency's approach is very similar to that of many other state allocating agencies, Minnesota Housing acknowledges that the QAP is a complex policy document that promotes and balances multiple competing priorities given the scarcity of resources. The Agency does provide several tools to assist both new and incumbent developers, including training, individual technical assistance, and the Community Profiles tool that applicants use to search locational priorities contained in the QAP. Staff will conduct an extensive review of the scoring criteria for the 2019 QAP to determine whether any may be eliminated, combined, or made into threshold requirements and removed from scoring.
- **Minnesota Housing should not use bonding authority for Single Family, as the funds will support households with higher income levels and will not be leveraged with 4% tax credit equity. These changes mean that more resources will go to single family housing. The Agency has a conflict of interest in this regard.**
Minnesota Housing has deployed significant resources for both homeownership and rental opportunities throughout the state. Our support resources of rental housing projects statewide using Housing Infrastructure Bonds has helped ensure that tax exempt bond funds do not expire. Minnesota Housing's use of tax exempt bonds for homeownership has created thousands of first-time homebuyers across the state and helped address the homeownership gap between white households and households of color. Our single family lending activity allows the Agency and local communities to provide additional affordable housing resources as down payment and closing cost assistance, rehabilitation loans, and gap financing for rental housing projects.
In response to the scarcity of tax-exempt bonds, Minnesota Housing made several changes in 2016 to reduce the use of tax-exempt bonds for homeownership. This includes issuing more taxable debt. This change, along with others, has reduced our use of tax exempt bonds for homeownership in 2016. In 2016, approximately $400 million in tax –exempt bonds will be used for rental, while $232 million has been used for homeownership.

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Cost Containment Methodology – Amended 2018 QAP

Background

Cost containment points are awarded to the 50% of proposals with the lowest total development costs (TDC) per unit in each of the following four groups:

1. New Construction – Metro
2. New Construction – Greater MN
3. Rehabilitation – Metro
4. Rehabilitation – Greater MN

To address the issue of varying costs among developments for singles, families, and large families, the calculation of TDC per unit includes adjustment factors to bring these costs into equivalents terms. The adjustments reflect historical differences. For example, new construction costs for family/mixed developments are typically 16% higher than the costs for developments for singles. Thus, to make the costs for singles equivalent to those for families/mixed, TDCs per unit for singles are increased by 16% when making cost comparisons.

Starting with the 2018 credits, the ~~is~~cost containment criterion will ~~only~~ apply ~~applies~~ to the selection of proposals for both ~~s for competitive~~ 9% credits and 4% credits with tax-exempt bonds. ~~It does not apply to 4% credits with tax-exempt bonds.~~

The purpose of the criterion is to give developers an incentive to “sharpen their pencils” and eliminate unnecessary costs and/or find innovative ways to minimize costs. Minnesota Housing does not want developers to compromise quality, durability, energy-efficiency, location desirability, and ability to house lower-income and vulnerable tenants. To ensure that these priorities are not compromised, all selected developments must meet Minnesota Housing’s architectural and green standards. In addition, the Agency has intentionally set the points awarded under the cost containment criterion (6 points) to be equal to or less than the points awarded under other criterion, including economic integration, location efficiency, workforce housing, permanent supportive housing for households experiencing homelessness, and others.

Process for Awarding Points for 9% Credit Proposals

To carry out the competition, the following process will be followed for all proposals/applications seeking competitive 9% credits:

- Group all the 9% tax credit proposals into the 4 development type/location categories:
  - New Construction – Metro
  - New Construction – Greater Minnesota
  - Rehabilitation – Metro
  - Rehabilitation – Greater Minnesota

- Adjust the costs for developments for singles and large families to make them equivalent to the costs for family/mixed developments. See the second column of Table 1 for the adjustments. For example, the TDC per unit for large-family new-construction projects is multiplied by 0.95 to make it equivalent to the costs for a family/mixed development. Specifically, if the TDC per unit is $240,000 for a large-family new-construction development, it is multiplied by 0.95 to compute the equivalent cost of $228,000.

- After adjusting the costs for single and large-family developments, order all the proposals by TDC per unit within each of the four groups from lowest to highest.

- Within each group, award 6 points to the 50% of proposals with the lowest TDCs per unit.

    - If the number of proposals in a group is even, the number of proposals eligible to get points =
      (Number of proposals in group)/2

    - If the number of proposals in a group is odd, the number of proposals eligible to get points =
      (Number of proposals in group)/2
      <u>Rounded down</u> to nearest whole number

    However,

        - If the next proposal in the rank order (of those not already receiving points) meets that group's threshold (see the third column of Table 1), that proposal is also eligible to get points, or
        - If that proposal's TDC per unit is higher than the threshold, it does not get points.

Only proposals that claim cost containment points on the self-scoring worksheet and are in the lowest half of the costs for their group will actually receive the cost containment points.

The cost thresholds in the third column reflect the historical mid-point costs for family/mixed developments in each group.

Table 1: 2018 QAP - Adjustment Factors and Thresholds to Determine if Middle Proposal Gets Points if Odd Number in Group

	Cost Adjustment to Families/ Mixed	Threshold Test if Odd Number of Proposals
New Construction Metro for Singles	1.16	$247,000
New Construction Metro for Families/Mixed	1.00	
New Construction Metro for Large Families	0.95	
New Construction Greater MN for Singles	1.16	$196,000
New Construction Greater MN for Families/Mixed	1.00	
New Construction Greater MN for Large Families	0.95	
Rehabilitation Metro for Singles	1.23	$197,000
Rehabilitation Metro for Families/Mixed	1.00	
Rehabilitation Metro for Large Families	0.83	
Rehabilitation Greater MN for Singles	1.23	$156,000
Rehabilitation Greater MN for Families/Mixed	1.00	
Rehabilitation Greater MN for Large Families	0.83	

- “Metro” applies to the seven-county Twin Cities metro area, while “Greater MN” applies to the other 80 counties.
- "Singles" applies to developments where the share of efficiencies and 1 bedroom units is 75% or greater.
- "Large Families" applies to developments where the share of units with 3 or more bedrooms is 50% or greater.
- "Families/Mixed" applies to all other developments.
- “New Construction” includes regular new construction, adaptive reuse/conversion to residential housing, and projects that mix new construction and rehabilitation if the new construction gross square footage is greater than the rehabilitation square footage.

Implementation Details for 9% Credit Proposals

To recognize the unique costs and situation of projects on Tribal lands, these projects will receive a 15% adjustment to their costs. Their costs will be reduced by 15% when they compete for the cost-containment points.

A different process occurs for the second round of tax credit selections. For each of the four competition groups, the cost per unit of the proposal at the 50th percentile in round 1 (using the identification process and adjustments outlined earlier) will determine the cut point or threshold for receiving points in round 2.

In the self-scoring worksheet, all proposals that believe they have contained their costs should select these points; however, during the final scoring by the Agency, staff will take away the points from those proposals not in the lower half of costs for each of the four categories. (To identify the 50% of proposals with the lowest costs in each category, the Agency will include the costs of all proposals/applications seeking 9% tax credits, not just those electing to participate in the competition for cost containment points by claiming the points in the self-scoring worksheet. However, only those electing to participate in the competition by claiming the points in the self-scoring worksheet will be eligible to receive the points if they are in the lower half of project costs.)

If a project receives points under this criterion, failure to keep project costs under the applicable cost threshold will be considered an unacceptable practice and result in negative 4 points being awarded in the applicant's next round of tax credit submissions.

The "applicable cost threshold" will be determined by the cost-containment selection process. Within each of the 4 development/location types, the cost per unit of the proposal at the 50th percentile (using the identification process identified earlier) will represent the "applicable cost threshold" that projects receiving cost-containment points will need to meet (with appropriate adjustments for single, family/mixed, and large family developments). For example, if the 50th percentile proposal for new construction in Greater Minnesota is a family/mixed development with a per unit cost of $195,000, all new construction developments in Greater Minnesota receiving the cost-containment points will need to have a final cost per unit at or below this threshold when the project is completed. In making the assessment, the final costs for new-construction single developments will be multiplied by 1.16 and compared with the $195,000 threshold. Likewise, the final costs for large family developments will be multiplied by 0.95.

Under this process, there will be some cushion for cost overruns for projects that have proposed costs less than the applicable cost thresholds. However, the project at the 50th percentile, which is the basis of the applicable cost threshold, will have no cushion. Its actual costs will have to be at or below its proposed costs to avoid the negative 4 points. Because applicants will not know if their project is the one at the 50th percentile until after applications have been submitted ~~and funding decisions have been made~~, all applicants need to carefully assess their proposed costs and the potential for cost increases.

~~This cost containment competition does not apply to proposals/applications seeking 4% tax credits with tax exempt bonds. However, as discussed below, Minnesota Housing will assess the cost reasonableness of all tax credit proposals, including 4% credits, using the Agency's predictive cost model.~~

If developers are concerned about their costs and keeping them within the "applicable cost threshold", they should not claim the cost-containment points in the self-scoring worksheet.

Process for Awarding Points for Proposals Seeking 4% Credits

Minnesota Housing will publish the maximum costs per unit that proposals for 4% credits must achieve to receive cost containment points by no later than September 30, 2017. These maximum costs will apply to all 2018 4% credits ~~awarded in 2018~~. To be eligible for the points, the applicant must claim the 6 cost containment point on the self-scoring worksheet. If Minnesota Housing awards a project the 6 cost containment points and the project receives 4% credits, the applicant will be subject to negative 4 points if the project does not keep its actual costs within the published maximum costs.

Predictive Cost Model And Cost Reasonableness

Besides awarding cost-containment points under this criterion, Minnesota Housing will also evaluate "cost-reasonableness" of all proposed tax credits developments (even those that do not receive points under this criterion) using the Agency's predictive cost model. The model is a regression analysis that predicts total development costs using data from developments that the Agency has financed in the past (adjusted for inflation) and industry construction costs from RSMeans. The model measures the individual effect that a set of explanatory variables (which includes building type, building characteristics, unit characteristics, type of work carried out, project size, project location, population served, financing, etc.) have on costs. During the process of evaluating projects for funding, Minnesota Housing compares the proposed total development costs for each project with its predicted costs from the model. The Agency combines the model's results with the professional assessment of the Agency's architects and underwriters to assess cost reasonableness overall. The purpose of the cost-reasonableness testing (on top of the cost-containment scoring) is to ensure that all developments financed by Minnesota Housing have reasonable costs, even 4% credits and the 50% that do not receive points under the cost-containment criterion.

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State of Minnesota
Housing Tax Credit
2018 Qualified Allocation Plan Amendments (QAP)

Relevant pages reflecting proposed changes

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Article 8 – Credits for Buildings Financed by Tax-Exempt Bonds

8.0 Section 42 establishes a separate set of procedures to obtain tax credits through the issuance of tax-exempt bonds. Although the tax credits are not counted in the tax credit volume cap for the State of Minnesota, developers of projects should be aware that:

a. Section 42 (m)(1)(D) provides that in order for a project to receive an allocation of tax credits through the issuance of tax exempt bonds, the project must satisfy the requirements of the QAP applicable to the area in which the project is located. The Minnesota Housing QAP applies to all projects for which Minnesota Housing is the issuer of the bonds and all other projects for which the issuer is not located within the area covered by a suballocator QAP. The project must comply with the QAP that is in effect for the calendar year in which the tax-exempt bonds were first issued. If the tax-exempt bonds are issued on a short-term basis, the year the tax-exempt bonds are issued on a long-term basis may occur any time after the year the tax-exempt bonds were first issued. The effective QAP will always be the QAP for the year in which the tax-exempt bonds were first issued.

   NOTE: Minnesota Housing Bond volume cap will not be issued in an amount greater than 53 percent of basis as defined in tax exempt bond rules.

   The Allocating Agency (Minnesota Housing or appropriate suballocator) must make a determination that the above requirements are satisfied. After this determination, the Allocating Agency will issue a preliminary determination letter. Application for this determination must be made to the appropriate Allocating Agency **prior to the issuance of the bonds.**

   In order to qualify under Minnesota Housing's QAP, a developer must demonstrate that the project is eligible for no less than **40 points**. ~~the required **minimum score**.~~

   ~~For applications submitted prior to October 1, 2016 and for which Minnesota Housing has not recommended non-selection as of October 19, 2016 the minimum score is **40 points.**~~

   ~~For applications submitted after October 1, 2016 or projects with an application submitted prior to October 1, 2016 that have been recommended for non- selection as of October 19, 2016 the minimum score is **50 points.**~~

   The threshold requirements in Article 5 of the QAP and Chapter 5 (A) of the Housing Tax Credit Program Procedural Manual do not apply to tax-exempt bond financed projects using credits not counted in the state's volume cap.

   In order to receive the preliminary determination described above, the developer must submit to the Allocating Agency all documents required for an application for tax credits as established by the Allocating Agency's QAP and Procedural Manual and any additional information requested by the Allocating Agency. If Minnesota Housing is the Allocating Agency, these documents are those required for an application for tax credits under Chapter 6 of the Housing Tax Credit Program Procedural Manual and any additional information required by Minnesota Housing. The developer must also submit to the Allocating Agency the required application fees identified in the agency's QAP/Manual.

b. Section 42 (m)(2)(D) provides that in order for a project to receive an allocation of tax credits through the issuance of tax exempt bonds, the governmental unit that issues the bonds (or on behalf of which the bonds were issued) must make a determination that the

Article 9 – Strategic Priority Policy Thresholds

9.0 To be eligible for tax credits, from the state's volume cap under Minnesota Housing's QAP and non-competitive tax credits ~~with applications submitted after October 1, 2016 or projects with an application submitted prior to October 1, 2016 that have been recommended for non-selection as of October, 19, 2016, a developer must demonstrate that the project meets at least one of the following priorities:~~

a. **Access to Fixed Transit**: Projects within one-half mile of a completed or existing LRT, BRT or commuter rail station.

b. **Greater Minnesota Workforce Housing**: Projects in Greater Minnesota documenting all three of the following:

1. Need: Projects in communities with low vacancy (typically considered 4 percent and below, documented by a market study or other third party data) and:
    - i. That have experienced net job growth of 100 or more jobs,
    - ii. With 15 percent or more of the workforce commuting 30 or more miles to work, or
    - iii. With planned job expansion documented by a local employer
2. Employer Support
3. Cooperatively Developed Plan: Projects that are consistent with a community-supported plan that addresses workforce housing needs.

c. **Economic Integration**: Projects located in higher income communities outside of rural/tribal designated areas with access to low and moderate wage jobs, meeting either First or Second Tier Community Economic Integration as defined in the Areas of Opportunity scoring criterion 2.A on the Self-Scoring Worksheet.

d. **Tribal**: Projects sponsored by tribal governments, tribally designated housing entities or tribal corporate entities.

e. **Planned Community Development**: Projects that contribute to Planned Community Development efforts, as defined in section 6.A of the Housing Tax Credit Program Procedural Manual, to address locally identified needs and priorities in which local stakeholders are actively engaged.

f. **Preservation**: Existing federally assisted or other critical affordable projects eligible for points under Scoring Criterion 4 on the Self-Scoring Worksheet.

g. **Supportive Housing**: Proposals that will serve people with disabilities or households experiencing homelessness that are eligible for points under Permanent Supportive Housing for Households Experiencing Homelessness (Scoring Criterion 1.B on the Self-Scoring Worksheet) or People with Disabilities (Scoring Criterion 1.C under the Self-Scoring Worksheet).

2018 Housing Tax Credit Program
Procedure Manual

Relevant pages reflecting proposed changes

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P. Annual Credit Amount

The tax credit is available each year for 10 years. The amount of tax credit awarded is based on the Qualified Basis multiplied by the applicable percentage. However, Section 42(m)(2) requires Minnesota Housing to limit the amount of credit to the amount necessary to ensure project feasibility under rules established by the IRS; therefore, the actual amount of tax credits awarded could be less than the maximum allowable if the analysis reveals the project would still be feasible with fewer tax credits.

The IRS publishes the applicable percentages on a monthly basis. These figures are used to calculate the maximum allowable annual credit amount for which the project will be eligible. (Also see Chapter 3.B.)

Q. Declaration of Land Use Restrictive Covenants

As a condition of receiving tax credits, a project will be subject to a Declaration of Land Use Restrictive Covenants (Declaration) between the owner and Minnesota Housing through which the owner commits the building(s) to low-income use for an extended use period of at least 15 years after the conclusion of the 15-year compliance period (a total of 30 years).

The Declaration terminates upon:

1. Foreclosure of the building (or deed in lieu of foreclosure); or
2. During the extended use period, upon failure of Minnesota Housing to find a purchaser by the end of one year after a request by the owner to Minnesota Housing to find a purchaser for the low-income portion of the building, at a statutory minimum purchase price, unless the owner has waived its right to exercise their option.

Throughout the term of the Declaration and for a three-year period after the termination of the Declaration, the owner must not evict or terminate the tenancy of an existing tenant of any low-income unit other than for good cause and must not increase the gross rent above the maximum allowed under the Code with respect to such low-income unit. ~~Beginning with the 2007 tax credit program, tax credits (non-competitive credits, 4 percent) allocated in association with issuance of Tax Exempt Bonds, will not be subject to the waiver of rights to request a Qualified Contract.~~ Beginning with the ~~2017~~ 2018 tax credit program, tax credits (non-competitive credits, 4 percent) allocated in association with issuance of Tax Exempt Bonds with applications submitted after October 1, 2016 or projects with an application submitted prior to October 1, 2016 that have been recommended for non-selection as of October 19, 2016 must commit their developments to Section 42 income and rent restrictions for a period of ~~30~~ 20 years beginning with the first day of the compliance period in which the building is part of a qualified low-income housing project. Beginning with the 2006 tax credit program, owners applying for the 9 percent credits (competitive credits, 9 percent) must commit their developments to Section 42 income and rent restrictions for a period of 30 years beginning with the first day of the compliance period in which the building is part of a qualified low-income housing project.

The Declaration must be recorded in accordance with 42(h)(6) as a restrictive covenant and submitted to Minnesota Housing prior to Minnesota Housing issuing the allocation (IRS Form 8609). The Declaration will set forth the commitments made by the owner to Minnesota Housing in obtaining points, including any additional rent restrictions and occupancy requirements placed upon the building at the time of reservation. Non-compliance with these additional conditions may result in serious penalties being applied to the owner entities that could result in a ban on future allocations of tax credits being made to the owner entities.

Chapter 7 – Tax Exempt Projects Seeking Tax Credits

A. General

Section 42 of the Internal Revenue Code establishes a separate set of procedures to obtain housing tax credits through the issuance of tax-exempt bonds. Although the tax credits are not counted in the tax credit volume cap for the State of Minnesota, developers of projects should be aware of the information contained in Article 8 of the State of Minnesota Housing Tax Credit Qualified Allocation Plan.

The project must comply with the QAP that is in effect for the calendar year in which the tax-exempt bonds were first issued. If the tax-exempt bonds are initially issued on a short-term basis, the year the tax-exempt bonds are reissued on a long-term basis may occur any time after the year the tax-exempt bonds were first issued, and the effective QAP will always be the QAP for the year in which the tax-exempt bonds were first issued.

Developers should also be aware of the requirements of Minn. Stat. § 474A.047, including subdivision 1, which requires the extension of existing U.S. Department of Housing and Urban Development (HUD) Housing Assistance Payment (HAP) contracts to the full extent available.

B. Application for Issuance of Preliminary Determination Letter

Applicants may receive a predictive model and scoring determination prior to requesting preliminary determination via the pre-application process. Pre-application is strongly encouraged in order to receive a determination prior to seeking an allocation of bonding authority.

Preliminary Predictive Model Determination: Predictive model analysis and board approval can be pursued earlier than the submission of the 42M application. Applicants must submit the predictive model determination document and will receive a determination letter upon approval. The determination letter will consist of agency approval, expiration date of approval, the project's current percentage of the predictive model, and project cap beyond which a Board waiver for per unit costs will be required. Developments with costs above the predictive model will be informed and, if requested by the developer, will be presented to the Minnesota Housing board to determine if a waiver will be granted.

Preliminary Scoring Determination: Applicants **must** submit all required pre-application documentation a minimum of 30 days prior to the 42(m)(1)(D) application submittal in order for staff to make a preliminary determination of eligibility. Failure to submit all required pre-application materials will result in rejection of the pre-application.

Pre-application Documents:

- Workbook
- Self-Scoring Worksheet – should be the year in which bond issuance is anticipated
- Scoring Documentation

Submit to mn.housing@state.mn.us or by mail to Minnesota Housing, attn: Tamara Wilson, 400 Sibley Street, Suite 300, St. Paul, MN 55101.

If the project is determined to be eligible for the required minimum points, the applicant will receive a Preliminary Scoring Determination letter from the Agency that details the points awarded. This letter is to be submitted with the complete 42(m)(1)(D) application. The 42(m)(1)(D) application may only be submitted following an allocation of bonds.

Prior to bond issuance, the developer must submit to Minnesota Housing a full and complete application for issuance of a Preliminary Determination by Minnesota Housing pursuant to Section 42(m)(1)(D) [also see the QAP for additional detail]. The developer must submit to Minnesota Housing all documents required for an application for tax credits under Chapter 6.A of the Housing Tax Credit Program Procedural Manual and any additional information requested by Minnesota Housing. For projects in which Minnesota Housing is the allocating agency, the developer must submit an application fee (review fee). (See Chapter 8) In addition, if the issuer of the bonds is not Minnesota Housing, the initial submission must include evidence from the issuer that the project received an approval of an allocation of tax-exempt bond volume cap from the state of Minnesota and a preliminary determination issued by the issuer of the bonds addressing the tax credit dollar amount and project costs pursuant to Section 42(m)(2)(D) of the Internal Revenue Code [also see the QAP for additional detail].

Based upon the submission of documents, Minnesota Housing will prepare a letter with its preliminary determination pursuant to Section 42(m)(1)(D) as to whether the project satisfies the requirements for allocation of a housing credit dollar amount under the QAP. A Preliminary Determination fee must be submitted to Minnesota Housing prior to release of the letter (See Chapter 8). **This process may take six weeks or more from the time the full application package is submitted. All applicants should develop their timelines and schedules accordingly.**

C. Election of Applicable Percentage

Section 42 of the Internal Revenue Code requires that the owner elect the applicable percentage for the project. The election is made at the time the tax-exempt obligations are issued to fix the percentage for the month in which the building is placed in service or the month in which the tax-exempt obligations are issued. If the election is not made at the time the tax exempt obligations are issued, the percentage will be fixed for the month in which the building is placed in service. The owner must be sure to consider the best options for this election and make sure the election is made at the correct time. Once made, the election is irrevocable.

D. Requests for Building Identification Numbers (BIN)

At the time of application for issuance of a Preliminary Determination letter, the applicant must obtain a Building Identification Number (BIN) for each of the proposed buildings in the development. Minnesota Housing will assign all BINs. An address or other specific legal description is needed to identify with each BIN . The address and BIN will be needed as part of an application for Form 8609.

E. Election of Gross Rent Floor

The owner/taxpayer of a qualified tax credit project financed with tax exempt bonds is permitted under IRS Revenue Procedure 94-57 to fix the date of the gross rent floor to be the date on which Minnesota Housing initially issues its Preliminary Determination letter to the building or the Placed in Service date (Gross Rent Floor Election Form). The election of one of the two timing options must be completed and the election form(s) received by Minnesota Housing by a date no later than the date the project is placed in service. If no election is made and/or no form(s) received by Minnesota Housing by a date no

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Self-Scoring Worksheet
2018 Housing Tax Credit Program

Relevant pages reflecting proposed changes

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Self-Scoring Worksheet
Amended 2018 Housing Tax Credit Program

Development Name: _____

Development Number: ______ **(D Number)**

Application Number: ______ **(M Number)**

Development Location: _____

Development City: _____

Please note the following:

1. Strategic Priority Policy Threshold:
   - All projects, with the exception of those with applications for non-competitive tax credits in association with Tax Exempt Bonds submitted prior to October 1, 2016 and for which Minnesota Housing has not recommended non-selection as of October 19, 2016, must meet at least one of the Strategic Priority Policy Thresholds defined in Article 9 of the Housing Tax Credit Qualified Allocation Plan (QAP) in order to apply for Housing Tax Credits (HTC). Check all that apply.
2. Minimum Point Requirements:
   - Request for Minnesota Housing Finance Agency (Minnesota Housing) administered tax credits from the State's tax credit volume cap must demonstrate the project is eligible for not less than 70 points, excluding projects funded through the Rural Development/Small Projects Set-Aside.
   - Request for tax credits in association with Tax Exempt Bonds ~~over and above the state's allocation of Housing Tax Credits with an application submitted prior to October 1, 2016 and for which Minnesota Housing has not recommended non-selection as of October 19, 2016~~ must demonstrate the project is eligible for not less than 40 points.
   - ~~Request for tax credits in association with Tax Exempt Bonds over and above the state's allocation of Housing Tax Credits with an application submitted after October 1, 2016 or a project with an application submitted prior to October 1, 2016 that has been recommended for non-selection as of October 19, 2016 must demonstrate the project is eligible for not less than 50 points.~~
   - Minnesota Housing reserves the right to reject applications not meeting its Project Selection requirements as contained in the HTC Program Procedural Manual, to revise proposal features, and associated scoring, and to ensure the project meets the requirements.
3. Documentation of Points:
   - Indicate the scoring criteria expected for your project. Where multiple points per section are available, please check the appropriate box (☐) for points claimed. **Attach directly to this self-**

scoring worksheet, a separate detail sheet and documentation that clearly supports points claimed. Minnesota Housing will determine actual points awarded; points will not be awarded unless documentation is provided along with the application to justify the points claimed.

4. Extended Duration:
   - Request for Minnesota Housing Finance Agency (Minnesota Housing) administered tax credits from the State's tax credit volume cap ~~All projects, with the exception of those with applications for non-competitive tax credits in association with Tax Exempt Bonds submitted prior to October 1, 2016 and for which Minnesota Housing has not recommended non-selection as of October 19, 2016,~~ must maintain the duration of low-income use for a minimum of 30 years. The owner agrees that the provisions of IRC §§ 42(h)(6)(E)(i)(II) and 42(h)(6)(F) (which provision would permit the owner to terminate the restrictions under this agreement at the end of the compliance period in the event Minnesota Housing does not present the owner with a qualified contract for the acquisition of the project) do not apply to the project, and the owner also agrees the Section 42 income and rental restrictions must apply for a period of 30 years beginning with the first day of the compliance period in which the building is a part of a qualified low-income housing project.
   - Request for tax credits in association with Tax Exempt Bonds, with the exception of those with applications for non-competitive tax credits in association with Tax Exempt Bonds submitted prior to October 1, 2016 and for which Minnesota Housing has not recommended non-selection as of October 19, 2016, must maintain the duration of low-income use for a minimum of 20 years. The owner agrees that the provisions of IRC §§ 42(h)(6)(E)(i)(II) and 42(h)(6)(F) (which provision would permit the owner to terminate the restrictions under this agreement at the end of the compliance period in the event Minnesota Housing does not present the owner with a qualified contract for the acquisition of the project) do not apply to the project, and the owner also agrees the Section 42 income and rental restrictions must apply for a period of 20 years beginning with the first day of the compliance period in which the building is a part of a qualified low-income housing project.
5. Design Standards:
   - The project must meet the requirements in the Minnesota Housing Rental Housing Design/Construction Standards and be evidenced by a Design Standards Certification form executed by the owner and architect. Additional design requirements will be imposed if Large Family Housing points are claimed/awarded or points are claimed/awarded that require specific design elements (e.g., High Speed Internet, Universal Design).
6. A Declaration of Land Use Restrictive Covenants:
   - Covering the rent restrictions and occupancy requirements presented at selection must be recorded against the property.
7. Affirmative Fair Housing:
   - Affirmative Fair Housing Marketing Regulations, held as centrally important by Minnesota Housing, require that each applicant carry out an affirmative marketing program to attract prospective buyers or tenants of all majority and minority groups in the housing market area regardless of race, creed, color, religion, sex, national, origin, marital status, status with regard to public assistance, disability, sexual orientation, or familial status. At the time of 8609, all applicants must submit an Affirmative Fair Housing Marketing Plan documenting an acceptable plan to carry out an affirmative marketing program.

2018 Housing Tax Credit Program Scoring Criteria	Developer Claimed		Minnesota Housing Awarded

To receive these points, the applicant must comply with all program requirements for the assistance for which priority points were given, including maintaining rents within the appropriate payment standard for the project area in which the project is located for the full compliance and extended use period of the housing tax credits.

For project based rental assistance in conjunction with a binding commitment for an "extended term contract" at time of application the applicant must submit a binding commitment for the "extended term contract" for project based assistance for a minimum of four or 10 years, which is signed by the Local Housing Authority or other similar entity. As a condition of Carryover or 8609, the applicant must submit a fully executed copy of the "extended term contract" for the project based assistance to be included in the development.

F. Long Term Affordability – 7 Points

☐ Seven points will be available to a development that agrees to extend the long-term affordability of the project and maintain the duration of low-income use for a minimum of 30 years.

The owner agrees that the provisions of IRC §§ 42(h)(6)(E)(i)(II) and 42(h)(6)(F) (which provision would permit the owner to terminate the restrictions under this agreement at the end of the compliance period in the event Minnesota Housing does not present the owner with a qualified contract for the acquisition of the project) do not apply to the project, and the owner also agrees the Section 42 income and rental restrictions must apply for a period of 30 years beginning with the first day of the compliance period in which the building is a part of a qualified low-income housing project.

Applications seeking 9% tax credits through Minnesota Housing's competitive application process are not eligible to claim points through this Long Term Affordability priority. Only applications seeking 4% tax credits for use in conjunction with tax exempt bonds are eligible to claim points through this priority.

2018 Housing Tax Credit Program Scoring Criteria	Developer Claimed		Minnesota Housing Awarded

B. Intermediary Costs – 1 to 6 Points

Points will be given to projects with the lowest intermediary costs on a sliding scale based on percentage of total development costs. For HTC selected projects, this percentage will be enforced at issuance of the IRS Form 8609.

Intermediary cost amount: $_____ divided by Total Development Costs $_____ Equals Intermediary Percentage _____% (rounded to the nearest tenth).

☐ 0 .0 – 15% *– 6 points*

☐ 15.1 – 20% *– 3 points*

☐ 20.1 – 25% *– 2 points*

☐ 25.1 – 30% *– 1 point*

☐ 30.1 and over *– 0 points*

C. Cost Containment – 6 Points

Six points will be available to the 50% of developments with the lowest costs within each development type/location group (subject to the methodology described in Revised Cost Containment Methodology. Applicants may claim these points and Minnesota Housing will make point reductions following its review of costs for all applications in the funding round.

A different process occurs for the second round of 9% tax credit selections and applications seeking 4% tax credits for use in conjunction with tax exempt bonds. For each of the four competition groups, the cost per unit of the proposal at the 50th percentile in round 1 will determine the cut-off point or threshold for receiving points in round 2 and for 4% tax credits.

~~Applications seeking 4% tax credits for use in conjunction with tax exempt bonds are not eligible to claim points through this Cost Containment priority. Only applications seeking tax credits through Minnesota Housing's 9% competitive application process for tax credits are eligible to claim points through this priority~~

NOTE: Proposals that believe they have contained their costs should select these points.

Only proposals that claim cost containment points on the self-scoring worksheet and are awarded points through the process described above will receive cost containment points.

CAUTION: If a project receives points under this criterion, failure to keep project costs under the applicable cost threshold will be considered an unacceptable practice and will result in negative 4 points being awarded in all of the applicant's tax credit submissions in the next funding round in which submissions are made.

If developers are concerned about their costs and keeping them within the "applicable cost threshold," they should not claim the cost-containment points.

Amended 2017 and 2018 QAP Public Hearing

November 16, 2017

Attendees

Public Attendees
Charlie Vander Aarde, Metro Cities
Carla J. Pedersen, McGrann Shea
Todd Urness, Winthrop & Weinstine
Brian Haack, Titan Development & Investments
Aby Frantz, Village Capital Corporation
Alison Birge, Village Capital Corporation
Melodie Bridgeman, HM Collaborative

Staff Attendees
Summer Jefferson
Anne Heitlinger
Kayla Schuchman
Ester Robards
Tom O'Hern
Kevin Carpenter
Ryan Baumtrog
Diana Lund
Renee Dickinson

(summary of comments received appears on the reverse)

Amended 2017 and 2018 QAP Public Hearing Notes—Additional comments

- **Metro Cities** –
  - Local governments sometimes have different goals and approaches than Minnesota Housing in affordable housing development**.** Minnesota Housing should be flexible to meet the needs of various communities.
  - Will require significantly more subsidy in order to meet the strategic priorities or additional points.
  - Inhibit construction of all future projects utilizing the 4% credit and stall the development of hundreds of units of affordable housing.
- **Winthrop & Weinstine**
  - Larger projects fit better with the 4% structure; therefore, many of the current 4% deals are larger. Additional strategic priorities and policies are harder to do in these types of projects.
  - Concerned about current deals meeting the threshold. Will require significantly more subsidy in order to meet the strategic priorities or additional points.
  - Will exclude certain types of housing including a number of high quality projects that could use bonds.
  - Predictive cost model – Predictive cost model may not accommodate for certain funding sources (particularly historic tax credit deals) that are often used in 4% deals.
  - Timing – Unrealistic time frame for the change. The Agency should allow time for the cities and developers to clear their current pipelines.
  - Abrupt change to long-standing policy will have a chilling effect on the marketplace. The out of pocket expenses for 4% deals are generally higher on the front end. This places more risk on the investor and developer. The revision would make this resource somewhat unpredictable. The increased the risk to the investors could discourage further development.
- **Village Capital Corporation**
  - Concerned about current deals meeting the threshold. Will require significantly more subsidy in order to meet the strategic priorities or additional points.
  - Local governments sometimes have different goals and approaches than Minnesota Housing in affordable housing development.
  - Timing – Unrealistic time frame for the change. Suggested that the Agency take a step back due to the changing political climate at the state and federal level and wait until we have a better perspective of future policies. Changes in corporate tax rates or other areas could have an effect on the overall demand for bond projects and the tax credit market.
  - Minnesota Housing could potentially advocate for allocating more bonding authority from non-housing uses to the housing pool.
- **HM Collaborative**
  - Predictive model – Increases the risk and possibly the timing for 4% developments.
  - Concerned about current deals meeting the threshold. Will require significantly more subsidy in order to meet the strategic priorities or additional points.

QAP Proposed Amendments
Written Public Comments (61 comments received)

* *Pine City submitted a workforce housing plan and a market study for a specific development along with their comments. Due to length, those documents have not been included. Pine City also submitted letters from Atscott Manufacturing Company, FirstLight Health System, and Innovative Egress Windows that were related to a 2016 RFP/2017 HTC application for the White Pine development in Pine City. These comments have not been included in this packet.*

Absolute Drywall Inc
10100 166th St W
Lakeville, MN 55044
612-669-7062

November 16, 2016

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

The projects funded through the 4% program serve an urgent and growing need in the communities in which they're built. To be clear, the proposed changes would halt current projects in progress and inhibit the construction of all future projects utilizing the 4% credit. We've made plans based on the fruition of projects in the pipeline and allocated resources accordingly, in many cases hiring or making other investments to meet the need. This change will force me to eat many of the costs associated with that preparation and potentially alter my plans for employment. This comes in addition to rising labor and health care costs.

I am frustrated by this proposed change because it does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state." This change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.

I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Daniel Ortega

Daniel Ortega, President

ADVANCED MASONRY RESTORATION

2956 Yorkton Boulevard
St. Paul, MN 55117
651-766-8080
www.advancedmasonry.com

November 28, 2016

Minnesota Housing Finance Agency
Commissioner Mary Tingerthal
400 Sibley Street
Suite 300
Park Square Court Building
St Paul, MN 55101

RE: Dissolving of the 4% Tax Credit Program

Dear Commissioner Tingerthal:

Advanced Masonry restoration is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride in the quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

The projects funded through the 4% program serve an urgent and growing need in the communities in which they're built. To be clear, the proposed changes would halt current projects in progress and inhibit the construction of all future projects utilizing the 4% credit. We've made plans based on the fruition of projects in the pipeline and allocated resources accordingly, in many cases hiring or making other investments to meet the need. This change will force me to eat many of the costs associated with that preparation and potentially alter my plans for employment. This comes in addition to rising labor and health care costs.

I am frustrated by this proposed change because it does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state." It will accelerate the "gentrification "of housing in the state of Minnesota and slow if not stop any future investment in housing for all walks of life. Most recently the State of Minnesota has been proactive in equal employment opportunities and after making great strides, eliminating programs like this will make it impossible for these skilled workers to find affordable housing and they will look elsewhere for work. The program targets the poor and this change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.

I urge you to reconsider this decision and make yourself and your colleagues aware of what these changes will do to Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely:

Tim Miller

Tim Miller
President

Al's Ornamental Iron and Welding, Inc.

Office-(320) 656-8851 Fax-(320) 656-8860 Mobile-(320) 249-1165
304 31st Avenue South Waite Park, Minnesota 56387

November 16, 2016

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

The projects funded through the 4% program serve an urgent and growing need in the communities in which they're built. To be clear, the proposed changes would halt current projects in progress and inhibit the construction of all future projects utilizing the 4% credit. We've made plans based on the fruition of projects in the pipeline and allocated resources accordingly, in many cases hiring or making other investments to meet the need. This change will force me to eat many of the costs associated with that preparation and potentially alter my plans for employment. This comes in addition to rising labor and health care costs.

I am frustrated by this proposed change because it does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state." This change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.

I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Al Haus

Al Haus, CEO

From: *MHFA_MN Housing
To: Wilson, Tamara (MHFA); Jefferson, Summer (MHFA); Schuchman, Kayla (MHFA)
Subject: FW: Attn Tamara Wilson - 4% LIHTC QAP comments
Date: Friday, December 02, 2016 7:45:40 AM

From: Lee Blons [mailto:LBlons@beaconinterfaith.org]
Sent: Thursday, December 01, 2016 5:44 PM
To: *MHFA_MN Housing
Subject: Attn Tamara Wilson - 4% LIHTC QAP comments

Dear Ms. Wilson:

Beacon Interfaith Housing Collaborate appreciates MN Housing's desire to ensure that 4% housing tax credits are awarded to projects that meet the highest priority affordable rental housing needs in the State. We understand that the issue is complex and that a variety of strategies could be considered to achieve this goal. Beacon supports changes in policy which prioritize the preservation or creation of units affordable to households earning 30% of the area median income or less and supportive housing for homeless individuals and families.

Sincerely,

Lee Blons

Beacon Interfaith Housing Collaborative | **Lee Blons** *Executive Director* | *651. 789 6260 ext. 204* | *2610 University Avenue West, Suite 100, St. Paul, MN 55114* | *www.beaconinterfaith.org*

SECURITY FIRE SPRINKLER
BERD
BERD ELECTRIC
Mechanical Contractors

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

The projects funded through the 4% program serve an urgent and growing need in the communities in which they're built. To be clear, the proposed changes would halt current projects in progress and inhibit the construction of all future projects utilizing the 4% credit. We've made plans based on the fruition of projects in the pipeline and allocated resources accordingly, in many cases hiring or making other investments to meet the need. This change will force me to eat many of the costs associated with that preparation and potentially alter my plans for employment. This comes in addition to rising labor and health care costs.

I am frustrated by this proposed change because it does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state." This change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.

I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Brad Smith

President

3308 SOUTHWAY DRIVE · ST. CLOUD, MN 56301 · 320 656 0847

Breth-Zenzen Fire Protection
8053 Sterling Drive
Suite 101
St. Joseph, MN 56374

Date November 14, 2016

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

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I am frustrated by this proposed change because it does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state." This change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.

I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Andy Breth – Partner

Breth-Zenzen Fire Protection

MINNESOTA STATE
Building and Construction Trades Council
Affiliated with BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL-CIO

November 10, 2016

Mr. John DeCramer
Chair, Board of Directors
Minnesota Housing Finance Agency
400 Sibley St, Suite 300
St. Paul, MN 55101

RE: PROPOSED AMENDMENTS TO 2017-2018 QUALIFIED ALLOCATION PLAN

Dear Mr. DeCramer:

Thank you for the opportunity to comment on the proposed changes to our Qualified Allocation Plan.

Our community, the MN State Building and Construction Trades Council and its 70,000 plus members, have been benefactors of the current model. We gain two-fold; from the work that is created and by the housing options it provides to our aging community. We understand there are even more Minnesotans who need to be served, and we ask that you consider other options to address their needs.

Affordable housing projects take time and multiple funding sources; a "financial booya" as we describe it. There are a number of projects that are well past pre-development and are shovel-ready. These proposed changes may prevent them from moving forward. These proposed changes could affect 1,000's of jobs for skilled construction workers.

We encourage the agency to establish a working group between now and year-end to discuss this program's benefits and those even "harder to house" issues.

Thank you again for the opportunity to comment, and the assistance given to this model and other housing needs in Minnesota. Please consider convening a broad working group to provide thoughtful and constructive options for this and all housing needs. As always, thank you for your leadership. Safe, affordable housing makes a difference to all Minnesotans.

Sincerely,

Harry Melander
MN State Building and Construction Trades Council
President

cc: Commissioner Mary Tingerthal – MN Housing Finance Agency Board of Directors
The Honorable Governor Mark Dayton
The Honorable Lieutenant Governor Tina Smith

CBS Construction Services, Inc.

Building Value with Integrity

Memorandum

To: Commissioner Tingerthal

RE: Qualified Allocation Bond Program

Our company is proud to have been a partner in the construction of projects funded through the 4% tax credit program. We along with the Developers we work with take pride in the quality of these buildings as well as the cause served by the purpose of these projects.

Our understanding is the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) would be detrimental to the Development and Construction industry as well as the affordable supply of housing offered through this program.

Also, we understand that the projects funded through the 4% program serve an urgent and growing need in the communities in which they're built, and the proposed changes would halt current projects in progress and inhibit the construction of all future projects utilizing the 4% credit.

In addition, there are many in this industry that have made plans based on the fruition of projects in the pipeline and allocated resources accordingly, in many cases hiring or making other investments to meet the need. This change will force the costs associated with that preparation to have been lost and potentially alter plans for past and future employment. This comes in addition to rising labor and health care costs.

It appears that the deletion of this project does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state," and that this change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.

I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Thank You,

Stuart W Bestul
President
CBS Construction Services, Inc.

City of Champlin

11955 CHAMPLIN DRIVE, CHAMPLIN, MN 55316-2399 • (763) 421-8100 • ci.champlin.mn.us

November 20, 2016

Mr. John DeCramer
Chair, Board of Directors
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
Saint Paul, MN 55101

RE: 2017-2018 Qualified Allocation Plan

Dear Chair DeCramer:

The City of Champlin is opposed to the proposed amendments to the 2017-2018 Qualitied Allocation Plan (QAP) as presented at the Minnesota Housing Finance Agency's (MHFA) October 19, 2016 board meeting. The proposed amendments erode the state-local government partnership that has fostered affordable housing communities in this State.

As part of Champlin's 2030 Comprehensive Plan, the City adopted housing goals that support full-cycle, affordable and senior housing. This year, Dominium, with assistance from the City and MHFA's tax credit program, was successful in funding a 184-unit, affordable senior housing community in Champlin. It's a project that checks all of our boxes- lifecycle, affordable and seniors. It's also a project that would not have been built under the new amendments.

The City Council respectfully requests that the MHFA Board reject the proposed rules for the 2017-2018 QAP and engage its stakeholders to create a QAP that meets the housing goals of MHFA and locals governments.

If you have questions, please don't hesitate to contact our Deputy City Administrator, John Cox, at (763) 923-7104. Thank you for your consideration of our request.

Sincerely,

ArMand Nelson
Mayor

CC: Commissioner Mary Tingerthal
Minnesota Housing Finance Agency Board of Directors
Adam Duininck – Chair of the Metropolitan Council
Metropolitan Council Member Lona Schreiber
Champlin City Council
The Honorable Senator John Hoffman
The Honorable Representative Mark Uglem

CITY of CRYSTAL

4141 Douglas Drive North • Crystal, Minnesota 55422-1696

Tel: (763) 531-1000 • Fax: (763) 531-1188 • www.crystalmn.gov

November 15, 2016

Mr. John DeCramer
Chair, Board of Directors
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: Public Comments on Proposed Amendments to the 2017-2018 Qualified Allocation Plan

Dear Mr. DeCramer:

I am writing to express the City of Crystal's concern with the proposed amendments to the 2017-2018 Qualified Allocation Plan (QAP) as presented by the Minnesota Housing Finance Agency (MHFA). It is my understanding that only projects with supportive housing, homeless transition assistance and deep rent restriction will qualify for tax credits under the proposed QAP. I want to make you aware of a recent, highly successful affordable housing project in Crystal that would not have been eligible for tax credits under the proposed QAP.

The Cavanagh Senior Apartments, located at 5401 51st Avenue North, is a recently-constructed, 130 unit affordable senior rental building that has been well received by our community. In August of 2015 the city issued a certificate of occupancy for The Cavanagh and by December 2015 it was fully leased. It is a development that meets the demands of our senior population and allows them to remain in the community in which they have roots. In turn, this opens up existing single family homes for new families - and Crystal has some of the most affordable single family homes among Twin Cities suburbs.

In order for The Cavanagh to become a reality, the city took a very committed and active role by acquiring and preparing the site, providing Tax Exempt Bonds and Tax Increment Financing, and using planned development rezoning to allow a four story building and keep costs down. The various sources and governmental groups that assisted with this development are as follows:

Permanent Tax-Exempt Bonds	$	13,350,000	City of Crystal
Tax Increment Financing		950,000	City of Crystal
4% Low Income Housing Tax Credit Equity		6,490,000	MHFA
Developer Equity		3,565,000	
TOTAL SOURCES OF FUNDS	**$**	**24,355,000**	

In addition, to prepare the site for development, a vacant school on the site had to be demolished. To that end, Metropolitan Council provided $153,000 for asbestos abatement and Hennepin County provided $163,000 for building demolition and site clearance. The development of The Cavanagh was a multi-agency effort requiring "all hands on deck" to get it done. The 4% Low Income Housing Tax Credit equity was a big, critical factor in making The Cavanagh a reality.

The City of Crystal is concerned that the new project scoring proposed by MHFA would make it impossible for a similar project to qualify for tax credits. The city is also concerned about the lack of focus on affordable senior housing by MHFA. The fact that The Cavanagh is fully leased, with a waiting list of over 100 interested parties, is evidence that there is a great need for this type of housing. And in communities like Crystal, the development of new affordable senior housing has the effect of opening up existing, naturally occurring affordable housing for young families.

The City of Crystal respectfully requests that the MHFA Board reject the proposed rules for the 2017-2018 QAP and engage all stakeholders to create a QAP that meets the housing goals of MHFA and local governments who are on the front lines of affordable housing development in the State of Minnesota.

Thank you for your consideration.

Sincerely,

Anne Norris
City Manager

Fridley City Hall
6431 University Ave N.E. Fridley, MN 55432
(763) 571-3450 • FAX (763) 571-1287 • FridleyMN.gov

November 7, 2016

Mr. John DeCramer
Chair, Board of Directors
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: Comments on Proposed Amendments to the 2017-2018 Qualified Allocation Plan

Dear Chair DeCramer:

The City of Fridley is concerned about the impacts that proposed amendments to the 2017-2018 Qualified Allocation Plan (QAP) may have on a large redevelopment project being launched next year on the site of the former Columbia Arena.

The City of Fridley acquired the former Columbia Arena site in October 2014 and held a series of community meetings to identify potential uses for the site that would meet the needs of residents. These meetings led to increasing the project area from 11 acres to 33 acres and constructing a mix of senior apartments, patio homes and multifamily units around a proposed municipal campus.

As an aging community, with a high number of naturally occurring affordable single family and multifamily units, our priority is to provide housing that meets the affordability, amenities, location and design to keep our senior residents in Fridley. We are concerned that the proposed rule changes will hamper our ability to work with senior developers, utilizing 4% tax credits, to deliver a senior product that may fit the needs of our residents. For that reason, we respectfully request that the MHFA Board reject the proposed rules for the 2017-2018 QAP and engage all stakeholders to create a QAP that meets the housing goals of MHFA and local governments.

If you have any questions, please don't hesitate to contact me, at 763-572-3591. Thank you for your thoughtful consideration of our request.

Sincerely,

Paul Bolin
Assistant Executive Director, Fridley HRA

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City of Lexington

9180 LEXINGTON AVENUE • LEXINGTON, MINNESOTA 55014 • (763) 784-2792 • FAX (763) 785-8951

November 3, 2016

Mr. John DeCramer
Chair, Board of Directors
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: MHFA Amendments to the 2017-2018 Qualified Allocation Plan

Dear Chair DeCramer:

The city of Lexington has significant concerns with the proposed amendments to the 2017-2018 Qualified Allocation Plan (QAP) presented by the Minnesota Housing Finance Agency (MHFA) at its October 19 board meeting. While I'm not extremely familiar with the 4% low income housing tax credit allocation process, I do know that the ultimate result of these changes will be substantial loss to the city and undue burden on our city staff.

The city of Lexington has several goals in terms of development and redevelopment, with the inclusion of affordable housing being one of them. The proposed amendments to the QAP fail to respect the city's and MHFA's differing approach to what I believe are congruent goals. To be clear, the new project scoring proposed by MHFA will render nearly all affordable senior and family housing projects ineligible for receiving tax credits unless the project sponsors apply and are awarded additional subsidy, or change the project entirely by having supportive housing, housing for the homeless, or deep rent restrictions. The city of Lexington, while in support of housing for individuals that meet the above criteria, does not have the resources or capacity to take on such projects. Rather than working with local governments to amend the QAP to reflect city officials' vision for their communities and housing goals, MHFA is proposing to usurp local control and decision-making toward a state-size-fits-all approach.

The city of Lexington is currently working with a developer to redevelop a 4.39 acre site with an old school building at the corner of Lexington Avenue and County Hwy 52/Lovell Road into a new 184 unit affordable development project. Currently, there is strong demand in Lexington for senior housing and we strongly support this development. The city council is also prepared to offer tax increment financing to support the redevelopment costs, which represents the only subsidy the development needs beyond tax-exempt bonds and 4% low-income housing tax credits.

This project cannot move forward based on the proposed changes to the 2017-2018 QAP. Affordable housing projects like the one proposed here in Lexington not only take a long time, but expend precious resources to get to a successful closing. Our staff has been working with the developer to put together the details of this project and seek necessary city and financial approvals. Changing the qualifications necessary to get projects like this done, after going through a large portion of the extensive and restrictive process, is not only unfair to the developers but is unfair to cities. It is even more unfair to cities like Lexington who do not have substantial experience in low-income housing development. The proposed changes will damper efforts to create affordable housing and create a negative outlook on MHFA for many cities. The unrealistic time frame in which MHFA deliberating this change as well as the lack of important public input from cities and the public alike exacerbates these problems.

The Lexington City Council respectfully requests that the MHFA Board reject the proposed rules for the 2017-2018 QAP and engage all stakeholders to create a QAP that meets the housing goals of MHFA and local governments who are on the front lines of affordable housing development in the state of Minnesota.

If you have any questions, please don't hesitate to contact our City Administrator, Bill Petracek, at 763-354-2805. Thank you for your thoughtful consideration of our request.

Sincerely,

Mark Kurth
Mayor

cc: Commissioner Mary Tingerthal
Minnesota Housing Finance Agency Board of Directors
Lexington City Council
The Honorable Representative Linda Runbeck
The Honorable Senartor Roger Chamberlain

City of Lexington

9180 LEXINGTON AVENUE • LEXINGTON, MINNESOTA 55014 • (763) 784-2792 • FAX (763) 785-8951

November 29, 2016

Mr. John DeCramer
Chair, Board of Directors
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: MHFA point scoring criteria creates gap, redlining the city of Lexington

Dear Chair DeCramer:

The city of Lexington has reviewed Minnesota Housing's point scoring criteria and feels that MHFA has rendered the city of Lexington a redlined area that is unable to obtain the point scoring threshold in order to provide affordable housing, in both competitive and non-competitive categories. While we are not familiar with the 4% and 9% competitive low income housing tax credit allocation process, we know that the criteria provided in the point scoring disables our city from increasing our much needed affordable housing stock.

We feel there has been unfairness and undue burden has been placed on developers proposing affordable housing projects in the city of Lexington under the current point scoring criteria. We understand that the point scoring threshold for 4% deals is 30 points and for 9% deals is competitive in nature. For several reasons, proposed affordable housing projects in our city are unable to obtain points that projects in other cities easily obtain, creating a gap in the competitive nature of 9% point scoring and renders obtaining 30 points for non-competitive point scoring reasonably unattainable.

The reasons for this "gap" are in the following sections: Economic integration, rural/tribal, workforce housing, Community Recovery – Planned Community Development, Preservation, Location Efficiency, and QCT/ Community Revitalization Areas. The section titled Economic Integration we are not considered a first tier or second tier census tract and projects are unable to score points in this section. We are not considered outside of the Twin Cities Seven Count Metropolitan Area so projects are unable to score points in this section. Under the section Workforce Housing Communities we are unable to score 5 points because we are not a top job center or job growth community or individual employer growth community. Under the section Community Recovery, we feel that in order to make up points we must signify that any project being proposed in Lexington would have to contribute to planned community development efforts. We do not feel we should be "forced" to provide evidence that every project meets this category, which would undermine our integrity by saying any affordable housing project in our city contributes to planned community development efforts. Under the section Preservation, projects are unable to score points because we do not currently have affordable housing in need of preservation. Under the section titled Location efficiency part 1.) access to transit, our city does not have any commuter rail stations or Metro Transit Hi-frequency network fixed route stops, which causes applicant to solely score 2 points under this category, and applicants must rely on a walk-score. Last, there are no QCT's within the city of Lexington so the no points are available under QCT/ Community Revitalization Areas.

Given the large amount of points that are missed as a result of an applicant being in the city of Lexington, we feel that any proposed project will have extreme difficulties either being competitive if it is a 9% project or hitting the 30 point threshold if it is a 4% project.

The point scoring threshold creates an affordable housing barrier to entry in the city of Lexington. The Lexington City Counsel requests that the MHFA Board make an exception for proposed projects located in the city of Lexington in order for the city to obtain its affordable housing goals.

Sincerely,

Mark Kurth
Mayor
City of Lexington, MN.

Cc: Senator Roger Chamberlain
Representative Linda Runbeck
MHFA Board of Directors

City of MANKATO
Leading the way...

10 Civic Center Plaza
Post Office Box 3368
Mankato, Minnesota 56002-3368

Phone: (507) 387-8600
Fax: (507) 388-7530
www.ci.mankato.mn.us

November 16, 2016

Mr. John DeCramer
Chair, Board of Directors
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: Public Comments on Proposed Amendments to the 2017-2018 Qualified Allocation Plan

Dear Chair DeCramer:

The city of Mankato has a number of concerns with the proposed amendments to the 2017-2018 Qualified Allocation Plan (QAP) presented by the Minnesota Housing Finance Agency (MHFA). The proposed changes to the QAP fail to recognize the variety of affordable housing needs in communities, including Mankato. The proposed project scoring will eliminate nearly every affordable senior and/or family housing project from qualifying for tax credits without requiring significantly more subsidy in order to meet MHFA's strategic priorities or proposed point scoring.

Obtaining adequate resources for affordable housing is already challenging and we're concerned that the proposed rule changes will significantly limit our ability to work with developers, utilizing 4% tax credits, to deliver a product that meets the needs of our community. The city of Mankato is working with a developer to remodel an existing building that is on the market to be sold to provide affordable housing. If these proposed changes are implemented, this project and similar will not be able to proceed in Mankato. Of particular concern is the proposed amendment to meet 50 points to be eligible for 4% credits in addition to meeting one of MHFA's strategic priorities, effectively making tax-exempt bond deals financially infeasible. There is a dire need for affordable housing in Mankato. This is not only documented by a Mankato area housing study dated May 2016 and the 2015-2019 consolidated plan and public outreach for the Community Development Block Grant program, but also by the fact that the city's public housing units have lengthy wait lists.

The city of Mankato respectfully requests that the MHFA Board reject the proposed rules for the 2017-2018 QAP and engage all stakeholders to create a QAP that meets the housing goals of MHFA and local governments.

If you have any questions, please don't hesitate to contact me at 507-387-8687. Thank you for your thoughtful consideration of our request.

Sincerely,

Kristin Prososki
Economic Development Specialist

Schack, Becky (MHFA)

From: *MHFA_MN Housing
Sent: Wednesday, November 23, 2016 10:01 AM
To: Jefferson, Summer (MHFA); Wilson, Tamara (MHFA); Schuchman, Kayla (MHFA)
Subject: FW: Comments to Amendments to Low Income Housing Tax Credit Program

---

From: Carie Fuhrman [mailto:cfuhrman@maplegrovemn.gov]
Sent: Wednesday, November 23, 2016 9:53 AM
To: *MHFA_MN Housing
Subject: Comments to Amendments to Low Income Housing Tax Credit Program

Dear Mr. DeCramer,

Thank you for the opportunity to comment on the proposed changes to the MN Housing Finance Agency's 2018 Qualified Allocation Plan. Also, thank you for delaying any proposed changes to the 2017 QAP. The City of Maple Grove has concerns that the proposed changes would remove vital flexibility and replace it with a very restrictive approach. Affordable housing needs are known best locally in each community – by removing flexibility and adding restrictiveness, the use of the program may decrease.

Specific to Maple Grove, as every community is facing, our senior population is growing significantly – including a senior population in need of more affordable, yet quality housing options. The 4% housing tax credit program has been a fine tool for some developers to provide a nice, quality, yet affordable product to those seniors.

In addition, Maple Grove still has 20 to 25 years of development, including a substantial amount of commercial and industrial development. Our need for quality, affordable workforce housing is growing. By requiring that proposed 4% housing projects have to meet one of the MHFA's Strategic Priority Policy Thresholds significantly limits the use of this tool.

Please consider this prior to making any changes. I would be happy to discuss this topic with you at any time.

Thank you.

Sincerely,

Carie Fuhrman

Carie Fuhrman
Economic Development Manager
Administration | City of Maple Grove
12800 Arbor Lakes Parkway | P.O. Box 1180 | Maple Grove, MN 55311
763-494-6003 | cfuhrman@maplegrovemn.gov | www.maplegrovemn.gov

Pine City
North. Nice *and* close.

November 6, 2016

Minnesota Housing Finance Agency
Attn: Tamara Wilson
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: Comments Regarding the 2017 and 2018 Qualified Allocation Plan

Dear Tamara,

The City of Pine City has received notice that the 2017 and 2018 Qualified Allocation Plan has been distributed for public comment. Upon review, we have noticed that our community has been overlooked for inclusion in the workforce housing communities list. We understand that the current comment period is related to some proposed changes to the QAP which do not pertain to the Workforce Housing category, but we missed the opportunity earlier this year to comment so wanted to take the time now to do so in hopes that we could engage some feedback even if it is too late to change the QAP at this time.

We encourage you to reconsider our community's exclusion from this list. The City of Pine City has identified a substantial need for such housing opportunities. This need is also supported by a recent housing study prepared by the East Central Housing Organization (ECHO) which was prepared in 2014. ECHO is a regional partnership between public and private housing non-profit agencies. Its mission is to identify housing needs in the region and work to leverage resources to help address areas of need.

This study found that the rental market in the region is extremely tight with a vacancy rate of only 1.1%. As a result, there is pent up demand for general-occupancy and senior rental product across the region. According to the study, in 2013, at $526, the average weekly wage for all industries in Pine County was 16.2% lower than the Region ($627) and 45.4% lower than the State average of $964. Pine County Projected General Occupancy Demand for 2014-2015 is 382 units, 22 of which are rental, with 68 affordable and 54 subsidized. Additionally, senior affordable rental housing for active adults is expected to produce a demand of 142 units.

Furthermore, The City's Comprehensive Plan, created in 2012, identifies the need for more diverse housing options in Pine City. The Comprehensive Plan involved several committees of residents, business leaders, and others who oversaw the plan's creation, involving more than 100 people, and community workshops and open houses for public input. The Comprehensive Plan says "If Pine City has an inadequate supply of "starter homes" or apartments, businesses may be unable to fill entry-level jobs". Goals were established to reduce the number of substandard housing units while maintaining the level of affordability, and recducing homelessness in the area due to unemployment, underemployment, lack of affordable housing or other factors.

We understand that one way to qualify for workforce housing points is if there is sufficient growth by a local individual employer. Our top growing employers are First Light Health Systems who experienced a net job growth of 44 jobs over the last 5 years, and Innovative Basement Systems who experience a net job growth of 75 jobs over the last 5 years (please see letters attached). While this does not meet the MHFA definition of 100 net jobs by an ***individual*** employer, when combined it exceeds the requirement. Please let us know if MHJFA would consider qualifying this for the workforce housing points in a future application.

On behalf of our Economic Development Authority and our City Council, I encourage make it possible for our community to make use of your programming opportunities to address this significant area of need for our city.

We would appreciate a dialogue or some feedback from MHFA with recommendations on what can be done to bring affordable housing to Pine City.

Sincerely,

Kenneth J. Cammilleri
CITY ADMINISTRATOR

DRAFT

ALL-AMERICA CITY

ROCHESTER

Minnesota

November 10, 2016

Mr. John DeCramer
Chair, Board of Directors
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: Public Comments on Proposed Amendments to the 2017-2018 Qualified Allocation Plan

Dear Chair DeCramer:

The City of Rochester has reviewed the proposed amendments to the Minnesota Housing 2017-2018 Qualified Allocation Plan (QAP). We do not support any changes that make it more difficult to create new affordable housing, which the proposed changes would do. Tax-exempt bonds and 4% low-income housing tax credits are the chief tool available to cities in Minnesota striving to create new affordable housing.

The City of Rochester is currently working with a developer to develop a 208-unit affordable housing development project which will house working families making 60% of the Area Median Income. Most importantly, the development will add 208 units to the city's workforce housing supply, which is greatly needed at this time and into the future as we implement the Destination Medical Center plans for the city. The need for workforce housing in Rochester is strong, and promises to grow even stronger with the projected job growth in our community, as evidenced by the recently completed Comprehensive Housing Needs Assessment for Olmsted County and the projected growth in the recently adopted Destination Medical Center Development Plan.

The latest business expansion expectations associated with the Destination Medical Center plan are for an additional 35,000 to 40,000 new jobs over the next two decades. Job growth will come not only in the medical field, but also associated sectors such as service industries, construction, manufacturing, hospitality and retail.

It seems these changes try to say some affordable housing is more important than others and we should only fund, through a competitive process, the affordable housing MHFA deems most important. There is a shortage of affordable housing across all levels and a one-size-fits-all solution as proposed by MHFA is not a fiscally prudent approach, especially when it comes at the expense of creating moderate income affordable housing with little subsidy.

The City of Rochester suggests that MHFA Board consider measures to encourage more affordable housing, not less, and reject the proposed MHFA changes. We respectfully request that the MHFA Board engage all stakeholders to create a QAP that meets the housing goals of MHFA and local governments.

If you have any questions, please don't hesitate to contact our City Administrator, Stevan Kvenvold at 507-328-2000. Thank you for your thoughtful consideration of our request.

Sincerely,

Ardell F. Brede

Ardell F. Brede
Mayor

cc: Commissioner Mary Tingerthal
Minnesota Housing Finance Agency Board of Directors
Tamara Wilson, Minnesota Housing
Rochester City Council

Spring Lake Park
History. Community. Home.

October 25, 2016

Mr. John DeCramer
Chair, Board of Directors
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: Public Comments on Proposed Amendments to the 2017-2018 Qualified Allocation Plan

Dear Chair DeCramer:

The City of Spring Lake Park is opposed to the proposed amendments to the 2017-2018 Qualified Allocation Plan (QAP) as presented by the Minnesota Housing Finance Agency (MHFA) at its October 19, 2016 board meeting. The timing of the proposed amendments, along with the loss of local control, erodes the state-local government partnership that has fostered past affordable housing projects to the detriment of the citizens of the state of Minnesota.

The proposed changes to the QAP fail to recognize that local governments sometimes have differing goals than MHFA in the development of affordable housing. Cities such as Spring Lake Park utilize affordable housing developments as a way to meet local housing needs, grow property tax base, spur economic development and meet our Metropolitan Council Thrive 2040 goals. These affordable housing goals are not reflected in the QAP. In addition, the new project scoring will eliminate nearly every affordable senior and/or family housing project from qualifying for tax credits without requiring significantly more subsidy in order to meet MHFA's strategic priorities or proposed point scoring. Only projects with supportive housing, homeless transition and deep rent restriction will qualify for tax credits under the QAP, which cannot be done without gap financing that is not currently available. Rather than working with local governments to amend the QAP in a way that respects city officials' community vision and needs assessments, MHFA is proposing to strip local control from cities and place the Agency's goals first and foremost. This will be disastrous to the state-city relationship at the expense of low-income Minnesotans.

The City of Spring Lake Park is working with a developer to redevelop an old miniature golf course site on CSAH 10 into a new construction 190 unit affordable development project that is 80% restricted to those aged 55 and over. There is huge demand in Spring Lake Park for senior housing. This is not only documented by a market study, but also by the fact that the city's three affordable senior developments have lengthy wait lists. There has been strong support by the Mayor and City Council, as the site has been re-guided from Commercial to High Density

Residential and rezoned from C-2, Neighborhood & Service Center Commercial, to R-3, Multiple Family Residential. The City Council is also prepared to offer up to $4.0 million in tax increment financing to support the redevelopment costs, which represents the only subsidy the development needs beyond tax-exempt bonds and 4% low-income housing tax credits. The City Council has been strong supporters of this type of affordable housing in our community, having issued private activity bonds and granted tax increment financing to support nearly 180 units of affordable senior housing in the community. This particular development would represent the first new multifamily housing of any kind in the city in 20 years.

This important affordable housing project cannot move forward based on the proposed changes to the 2017-2018 Qualified Allocation Plan put forward by the MHFA Board. The timing of the changes couldn't be worse. Affordable housing projects like the one proposed here in Spring Lake Park take months, and sometimes years, of planning to get to a successful closing. Our staff has been working with the developer for over six months to put together the details of this project and seek necessary city entitlement and financial approvals. The developer has already invested over $150,000 into this project. It is inherently unfair to penalize local governments and developers by moving the goal post at the end of the game. More broadly, these abrupt changes to long-standing policy have a chilling effect on the marketplace as developers and city officials will lose trust in the system and will be left wondering if these rules will change again in the future without notice. The proposed change will harm efforts to effectively create affordable housing for many years to come, not to mention the economic development that will occur in our community and the nearly $30 million of construction activity that will be lost.

Finally, the City is concerned about the lack of focus on affordable senior housing by MHFA. By 2040, the number of elderly persons living in the Twin Cities metropolitan area is expected to double. Yet, current demand for senior housing is outstripping supply. I have heard time and again from seniors in Spring Lake Park that they want to remain in our community. Projects like the proposed development in our city are broadly supported by the public and business community alike. A recent AARP survey confirms this, showing that over two-thirds of seniors want to remain in the community they currently live in. The proposed changes to the QAP will prevent cities across Minnesota to address the need for affordable senior housing as such housing will be ineligible for non-competitive tax credits. The result will be seniors choosing to remain in place, which will result in a missed opportunity for affordable single family housing units to be made available to young families, the inability of school districts to maintain student populations and a lack of reinvestment in local communities' housing stock.

The City Council respectfully requests that the MHFA Board reject the proposed rules for the 2017-2018 QAP and engage all stakeholders to create a QAP that meets the housing goals of MHFA and local governments who are on the front lines of affordable housing development in the State of Minnesota.

If you have any questions, please don't hesitate to contact our City Administrator, Daniel Buchholtz, at 763-784-6491. Thank you for your thoughtful consideration of our request.

Sincerely,

Cindy Hansen
Mayor

cc: Commissioner Mary Tingerthal
Minnesota Housing Finance Agency Board of Directors
Spring Lake Park City Council
The Honorable Governor Mark Dayton
The Honorable Lieutenant Governor Tina Smith
The Honorable Senator Barbara Goodwin
The Honorable Representative Connie Bernardy
The Honorable Senator Alice Johnson
The Honorable Representative Jerry Newton
The Honorable Senator Bev Scalze
The Honorable Representative Barb Yarusso

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Spring Lake Park
History. Community. Home.

November 30, 2016

Mr. John DeCramer
Chair, Board of Directors
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

Dear Mr. DeCramer:

On behalf of the Spring Lake Park City Council, I would like to thank you and the MHFA Board for allowing me to address the Board on the proposed changes to the 2017-2018 Qualified Allocation Plan. I was pleased to learn that MHFA has withdrawn its proposed changes to the 2017 Qualified Allocation Plan, providing time for the affordable housing marketplace to adjust to the new rules and allowing the Spring Lake Park project to move forward. However, I still believe that the proposed changes usurp local control and will reduce the amount of senior and workforce housing that can be built in Minnesota.

Commissioner Tingerthal has stated that the primary reason for the proposed changes to the Qualified Allocation Plan is an unexpected scarcity of tax exempt bonds. While that may be true, the scarcity is caused by MHFA issuing over $2 billion of tax exempt bonds to underwrite single family mortgages. While home ownership is important, the use of bonds is inefficient as there is little difference between the MFHA single family mortgage rates versus conventional mortgage rates and it does not create any affordable housing. These bonds should be reallocated to affordable housing projects, where tax credits can bring in additional equity investment.

In addition, the MHFA staff report states that MHFA should "more closely manage the allotment of authority for Private Activity Bonds for affordable housing, assigned by Minnesota statute to governmental issuers." This statement runs counter to the intent of Minnesota State Law which establishes a priority system for Private Activity Bonds and allows cities the ability to decide how we want to utilize our statutory right to issue tax-exempt bonds in our communities in a way that best serves the needs of our communities. I believe the prioritization outlined in State Law effectively balances the needs for bonds from MHFA and local government issuers.

The proposed changes to the 2018 Qualified Allocation Plan requires affordable housing projects to meet one of MHFA's eight "Strategic Priorities" in order to qualify for the 4% low income housing tax credit. MHFA's efforts to ensure that private activity bonds and 4% tax credits are only used to meet MHFA's strategic priorities takes affordable housing out of a city's economic development toolbox. Each community has their own housing priorities and a one-size-fits-all approach by MHFA will prevent many communities from filling affordable housing needs in their individual communities.

The proposed increase in minimum scoring is also troubling, as it will preclude nearly all affordable senior housing projects from the 4% low income housing tax credit. This public policy seems short-sighted to me when one considers that the population of individuals 65 years of age or older is predicted to double by the year 2040. We should not stop these projects from qualifying for the 4% low income housing tax credit, because doing so will result in significant future housing crisis for these Minnesotans. In addition, the proposed scoring change will prevent a number of family or workforce new construction from occurring without additional subsidy which is not available and already oversubscribed.

I believe that the MHFA Board of Directors and staff should establish a working group of City leaders, affordable housing developers and other stakeholders to help guide any changes to the 2018 Qualified Allocation Plan. I would be willing to assist in that effort.

Thank you, once again, for your time. I appreciate your efforts to create affordable housing within the State of Minnesota. I want you to know that you are not alone in those efforts and that cities across Minnesota stand by to assist in that goal.

Sincerely,

Daniel R. Buchholtz, MMC
Administrator, Clerk/Treasurer

cc: Mayor Hansen and Members of the City Council

Kevin P. Watson
City Administrator

651.204.6010 *Phone*
651.204.6110 *Fax*
kevin.watson@cityvadnaisheights.com

The City of Vadnais Heights
800 East County Road E
Vadnais Heights, MN 55127

November 8, 2016

Mr. John DeCramer
Chair, Board of Directors
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: Public Comments on Proposed Amendments to the 2017-2018 Qualified Allocation Plan

Dear Chair DeCramer:

The City of Vadnais Heights has significant concerns about the proposed amendments to the Minnesota Housing 2017-2018 Qualified Allocation Plan (QAP) introduced at the October 19 board meeting. We believe these changes will make it more difficult to create new affordable housing, in our community and the metro.

The City of Vadnais Heights recently acquired the former Garceau Hardware and Vadnais Market properties for the purpose of redevelopment. The site is on a relatively busy corner, but only 4 acres in size – ideal for high density housing. We have considered affordable senior housing as option for the site.

Our community is aging, and a recent community survey showed that many of our residents are choosing to age in place. They have not found an option in the community they want to stay in, and as a result they are not moving out of their single family homes for new families to move into. We need to remain flexible in the options available to solve this community problem. Tax-exempt bonds and 4% low-income housing tax credits are the primary tool available for cities in Minnesota striving to create new affordable housing in their communities.

We are concerned that the proposed rule changes will hamper our ability to work with senior housing developers, utilizing 4% tax credits, to deliver a product that will fit the needs of our residents. For that reason, we respectfully request that MHFA Board reject the proposed rules for the 2017-2018 QAP and engage all stakeholders to create a QAP that meets the housing goals of MHFA and local governments. We are fearful this change will eliminate affordable senior housing as an option for the Garceau Corner.

If you have any questions, please don't hesitate to contact me at 651.204.6010. Thank you for your consideration of this request.

Sincerely,

Kevin Watson
City Administrator

Cedar Ridge Landscaping
2460 Brinkhaus Street
Chaska, MN 55318
952-368-3243 Fax 952-487-4711

11-23-16

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

The projects funded through the 4% program serve an urgent and growing need in the communities in which they're built. To be clear, the proposed changes would halt current projects in progress and inhibit the construction of all future projects utilizing the 4% credit. We've made plans based on the fruition of projects in the pipeline and allocated resources accordingly, in many cases hiring or making other investments to meet the need. This change will force me to eat many of the costs associated with that preparation and potentially alter my plans for employment. This comes in addition to rising labor and health care costs.

I am frustrated by this proposed change because it does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state." This change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.

I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Dick Henning
Cedar Ridge Landscaping

CROSS CREEK CONSTRUCTION, LLC.
COMMERCIAL CARPENTRY CONTRACTOR
An EEO Employer
25575 102 ½ St. NW, Zimmerman, MN 55398 * Office (763) 856-3362 FAX (763) 856-3363

November 17, 2016

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

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I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Lon Hollister

Lon Hollister
Sr. Project Manager

D G WELDING
& MFG. Inc.

3265 Sun Drive
Eagan, MN 55121
651-688-2358
Fax 651-688-2466

November 30th, 2016

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

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I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Adam Dolney

STEEL FABRICATORS • STAIRWAYS • RAILINGS • PROTOTYPES • CUSTOM MANUFACTURING
HELIARC • WIRE FEED • PORTABLE • PRODUCTION SAWING • REPAIRS

D&M INDUSTRIES

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride in the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

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I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Tom Nagel

Tom Nagel

Commercial Sales Manager

D & M Industries

218 287 3100 (p)

www.weselldoors.com

Diversified Distributors, Inc.

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

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I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Joshua A. Mortensen

Joshua A. Mortensen
Owner/President/CEO
Diversified Distributors, Inc.

Dominium's Comments Against Minnesota Housing's Rationale for Proposed 2017-2018 QAP Changes

Introduction

In response to continued strong, and efficient, usage of Private Activity Bonds (PAB) in 2016, Minnesota Housing staff on 10/19/16 recommended to the Minnesota Housing board some major changes to the Minnesota Qualified Allocation Plan (QAP), which would fundamentally alter how bond deals are done in Minnesota. Furthermore, Minnesota Housing implemented a moratorium on 4% credits and said the proposed changes would take effect immediately upon a 4-week public comment period and subsequent Minnesota Housing board action.

Minnesota Housing has provided two documents that describe the rationale for this immediate change:

1. 10/19/16 staff memo to board of directors
2. 11/1/16 frequently asked questions

The Minnesota Housing QAP is one of the most involved, technical and complicated in the country. So any discussion of this process almost immediately delves into a morass of technical detail that is difficult to follow for people not intimately familiar with the QAP – and even those familiar with this process often become overwhelmed with the level of detail and complexity. As such, people who don't work with this program on a day-to-day basis (such as politicians at both the local and state level) have a difficult time understanding the practical implications of changes to this complicated process.

A thoughtful discussion of this process requires an involved, step-by-step analysis of what is actually being proposed and what the real world consequences to affordable housing production will be.

May 2016 Minnesota Housing Board Meeting

Minnesota Housing staff's rationale for changes to the QAP began in May 2016. At that time Minnesota Housing Staff recommended changes to the 2018 QAP, which the Minnesota Housing Board approved, that would take affect starting in January of 2018—nearly two years out. It has been a long-standing policy of Minnesota Housing to provide ample time for any changes to be absorbed by cities and developers as to allow developments already underway to cycle through under the in-place rules. The rationale described by Minnesota Housing for these changes was, **"…in response to public comments concerning the increasing scarcity of tax-exempt Private Activity Bonds… The commenters requested that the Agency closely manage the allotment of authority for PAB."**

No public commenter requested that Minnesota Housing "closely manage the allotment of authority for PAB." As the 2nd largest user of PAB in recent years, well behind Minnesota Housing, Dominium suggested adopting a best practice that other states have adopted of allocating no more PAB authority than 55% of reasonably expected basis, but that was the extent of public comments on this matter. Minnesota Housing's statements here are simply inaccurate.

Furthermore, the May 2016 staff report mentioned public comments received regarding expanding senior affordable housing and acknowledged that **"Part of Minnesota Housing's strategic plan is supporting more production of affordable senior housing."** Minnesota Housing also acknowledged that, **"only the 4% tax credit can be used for new production of affordable senior housing in Minnesota."** However, the recent October staff report and QAP makes no mention of senior affordable housing production and none of the Strategic Priorities or point scoring encourages senior affordable housing production.

While Minnesota Housing staff did mention increased bond scarcity, nowhere in their May 2016 staff report or October 2016 staff report did Minnesota Housing provide the Board data on the amount of bonds Minnesota Housing issues for single family, which is an 8 to 1 ratio ($2.3 billion in single family versus $308 million in multifamily). In addition, Minnesota Housing has over $350 million in carry forward bonds.

<u>Staff Recommended 40 Point Minimum for 2018 QAP</u>

Even though no public comment suggested that it would be a good idea for Minnesota Housing to make access to PAB more onerous or difficult to utilize for multi-family developments, staff recommended just that by increasing the minimum score for PAB projects to 40 points from 30 points. In fact, the only public comment discussing use of PABs suggested this tool could be used for increased production of affordable rental housing. Minnesota Housing chose to do the opposite, yet no rationale was given for this change. Why would Minnesota Housing want to encourage less affordable rental housing? This is a reasonable question that deserves a full answer—one that should also include an open and candid discussion of utilizing PAB for single family.

<u>Minnesota Housing Self-Scoring Worksheet Too Complicated</u>

One of the consistent public comments over the past several years has been that the escalating complexity and detail of the self-scoring worksheet which renders affordable housing development in Minnesota too expensive, too complicated and un-welcoming to those unfamiliar with its involved processes, which is primarily aimed towards competitive 9% tax credits. Some have suggested that maybe Minnesota Housing is trying to achieve too many policy goals through its project selection process. One problem with an over-detailed process is that you can "lose sight of the forest for the trees." Each year people comment on each of the very detailed changes Minnesota Housing makes to its allocation formula. However, because there are so many details to attend to, there may be a variety of consequences that are simply lost in the detail. Now these complex points and priorities are proposed to be applied in an expanded way to PAB developments:

1. Minnesota Housing now awards points based on how many "high income" people live in a community, how many jobs are close by, and whether a city has access to transit – if as a community you cannot score these points (for instance, most locations in Columbia Heights, Coon Rapids, Crystal, Bloomington, Richfield and Vadnais Heights score less than 5 out of 23 points on these factors), you will likely not receive assistance from Minnesota Housing to help meet your affordability goals, or you will have to contribute more money to receive said state assistance.
2. Even though the current threshold for receiving 4% that credits in 2017 is still 30 points (as it has been for many years), the amount of points that it is possible to score in 2017 has been reduced by 13 points from the2016 level. As such, there will be some cities in 2017 that will be prevented from using bonds in their community to help achieve affordable housing goals.
3. Increasing the 4% tax credit threshold to 40 or 50 points in either 2017 or 2018 in combination with the issues listed in #1 and #2 above means that virtually the only way cities will be able to access 4% tax credits in the future is with substantial additional Minnesota Housing subsidy. No additional subsidy is contemplated with these changes, which will likely result in less affordable housing creation utilizing PAB.

"Staff is now proposing amendments to the 2018 QAP as a means of ensuring that 4% housing tax credits are awarded to projects that meet the highest priority affordable rental housing needs in the state"

Staff's response to this strong demand for PAB is to raise the threshold on multi-family projects so that only Minnesota Housing's predetermined highest priority projects receive PAB authority and 4% housing tax credits. On its face, this seems like a reasonable response. However, when one looks more deeply, there are some troubling issues raised:

1. For every PAB dollar Minnesota Housing utilizes for multi-family housing, eight are used for single family mortgage programs – why is there no talk of reducing or re-prioritizing single family usage of PAB? Why is it automatically assumed that single family programs take priority over multi-family? As we understand it, Minnesota Housing has a conflict of interest in this area – profits from single family bond sales

pay for Minnesota Housing operations, such that Minnesota Housing does not need to request operating support directly from the Minnesota legislature.

2. Minnesota Housing has raised the bar too high – very few, if any, 4% projects will move forward in 2018 with these changes, the result being all PAB will transfer from local issuers in the Housing Pool to Minnesota Housing, which primarily utilizes PAB for single family programs – not a bad result for Minnesota Housing's operations, but is this the best result for Minnesota and the local communities trying to provide new affordable housing?
3. The following are the likely consequences of following Minnesota Housing staff proposals:
    a. No affordable senior housing will be built.
    b. No affordable housing will be built in historic adaptive re-use projects.
    c. None of the over 2,000 units of affordable rental housing built with 4% bonds over the past 3 years would have moved forward under Minnesota Housing's proposal.
    d. PAB authority will be taken from lower income more vulnerable rental populations and allocated to higher income single family homeowners.
    e. No additional "high priority" Minnesota Housing supportive housing will get built with 4% tax credits because Minnesota Housing does not have additional subsidy to support such development.
4. What is the case for using more PAB authority for affordable multi-family rental?
    a. Multi-family serves lower income families than do single family.
    b. Affordable housing shortages are more acute for renters than owners.
    c. Multi-family creates more jobs, economic development, and neighborhood revitalization than single family.
    d. For every $1,000 of PAB invested in multi-family, there is a $600-$800 federal resource that accrues to Minnesota – under single family, that federal resource is $0.

<u>Minnesota Housing Responses to FAQ are Misleading</u>

1. **Why has Minnesota Housing Staff Recommended Changes to the 2017 and 2018 QAP's and Why at this Time?**

    The essence of Minnesota Housing's answer to this question is this: now that PAB has become a more scarce resource, Minnesota Housing feels it needs to add more restrictions so there will be adequate bond capacity for supportive housing projects selected through the agency's competitive RFP process. And if Minnesota

Housing does not act immediately, there may not be adequate PAB available for **"higher ranking rental projects in 2017 (as well as providing sufficient PAB authority to support the financing of other affordable housing initiatives)".**

Minnesota Housing currently has $350 million of carryover PAB authority – it doesn't sound like **"higher ranking rental projects in 2017"** are at any risk of not receiving sufficient PAB authority to proceed should Minnesota Housing choose to use their previously allocated PAB authority instead of making the Housing Pool almost impossible to access.

The real issue here is that Minnesota Housing appears to want sufficient PAB authority for **"other affordable housing initiatives".** Based on current utilization the only reasonable conclusion that can be reached is that those "other" initiatives are single family home mortgages.

2. Minnesota Housing states in their October 2016 staff report that **"…Historic low interest rates and high prices being paid by investors for Housing Tax Credits mean that projects can be financed with very little other subsidy. While this may sound like a desirable outcome,** (author's note: it is) **there may be no PAB authority remaining for use by rental projects serving people with low incomes and in greater need, or for other affordable housing programs."**

   Minnesota Housing's argument is not reasonable for three reasons:

   First, Minnesota Housing has not demonstrated that there is an actual shortage – in fact they currently have in inventory $350 million in PAB authority that has not been used.

   Second, Minnesota Housing does not have adequate additional subsidy to create additional lower rent housing, so the additional unused PAB authority not used for multi-family, will by default either be stock-piled or invested in single family.

   Third, using additional PAB authority for single family is taking resources away from families earning under 60% of the area median income, and re-allocating it to those who earn 80%-100% of the area median income. So Minnesota Housing's proposal is taking resources away from poorer families and providing it to richer families. Given the agency's stated goals, we have to ask why MHFA is still considering moving forward with these changes.?

3. **Why is Minnesota Housing recommending a higher score to qualify for a 4% tax credit allocation?**

   Minnesota Housing's answer is that they want this allocation scheme to **"serve lower income households".**

   On the surface this sounds good, but the reality is that fewer bond deals will be done and Minnesota Housing's proposal will benefit higher income single family homeowners at the expense of lower income renters. Additional deeply skewed rental housing will not be built because Minnesota Housing has no additional resource to support it. By default, all of the additional bonds that had supported 60% Area Median Income (AMI) deals (that will no longer be feasible) will go to single family home mortgages, which benefits families at 80% -100% of AMI.

4. **Why did Minnesota Housing propose this moratorium?**

   The answer Minnesota Housing has given is that they know there will be a **"significant number of rental projects that intend to apply for PAB authority in 2017"**

   In other words, Minnesota Housing knows that these multi-family bond projects without any state subsidy would be able to move forward starting January 2, 2017, and Minnesota Housing wanted to stop that from happening. Why? Minnesota Housing does not directly answer this question. It seems as though the answer to that question is because it would take resources from Minnesota Housing's single family programs. And because Minnesota Housing is afraid they will not have PAB available for lower rent projects.

   The other answer given is to **"allow us to gain a greater understanding of the potential consequences of the proposed changes".** Another way of receiving this feedback is to ask both developer and municipal partners what they think, without imposing a moratorium, and providing less than a month for public comment.

<u>Minnesota Statute Controls Allocation of PAB – Instead of Changing the Statute, Minnesota Housing is Proposing a "Work Around" so Minnesota Housing Will Control PAB Allocation.</u>

Lost in this shortened public comment period and the complicated and very technical QAP, is the fact that state statute already controls allocation of PAB through Minnesota office of Management & Budget (MMB). Minnesota Housing's current proposal (along with changes previously approved for the 2018 QAP) effectively take control of this allocation from MMB and give it to Minnesota Housing. Given Minnesota Housing's inherent economic conflict of interest, it would seem that such a decision should be made in the political realm, and not at a staff level administrative tweak that effectively defies existing legislation.

<u>Since Minnesota Housing is Already Proposing Major Changes to PAB Allocation, Why Not Add Three Other Provisions That Will Reduce Affordable Rental Housing Production?</u>

1. No historic adaptive re-use in the past 10 years has cost less than Minnesota Housing's **"predictive cost model".** If Minnesota Housing gets its way, all historic adaptive re-use developments will have to get special permission from the Minnesota Housing board to move forward. These projects take years to put together and often times require millions of dollars in pre-development risk –

developers will simply not take the risk and projects won't even be proposed. Why should Minnesota Housing control costs on historic adaptive re-use? If this is an important consideration, we might suggest that cost considerations go through Minnesota State Historic Preservation Office, the agency that regulates the Minnesota Historic Tax Credit.

2. Even though Minnesota Housing is not offering additional (or really any) subsidy for 4% tax credits, it wants to impose a 30-year Land Use Restrictive Agreement (LURA) on all new 4% tax credit projects, as opposed to the federal requirements of 18 years (inclusive of the 3-year affordability burn-off). Historically, Minnesota Housing has only required a 30-year LURA if it has allocated the more generous 9% tax credit or if it has invested other scare state resources. Certain projects simply would not be feasible (the Pillsbury A-Mill, as an example) with a 30-year LURA. The other risk with a 30-year LURA is that most projects cannot make it a full 30 years without needing a major rehab, so this risks either default or deferred maintenance, or it requires less debt and thus more up-front subsidy, which Minnesota Housing is not providing. Minnesota Housing is trying to get something for nothing here – they should know better because that is not how they treat their 9% portfolio.

3. 4% projects for the first time will have to meet one of eight Minnesota Housing "Strategic Priorities" to be even considered for 4% tax credits. Besides that, these strategic priorities are rather confusing (many developers have commented to this effect over the years), they do not appear to allow for any senior housing to be built at all. It just seems odd that Minnesota Housing gets to dictate the priorities even though it is promising to invest nothing additional in 4% projects. Fewer projects will have access to 4% tax credits, which seems to be Minnesota Housing's goal.

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From: Metz, Owen
To: *MHFA_MN Housing
Cc: Wilson, Tamara (MHFA); Huggett, Jeff
Subject: FW: Minnesota Housing Bond Change
Date: Tuesday, November 15, 2016 9:28:32 AM
Attachments: New Construction Bond Transactions.xlsx
Financial Overview - Bond Transaction Summary.xlsx
Aggregated New Construction 2017 MHFA Scoring.xlsx
Completed - Under Construction - New Construction Bond Transactions.pdf
Pre-Development (Non-MHFA Suballocators) - New Construction Bond Transac....pdf
Pre-Development (MHFA) - New Construction Bond Transactions.pdf

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Tamara,

Please see below and attached for additional public comment on behalf of Dominium. The attached provides information on how the new scoring affects previously funded deals to show the types of transactions that would not meet a 40 or 50 point scoring minimum. There are also some case studies to show what can be built with bonds/4% credits and little to no soft money.

Please let know if you have any questions/comments on the below and attached.

Thanks – Owen

Owen Metz

Developer
Development & Acquisitions
Dominium
2905 Northwest Blvd. Suite 150 Plymouth, MN 55441
Phone: 763-354-5618 Mobile: 920-210-1428
DominiumApartments.com

From: Sween, Paul
Sent: Thursday, October 20, 2016 12:01 PM
To: 'Tingerthal, Mary (MHFA)'
Cc: Schack, Becky (MHFA)
Subject: Minnesota Housing Bond Change

Commissioner:

I appreciated the opportunity to speak with you briefly earlier this week on the topic of the proposed changes to the 2017 and 2018 Housing Tax Credit Program's Qualified Allocation Plan (QAP). As I shared with you, we have a number of projects that would likely be adversely affected by the proposed changes – most to the degree that projects will not be feasible for moving forward. Before we begin full communication with the numerous public partners on those projects, we want to ensure we accomplish the following:

1. Provide whatever data, case studies and other insights we can to assist the Agency in taking into consideration the consequences of the proposed changes, particularly given the accelerated timeline that has been proposed;
2. Understand the policy benefits of the proposed changes so we can incorporate those messages into our discussions with public partners on the affected projects;
3. Understand both the rationale and the intentions of the proposed changes so we can take those into consideration as we evaluate our ability and willingness to undertake projects in the region over the timeline affected by these proposed changes.

Attached you will find examples of the data, analyses and case studies that we have available; if your staff finds these kinds of submissions helpful, we stand ready to provide additional submissions as requested.

You encouraged us to use the comment period to ensure a full review and discussion of the proposed changes, and we will certainly look to participate as appropriate. Based on the initial reactions to news of the proposed changes from public partners like Dan Bucholtz – who we understand addressed the MHFA board yesterday, we anticipate that many stakeholders from the jurisdictions most likely to be adversely impacted by the proposed changes will look to speak for themselves.

As you know, the economic development benefits of these projects, and their capacity to create both jobs and economic vitality in neighborhoods, complement their fundamental purpose: to meet the housing needs of Minnesotans at a time when our demographic changes will drive the planning processes in our cities and counties. We look forward to continuing discussions with all stakeholders to understand the State's plan to optimize its resources for housing programs.

Sincerely,

Paul Sween

Managing Partner
Development & Acquisitions
Dominium
2905 Northwest Blvd. Suite 150 Plymouth, MN 55441
Phone 763-354-5603 Mobile 612-508-1952
DominiumApartments.com

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Dominium Tax-Exempt Bond Deal Summary

COMPLETED / UNDER CONSTRUCTION

Development	Address	City	Allocating Agency	Points Scored at Closing	2017 QAP Score Est.	# of Units	Permanent Debt	Debt Per Unit	Construction Costs	Per Unit	Total Development Cost (TDC)	TDC per Unit
Cavanagh	5401 51st Ave N.	Crystal	MHFA	39	26	130	$ 13,350,000	$ 102,692	$ 14,600,000	$ 112,308	$ 24,352,000	$ 187,323
Legends At Silver Lake Village	2500 38th Avenue NE	St. Anthony	MHFA	39	30	169	16,950,000	100,296	17,600,000	104,142	28,797,000	170,396
The Cambric	740 7th St E	St. Paul	St. Paul	n/a	n/a	113	12,250,000	108,407	18,000,000	159,292	29,102,000	257,540
River North Apartments	11000 Crooked Lake	Coon Rapids	MHFA	33	29	167	18,980,000	113,653	19,800,000	118,563	31,331,000	187,611
The Grainwood	5131 Gateway Steet	Prior Lake	MHFA	40	35	168	21,160,000	125,952	20,300,000	120,833	32,839,000	195,470
Legends Of Champlin	11635 Theatre Drive	Champlin	MHFA	36	27	184	24,122,000	131,098	25,700,000	139,674	40,554,000	220,402
Legends of Cottage Grove	6961 E Point Douglas Rd	Cottage Grove	Washington Cty	n/a	n/a	184	23,000,000	125,000	25,400,000	138,043	38,050,000	206,793
Legends of Columbia Heights	3700 Huset Parkway	Columbia Heights	MHFA	42	27	191	24,740,000	129,529	26,600,000	139,267	42,465,000	222,330
Millworks Lofts	4041 Hiawatha Ave	Minneapolis	Minneapolis	n/a	n/a	78	8,200,000	105,128	20,400,000	261,538	34,859,000	446,910
Subtotal						1,384	$ 162,752,000		$ 188,400,000		$ 302,349,000	

PRE-DEVELOPMENT (Non-MHFA Suballocators)

Development	Address	City	Allocating Agency	2017 QAP Score Est.	# of Units	Total Debt	Total Debt per Unit	Construction Costs	Per Unit	Total Development Cost (TDC)	TDC per Unit
Legends of Apple Valley	14001 Cedar Ave	Apple Valley	Dakota Cty	n/a	163	$ 20,500,000	$ 125,767	$ 20,375,000	$ 125,000	$ 37,895,000	$ 232,485
Legends of Woodbury	568 Settlers Ridge Pkwy	Woodbury	Washington Cty	n/a	216	26,240,000	121,481	31,644,000	146,500	54,924,000	254,278
Union Flats	2300 Territorial Ave	St. Paul	St. Paul	n/a	217	26,540,000	122,304	37,975,000	175,000	66,500,000	306,452
Weyerhaeuser Senior	700 Emerald Street SE	St. Paul	St. Paul	n/a	240	32,400,000	135,000	43,200,000	180,000	74,543,000	310,596
Weyerhaeuser Family	700 Emerald Street SE	St. Paul	St. Paul	n/a	120	16,200,000	135,000	22,200,000	185,000	37,100,000	309,167
Nicollet Ave Family	Nicollet Ave	Minneapolis	Minneapolis	n/a	167	27,500,000	164,671	35,000,000	209,581	64,000,000	383,234
Snelling Yards Senior & Family	3706 45th Street	Minneapolis	Minneapolis	n/a	240	30,910,000	128,792	38,900,000	162,083	65,959,000	274,829
Subtotal					1,363	$ 180,290,000		$ 229,294,000		$ 400,921,000	

PRE-DEVELOPMENT (MHFA)

Development	Address	City	Allocating Agency	2017 QAP Score Est.	# of Units	Total Debt	Total Debt per Unit	Construction Costs	Per Unit	Total Development Cost (TDC)	TDC per Unit
Fridley Ice Arena	7011 University Ave	Fridley	MHFA	25	175	21,090,000	120,514	23,625,000	135,000	37,557,000	214,611
Bloomington Senior NC	8741 Portland Ave	Bloomington	MHFA	33	166	23,150,000	139,458	26,475,000	159,500	36,398,000	219,267
Maple Grove Senior NC	99th Ave N	Maple Grove	MHFA	35	150	20,400,000	136,000	19,500,000	130,000	34,333,000	228,887
Legends of Spring Lake Park	1066 Co Hwy 10 NE	Spring Lake Park	MHFA	31	194	23,170,000	119,433	25,220,000	130,000	45,727,000	235,706
Vadnais Hights Senior NC	Various	Vadnais Hieghts	MHFA	32	150	17,600,000	117,333	21,300,000	142,000	34,280,000	228,533
Golden Valley Senior NC	1111 Douglas Dr North	Golden Valley	MHFA	38	230	27,450,000	119,348	31,050,000	135,000	50,823,000	220,970
Lexington Senior NC	4175 Lovell Rd	Lexington	MHFA	25	184	20,840,000	113,261	24,100,000	130,978	38,818,000	210,967
Upper Post Flats	tbd	Ft. Snelling	MHFA	35	176	18,080,000	102,727	65,780,000	373,750	104,380,000	593,068
Mankato Post Office	401 S 2nd St	Mankato	MHFA	40	120	9,600,000	80,000	20,700,000	172,500	35,132,000	292,767
Subtotal					1,545	$ 181,380,000		$ 257,750,000		$ 417,448,000	
GRAND TOTAL					**4,292**	**$ 524,422,000**		**$ 675,444,000**		**$ 1,120,718,000**	

New Construction Bond Transactions

COMPLETED / UNDER CONSTRUCTION

· Cavanagh, Crystal	130
· The Legends At Silver Lake Village, St. Anthony	169
· The Cambric, St. Paul	113
· River North Apartments, Coon Rapids	167
· The Grainwood, Prior Lake	168
· Legends of Champlin, Champlin	184
· Legends of Cottage Grove, Cottage Grove	184
· Legends of Columbia Heights, Columbia Heights	191
· Millworks Lofts, Minneapolis	78
Total Units	**1,384**

PRE-DEVELOPMENT (Non-MHFA Suballocators)

· Legends of Apple Valley, Apple Valley	163
· Legends of Woodbury, Woodbury	216
· Union Flats, Minneapolis	217
· Weyerhaeuser Senior, St. Paul	240
· Weyerhaeuser Family, St. Paul	120
· Nicollet Ave Family, Minneapolis	167
· Snelling Yards Senior & Family	240
Total Units	**1,363**

PRE-DEVELOPMENT (MHFA)

· Fridley Ice Arena, Fridley	175
· Bloomington Senior, Bloomington	166
· Maple Grove Hy-Vee Outlot, Maple Grove	150
· Legends of Spring Lake Park, Spring Lake Park	194
· Vadnais Heights Senior, Vadnais Heights	150
· Golden Valley Senior, Golden Valley	230
· Lexington Senior, Lexington	184
· Upper Flats Posts, Ft. Snelling	176
· Mankato Post Office, Mankato	120
Total Units	**1,545**

Detailed Scoring for Dominium Tax Exempt Bond Deals

Project Status	**Completed**		**Under Construction**				**Predevelopment (MHFA)**								
Selection Priorities / Tax Exempt Bond Deal	*Cavanagh*	*Legends at Silver Lake Village*	*River North Apartments*	*The Grainwood*	*Legends of Champlin*	*Legends of Columbia Heights*	*Fridley Ice Arena*	*Bloomington Senior NC*	*Maple Grove Senior NC*	*Spring Lake Park Senior NC*	*Vadnais Heights Senior NC*	*Golden Valley Senior NC*	*Lexington Senior NC*	*Upper Post Flats*	*Mankato Post Office*
Household Targeting															
Economic integration				7	9			7	7	7	7	7			7
Rural/Tribal															
Workforce Housing Communities	5	5	3	5	5	5		5	3	3	5	5	3	5	5
Federal/Local/Philanthropic Contributions	2	4	4	2	2	4	4	4	4	4	2	4	4	10	
Financial Readiness to Proceed	14	14	14	12	6	14	12	10	14	8	12	14	4	14	14
Intermediary Costs (Soft Costs)	3	3	3	2	1	2	2	3	3	2	1	1	3	6	2
Unacceptable Practices															
Eventual Tenant Ownership															
Community Recovery - Planned Community Development				3			3			3	3		3	3	
Preservation															
Permanent Supportive Housing for Households Experiencing Homelessness															
High Speed Internet Access	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Location Efficiency		2		2	2		2	2	2	2		2	3	5	9
Universal Design			3									3	3		
Smoke Free Buildings	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Serves Lowest Income Tenants/Rent Reduction															
Rental Assistance															
QCT/Community Revitalization and Tribal Equivalent														1	1
Cost Containment															
Total Points	**26**	**30**	**29**	**35**	**27**	**27**	**25**	**33**	**35**	**31**	**32**	**38**	**25**	**46**	**40**

DOMINIUM

The Cavanagh
55+ LIVING

The Cavanagh Apartments consists of 130 units of affordable senior homes, constructed in the place of the former Cavanagh School. The Robbinsdale School District sold the 54-year old building to the City of Crystal's Economic Development Authority (EDA) in October 2012. The EDA sold the property to Dominium in June 2014 to complete the envisioned development.

This development provides affordable housing for tenants over the age of 55 who income-qualify, earning no more than 60% of the Area Median Income. Due to the use of tax exempt bonds as a portion of the financing, rents are restricted on 100% of the units, with 104 units at 60% AMI rental limit and 26 units at the FMR rent limit. The project consists of One-Bedroom and Two-Bedroom units.

The building was constructed using attractive, quality materials that are aesthetically pleasing to the local community. It consists of four stories of residential living with multiple floor plans and underground parking. There are approximately 96 underground parking spaces and an additional 66 surface spaces. With the target population in mind, the building contains many amenities including a fitness facility, movie theater, library, balconies in every unit, covered gazebo, club room, card room, a party kitchen, gardening area, craft room, a guest suite, and a salon.

The Cavanagh is financed through the combination of Tax-Exempt bonds, 4% Low Income Housing Tax Credits, an equity bridge loan, and Tax Increment Financing. The Cavanagh is helping meet the City of Crystal's need for affordable housing for its senior population and will continue to serve the community for years to come.

NAME:
The Cavanagh
Crystal, MN

TYPE OF PROJECT:
New Construction
130 Apartments
100% of Units Affordable

ARCHITECT:
BKV Group

CONSTRUCTION MANAGEMENT:
Stonebridge Construction

DOMINIUM'S RESPONSIBILITY:
Real Estate Development
Project Financing
Legal and Environmental Services
Design and Construction Managment
Property Management
Section 42 Compliance

FINANCIAL PARTNERS:
TCF Bank
Alliant Capital
City of Crystal
Dougherty & Company

TOTAL DEVELOPMENT COST:
$24,500,000

SIZE:
4.34 Acres (Site)
203,400 Square Feet (Building)

COMPLETION DATE:
May 2015

DOMINIUM

THE LEGENDS
at Silver Lake Village
55+ LIVING

The Legends at Silver Lake Village Apartments consists of 169 units of affordable senior homes, constructed as part of a master redevelopment of the former Apache Plaza in St. Anthony, MN. Dominium purchased the land from the City of St. Anthony and a private developer in December 2013.

This development provides affordable housing for residents over the age of 55 who income-qualify, earning no more than 60% of the Area Median Income. Due to the use of tax exempt bonds as a portion of the financing, rents are restricted on 100% of the units, with 135 units at 60% AMI rental limit and 34 units at the FMR rent limit. The project consists of One-Bedroom and Two-Bedroom units.

The building is constructed using quality and attractive materials that are aesthetically pleasing to the local community. It consists of four stories of residential living with multiple floor plans and underground parking. There are 169 underground parking spaces and an additional 60 surface spaces. With the target population in mind, the building contains many amenities including a fitness facility, movie theater, library, balconies/ patios off of every unit, outdoor seating space, club room, card room, a party kitchen, craft room, a guest suite, and a salon.

The Legends at Silver Lake Village is financed through the combination of Tax-Exempt bonds, 4% Low Income Housing Tax Credit, a Ramsey County HOME loan, an equity bridge loan, and Tax Increment Financing. The Legends at Silver Lake Village is helping meet the City of St. Anthony's need for affordable housing for its senior population and will continue to serve the community for years to come.

NAME:
Legends at Silver Lake Village
St. Anthony, MN

TYPE OF PROJECT:
New Construction
169 Apartments
100% of Units Affordable

ARCHITECT:
BKV Group

CONSTRUCTION MANAGEMENT:
Eagle Builders

DOMINIUM'S RESPONSIBILITY:
Real Estate Development
Project Financing
Legal and Environmental Services
Design and Construction Managment
Property Management
Section 42 Compliance

FINANCIAL PARTNERS:
TCF Bank
Alliant Capital
City of St. Anthony
Ramsey County
Dougherty & Company

TOTAL DEVELOPMENT COST:
$28,800,000

SIZE:
2.61 Acres (Site)
167,100 Square Feet (Building)

COMPLETION DATE:
May 2015

Item: 7.B
Written Comments

DOMINIUM

NAME:
The Cambric
St. Paul, MN

TYPE OF PROJECT:
113 Apartments
New Construction Senior (55+)
100% of Units Affordable

ARCHITECT:
BKV Group

CONSTRUCTION MANAGEMENT:
Weis Builders

DOMINIUM'S RESPONSIBILITY:
Real Estate Development
Project Financing
Legal and Environmental Services
Design & Construction Management
Property Management
Section 42 Compliance

FINANCIAL PARTNERS:
City of St. Paul
Ramsey County
US Department of Housing and Urban Development
Dougherty & Company
Wells Fargo

TOTAL DEVELOPMENT COST:
$29,100,000

SIZE:
1.5 Acres (Site)
156,700 Square Feet (Building)

COMPLETION DATE:

June 2016

THE Cambric SENIOR APARTMENTS

The Cambric is a 113 unit affordable senior housing apartment community consisting of 1 and 2 bedroom apartment units. The building is located just outside of downtown St. Paul in the historic Dayton's Bluff Neighborhood at the corner of East 7th street and Bates Ave. Dominium acquired the land from the City of St. Paul in June of 2015.

This Cambric provides affordable housing for residents over the age of 55 whose income does not exceed 60% of the Area Median Income. Dominium worked closely with the City of St. Paul, the Dayton's Bluff Community Council and the Heritage Preservation Commission to find way to provide high density housing while at the same time designing a building that will complement the historic nature of the Dayton's Bluff Neighborhood. The building complements other recent development in the area, including a new Mississippi Market cooperative.

The building is constructed using quality materials that serve to blend The Cambric's new facade into its local surrounding historic district. It consists of four stories of residential living and one story of underground parking. The community amenities were designed with the target population in mind and consist of a fitness facility, movie theater, social room, club room with a full kitchen and fire place, a salon, and outdoor seating.

The Cambric was financed through a combination of tax-exempt bonds, 4% Low Income Housing Tax Credits and a HUD insured 1st Mortgage provided by Dougherty Mortgage. The City of St. Paul also provided financing including a Seller Loan, HOME Loan, Star Loan and Tax Increment Financing. Ramsey County also provided environmental clean-up funds.

DOMINIUM

RIVER NORTH
SENIOR APARTMENTS

River North consists of 167 units of affordable senior homes, constructed adjacent to the Coon Rapids Ice Arena. A single family home was purchased in July of 2015 and the City of Coon Rapids sold the remaining parcel to Dominium on October 19, 2015 to complete the envisioned development.

This development provides affordable housing for tenants over the age of 55 who income-qualify, earning no more than 60% of the Area Median Income. Due to the use of tax exempt bonds as a portion of the financing, rents are restricted on 100% of the units, with 133 units at 60% AMI rental limit and 26 units at the FMR rent limit. The project consists of one bedroom, two bedroom and three bedroom units.

The building was constructed using quality and attractive materials that are aesthetically pleasing to the local community. It consists of four stories of residential living with multiple floor plans and underground parking. There are approximately 116 underground parking spaces and an additional 57 surface spaces. With the target population in mind, the building contains many amenities including a fitness facility, movie theater, library, balconies in every unit, covered gazebo, club room, a party kitchen, and a salon.

River North was financed through a combination of tax-exempt bonds, 4% Low Income Housing Tax Credits, an equity bridge loan, and tax increment financing from the City of Coon Rapids. River North is a project that the City of Coon Rapids can be proud of because of its contribution to the development of the city and providing quality, attractive affordable housing for the community's seniors for years to come.

NAME:
River North
Coon Rapids, MN

TYPE OF PROJECT:
167 Senior (55+) Apartments
100% of Units Affordable

ARCHITECT:
BKV Group

CONSTRUCTION MANAGEMENT:
Eagle Building Company

DOMINIUM'S RESPONSIBILITY:
Real Estate Development
Project Financing
Legal and Environmental Services
Design & Construction Management
Property Management
Section 42 Compliance

FINANCIAL PARTNERS:
US Bank
City of Coon Rapids
Greystone Financial Group
Freddie Mac
RBC Capital Markets

TOTAL DEVELOPMENT COST:
$31,000,000

SIZE:
18 Acres (Site)
240,000 Square Feet (Buildings)

CLOSING DATE:

November 2015

DOMINIUM

THE GRAINWOOD SENIOR LIVING

The Grainwood consists of 168 units of affordable senior homes in Prior Lake, MN. The project is a redevelopment of a site formerly occupied by a shopping mall. Dominium purchased the site from Wells Fargo Bank, who took possession of the property via foreclosure. The project contains one, two and three bedroom apartments for seniors with rent and income restrictions at the 60% of Area Median Income (AMI) level.

The project contains 112 one bedroom units, 21 two bedroom units and 35 three bedroom units. The project is four stories tall with an underground parking facility. The project was built with high quality materials and designed with lake home characteristics that match the surrounding community aesthetic. The Grainwood's amenities include a movie theater, salon, fitness center, library, craft room , club room and party kitchen. In unit amenities include balconies, kitchen islands, washers and dryers, dishwashers and nine foot ceilings.

This redevelopment was financed through a combination of tax-exempt bonds and 4% Low Income Housing Tax Credits from Minnesota Housing Finance Agency, a construction loan and equity investment from Wells Fargo Community Lending & Investment, a Freddie Mac permanent first mortgaged serviced by Greystone, and tax increment financing from the City of Prior Lake. The Grainwood represents an effective use of public and private resources to provide affordable housing for the seniors of Prior Lake, MN.

NAME:
The Grainwood
Prior Lake, MN

TYPE OF PROJECT:
168 Senior (55+) Apartments
100% of Units Affordable

ARCHITECT:
BKV Group

CONSTRUCTION MANAGEMENT:
Stonebridge Construction

DOMINIUM'S RESPONSIBILITY:
Real Estate Development
Project Financing
Legal and Environmental Services
Design & Construction Management
Property Management
Section 42 Compliance

FINANCIAL PARTNERS:
Wells Fargo Community Lending & Investment
City of Prior Lake
Greystone Financial Group
Freddie Mac
Minnesota Housing Finance Agency
Bridgewater Bank

TOTAL DEVELOPMENT COST:
$33,900,000

SIZE:
3.0 Acres (Site)
280,000 Square Feet (Buildings)

CLOSING DATE:

March 2016

DOMINIUM

NAME:
Legends of Champlin
Champlin, MN

TYPE OF PROJECT:
184 Apartments
New Construction Senior (55+)
100% of Units Affordable

ARCHITECT:
BKV Group

CONSTRUCTION MANAGEMENT:
CBS Construction Services

DOMINIUM'S RESPONSIBILITY:
Real Estate Development
Project Financing
Legal and Environmental Services
Design & Construction Management
Property Management
Section 42 Compliance

FINANCIAL PARTNERS:
City of Cottage Grove
Minnesota Housing Finance Agency
Citi Community Capital
Freddie Mac
TCF Bank
WNC & Associates

TOTAL DEVELOPMENT COST:
$40,500,000

SIZE:
5.0 Acres (Site)
240,000 Square Feet (Building)

CLOSING DATE:
September 2016

THE LEGENDS
of Champlin
SENIOR LIVING

The Legends of Champlin consists of 184 units of affordable senior homes, located in Champlin, MN which is 20 miles north of Minneapolis. Jefferson Associates sold the parcel to Dominium on September 2, 2016 to complete the envisioned development. Dominium will be collaborating with BKV Group and CBS Construction Services to complete construction by the end of January 2018.

The Legends of Champlin helps complement a growing area of the city, filling in a vacant parcel that connects nearby residential development with commercial as well as public uses, including City Hall, also providing convenient access to shopping and entertainment for its residents.

The building provides affordable housing for tenants over the age of 55 who income-qualify, earning no more than 60% of the Area Median Income; the unit mix consists of 58 one-bedroom units, 78 two-bedroom units, and 48 three-bedroom units. Legends of Champlin includes many amenities for its tenants, including underground parking, a fitness facility, movie theater, balconies in every unit, walking paths, a club room, a party kitchen, and a salon.

The Legends of Champlin was financed through the combination of tax-exempt bonds, 4% Low Income Housing Tax Credits from Minnesota Housing Finance Agency, a grant from the City of Champlin, a construction loan from Citi Community Capital, a permanent first mortgage from Freddie Mac serviced by Citi, an equity investment from WNC & Associates and an equity bridge loan from TCF Bank.

DOMINIUM

THE LEGENDS
of Cottage Grove
SENIOR LIVING

Legends of Cottage Grove is a new-construction housing development which will add 184 units of affordable apartment homes, marketed to seniors age 55+, in the community. Located on East Point Douglas Road South in Cottage Grove, the project's location provides easy access to Highway 61, a number of restaurants and retail amenities and is within walking distance to the City's Gateway North trail system that includes walking trails, open spaces and scenic overlooks of the Mississippi River Valley. The project will serve residents whose income is less than 60% of Area Median Income, 20% of the units wil be offered at Fair Market Rents, and 5% of the units will serve residents whose income is less than 50% AMI.

Legends of Cottage Grove will consist of 70 one-bedroom units, 78 two-bedroom units and 36 three-bedroom units. Residents will have access to several community spaces including a centrally located clubroom with a spacious kitchen and gathering areas, outdoor grilling and dining space, a card/craft room, theater room and library on the main floor. The lower level will also include a fitness center and salon. Residents will have plentiful off-street parking, both at surface and heated underground.

The project was financed through a combination of tax-exempt and taxable multi-family bonds, tax increment financing from the City of Cottage Grove, and low-income housing tax credits allocated by Washington County CDA. Construction financing was provided by BMO Harris Bank, N.A., permanent loan financing from Greystone & Co., Inc. and Freddie Mac as well as tax-credit equity financing provided by RBC Capital Markets.

NAME:
Legends of Cottage Grove
Cottage Grove, MN

TYPE OF PROJECT:
184 Apartments
New Construction Senior (55+)
100% of Units Affordable

ARCHITECT:
BKV Group

CONSTRUCTION MANAGEMENT:
Eagle Building Company

DOMINIUM'S RESPONSIBILITY:
Real Estate Development
Project Financing
Legal and Environmental Services
Design & Construction Management
Property Management
Section 42 Compliance

FINANCIAL PARTNERS:
Washington County CDA
City of Cottage Grove
Freddie Mac
Greystone
RBC Capital Markets
BMO Harris Bank

TOTAL DEVELOPMENT COST:
$38,053,000

SIZE:
4.86 Acres (Site)
286,000 Square Feet (Building)

CLOSING DATE:
September 2016

DOMINIUM

NAME:
Legends of Columbia Heights
Columbia Heights, MN

TYPE OF PROJECT:
191 Apartments
New Construction Senior (50/55+)
100% of Units Affordable

ARCHITECT:
BKV Group

CONSTRUCTION MANAGEMENT:
Eagle Building Company

DOMINIUM'S RESPONSIBILITY:
Real Estate Development
Project Financing
Legal and Environmental Services
Design & Construction Management
Property Management
Section 42 Compliance

FINANCIAL PARTNERS:
Citi Community Capital
Minnesota Housing Finance Agency
City of Columbia Heights
Freddie Mac
Alliant Capital
Minnwest Bank
Dougherty & Company

TOTAL DEVELOPMENT COST:
$42,465,000

SIZE:
6.65 Acres (Site)
244,000 Square Feet (Building)

CLOSING DATE:
September 2016

THE LEGENDS
of Columbia Heights
SENIOR LIVING

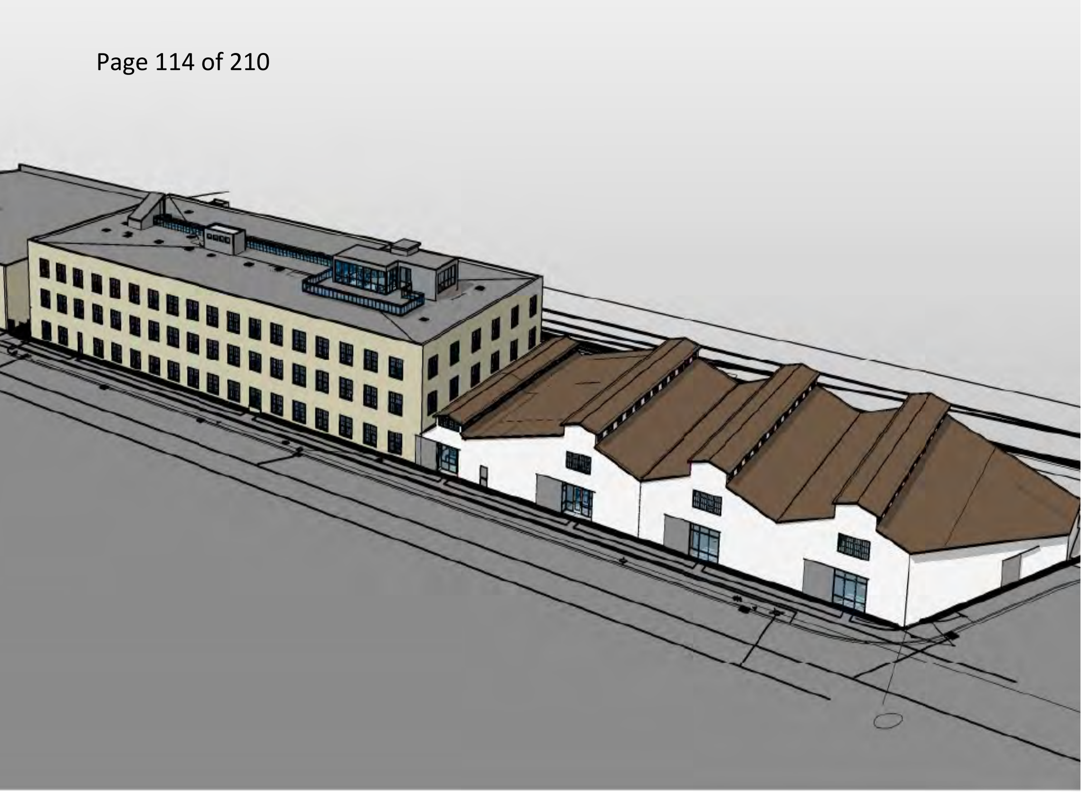
The Legends of Columbia Heights consists of 191 units of affordable senior apartment homes, located in Columbia Heights, MN, just north of Minneapolis in Anoka County. Dominium acquired the vacant land site in October 2015 and worked over the course of the next year to close the 4% tax credit financing in September 2016. Construction is expected to be complete by the end of February 2018.

This development will provide affordable housing for tenants over the age of 50 and 55 who earn no more than 60% of the Area Median Income. The unit mix consists of 79 one-bedroom units, 43 two-bedroom units, and 69 three-bedroom units.

The building's construction will utilize quality and attractive materials that are aesthetically pleasing to the local community. It will consist of four stories of residential living with multiple floor plans; there will also be 136 underground parking spaces. With the target population in mind, the building will contain many amenities including a fitness facility, movie theater, balconies or patios, walking paths, club room and a salon.

The Legends of Columbia Heights was financed with tax-exempt bonds allocated by the City of Columbia Heights, 4% low income housing tax credits from Minnesota Housing Finance Agency, a construction loan from Citi Community Capital, permanent debt financing from Freddie Mac, and an equity investment from Alliant Capital, and an equity bridge loan from Dougherty & Company,

The Legends of Columbia Heights is a project that both Dominium and the community will be proud of for many years to come.



DOMINIUM

MILLWORKS LOFTS

Millworks Lofts is an historic rehabilitation project located in South Minneapolis on the Hiawatha Corridor. The project is just two blocks away from the 38th Street Blue Line Light Rail Station that provides easy access to Downtown Minneapolis and the MSP International Airport. The existing historic warehouse buildings, originally constructed in 1926 by the Lake Street Sash & Door Company, will be converted into 78 affordable workforce housing units.

The unit mix will consist of 56 one-bedroom units, 21 two-bedroom units and 1 three-bedroom unit. Unit finishes will include granite countertops, finished concrete floors, stainless steel appliances, in-unit washer and dryers, walk-in closets, exposed timber posts and beams and historic brick feature walls. Common area amenities will include a first-floor clubroom, outdoor patio with seating and grilling stations, rooftop clubroom and a fitness center with yoga room. The building will also have 19 covered parking stalls and ample surface parking. All units will be affordable at the 60% Area Median Income (AMI) level.

Millworks Lofts was financed through a combination of tax-exempt bonds from the City of Minneapolis and Hennepin County, 4% Low Income Housing Tax Credits from the City of Minneapolis, a permanent first mortgage from Freddie Mac serviced by Greystone, an equity investment from US Bank for the federal LIHTC and historic tax credits as well as the state historic tax credits. US Bank also provided the construction loan and equity bridge loan financing. The project also received environmental grants from Hennepin County, the Metropolitan Council and DEED.

NAME:
Millworks Lofts
Minneapolis, MN

TYPE OF PROJECT:
78 Loft Apartments
Historic Adaptive Reuse
100% of Units Affordable

ARCHITECT:
BKV Group

CONSTRUCTION MANAGEMENT:
Weis Builders

DOMINIUM'S RESPONSIBILITY:
Real Estate Development
Project Financing
Legal and Environmental Services
Design & Construction Management
Property Management
Section 42 Compliance

FINANCIAL PARTNERS:
US Bank Community Development Corporation
Greystone Financial Group
Freddie Mac
Hennepin County
City of Minneapolis
Metropolitan Council
Minnesota DEED

TOTAL DEVELOPMENT COST:
$35,000,000

SIZE:
1.8Acres (Site)
105,000 Square Feet (Building)

CLOSING DATE:
March 2016

- Legends of Apple Valley consists of 163 units of affordable senior apartment homes, located in Apple Valley, MN, just south of Minneapolis in Dakota County. Dominium plans to acquire the vacant land site in November of 2016 in conjunction with the closing the 4% tax credit financing. Construction is expected to be complete by the end of February 2018.
- This development provides affordable housing for tenants age 55 and older who income-qualify, earning no more than 60% of the Area Median Income. The unit mix consists of 62 one-bedroom units, 57 two-bedroom units, and 44 three-bedroom units.
- The building's construction will utilize quality and attractive materials that are aesthetically pleasing to the local community. It consists of four stories of residential living with multiple floor plans and underground parking. There are 143 underground parking spaces and an additional 42 surface spaces. With the target population in mind, the building contains many amenities including a fitness facility, movie theater, balconies or patios, walking paths, club room and a salon.
- Legends of Apple Valley will be financed with tax-exempt bonds, 4% low income housing tax credits, Tax-Incremental Financing, and a HOME loan allocated by the Dakota County CDA, an equity bridge loan from Dougherty & Company, a construction loan from Citi Community Capital and permanent debt financing from Freddie Mac. Alliant Capital will purchase the low income housing tax credits from the Partnership.
- The Legends of Apple Valley is a project that both Dominium and the community will be proud of for many years to come.

DOMINIUM

- **Legends of Woodbury (Woodbury)**
    - Redevelopment of RV Park in to 216 units of affordable housing
    - Woodbury has already approved the issuance of tax-exempt bonds and density bonuses for affordable housing
    - Will be the largest affordable housing development done in Woodbury
- **Union Flats (St. Paul)**
    - New 217 unit TOD redevelopment of vacant, blighted industrial building that is located one block from the Green Line LRT
    - Has received grants from DEED, Met Council, and Ramsey County
    - St. Paul has already approved the re-zoning from industrial to T3
- **Weyerhaeuser Senior (St. Paul)**
    - New 240 unit redevelopment of former Weyerhaeuser lumber yard at Hwy 280 and 94 in to senior affordable apartments
    - Located 2 blocks from the Green Line LRT
    - Will create new public park spaces
- **Weyerhaeuser Family (St. Paul)**
    - New 120 unit redevelopment of former Weyerhaeuser lumber yard at Hwy 280 and 94 in to family affordable apartments
    - Located 2 blocks from the Green Line LRT
    - Will create new public park spaces
- **Nicollet Ave Family (Minneapolis)**
    - Redevelopment of underutilized commercial buildings on Nicollet Ave
- **Snelling Yards Senior & Family (Minneapolis)**
    - RFP of vacant City of Minneapolis owned land located at 45th and Hiawatha, two blocks from a light rail stop
    - 240 units of mixed-generational housing for seniors and families

Dominium's Comments to Minneapolis/St. Paul Housing Finance Board Amended 2017 Qualified Allocation Plan

Thank you for the opportunity to comment on the proposed Amended 2017 Qualified Allocation Plan (QAP) and Procedural Manual (Manual) for Low Income Housing Tax Credits for Minneapolis/St. Paul.

As the leading developer of affordable housing throughout Minneapolis/St. Paul, the surrounding metro area, and the country, Dominium has a well-rounded perspective on what effects certain changes to a QAP can have on the market. Most recently, we have seen the tremendous response to the most recent proposal by the Minnesota Housing Finance Agency (MHFA) to amend their 2017 and 2018 QAPs with several policies that make bond/4% transactions nearly impossible to complete; this outreach by cities, developers, lenders, investors, and national experts has resulted in MHFA withdrawing their proposal for 2017 changes and re-opened dialogue about the previously approved 2018 QAP changes. Overall, it is the opinion of this broad coalition of affordable housing advocates that all tax credit allocators incentivize affordable housing to be built with tax-exempt bonds and 4% LIHTC to bring more federal subsidy to the state, take advantage of historically high tax credit pricing and low interest rates, and build more affordable housing units for the citizens of Minnesota. Our comments below are all offered in pursuit of those goals—simple economics would suggest that increasing the supply of new rental housing would provide greater market pressure to keep rental prices as low as possible.

<u>Background</u>

On October 20th the City of Minneapolis proposed an amendment to their previously approved 2017 QAP and Manual, which took effect over 6 months ago. Our understanding from discussions with staff from both Minneapolis and St. Paul is these changes were influenced by changes simultaneously proposed by MHFA to their previously approved 2017 and 2018 QAP. Based on significant pressure from the affordable housing industry MHFA has subsequently retracted any and all changes to their 2017 QAP to allow for additional dialogue with the affordable housing industry and to provide time for developments already in process to be completed under the previously approved QAP.

The amendment proposed by Minneapolis and St. Paul would primarily affect tax-exempt bond deals financed with 4% low-income housing tax credits (4% LIHTC) by requiring developers and owners to waive their right to a Qualified Contract, which is provided for in the federal Section 42 low-income housing tax credit program. This waiver of the Qualified Contract provisions provided for in the federal Section 42 program would apply to all developments, even if they could be completed with no gap financing (TIF, AHTF, HOME, CDBG, etc).

These proposed changes would be implemented almost immediately and with a relatively short comment period. Further, they would modify the previously approved 2017 QAP, which are typically approved several months, if not years, before implementation. This has historically been done to allow developers adequate time to adjust to the new proposed changes and to allow developments that are in process to be cycle through under the existing rules.

Timing of Changes

First, the most difficult circumstance for developers to deal with is uncertainty and/or abrupt changes to the rules and policies of bond and tax credit allocation, particularly for 4% LIHTC transactions. For example, MHFA recommended changes to their 2018 QAP in May of 2016 that would take affect starting in January of 2018—nearly two years out. It has been a long-standing policy of MHFA and other suballocators to provide ample time for any changes to be absorbed by cities and developers as to allow developments already underway to cycle through under the in-place rules. The much more compressed timeline proposed by Minneapolis for these amendments to the 2017 QAP not only create uncertainty about the program, but will impair developments currently in progress that developers have been planning for months, in some cases years, and have committed significant time and resources pursuing. In a case where a developer has selected their financing partners, these changes have the potential unfortunate consequence of forcing both parties to renegotiate their agreements.

Whereas developers competing for 9% transactions risk roughly $25,000 of predevelopment dollars in submitting for, and hopefully receiving, an award of 9% credits or soft money, developers proposing to do 4% transactions risk a significant amount more capital to get to the point they can apply for 4% credits, which they rely on for the final feasibility of their transactions. Taking away this certainty is problematic and will discourage the significant investment developers take to get a 4% transaction completed.

Furthermore, there is concern that should Minneapolis/St. Paul provide the sort of point scoring and threshold requirements proposed, and retracted, by MHFA that it would turn 4% bond transactions in to a lottery type system when they could otherwise be done with little to no soft money.

Qualified Contract Waiver

Second, Minneapolis has proposed a significant change to their QAP by no longer allowing developers/owners the option for a Qualified Contract. The federal Section 42 program rules provides for a 30-year affordability period with a right for the owner to enter in to a Qualified Contract with the allocating agency at the end of the initial 15-year compliance period. This provides the allocating agency up to a year to identify a buyer who would agree to maintain the affordability for the remainder of the 30-year affordability period for the Qualified Contract price. While a longer term requirement of affordability seems like a no-brainer, eliminating this option has unintended consequences for the production of affordable housing.

Across the industry, and country, the waiver of the right to a Qualified Contract is typical for deals seeking competitive 9% tax credits, which provide 3 to 4 times more subsidy. With the additional subsidy comes more equity and lower hard debt, which is inherently less risky for the developer/owner and increases their residual at the end of the 15-year compliance period. In exchange for a less risky transaction with lower hard debt developers agree to, and allocating agencies require, waiver of the Qualified Contract.

However, it is typical on 4% LIHTC transactions, which receive roughly one-third the amount of subsidy, or tax credits, to not require a waiver of the Qualified Contract to encourage developers to take the additional risk of requiring significantly more hard debt per unit on the transactions to make up for the lack of tax credit equity 9% transactions receive. Having 4% deals and 9% deals, which receive a significantly higher subsidy package, have the same affordability period is further dis-incentivizing developers from taking on inherently riskier 4% deals. Requiring this at a time when 4% deals can be done with little to no subsidy requirements due to historically high tax credit pricing and historically low interest rates may very well result in less affordable housing production that would otherwise be done.

The Qualified Contract provisions on bond financed transactions provide comfort to lenders, equity investors, and developers that there is a profitable exit strategy on these highly levered developments. Put simply, it is likely that many of the types of affordable housing developments that Dominium, and others, complete that don't require scarce gap financing or TIF would not be proposed. This is too high of an opportunity cost when so much affordable housing creation could be done.

On 4% bond deals developers and their lenders are comfortable leveraging affordable housing transactions at very high levels – in nearly all cases $120,000 per unit in first mortgage debt or more – because the qualified contract option at Year 15 gives their lender comfort that the deal will be able to be refinanced when the term of the loan is up. Without the Qualified Contract option, if AMI growth is flat for a period of time in the initial compliance period, but expenses continue to grow, the project can experience negative cash flow and without the potential upside of the Qualified Contract, developments would be at risk of foreclosure and there would be little incentive for owners to fund the operating deficits. By maintaining the status quo, the City will continue to see affordable housing units built through highly levered bond / 4% credit transactions that are currently able to get done with very little or no soft money or Tax Increment Financing (TIF).

This is not a 'something for nothing' proposition. One example of this is the Pillsbury A-Mill redevelopment, a project that Dominium completed in late 2015, which redeveloped a long vacant, historic structure into 251 affordable artists' lofts on the banks of the

Mississippi River. This project went forward without any City of Minneapolis gap funding or any TIF. It was also extremely highly levered with hard debt to make up for the lack of equity that comes with the 9% credits or other scarce gap funding. Both the first mortgage lender and tax credit investor **would not** have committed their tens of millions of dollars of capital without the qualified contract option—the transaction would have been too risky to do. The project was 100% preleased before opening, and has proven very successful, contributing affordable units to an extremely high-rent area and helped facilitate the growth of a purposeful and creative community.

Another unintended consequence is how this change will alter the decision making process of apartment developers in higher rent / higher income areas. Faced with the proposition of a 30-year affordability period it will provide disincentive for owners when making an investment decision to propose affordable housing in these areas. The opportunity cost is too much compared to the incentive received. For example, Dominium would never have done Buzza Lofts in Upton as affordable if we were faced with a 30-year affordability period—there is simply too little upside to take the risks we took to if faced with a 30-year affordability period. With so many high rent areas like downtown, northeast and uptown lacking moderately priced affordable housing many owners will either choose not to do deals or will do them as market rate with higher rents.

From a policy perspective, we do believe that transactions where the city has contributed soft funds or TIF should have the 'strings attached" of a longer affordability period, but would propose that if those soft funds are repaid at some point in the future, the waiver of the qualified contract would terminate.

<u>Other Considerations</u>

Third, as we have seen with the MHFA proposal and ensuing outpouring of comments from the market, we want to reiterate the fact that the easier Minneapolis makes the allocation process for noncompetitive 4% tax credits, the more affordable housing gets built. Certainly there are other strategic priorities to take into account – such as large family housing and deeper set aside units, among others – but the production of the 'workforce' level 60% AMI housing not only helps communities meet their affordable housing needs but also suppresses rent growth through greater supply. In times of low interest rates and high tax credit pricing, developers are able to build these quality affordable housing developments with little to no soft funds, bringing millions of dollars of federal subsidy to the **local** production of more affordable housing.

It is our position the City should not only refrain from adopting policies that add restrictions to make these developments more difficult, but rather adopt policies to make these transactions easier. One example of such a policy is allowing a higher developer fee percentage, greater than 15%, to bring more tax credit basis into a project and reduce the subsidy need. The state of Tennessee allows a 25% developer fee on 4% bond deals, which functions as soft money to make more projects feasible, taking advantage of millions of additional federal dollars instead of further stressing local resources—this also comes with a requirement to defer a large portion of the fee as to not fill the pockets of developers—rather it's done to lower the subsidy needed in transactions by leveraging a non-scarce federal resource. In practice, this does not increase the fee that is paid to the developer, but rather increases the often times large portion of the developer fee that is deferred and repaid throughout the life of the development.

Finally, we believe the City of Minneapolis should advocate to the State of Minnesota, MHFA, and Minnesota Office of Management and Budget to allocate a higher percentage of the state's bonding capacity to multifamily projects. Multifamily bonds are the most efficient use of private activity bonds because of the substantial additional federal subsidy that comes to projects in the form of the 4% tax credit. For example, in the current environment, $100 million of bonds allocated to multifamily affordable projects at 53% of total project cost results in approximately $60 - $85 million of federal tax credit equity depending on a project's location, and an additional $30 million of additional private investment, for a total investment in affordable housing of $190 - $215 million. This represents the creation of roughly 1,000 more affordable units of housing. If the state were to allocate more bonds to multifamily projects, this additional federal investment would be maximized for the state, and pressure on suballocators like Minneapolis, who already allocates their bonds efficiently, would be reduced. In years where Minneapolis' full allocation of bonds would be used, projects would have a greater chance of being funded from the state pool by making most, if not all, of the $550 million in bonds that come to the state of Minnesota on an annual basis prioritized towards multifamily.

Closing

Thank you again for the opportunity to comment on the Amended 2017 Qualified Allocation Plan (QAP) for Minneapolis/St. Paul. Dominium has enjoyed a great partnership with the City of Minneapolis and is proud of the affordable housing we've been able to build for the city's residents with no additional subsidy besides the 4% credits. We also eagerly anticipate the completion of the projects we currently have in progress, like the historic rehabilitation of Millworks Lofts along the Hiawatha corridor, and look forward to more in the future.

Please let us know if you have any questions on need any more information in regards to our comments. For specific questions please contact Owen Metz at ometz@dominiuminc.com or 763-354-5618.

Respectfully,

Dominium

EAGLE | BUILDING COMPANY
6636 CEDAR AVENUE SOUTH, SUITE 140, MINNEAPOLIS, MN 55423
PHONE: 612.378.1115 | FAX: 612.378.1116 | WWW.EAGLEBUILDINGLLC.COM

11/10/2016

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

RE: Proposed amendments to the Agency's 2017 and 2018 Qualified Allocation Plans (QAPs)

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

The projects funded through the 4% program serve an urgent and growing need in the communities in which they're built. To be clear, the proposed changes would halt current projects in progress and inhibit the construction of all future projects utilizing the 4% credit. We've made plans based on the fruition of projects in the pipeline and allocated resources accordingly, in many cases hiring or making other investments to meet the need. This change will force me to eat many of the costs associated with that preparation and potentially alter my plans for employment. This comes in addition to rising labor and health care costs.

I am frustrated by this proposed change because it does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state." This change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.

I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Very truly yours,

Eagle Building Company, LLC

BY: ______________________________

Eagle Building Company is an
Affirmative Action/Equal Opportunity Employer

EICHNER NORRIS & NEUMANN PLLC
ATTORNEYS AT LAW
THE JEFFERSON BUILDING
1225 19TH STREET, N.W., 7TH FLOOR
WASHINGTON, D.C. 20036
TEL: (202) 973-0100
FAX: (202) 296-6990

November 14, 2016

Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101
Attention: Ms. Tamara Wilson

Re: Proposed Amendments to the 2017-2018 Qualified Allocation Plan

Ladies and Gentlemen:

Our firm is a Washington, D.C. based specialty law firm which serves as underwriter's or bond purchaser's counsel for tax exempt multifamily housing bond financings throughout the United States. In the last year alone, we were involved in well over 150 private placements and public offerings aggregating over $2.0 billion in over 35 states. Over the past five years I have personally been involved in 22 of these financings with issuers, developers, underwriters and other participants in these financings for tax exempt affordable housing bond financial projects in Minnesota.

I am writing to urge the Minnesota Housing Finance Agency (MHFA) to reconsider and reject the proposed amendments to the 2017-2018 Qualified Allocation Plan (QAP) as presented at the MHFA's October 19, 2016 Board meeting. In a time of increasing scarcity of tax exempt private activity bond volume in many states, we think it is critically important for states to maximize the amount of private activity bond volume the state allocates to tax exempt affordable housing bond financings eligible for 4% low-income housing tax credits under Section 42 of the Internal Revenue Code (4% LIHTC). We understand you have scheduled a hearing and meetings later this month and in December to discuss the proposed amendments.

The most important point of emphasis is the following: An allocation of private activity bond volume to tax exempt affordable multifamily housing bonds versus other private activity bond sources is **the only use of private activity bond volume which** not only provides low rate debt financing, but **also triggers another huge (25-45% or more of total development cost) federal subsidy** on the equity side through the 4% LIHTC. **No other use of the state's private activity bond volume provides this dramatic, powerful, double "bang for the buck."** This is a major **external** subsidy for the residents of the state to meet a critical public need.

According to estimates by reputable industry players, on an affordable rental housing project with a cost of $200,000 per unit to which a private activity bond award of $106,000 is allocated (53% of total cost), one might expect the 4% LIHTC to generate an additional $60,000 of 4% LIHTC proceeds for desperately needed affordable rental housing and roughly $30,000 of additional private investment. In other words, for every dollar of private activity bond volume which is allocated to tax exempt multifamily rental housing bonds, close to a dollar of additional external funding is triggered to address this critical public need in the state. No other use of private activity bond volume triggers this kind of subsidy. An argument can thus be made that this is far and away the most efficient use of increasingly scarce state resource.

For this reason, we see a number of states divert the substantial majority of their private activity bond volume to multifamily. For example, for a number of years, states like New York, California and other states have devoted over 75% of their annual private activity bond volume to multifamily. Until the demand for affordable rental housing is met, we think such a policy is a prudent and farsighted one for a state to pursue.

As a general matter, I think state and local housing finance agencies should develop policies which not only encourage this type of financing, but maximize the federal and private funding for these projects. This can include, for example, allowing reasonable, but larger developer fee caps on these transactions, which can attract more capital to affordable housing production versus market rate housing and also raise the contribution from the 4% LIHTC side.

I would be glad to answer any questions you might have on these recommendations and assist the MHFA in addressing this critically important issue in any way that may be of assistance to you. I would appreciate the opportunity of speaking on this subject to the Board at its December 22, 2016 Board meeting if the proposed changes will be on the agenda and time permits.

Very truly yours,

R. Wade Norris

R. Wade Norris

cc: John DeCramer – Chair (jdecramer@bhelectronics.com)
Terri Thao (tthao@nexuscp.org)
Joe Johnson (jjohnson@banknorthshore.com)
Craig Klausing (craigklausing@comcast.net)
Stephanie Klinzing (mayorer@charter.net)
Rebecca Otto (Rebecca.otto@osa.state.mn.us)

ENVIRONMENTAL STONEWORKS

November 10, 2016

Minnesota Housing Finance Agency
Commissioner Mary Tingerthal
400 Sibley Street, Suite 400
Saint Paul, MN 55101-1998

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride in the quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry. Not to mention the effects these changes will bring about to those the program was designed to assist.

The projects funded through the 4% program serve an urgent and growing need in the communities in which they're built. To be clear, the proposed changes would halt current projects in progress and inhibit the construction of all future projects utilizing the 4% credit. We've made plans based on the fruition of projects in the pipeline and allocated resources accordingly, in many cases hiring or making other investments to meet the demand. The proposed changes will force us to absorb many of the costs associated with that preparation and potentially alter our plans for employment. The absorption of these costs in conjunction with rising labor and health care costs will be detrimental to our business.

This proposed change does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state." This change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.

I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Thomas Wilmet
Midwest Region General Manager
Direct: 651-237-5915

November 10th, 2016

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

The projects funded through the 4% program serve an urgent and growing need in the communities in which they're built. To be clear, the proposed changes would halt current projects in progress and inhibit the construction of all future projects utilizing the 4% credit. We've made plans based on the fruition of projects in the pipeline and allocated resources accordingly, in many cases hiring or making other investments to meet the need. This change will force me to eat many of the costs associated with that preparation and potentially alter my plans for employment. This comes in addition to rising labor and health care costs.

I am frustrated by this proposed change because it does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state." This change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.

I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Tony Huot Jr.

Finishing Touch Plus

HESLEY SHOQUIST & COMPANY, LTD
Certified Public Accountants & Consultants
David H. Hesley, CPA
Kenny J. Shoquist, CPA

November 10, 2016

Mr. John DeCramer
Chair, Board of Directors
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: Public Comments on Proposed Amendments to the 2017-2018 Qualified Allocation Plan

Dear Chair DeCramer:

As a CPA Firm practicing in the area of low income housing since 1986, we are opposed to the proposed amendments to the 2017-2018 Qualified Allocation Plan (QAP) as presented by the Minnesota Housing Finance Agency (MHFA) at its October 19, 2016 board meeting.

If you recall, pre-1995 projects were allowed to finance their projects with tax exempt bonds, received the automatic 4% LIHTC and provided affordable housing for seniors. Many of these projects are still in the LIHTC program today serving our community's needs. However, MHFA sought out to change those rules to prevent tax exempt bonds and 4% credits to fund senior projects subsequent to 1995.

Over the years, MHFA skewed the point system to prevent senior projects effective access to the 9% credits. As a result, 4% tax credits were the only subsidy left for affordable senior projects to move forward. In fact, the economies of a 4% tax subsidy project does not allow the project to provide a 100% set aside of the units for affordable housing. As a result, less and less affordable units are being provided for the senior population. Yet today, due to the manipulation of interest rates by the federal government, we find more and more of our senior population not only running out of money and being forced to seek out government subsidies but are needing medical services as well due to their aging in place. As a result, market rate assisted/memory care facilities are kicking out seniors that can no longer afford to pay market rents and services with no affordable facilities to go to.

The proposed changes to the QAP, though their new point scoring, will effectively eliminate nearly every affordable senior and or family housing project from qualifying for tax credits. Only projects with supportive housing, homeless transition and deep rent restrictions will qualify for tax credits under the QAP. Rather than working with local cities to amend the QAP in a way that respects city official community visions and needs assessments, MHFA is proposing to strip local control from cities and place the MHFA agency's goals first and foremost. It is now clear over the past 30 years this has been MHFA's goal since day one with regards to the LIHTC program.

Our Firm is currently working with developers to develop 160 senior housing units with services within the City of Faribault and Pine City that will effectively kill these projects due to the proposed QAP changes. The lack of focus by the MHFA regarding affordable senior housing is disappointing at best. By 2040 the number of seniors in the Twin Cities metropolitan area is expected to double. Yet current demand for senior housing is out stripping supply. The proposed changes to the QAP will prevent cities across Minnesota to address their needs for affordable senior housing since senior housing will be ineligible for non-competitive tax credits.

I respectfully request the MHFA Board reject the proposed rules for the 2017-2018 QAP, instead engage all participates to create a QAP that not only meets the housing goals of MHFA but the local governments as well.

Sincerely,

David H. Hesley
Certified Public Accountant

CC:	Commissioner Mary Tingerthal	becky.schack@state.mn.us
	Minnesota Housing Finance Agency Board of Directors	mn.housing@state.mn.us
	City of Faribault City Council	
	Pine City Counsel	
	The Honorable Governor Mark Dayton	mark.dayton@state.mn.us
	The Honorable Lieutenant Governor Tina Smith	tina.smith@state.mn.us
	The Honorable Senator Tony Lourey	sen.tony.lourey@senate.mn
	The Honorable Representative Jason Rarick	rep.jason.rarick@house.mn
	The Honorable Senator Vicki Jensen/John Jasinski	jjasinski@ci.faribault.mn.us
	The Honorable Representative Brian Daniels	rep.brian.daniels@house.mn
	The Honorable Senator Charles Wiger	sen.chuck.wiger@senate.mn
	The Honorable Representative Leon M. Lillie	rep.leon.lillie@house.mn

KEVITT EXCAVATING LLC

11/30/2106

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

The projects funded through the 4% program serve an urgent and growing need in the communities in which they're built. To be clear, the proposed changes would halt current projects in progress and inhibit the construction of all future projects utilizing the 4% credit. We've made plans based on the fruition of projects in the pipeline and allocated resources accordingly, in many cases hiring or making other investments to meet the need. This change will force me to eat many of the costs associated with that preparation and potentially alter my plans for employment. This comes in addition to rising labor and health care costs.

I am frustrated by this proposed change because it does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state." This change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.

I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Jeremy Juday

Vice President

Kevitt Excavating, LLC/ SVK Development

3335 Pennsylvania Ave N

Crystal MN 55427

Item: 7.B
Written Comments

CONCRETE
&MASONRY
INC

November 15, 2016

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

RE: Proposed Amendments to the Agency's 2017 and 2018 Qualified Allocation Plans (QAPs)

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

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I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Gregg Johnson

Gregg Johnson, President
763-757-8000

LeadingAge Minnesota

2550 University Avenue West, Suite 350 South
St. Paul, MN 55114-1900

Submitted by Electronic Mail

November 16, 2016

Re: Comment on Proposed Change to the 2017 and 2018 QAP

To whom it may concern:

On behalf of LeadingAge Minnesota, we are writing to comment on the proposed change to the 2017 and 2018 QAP.

Our membership encompasses over 1,000 organizations statewide. Together with more than 50,000 caregivers, our members serve 63,000 older adults every day in places they call home and receive services, including home care, independent senior housing, assisted living communities, skilled nursing facilities, and adult day centers.

We believe that the proposed changes to the 2017 and 2018 QAP will have a significant negative impact on the availability of affordable senior housing, and therefore we recommend that Minnesota Housing take the following immediate steps with respect to the proposed changes:

- Minnesota Housing should withdraw all proposed changes to the QAP regarding private activity bonds and 4 percent federal housing tax credits.
- Minnesota Housing should convene stakeholders to the housing use of private activity bonds and through a deliberative process determine what changes to bond and tax credit policy best serve the interests of the state.
- Going forward, in light of the growing senior population, Minnesota Housing should proactively seek to expand the availability of affordable housing to seniors throughout Minnesota by ensuring that affordable senior housing developers have access to private activity bonds and tax credits.

Our primary concern is that the proposed changes appear to reflect a lack of focus on affordable housing for seniors. Please consider the following from the Minnesota State Demographer: While the 2010 Census tallied about 683,000 older adults in our state, we anticipate the 65+ group will see 41% growth by 2020, resulting in about 965,000 older adults. By 2030, the 65+ population will surge to 1.26 million members. That means that more than twenty percent of Minnesota's population will be over the age of 55. Even today, there already 35 counties in Minnesota where 1 in 5 residents (i.e. 20%) are age 65 or older.

This growing senior population may have fewer financial resources to stay in a single family home. According to the Urban Institute, the number of adults aged 65 plus has risen from 30% in 1998 to 44% in 2012. Further, the number of older households with a mortgage rose to 24% in 2012.

Access to affordable housing options are an important component in addressing the long- term care needs of the low-income senior population. Without affordable housing options, seniors find themselves with assistance through Medicaid to cover their care needs, but little assistance to cover their housing needs. As a result, they may have to resort to a more-costly nursing home. Failure to address this dynamic will have a significant impact on the state's overall budget.

By withdrawing the proposed changes and convening a stakeholder group these issues can be more fully discussed. LeadingAge MN and our members would be eager to participate in such discussions.

Thank you for your consideration of our comments and recommendations.

Sincerely,

Kari Thurlow

Kari Thurlow

Senior Vice President of Advocacy

LeadingAge MN

LEAGUE OF MINNESOTA CITIES

CONNECTING & INNOVATING
SINCE 1913

November 29, 2016

Tamara Wilson
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

Dear Ms. Wilson:

The League of Minnesota Cities very much appreciates the extension of the comment period for changes to the 2018 Qualified Allocation Plan (QAP), not implementing changes to the 2017 QAP, and the addition of listening sessions over the winter. We understand the Board's concern over the expected rapidly diminishing private activity bond authority carry over.

The League, like MHFA, has been hearing from cities about the proposed changes. The proposed changes to the QAP could greatly impact the ability for local communities to work to provide housing that fits the local need. Cities have found the existing tax credit program to be beneficial and pivotal to assist in addressing local, affordable housing needs in a community.

While the League looks forward to participating in and helping publicize the recently announced listening sessions and webinar, we would respectfully request that a working group meet to have a more in-depth discussion of key issues. Specifically, the League encourages the agency to include information on the necessity, rationale, and impacts of following proposed changes to the 2018 QAP:

- **Further increase from 40 to 50 points in project eligibility.** The League would like to hear the rationale for such seemingly drastic changes to the scoring criteria, what recently-awarded projects would not qualify under the new proposed point threshold, and any information on the impact of the already recently-implemented increase from 30 to 40 points.
- **Requirement to meet at least one strategic policy priority.** The League would like explicit clarification in the procedural program manual that senior housing could qualify as meeting the "Planned Community Development" priority, if that is indeed the case.
- **Pre-application requirement.** The League sees this proposed change as one that seems reasonable, but stakeholder review of the format prior to implementation would be helpful.

We very much appreciate your willingness to hear comments on the 2018 QAP changes. We look forward to working with you on this issue, and others, in the coming months.

Sincerely,

Heather Corcoran
Intergovernmental Relations Member Relations Coordinator | League of Minnesota Cities
hcorcoran@lmc.org | 651-281-1256

cc: John DeCramer, Board Chair, Minnesota Housing Finance Agency
Allison Jones, Policy Advisor, Office of Governor Mark Dayton

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MCCD
Metropolitan Consortium of Community Developers

3137 Chicago Ave
Minneapolis, MN
55407

612-789-7337 voice
612-822-1489 fax

www.mccdmn.org
info@mccdmn.org

November 10, 2016

Commissioner Mary Tingerthal
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101
mn.housing@state.mn.us

Re: Written Comments Regarding the Proposed Amendment to the Qualified Allocation Plan(QAP), and Procedural Manual, and Self-Scoring Worksheet, 2017 and 2018 Housing Tax Credit (HTC) Program

Dear Commissioner Tingerthal,
The Metropolitan Consortium of Community Developers (MCCD) and our 50 members appreciate this opportunity to provide Minnesota Housing with feedback and input on proposed amendments to the QAP. In general, we are supportive of Minnesota Housing's concern about the availability of these credits, and the desire to ensure that the allocation of 4% credits more closely aligns with the Agency's priorities. We have the following suggestions to the proposed changes:

Feedback on Recommended changes to the 2017 QAP and the 2018 QAP:

- Increase the minimum score required to receive an allocation of 4% tax credits to 50 points.
- Add the requirement that a project must meet at least one Strategic Priority Policy Threshold in the QAP under which the project was selected.

When the recommended changes listed above are read together, we believe they achieve the same objectives, and are duplicative. Instead, we recommend keeping the minimum score required to receive an allocation of 4% tax credits at 30 points and keeping the requirement that a project must meet at least one Strategic Priority Policy Threshold in the QAP under which the project was selected. This change would reduce the amount of staff time that will be required in preparing the pre-application and application and will better allow developers to quickly capture a good floating 4% rate. This change will also meet Minnesota Housing's interest in more closely adhering 4% credit awards to agency priorities without creating duplicative and burdensome paperwork for staff working on these applications.

Feedback on Recommended change to the 2017 QAP

- When Minnesota Housing is the issuer of tax-exempt bonds, bonding authority will be allocated for no more than 53% of a project's eligible basis, as defined in the low income housing tax credit rules.

It is possible that taxable bond rates will have a higher interest rate in the future and limiting Minnesota tax-exempt bonds to 53% of a project's eligible basis could hurt the deal overall. Instead, we recommend allowing a developer to apply to the Board for a waiver for any project seeking Minnesota Housing bonding authority for more than 53% of a project's eligible basis.

Thank you again for providing this opportunity to share the insights and ideas of our members. MCCD and our members look forward to partnering with the Agency throughout the coming year.

Thank you,

Jim Roth
Metropolitan Consortium of Community Developers
Executive Director

MARSHALL BUILDING & REMODELING Inc.

6975 Washington Ave S. Suite 215 Edina, MN 55439

Phone 612-369-0123 Fax: 952-843-5683

Email: it@marshallremodeling.com

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

The projects funded through the 4% program serve an urgent and growing need in the communities in which they're built. To be clear, the proposed changes would halt current projects in progress and inhibit the construction of all future projects utilizing the 4% credit. We've made plans based on the fruition of projects in the pipeline and allocated resources accordingly, in many cases hiring or making other investments to meet the need. This change will force me to eat many of the costs associated with that preparation and potentially alter my plans for employment. This comes in addition to rising labor and health care costs.

I am frustrated by this proposed change because it does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state." This change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.

I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Date: 11/15/2016

Ivan Tkach:______________________

MEDINA ELECTRIC, LLC. www.medinaelectric.net

22510 STATE HIGHWAY 55 - HAMEL, MN 55340 - PHONE (763) 478-6828 - FAX (763) 478-6055

November 11, 2016

Mary Tingerthal
Minnesota Housing Finance Agency
400 Sibley Street
Suite 300
Saint Paul, MN 55101

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride in the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

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I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely
MEDINA ELECTRIC, LLC.

Jason Ianfolla
President and CEO

METRO CITIES

Association of Metropolitan Municipalities

November 18, 2016

John DeCramer
Chair, Board of Directors, Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

Dear Mr. DeCramer:

Thank you for the opportunity to comment on the proposed changes to the Minnesota Housing Finance Agency's 2018 Qualified Allocation Plan. Metro Cities also appreciates the Agency's decision to delay any proposed changes to the QAP, and to lift the moratorium on applications.

Metro Cities supports a range of housing to meet the needs of communities throughout the region. Minnesota Housing's programs have historically provided flexibility to allow funding for a full range of projects to address various local needs. This includes non-concentrated housing for people with disabilities, workforce housing, housing for low-income seniors as well as seniors who want to age in place, housing for residents with large families and housing for people experiencing homelessness. Cities and their local partners, along with the state and federal government, have worked in close partnership to provide for the wide range of needs.

Tax credits and financing tools play a crucial role in affordable housing development. Metro Cities is concerned that the proposed changes would remove important flexibility and replace it with a restrictive approach that reduces the program's ability to address a range of community needs that it has historically allowed. As partners, local officials are in the best position to know the affordable housing needs of their local community.

By making program criteria more restrictive and requiring projects to meet higher thresholds that usually require additional significant subsidies, Metro Cities is also concerned that this policy could reduce participation in the tax credit program, with a potential result being a reduction in the overall number of affordable units being built.

Thank you for the opportunity to comment. This program, which has been designed to meet a range of local needs and has found great success across Minnesota, should continue to remain flexible and be utilized by the state's local government partners to meet a spectrum of affordable housing needs.

Sincerely,

Patricia Nauman
Executive Director

145 University Ave W • St. Paul, MN 55103-2044 • Phone (651) 215-4000 • Fax (651) 281-1299 • www.MetroCitiesMN.org

MIDWEST
SPECIALTY MAINTENANCE

11/29/2016

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

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I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Respectfully,
David Trumble
Vice President/Project Management

midwest window&door

11/10/2016

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

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I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Craig Gerkin
V.P Sales

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Minnesota Housing Partnership www.mhponline.org 651-649-1710

mhp

11/16/2016

Comment on Proposed Amendments to the 2017 and 2018 QAP

Chip Halbach, Executive Director

On behalf of the Minnesota Housing Partnership board of directors I submit the following.

Recommendations:

- Minnesota Housing should withdraw all proposed changes to the QAP regarding private activity (tax exempt) bonds and 4-percent federal housing tax credits.
- Minnesota Housing should convene stakeholders to the housing use of private activity bonds and through a deliberative process determine what changes to bond and tax credit policy best serve the interests of the state.

Our concerns:

1. Current 4-percent tax credit policy provides local governments a tool that they effectively control to best meet the housing priorities that they identify for their communities. This local control would be significantly diminished under the proposed QAP amendments.
2. Under existing rules, 4-percent tax credit projects are providing much needed new rental housing in the Twin Cities and other Minnesota metro areas. Currently, with their low vacancy rates, these metropolitan areas are in desperate need of this new non-luxury rental housing in order to relieve the upward pressure on rents and the loss of unsubsidized affordable rental housing.
3. Demographic trends call for modestly-priced new senior housing, which is effectively denied 9-percent tax credits under the QAP, but is being produced under the current rules for 4-percent credits. This senior housing also underpins local government initiatives related to freeing up senior-occupied single family homes for families.
4. Private activity bonding for rental housing also benefits the state in non-housing ways (ways not typically found with use of bonds for home ownership). Substantial 4-percent tax credit equity paid for by the federal government is leveraged for Minnesota (over $100 million during the last several years). And tax credit supported rental development must be newly constructed or substantially rehabbed… meaning there will be significant multiplier benefits stemming from construction labor and material costs.
5. All of the benefits, identified above, come with no drain on the state's housing funding – which can be focused on lower income housing needs or other Minnesota Housing strategic priorities.

6. These benefits related to investment in rental housing result from increasing median incomes plus the current situation of low interest rates and the high payments being made for federal tax credits. Proposed tax reform and federal spending associated with the Trump Administration make it much more likely that this conducive climate for 4-percent credit projects will be short lived, and therefore should be taken advantage of before it is lost.

7. Proposed modifications to the 2018 QAP undercut developer and local government investments in projects envisioned under current rules. Several years ago the Agency wisely change its policy to provide 14-month lead time for major QAP changes. A change to the 2018 QAP in December provides less than 6 months' lead time.

8. The draft QAP proposal puts at risk Minnesota Housing and housing advocates' hopes for success in the upcoming legislative session. It will not be helpful for the Agency to face opposing legislative proposals related to private activity bonding backed by local governments, labor, and portions of the housing industry. The playing out of disagreements over bonding will not be in the interest of advancing affordable housing, particularly in light of changes in the legislature resulting from the recent election.

<u>Questions we believe need to be address before adoption of a new policy on private activity bonding and 4-percent credits:</u>

1. The Agency states that a primary reason for proposing this policy change is to ensure that private activity bonding is available for high priority projects (e.g., supportive housing); are there not alternative, less disruptive approaches for Minnesota Housing to provide these projects private activity bond funding?

2. With taxable bond rates as low as they now are what is the compelling reason for utilizing the majority of the state's tax exempt bonding housing allocation for ownership? Other Minnesota jurisdictions that have private activity bonding authority have recently substantially reduced or eliminated use of tax exempt bonding for ownership housing.

3. Do other jurisdictions require 30-year affordability periods for 4-percent credit projects as is being proposed in the draft QAP? Did the Agency consider methods of achieving greater than 15-year affordability other than relying upon the financially risky tax credit program methodology of tying allowed rents to changes in area median income?

As stated above, it appears that a primary reason behind the proposed QAP amendments is the concern that private activity bonding will not be available for high priority projects. MHP understands and supports Minnesota Housing's interest in seeing that projects meeting its priorities do have access to tax exempt bonds and 4-percent credits. MHP also endorses Agency's interest in maximizing affordability of projects utilizing federal housing resources.

However, we believe that there are alternatives to the proposed QAP amendments, alternatives that can ensure that high priority projects are bond funded and affordability is extended. MHP will work with Minnesota Housing and other stakeholders to determine how multiple needs can be addressed through thoughtful use of the state's tax exempt bonding authority.

MOLIN

Quality Concrete Solutions
since 1897

11-30-16

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

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I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

John E. Saccoman, V.P.

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National Housing & Rehabilitation Association

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Suite #420
Washington, DC 20036
P: (202) 939-1750
F: (202) 265-4435
www.housingonline.com

January 4, 2017

Minnesota Housing Finance Agency
Attn: Tamara Wilson
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: Proposed Amended 4% Tax Credit Requirements for the 2018 Qualified Allocation Plan

Dear Ms. Tingerthal:

The National Housing & Rehabilitation Association (NH&RA) thanks Minnesota Housing Finance Agency for the opportunity to provide comment on recently proposed changes to the 2018 Qualified Allocation Plan. NH&RA is a professional trade association of affordable housing professionals. Our member organizations include private and nonprofit developers, owners, operators, and lenders involved in developing and preserving affordable, multifamily housing. Many of our members develop, manage, and/or own affordable multifamily properties in Minnesota.

NH&RA is opposed to recently proposed amendments dealing with changes to the 4% tax credit program. We ask that the Agency consider instituting a 3-month comment period for a productive and meaningful dialogue with stakeholders given the gravity of the proposed changes. We share the concern of our members regarding current proposed changes to Minnesota's 4% LIHTC program for the following reasons:

I. CURRENT MHFA PROPOSALS WILL CHILL TAX-EXEMPT BOND FINANCED PRODUCTION OF AFFORDABLE MULTIFAMILY HOUSING DURING A RARE TIME OF FAVORABLE MARKET CONDITIONS

The United States is currently experiencing rare market conditions favorable for new construction and preservation of multifamily affordable housing utilizing tax-exempt bonds in combination with the 4% Tax Credit. Interest rates are historically low and tax credit equity pricing is historically high. In recent years there has been limited demand for multifamily volume cap locally and nationally and the resource overall has not been fully subscribed (use of tax-exempt bonds peaked in 2007 when states allocated 58% of total authority), the current market conditions present a rare opportunity for tax-exempt bonds to play a major role in closing the gap between demand and supply for affordable multifamily housing.

We recognize that MHFA uses its Volume Cap for a number of important public purposes; however, we and that market conditions have led to a shortage of volume cap for multifamily housing in states like Minnesota. Accordingly, changes in policy may be necessary to accommodate for the high utilization of bonds towards affordable multifamily housing. That said, NH&RA opposes the particular policy changes proposed by MHFA as they are overly burdensome and will chill development of affordable multifamily housing within the 4% tax credit program. Multifamily tax-exempt bond transactions deserve special considerations from MHFA because given they leverage additional federal resources that other TEB transactions do not in the federal LIHTC. While market conditions make multifamily TEB transactions viable without the necessity of other limited state resources we contend that MHFA should facilitate public policy that maximizes the number of these transactions.

A. Limiting 4% Tax Credits to Projects Serving Tenants Below 60% AMI and Increasing Point Requirements to 50 Will Chill Production for Lack of Viability and Will Result in Bonds Utilized for Higher Income Single Family Uses

While tax-exempt bonds are currently available to multifamily projects serving incomes at 60% AMI, the new proposal would only allow projects serving incomes below that threshold. Furthermore the proposed change of increasing the point threshold to 50 further increases cost of development. These proposals would make the large majority of multifamily projects financially infeasible under the 4% program. Lacking any form of additional subsidy, these changes will result in reduced production of multifamily housing leaving bond authority underutilized. Leftover bond authority would then be used by the single family program, which serves incomes at 80-100% AMI. Essentially, the policy initiative to serve lower-income individuals in theory becomes, in practice, an initiative to serve higher income individuals.

B. Current Market Conditions Will Likely End Soon

As recent history has shown, tax credit equity pricing could decrease to the point of making 4% bond deals financially infeasible. Furthermore, the current national political climate shows serious potential for tax reform in the near future. A reduction in corporate taxes, a likely outcome of tax reform, will certainly lower tax credit pricing. Interest rates are also so low that the only potential change is an increase, and this has been anticipated for some time now. These factors illustrate the need for utilizing tax-exempt bonds towards multifamily now, while they are still a valuable subsidy for the industry.

II. INCORPORATING THE STRATEGIC PRIORITY POLICY THRESHOLD IS DAMAGING TO LOCAL GOVERNMENT INITIATIVES

Given the deep subsidy that comes with 9% LIHTCs, it is understandable that MHFA prioritize compliance with at least one of the state's strategic priority policies because 9% credits are state-allocated funds. The bond program is a much shallower subsidy and absent other MHFA gap funding we contend that it is more appropriate to empower local governments to determine their own policy priorities, which may be different than MHFA's strategic priorities. For example, the current 9% program leaves no incentives for senior housing and this population is not addressed by any of the strategic priority policies. Several local governments have demonstrated a need for affordable senior housing. At this time, the bond program is the only viable source of funding for senior housing. By placing the strategic priority policy threshold over the 4% bond program, Minnesota would be removing the one program local governments currently have available for developing multifamily projects that meet policy needs at the local level.

III. SUMMARY

Multifamily housing uniquely leverages tax-exempt bonds in ways no other program can due to the additional available subsidy of 4% tax credits. This unique leveraging is made even more unique by favorable, and time-sensitive market conditions. Impeding the 4% program at this time is counterproductive to the rare conditions currently present to close the gap between supply and demand for affordable housing and alleviate pressure from an over-subscribed 9% program.

The changes proposed would radically change the current state of the 4% program. We ask that more time and conversation with stakeholders be given to identify the appropriate policy measures for moving forward. We welcome the opportunity to discuss these issues further in working towards policy solutions that serve the needs of all Minnesotans. Thank you for your consideration of these comments.

Sincerely,

Thom Amdur
Executive Director
National Housing & Rehabilitation Association

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November 11, 2016

John DeCramer, Chair
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
Saint Paul, MN 55101

Dear Chair DeCramer:

On behalf of the North Central States Regional Council of Carpenters and our 26,000 members, I write to express concern with the proposed changes to the Qualified Allocation Plan that were presented at the October 16 MHFA board meeting. I feel the changes could negatively impact our members and the creation of good jobs in the residential construction industry in Minnesota. I understand that these proposed changes may be delayed in order to give more time for stakeholder involvement, and we applaud that more deliberative approach.

Our members have been heavily involved in the construction of numerous multi-family units that have utilized the 4 percent program. These projects are more than just affordable housing; they are about economic development in the communities in which they're being built. These projects help the area businesses that directly serve the construction, as well as those businesses looking for a long-term customer base.

We shouldn't lose sight of the ultimate purpose of these projects: long-term, quality-built affordable housing for Minnesotans that will last for decades to come. In my service on the Minnesota Housing Partnership board, I've come to appreciate the crucial role that for-profit development plays, along with non-profit development, in meeting Minnesota's current and future affordable housing needs.

We're very concerned about the possible effects of the proposed rule changes. These 4 percent projects are an example of how government can work well, leveraging millions of dollars in private dollars through partnerships between cities, state, and local developers. My members are proud to build homes for Minnesotans across the state, and they would like to continue to do so.

Sincerely,

Kyle Makarios

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North Metro Mayors

December 12, 2016

Mr. John DeCramer
Chair, Board of Directors
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: Public Comments on Proposed Amendments to the 2017-2018 Qualified Allocation Plan

Dear Chair DeCramer:

The North Metro Mayors Association was created in 1987 to serve as the non-profit champion organization to encourage private and public investments in the northern suburbs. Within our territory, member cities represent more than 466,000 residents in Andover, Anoka, Blaine, Brooklyn Center, Brooklyn Park, Champlin, Circle Pines, Coon Rapids, Lexington, New Brighton, New Hope, Maple Grove, Mounds View, Osseo, Ramsey and Spring Lake Park.

The North Metro Mayors Association (NMMA) opposes the Minnesota Housing Finance Agency's proposed amendments to the 2017-2018 Qualified Allocation Plan. The proposed changes will prove to be detrimental to both affordable housing and work-force housing efforts being made by cities of the North Metro region as well as the entire state of Minnesota. In addition, the proposed amendments infringe upon local government control and local government efforts to provide housing to their residents.

NMMA supports local governmental control in the development of affordable and work-force housing plans and meeting the individual needs of individual cities. Proposing to remove local control from cities ignores the needs, desires and efforts of city planners who are held accountable to city residents at the most accessible level of government. The removal of local government authority and elevation of MHFA's goals at the expense of local goals will damage relationships between the state of Minnesota and cities and prove to be detrimental to the development of low-income housing.

Analysis of the tax capacity of cities in the North Metro indicate that the region has been more deeply affected by the 2008 recession than other region of Minnesota, and continues to recover at a slower pace. If the proposed amendments are adopted, low-income housing projects which have been in the planning process for months and sometimes years will be in jeopardy as will future projects which will further delay the economic recovery of cities in the North Metro region.

NMMA advocates that the Minnesota Housing Finance Authority reject the proposed rules for the 2017-2018 Qualified Allocation Plan and continue to work with the North Metro's cities to assist them with their efforts to provide additional affordable and work-force housing development.

Sincerely,

Kathi Hemken
President of NMMA
Mayor of New Hope

Dave Bartholomay
Vice-President of NMMA
Mayor of Circle Pines

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

The projects funded through the 4% program serve an urgent and growing need in the communities in which they're built. To be clear, the proposed changes would halt current projects in progress and inhibit the construction of all future projects utilizing the 4% credit. We've made plans based on the fruition of projects in the pipeline and allocated resources accordingly, in many cases hiring or making other investments to meet the need. This change will force me to eat many of the costs associated with that preparation and potentially alter my plans for employment. This comes in addition to rising labor and health care costs.

I am frustrated by this proposed change because it does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state." This change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.

I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Alan Ramsey
President
Ramsey Excavating

Voice 612 529-0077 4060 Washington Ave N ● Minneapolis, MN. 55412 Fax 612 529-0074

Connie Bernardy
State Representative

Fridley, New Brighton
and Spring Lake Park

Minnesota House of Representatives

October 26, 2016

Mr. John DeCramer
Chair, Board of Directors
Minnesota Housing Finance Agency
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: Public Comments on Proposed Amendments to the 2017-2018 Qualified Allocation Plan

Dear Chair DeCramer:

I am concerned with the proposed amendments to the 2017-2018 Qualified Allocation Plan (QAP) as presented by the Minnesota Housing Finance Agency (MHFA) at its October 19, 2016 board meeting. The timing of the proposed amendments, along with the loss of local control, erodes the state-local government partnership that has fostered past affordable housing projects to the detriment of the citizens of the state of Minnesota.

The proposed changes to the QAP fail to recognize that local governments sometimes have differing goals than MHFA in the development of affordable housing. Cities such as Spring Lake Park utilize affordable housing developments as a way to meet local housing needs, grow property tax base, spur economic development and meet our Metropolitan Council Thrive 2040 goals. These affordable housing goals are not reflected in the QAP. In addition, the new project scoring will eliminate nearly every affordable senior and/or family housing project from qualifying for tax credits without requiring significantly more subsidy in order to meet MHFA's strategic priorities or proposed point scoring. Only projects with supportive housing, homeless transition and deep rent restriction will qualify for tax credits under the QAP, which cannot be done without gap financing that is not currently available. Rather than working with local governments to amend the QAP in a way that respects city officials' community vision and needs assessments, MHFA is proposing to strip local control from cities and place the agency's goals first and foremost. This will be hurtful to the state-city relationship at the expense of low-income Minnesotans.

The City of Spring Lake Park is working with a developer to redevelop an old miniature golf course site on CSAH 10 into a new construction 190 unit affordable development project that is 80% restricted to those aged 55 and over. There is huge demand in Spring Lake Park for senior housing. This is not only documented by a market study, but also by the fact that the city's three affordable senior developments have lengthy wait lists. There has been strong support by the

Mayor and City Council, as the site has been re-guided from Commercial to High Density Residential and rezoned from C-2, Neighborhood & Service Center Commercial, to R-3, Multiple Family Residential. The City Council is also prepared to offer up to $4.0 million in tax increment financing to support the redevelopment costs, which represents the only subsidy the development needs beyond tax-exempt bonds and 4% low-income housing tax credits. The City Council has been strong supporters of this type of affordable housing in our community, having issued private activity bonds and granted tax increment financing to support nearly 180 units of affordable senior housing in the community. This particular development would represent the first new multifamily housing of any kind in the city in 20 years.

This important affordable housing project cannot move forward based on the proposed changes to the 2017-2018 Qualified Allocation Plan put forward by the MHFA Board. The timing of the changes couldn't be worse. Affordable housing projects like the one proposed here in Spring Lake Park take months, and sometimes years, of planning to get to a successful closing. Spring Lake Park staff has been working with the developer for over six months to put together the details of this project and seek necessary city entitlement and financial approvals. The developer has already invested over $150,000 into this project. It is inherently unfair to penalize local governments and developers by moving the goal post at the end of the game. More broadly, these abrupt changes to long-standing policy have a chilling effect on the marketplace as developers and city officials will lose trust in the system and will be left wondering if these rules will change again in the future without notice. The proposed change will harm efforts to effectively create affordable housing for many years to come, not to mention the economic development that will occur in our community and the nearly $30 million of construction activity that will be lost.

Finally, I am concerned about the lack of focus on affordable senior housing by MHFA. By 2040, the number of elderly persons living in the Twin Cities metropolitan area is expected to double. Yet, current demand for senior housing is outstripping supply. I have heard time and again from seniors in Spring Lake Park that they want to remain in our community. Projects like the proposed development in our city are broadly supported by the public and business community alike. A recent AARP survey confirms this, showing that over two-thirds of seniors want to remain in the community they currently live in. The proposed changes to the QAP will prevent cities across Minnesota to address the need for affordable senior housing as such housing will be ineligible for non-competitive tax credits. The result will be seniors choosing to remain in place, which will result in a missed opportunity for affordable single family housing units to be made available to young families, the inability of school districts to maintain student populations and a lack of reinvestment in local communities' housing stock.

I respectfully request that the MHFA Board reject the proposed rules for the 2017-2018 QAP and engage all stakeholders to create a QAP that meets the housing goals of MHFA and local governments who are on the front lines of affordable housing development in the State of Minnesota.

If you have any questions, please don't hesitate to contact me. Thank you for your consideration of my request.

Sincerely,

Connie Bernardy

Connie Bernardy
State Representative

Cc: Commissioner Mary Tingerthal
The Honorable Governor Mark Dayton

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Sherman Associates' Comments to Minnesota Housing's

Proposed 2017-2018 QAP Changes

Introduction

At the Minnesota Housing board meeting on 10/19/2016, and in response to continued strong usage of PAB in 2016, Minnesota Housing staff recommended some major changes to the Minnesota QAP, with said changes to take effect immediately upon a 4-week public comment period.

In describing the rationale for these changes, Minnesota Housing has provided two documents: (1) 10/19/16 staff memo to board of directors and, (2) 11/1/16 frequently asked questions.

The Minnesota Housing QAP is one of the most involved and technically complicated in the country. Even those familiar with the process often become overwhelmed with the level of detail and complexity. As such, people who don't work with this program on a day-to-day basis (such as politicians at both the local and state level) have a difficult time understanding the implications of changes to this complicated process.

The following is Sherman Associates' understanding of the intent, and potential unintended consequences, of the highly complex Minnesota Housing QAP and its proposed changes.

Specific Comments Regarding Staff Recommended QAP Changes

MFHA Staff Recommendation: Increase the minimum score required to receive an allocation of 4% tax credits to 50 points.

Comment: Recommending to increase the minimum score required to receive an allocation of 4% tax credits from 30 points to 50 points will make it more onerous for multi-family developments to access PAB. In our reading, the only public comment discussing use of PAB's suggested this tool could be used for increased production of affordable rental production. The change recommended will have the exact opposite effect of decreasing production of multi-family affordable rental housing. Minnesota Housing's proposal will benefit higher income single family homeowners at the expense of lower income renters. Additional deeply skewed rental housing will not be built because Minnesota Housing has no additional resource to support it. By default, all of the additional bonds that had supported 60% Area Median Income (AMI) deals (that will no longer be feasible) will go to single family home mortgages, which benefits families at 80% -100% of AMI.

MHFA Staff Recommendation: Add the requirement that a project must meet at least one Strategic Priority Policy Threshold in the QAP under which the project was selected.

Comment: 4% projects for the first time will have to meet one of seven Minnesota Housing strategic priorities to be even considered for 4% tax credits. Besides that these strategic priorities are rather confusing (many developers have commented to this effect over the years). They do not appear to allow for any senior housing to be built. Minnesota Housing seems to be dictating the priorities even though it is not promising to invest anything additional in 4% projects. Contrary to Minnesota Housing's stated goals, it seems that less projects will have access to 4% tax credits.

MHFA Staff Recommendation: Require that owners of projects qualifying for 4% tax credits under the 2017 QAP and the 2018 QAP maintain the credit units in the projects for at least 30 years and Sections 42(h)(6)(E)(i)(II) and 42(h)(6)(F) of the Internal Revenue Code shall not apply to the projects.

Comment: As opposed to the federal requirement of 15 years, Minnesota Housing wants to impose a 30-year Land Use Restrictive Agreement (LURA) on all new 4% tax credit projects. This imposition will not bring with it any additional (or really any) subsidy for 4% tax credits. Historically, Minnesota Housing has only required a 30-year LURA if it has allocated the more generous 9% tax credit or it has invested other state resources. The most notable risk associated with a 30-year LURA is that most projects cannot make it a full 30 years without needing a major rehab, so this risks either default or deferred maintenance, or it requires less debt and thus more up-front subsidy, which Minnesota Housing is not providing.

MHFA Staff Recommendation: Minnesota Housing will require a waiver from the Board for any project seeking 4% tax credits whose total development costs exceed the predictive model by more than 25%.

Comment: No historic adaptive re-use in the past 10 years has cost less than Minnesota Housing's predictive cost model. With this change, all historic adaptive re-use will have to get permission from Minnesota Housing's board to move forward. These projects take years to put together and often times require millions in pre-development risk – developers will simply not take the risk and projects won't even be proposed.

General QAP Comments

Comment: Minnesota Housing Self-Scoring Worksheet Too Complicated

One of the most consistent public comments over the last several years has been that the escalating complexity and detail of the self-scoring worksheet makes affordable housing development in Minnesota too expensive, too complicated and un-welcoming to those unfamiliar with its involved processes. Some have suggested that maybe Minnesota Housing is trying to achieve too many policy goals through its project selection process. Each year people comment on each of the very detailed changes Minnesota Housing makes to its allocation formula. However, because there are so many details to attend to, there may be a variety of consequences that are simply lost in the detail, the most notable of which is that Minnesota Housing now awards points based on how many "high income" people live in a community, how many jobs are close by, and whether a city has access to transit. If, as a community, you cannot score these points, you will likely not receive assistance from Minnesota Housing to help meet your affordability goals, or you will have to contribute more money to receive said state assistance.

Comment: Minnesota office of Management & Budget Loss of PAB Control

Currently, state statute controls allocation of PAB through the Minnesota office of Management & Budget (MMB). Along with changes previously approved for the 2018 QAP, Minnesota Housing's current proposal effectively takes control of this allocation from MMB and gives it to Minnesota Housing. It seems that, given Minnesota Housing's inherent economic conflict of interest, such a decision should be made at a political level and not at the State's staff level.

Summary

In summation, the proposed changes to Minnesota Housing's QAP, whether intended or unintentional, will have a profound effect on the provision of affordable housing in the State of Minnesota.

Staff's response to the strong demand for PAB is to raise the bar on multi-family projects so that only Minnesota Housing's highest priority projects receive PAB authority. On its face, this seems like a reasonable response. However, when looked at more thoroughly, this will have some potentially devastating impacts on certain types of housing in the State, most notably senior housing and historic adaptive re-use projects as noted above. Additionally, PAB authority will be taken from lower income more vulnerable rental populations and allocated to higher income single family homeowners.

Given the above information, Sherman Associates strongly opposes Minnesota Housing staff's proposed QAP changes.

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SKYLINE FIRE PROTECTION, INC.

COMMERCIAL, INDUSTRIAL & RESIDENTIAL FIRE SPRINKLER CONTRACTING, SERVICE & INSPECTIONS

November 29, 2016

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

The projects funded through the 4% program serve an urgent and growing need in the communities in which they're built. To be clear, the proposed changes would halt current projects in progress and inhibit the construction of all future projects utilizing the 4% credit. We've made plans based on the fruition of projects in the pipeline and allocated resources accordingly, in many cases hiring or making other investments to meet the need. This change will force me to eat many of the costs associated with that preparation and potentially alter my plans for employment. This comes in addition to rising labor and health care costs.

I am frustrated by this proposed change because it does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state." This change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.

I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Justin Kokales, Vice President

10900 73rd Ave. North, Suite 108 · Maple Grove, MN 55369 · www.skylinefire.com
Tel: 763.425.4441 · Fax: 763.425.7755

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"A Concrete Solution"
13427 Fenway Blvd. Circle North
Hugo, MN 55038
Ph. (651) 484-1286 Fax (651) 484-0851
www.stockness.com

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride in the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

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I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Luke D. Stockness

SUMMIT ACADEMY OIC
Training for Life

November 7, 2016

Mr. John DeCramer
Chair
Minnesota Housing Finance Agency

Dear Chair DeCramer,

I've been President and CEO of Summit OIC for 23 years. In that time, our organization has transformed the lives of countless individuals who have completed their coursework with us and received their GED. Our work is empowering and transformational in the communities we serve.

Our work, however, relies on job placement at the end. My students are motivated to learn by the promise of a job at the end of their schooling. After learning about the changes to the Qualified Allocation Plan under consideration by the Minnesota Housing Finance Agency board, I became concerned about the effects such changes will have on the construction industry. The construction industry is a key sector for placement of my students. Now I don't fully understand the nuances of affordable housing policy, but I do know that these proposed changes will quell new construction of affordable apartment buildings around the metro. This will cost the region stable construction jobs and good-paying wages, and ultimately, placement for our graduates. That is deeply troubling to me.

In addition to the lost economic opportunity, I'm also concerned about the loss of affordable housing for our region. I can teach students all day long how to become productive members of society, but if they don't have a secure place to go home to, all the education in the world won't make a difference in that person's life. It is incumbent upon you to maximize the limited dollars you have to allocate. Multifamily projects leverage millions in federal and private dollar investment. Our need for affordable housing is vast, we need to be maximizing every dollar available to produce safe, affordable housing for all members of our community.

I oppose these changes to the QAP because I don't understand the impetus for them. The housing projects supported by the 4% program seem to enjoy broad public support and are filling a critical housing need in our region. I urge you to reconsider these changes and work with local communities to engineer a program that will work for all.

Sincerely,

Louis King
President & CEO

Cc:

- John DeCramer—Chair (jdecramer@bhelectronics.com)
- Terri Thao (tthao@nexuscp.org)
- Joe Johnson (jjohnson@banknorthshore.com)
- Craig Klausing (craigklausing@comcast.net)
- Stephanie Klinzing (mayorer@charter.net)
- Rebecca Otto (rebecca.otto@osa.state.mn.us)
- Governor Dayton & Lt. Governor Smith (grace@daytonsmith.org)
- MMB Commissioner Myron Frans (myron.frans@state.mn.us)
- DEED Commissioner Shawntera Hardy (shawntera.hardy@state.mn.us)
- MHFA Commissioner Mary Tingerthal (mary.tingerthal@state.mn.us)
- Adam Duininck – Chair of the Metropolitan Council (adam.duininck@metc.state.mn.us)

From: Schuchman, Kayla (MHFA)
To: Wilson, Tamara (MHFA); Jefferson, Summer (MHFA)
Subject: FW: 2017/2018 QAP Comments
Date: Thursday, November 10, 2016 2:51:18 PM

From: *MHFA_MN Housing
Sent: Thursday, November 10, 2016 2:36 PM
To: Schuchman, Kayla (MHFA)
Subject: FW: 2017/2018 QAP Comments

From: Alexandria Murnan [mailto:alexandria@travois.com]
Sent: Thursday, November 10, 2016 2:35 PM
To: *MHFA_MN Housing
Cc: development
Subject: 2017/2018 QAP Comments

Good afternoon,

I would like to submit one comment for Minnesota Housing's consideration in its formulation of the 2017/2018 QAP. I would like MHFA to consider reducing the number of documents related to submitting LIHTC applications. I assisted a client in submitting an application this past year. Over the course of preparing the application, I found 25* different documents that dictating MHFA's requirements for LIHTC applications. Combined, there were over 500 pages of information that applicant needed to know in order to submit a successful application. While I appreciate MHFA's thoroughness, much of the information in these 25 documents is duplicative or not written concisely. It was also challenging because not all of the documents are on the same webpage. From the applicant's perspective, it would be helpful to have no more 2-3 documents, written concisely, and all located on 1 page on MHFA's website. Below this email, I have included a list of all the documents I am referring to for your reference.

Thank you for your consideration of my comment. If you have any questions, please do not hesitate to let me know.

Alexandria Murnan
TRAVOIS | PROJECT COORDINATOR
alexandria@travois.com

PHONE: 816-994-8970 MOBILE: 620-719-0371 FAX: 816-994-8974

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This message, including any attachments, may include privileged or confidential information intended only for the person to whom it was addressed. If you have received this message in error, please notify the sender.

**Each of the below documents was found on various pages on MHFA's website and were all needed to complete the LIHTC app:

- 2017 HTC Manual
- HTC Only or HTC and Deferred Checklist Help Text
- Minnesota Housing 2016 Checklist
- Minnesota Housing Master Application Checklist
- Multifamily Underwriting Standards
- RFP Guide
- 2017 QAP
- Community Economic Integration
- Continuum of Care Priorities
- Cost Containment
- Ecp-2015-criteria manual-11-15
- Eligibility Definitions
- Eventual Tenant Ownership Guide
- Guidance on Rent Increase for LTH Assisted Units with No Rent Subsidies
- Location Efficiency
- Long-Term Homelessness
- Market Analyst List
- Market Study Guidelines
- Preservation Geographic Priority Areas
- Qualified Census Tracts, Tribal Equivalent Areas
- Architect's Guide
- 2016 Rental Housing Design/Construction Standards
- Workbook Troubleshooting Instructions
- Rural/Tribal Designated Areas
- Workforce Housing Communities

Item: 7.B
Written Comments

VALUE PLUS FLOORING

3109 Neil Armstrong Blvd.
Eagan, MN 55121
651-454-9344
Fax 651.454.9521

November 10, 2016

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

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I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Ryan Preston
Senior Project Manager

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VILLAGE CAPITAL CORPORATION

18 N.W. Fourth Street
Evansville, IN 47708
(812) 429-0921

November 14, 2016

Minnesota Housing Finance Agency
Attn: Tamara Wilson
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: Comments on proposed amendments to 2018 QAP

Dear Ms. Wilson:

We are writing on behalf of Village Capital Corporation and Pedcor Investments, LLC as developers of affordable multifamily housing in sixteen states throughout the country, including most of the Midwest. We are in the process of developing River Glen Apartments, a proposed 208-unit development in Rochester, to be financed with 4% tax credits and tax-exempt bonds. The development will serve individuals and families who earn up to 60% of AMI in Olmsted County. We intend to apply for 4% tax credits in 2017 and were encouraged by MHFA's decision to withdraw its previously proposed changes to the 2017 QAP. With a minimum score of 30 points as outlined in the 2017 QAP, we will be able to proceed with the development and, if we are successful in our application for 4% tax credits and tax-exempt bonds, look forward to contributing 208 affordable housing units to the underserved market in Rochester.

As we hope that River Glen Apartments will be our first of many future developments in Minnesota, we would like to offer our comments on the proposed changes to the 2018 QAP. As you know, once a QAP is published, all developers of affordable housing rely on the terms and conditions identified in the QAP for site selection, financial decision-making, and assumptions regarding feasibility. In preparation for the public hearing on November 16th, we have self-scored two developments based on the scoring criteria outlined in the currently published 2018 QAP, in which the minimum required score for a 4% tax credit deal is 40 points. We are concerned that the proposed changes to the 2018 QAP, including an increase in the minimum score from 40 to 50 points, would render infeasible a 2018 development targeting individuals and families earning up to 60% AMI. The incremental points required to achieve the higher score place a greater burden on developments financed with 4% tax credits and tax-exempt bonds, which already require sources such as deferred fees and general partner equity to fill a funding gap.

We understand that the lack of bond volume has decreased the number of developments that can be closed in any given year. Since 4% tax credit deals are not feasible for many developers due to the increased cost and complexity involved in financing with tax-exempt bonds and a lesser amount of available tax credits relative to 9% deals, a large number of affordable housing developments in Minnesota have been funded primarily with 9% tax credit deals involving deeper income targeting or 4% tax credit deals with other awards that have set rents at 60% of AMI, but restricted income at 50% AMI. As a result, individuals and families earning up to 60% AMI are vastly underserved. This leaves residents working as nurses, web developers, loan officers, health technicians, teachers, surgical technologists, police officers, social service workers, medical records technicians, mental health workers, and other similar professions with little to no available affordable housing.

We acknowledge that MHFA faces a difficult decision regarding whether to amend the 2018 QAP by raising the minimum scoring threshold from 40 to 50 points. To assess the impact of the proposed point increase, we have self-scored our proposed River Glen development in Rochester under the 40-point minimum score in the 2018 QAP and determined we would be hard-pressed to achieve a score above 40 points. In a different Minnesota city, another potential development achieves a score in the mid-30s point range and depends upon a specific location in an economic integration area and job center, unit mix, and school system in order to achieve this score. To reach 40 points and above, the same development may require items beyond our control, such as the securing of rental assistance vouchers and local/philanthropic monetary support, as well as significant general partner equity contributions. We believe the decision to raise the minimum score from 40 to 50 points would render infeasible most developments aimed at individuals and families earning up to 60% AMI.

In light of the outcome of the recent elections, it is possible to argue that, in an environment in which the corporate tax rate may decrease, the demand for 4% tax credits may also decrease, making it less likely that tax-exempt bond volume will be oversubscribed in the future. We would respectfully suggest that MHFA withdraw its proposed changes to the 2018 QAP until the market for tax credits and tax-exempt bond financing is more certain and reassess its position in years beyond 2018. Alternatively, MHFA might consider advocating for the reallocation of bond volume to increase the pool available for affordable multi-family housing, as the combination of 4% tax credit and tax-exempt bonds levers the value of the bonds in a manner not possible for other bond volume pools.

We respect MHFA's efforts to bring more affordable housing choices to the citizens of Minnesota, in the form of developments that best meet the needs of those citizens. We would like to help you in your efforts and hope to continue working in Minnesota for years to come. We plan to attend the hearing on November 16th, where we will have an opportunity to voice our concerns and recommendations with members of MHFA's staff. Thank you for your consideration.

Sincerely,

Alison S. Birge

Alison S. Birge
Senior Vice President
Village Capital Corporation

Item: 7.B
Written Comments

WINTHROP WEINSTINE

ATTORNEYS AND COUNSELORS AT LAW

November 16, 2016

Minnesota Housing Finance Agency
Attn: Tamara Wilson
400 Sibley Street, Suite 300
St. Paul, MN 55101

The purpose of this correspondence is to provide comments to the proposed changes of the Minnesota Housing Finance Agency Qualified Allocation Plan regarding projects financed with tax exempt bond allocations. These comments reflect our understanding of the proposed changes based upon our review of Minnesota Housing's recent notification of these changes which include a blacklined copy of the QAP itself. It is our understanding of these changes are intended to be effective for years 2018 and after. We sincerely appreciate the agency clarifying and extended the effective date and allowing thoughtful comments to these proposals prior to their ultimate adoption.

By way of background, our firm has been involved in the development of numerous affordable housing projects utilizing tax exempt bond proceeds for 25 years. It is probably a fiar statement that we have been involved with a large majority of these bond financed transactions during this time period. These transactions typically involve a close working relationship between the local municipality and the developer and generally consist of larger new construction or acquisition rehabilitation developments. The typical profile of these developments is that they are not heavily subsidized and rely instead on private equity contributions, tax increment financing, proceeds from the sale of the housing tax credits and third party bond financing. These projects almost never involve soft money from the MHFA or other customary soft money sources.

1. **50 Points Senior Housing**. The proposed amendments would require that any project seeking tax credits in connection with a private activity bond allocation would need to score 50 points (as opposed to 30 or 40 points) under the existing MHFA Qualified Allocation Plan. The point scoring system itself remains unchanged. Without getting into great detail about these scoring factors, it appears that it would be virtually impossible for most of the projects which have historically utilized private activity bonds to finance qualified tax credit projects to meet the new 50 point requirement. Specifically, to reach those scoring levels the proposed Projects would almost certainly be required to be designated as large family housing with deeper rent skewing and potentially involving the provision of substantial services to residents. While these are unarguably great objectives and consistent with the agency's requirements for the competitive 9% credits, we would urge that imposing the same criteria utilized for the 9% credit allocations ignores

an essential difference between these types of projects and those more appropriately developed under the 9% program. To be clear, we agree with the housing goals which have presumably provoked these changes and we believe that tax exempt bonds should be available to support those types of housing developments. Our concern is that there will not be a sufficient number of these developments and that other compelling affordable housing will be forfeited in this process.

Of particular significance to this discussion, many recent tax exempt bond transactions are being successfully developed for seniors-both independent living and those offering services. These projects are providing vitally needed affordable housing for an increasing important growing demographic. These projects would not meet the required fifty (50) point threshold. Further, it would appear that to try to comply with these requirements and obtain the requisite point total would require a level of economic subsidy that to our knowledge does not exist. This would be necessary, for example, to meet the deeper rent skewing or to accommodate homelessness. Accordingly, it seems like we are increasing the competition for limited amounts of soft money which are more critically made available under the 9% tax credit program without any simultaneous increases in the sources for the additional soft money subsidies.

We believe that senior housing is incredibly important and the rapidly increasing demographic population segment suggests that affordable housing for seniors is and will be a significant need in the future. We respectfully request the MHFA to consider modifying the proposed changes by allowing the senior project to more effectively compete or qualify for tax credits. This 50 points proposal would also likely eliminate a valuable tool for local communities to create affordable senior housing options for their residents. The developments in turn allow young families access to these communities housing stock as seniors sell their existing homes and move into those apartment communities and serve as a tool to revive these cities and their tax base.

2. **Larger Family Developments**. The proposed changes in the QAP regarding 50 points would appear to be for purposes of expanding resources for larger family developments with emphasis on rent skewing, services and homelessness. No one would credibly argue that these are not great goals and objectives and these types of developments should obviously be encouraged and supported. However, changing the QAP to require tax exempt bond transactions to essentially be utilized for large family development, while well intended, appears to us to exclude otherwise important affordable housing development including senior housing developments. From a policy standpoint, large family housing developments have to our knowledge always thought of as better achieved in smaller less concentrated developments. These smaller developments with less hard debt typically cannot support the costs associated with a bond financed transaction. Also, it is our experience that many cities simply will not support the creation of large family

affordable housing in the size necessary to economically utilize tax exempt bonds. It would appear that rather than expand the creation of affordable housing this change may inadvertently lead to these bonds going unused or going to use only in areas unaffected by Minnesota Housing QAP such as Dakota County and Washington County.

A substantial motivating factor underlying the tax exempt bond developments is that they allow developers to use various tools to creatively structure these transactions with higher hard debt to offset the higher costs associated with using a tax exempt structure in the first place. Imposing the costs related to tax exempt bonds on a large family type project with relatively low hard debt levels may not be economically feasible. Further, and probably just as important, to the extent that these transactions can work under the 4% program, there is nothing preventing these projects from using the bond program under the existing rules.

We are not aware of family housing projects, such as those targeted with the 50 point requirement, from getting access to bonds under the existing rules. However, if the Agency feels that these types of transactions are getting "crowded out" by the volume of other 4% transactions, would the creation of a priority for these types of transactions make sense? As the Agency is obviously aware, there is a priority under the existing statute for preservation projects which should insure that those transactions are rightfully funded as a first priority. Perhaps a second priority could be developed if this is a concern, although it has not been a limiting factor in our experience. In summary, large family housing has and continues to have a strong policy bias which discourages large concentrations in a single geographic location. Therefore smaller family type housing developments (particularly with reduced hard debt structures) are not particularly well suited to the higher cost structures of the more typical 4% transactions. Even if they could make sense under this scenario, they are given a second priority under the existing rules. Excluding other possibly less compelling but completely worthy affordable housing projects does not seem to advance the cause for multi-family affordable housing creation overall.

3. **80 – 20 Transactions.** Another type of transaction that has proved to very successfully advance the housing goals of both the MHFA and local communities are economically integrated bond financed transactions involving a minimum 20% set aside and 80% market rate projects ("80-20" transactions). Three examples of these 80-20 transactions in 2014 and 2015 are the Overlook Project in Minnetonka the Shoreham Project in Saint Louis Park and The Chase at Nine Mile Creek project in Minnetonka. These Projects each were financed with tax exempt bonds, tax increment financing and private equity. This collectively produced 20, 44 and 25 units of general occupancy housing with rents affordable at 50% with no other additional public subsidy. Collectively, these projects helped these communities meet their affordable housing goals and provide affordable family housing without any MHFA soft funds. Under the proposed guidelines these projects would

obviously not score enough points to qualify for tax credits but it would seem that they were otherwise consistent with housing policy. These projects feature true "economically integrated housing" with 20% of the residents qualifying for occupancy at 50% rents and the remaining tenants paying typical luxury apartment rents. These projects are a little "under the radar" but serve an important role again without additional subsidy and more of these Projects are planned. Further, the economic realities of these projects is that no cash development fee is really economically feasible. It seems that these projects achieve the goals of economic integration with housing serving typically underserved areas (Minnetonka and St. Louis Park in these examples) and doing so without any resources going to pay the sponsor a cash development fee. It seems inconsistent therefore to disqualify these projects for tax credits by imposing a 50 or even 40 point requirement. Perhaps if the Agency feels it does not want to discourage these projects they could consider increasing the points for economic diversity and/or awarding points for reduced or no cash development fees.

4. **Historic Credit Transactions.** Under the proposed rule changes, developments would not qualify if they involved project costs which exceed certain predetermined standardized cost levels. In general, once again, it would appear that these are based on sound housing policy goals. However, they probably do not adequately account for transactions utilizing historic tax credits. As you are aware federal and state historic tax credits are often combined with federal low income housing tax credits in these developments so that a large portion of the Project costs are paid with federal subsidies. It seems clear that these historic tax credit transactions involve per-unit costs which are excessive if viewed solely as affordable housing projects. However, these projects are really more about historic preservation and economic development than strictly affordable housing. Each transaction obviously varies to some degree but in our experience with a number of high profile historic renovations, the high cost was really a function of what was necessary to achieve preservation of those structures and the related goals of local economic development and neighborhood revitalization. It would seem unfortunate if these transactions had to be pursued as market-rate developments or for non-housing purposes due to cost constraints. Most of these costs are imposed by the physical deterioration of these properties and the requirements of the State Historic Preservation Office rather than those within the control of the developer. Obviously, most of these transactions would occur in the Cities of Minneapolis or Saint Paul and, accordingly, would not be impacted by the MHFA's QAP in any event. Ironically, however, the other cities in the State would be impacted and developments in those areas would potentially not be eligible notwithstanding that the same transaction occurring in Minneapolis or Saint Paul would qualify. Due to the fact that most of these costs are outside of the developer's control and that these projects cost are more related to economic development and local revitalization rather than affordable housing, disqualifying these projects for tax credit seems to

not really further the important goals of cost containment that are applicable to the rest of the industry.

5. **Timing**. We applaud the Agency for postponing the effective date of the proposed changes to allow for a more comprehensive analysis of the potential impact of these rule changes. Due to the fact that most of these tax-exempt bond transactions are large complex transactions with lengthy collaboration/development periods with local municipalities, we would encourage whatever changes that are actually implemented to have a reasonably long effective date so that the participants have an opportunity to clear legitimate transactions that are in a development pipeline.

Thank you for your consideration.

Sincerely,

WINTHROP & WEINSTINE, P.A.

Todd B. Urness

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WOLF CONSTRUCTION

November 16, 2016

Dear Commissioner Tingerthal,

Our company is proud to have been a partner in the construction of numerous projects funded through the 4% tax credit program. Our employees take immense pride the build quality of these buildings as well as the cause served by the purpose of these projects. We have serious reservations about the proposed changes to the Qualified Allocation Program under consideration by the Minnesota Housing Finance Agency (MHFA) and the effects such changes will have on our industry.

The projects funded through the 4% program serve an urgent and growing need in the communities in which they're built. To be clear, the proposed changes would halt current projects in progress and inhibit the construction of all future projects utilizing the 4% credit. We've made plans based on the fruition of projects in the pipeline and allocated resources accordingly, in many cases hiring or making other investments to meet the need. This change will force me to eat many of the costs associated with that preparation and potentially alter my plans for employment. This comes in addition to rising labor and health care costs.

I am frustrated by this proposed change because it does not seem to fit with MHFA's mission to "provide access to safe, decent and affordable housing and to build stronger communities across the state." This change would stall the development of hundreds of units of affordable housing, a demand for which Minnesota communities were already struggling to keep up with.
I urge you to reconsider this decision and weigh the burdens it will cause on Minnesota businesses, low-income Minnesotans, and the communities in which they work or live.

Sincerely,

Brandon Hoch
President

Board Agenda Item: 7.C
Date: 1/26/2017

Item: One Time Allocation of Minnesota Housing Tax Exempt Bonding Authority

Staff Contact(s):
Kevin.Carpenter, 651-297-4009, kevin.carpenter@state.mn.us

Request Type:

☒ Approval	☐ No Action Needed
☒ Motion	☐ Discussion
☐ Resolution	☐ Information

Summary of Request:
Staff may request approval to commence a one-time competition for an amount of tax exempt bonding authority. This competition would provide for a project or projects that have received a partial bonding allocation from the housing bond pool managed by Minnesota Management and Budget (MMB) to move forward. MMB's selections for allocation have not yet been made, so further details are not available at the time of the board mailing.

Fiscal Impact:
To be determined.

Meeting Agency Priorities:
☒ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Materials will be provided at the meeting

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Minnesota Housing Finance Agency

Board Agenda Item: 7.D
Date: 1/26/2017

Item: Approval of Participants for the Minnesota City Participation Program

Staff Contact(s):

Nicola Viana, 651.297.9510, nicola.viana@state.mn.us
Kimberly Stuart, 651.296.9959, kim.stuart@state.mn.us

Request Type:

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

Summary of Request:

Staff requests approval of cities for participation in the Minnesota City Participation Program (MCPP). The program allows Minnesota Housing to apply for the portion of the annual private activity bond volume cap allocated by Minnesota Statutes Section 474A.03, subdivision 1 to the Housing pool, $56,609,709 of which is available in 2017 for single family housing programs authorized by Minnesota Statutes Section 474A.061, subdivision 2a to enable cities and counties to provide first-time homebuyer loans in their communities.

Fiscal Impact:

Minnesota Housing is able to issue more than $56 million in additional tax-exempt private activity bonds to provide loans to first-time homebuyers with lower incomes as a result of administering the Minnesota City Participation Program.

Meeting Agency Priorities:

☒ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):

- Background and Recommendation
- Table 1: 2017 MCPP Allocations to Applicants
- Resolution

Under the Minnesota City Participation Program (MCPP), Minnesota Housing sells tax-exempt private activity bonds on behalf of local governments to assist them to meet local housing goals pursuant to Minnesota Statutes Section 474A.061, subdivision 2a. In accordance with that statute, cities, counties and consortia of local government units applied for participation in MCPP by January 15, 2017.

In their application, local governments confirm that MCPP helps the community meet an identified housing need and the program is economically viable in their community. Loans are eligible for MCPP if they meet all requirements below:

- The loan is an eligible first-time homebuyer Start Up loan.
- The property is located in the applicants' jurisdiction as stated on their application.
- The borrower's income must not exceed 80% of the area median income.

Recommendation:
Approve applying local governments for participation in MCPP and, further, approve calendar year 2017 applications for private activity bonding authority available to Minnesota Housing on behalf of the same eligible local governments under Minnesota Statutes, Chapter 474A.

Grant approval for Minnesota Housing to take necessary action to apply to Minnesota Management and Budget for amounts available for tax-exempt private activity bonding authority on behalf of the 2017 Minnesota City Participation Program participants.

Table 1: 2017 MCPP Allocations to Applicants

Participant Name (County)	Amount Allocated
Albert Lea/Freeborn County	$ 481,269.09
Alexandria, City of	$ 209,520.58
Anoka County	$ 5,416,091.36
Blue Earth County	$ 1,039,419.99
Bluff Country HRA (Fillmore and Houston)	$ 622,185.04
Breckenridge, City of	$ 100,000.00
Carver County	$ 1,551,740.22
Chippewa County	$ 190,311.91
Chisago County	$ 853,348.75
Clay County	$ 976,626.64
Cloquet, City of	$ 192,730.67
Crow Wing County	$ 997,044.69
Grant County	$ 100,000.00
Headwaters Regional Development Commission (Beltrami, Clearwater, Hubbard, Lake of the Woods, Mahnomen)	$ 1,330,864.06
Hennepin County	$ 12,709,229.57
Kandiyohi County	$ 667,670.16
McLeod County	$ 564,323.43
Mower County	$ 615,384.26
North Mankato, City of	$ 215,002.04
NW MN Multi-County HRA (Kittson, Marshall, Norman, Pennington, Polk, Red Lake, Roseau)	$ 1,351,517.70
Olmsted County	$ 2,377,728.79
Otter Tail County	$ 905,917.37

Owatonna/Steele County	$	576,542.85
Ramsey County	$	3,664,631.22
Red Wing, City of	$	259,686.16
Rice County	$	1,027,498.99
Scott County	$	2,212,970.85
SE MN Multi-County HRA (Goodhue, Wabasha, Winona, excluding Red Wing and Winona)	$	1,176,063.85
Sherburne County	$	1,335,057.62
St. Cloud, City of	$	1,052,471.83
St. James, City of	$	100,000.00
St. Louis County	$	3,147,222.18
Stevens County	$	153,983.49
SW Regional Development Commission (Cottonwood, Jackson, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock)	$	1,849,608.13
Swift County	$	147,025.65
Washington County	$	3,942,489.44
Winona, City of	$	433,349.51
Wright County	$	2,063,180.91
Total	**$**	**56,609,709.00**

Agenda Item: 7.D
Resolution

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

RESOLUTION NO. MHFA 17-XX
RESOLUTION AUTHORIZING APPLICATION FOR BONDING AUTHORITY ON BEHALF OF THE 2017 MINNESOTA CITY PARTICIPATION PROGRAM PARTICIPANTS

WHEREAS, Minnesota Statutes, Section 474A.061 subdivision 2a, paragraph (e) authorizes the Minnesota Housing Finance Agency to request an allocation of private activity bonding authority for the applicants who applied in January of 2017 and choose to have the Minnesota Housing Finance Agency issue bonds on their behalf, and the participating applicants are eligible for bonding authority in a total amount of not less than $56,609,709; and

WHEREAS, the Minnesota Housing Finance Agency would like to take those actions necessary to make the private activity bonding authority available under Minnesota Statutes, Chapter 474A, available to the Minnesota City Participation Program participants.

NOW THEREFORE, BE IT RESOLVED:

THAT the Commissioner of the Minnesota Housing Finance Agency is hereby granted the authority to take all actions necessary to apply to the Commissioner of Management and Budget for amounts available for tax-exempt private activity bonding authority during the times set forth in Minnesota Statutes, Chapter 474A, on behalf of the 2017 Minnesota City Participation Program participants as listed below.

Participant Name (County)	**Amount Allocated**
Albert Lea/Freeborn County	$ 481,269.09
Alexandria, City of	$ 209,520.58
Anoka County	$ 5,416,091.36
Blue Earth County	$ 1,039,419.99
Bluff Country HRA (Fillmore and Houston)	$ 622,185.04
Breckenridge, City of	$ 100,000.00
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Hennepin County	$ 12,709,229.57
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McLeod County	$ 564,323.43
Mower County	$ 615,384.26
North Mankato, City of	$ 215,002.04
NW MN Multi-County HRA	$ 1,351,517.70

Agenda Item: 7.D
Resolution

(Kittson, Marshall, Norman, Pennington, Polk, Red Lake, Roseau)	
Olmsted County	$ 2,377,728.79
Otter Tail County	$ 905,917.37
Owatonna/Steele County	$ 576,542.85
Ramsey County	$ 3,664,631.22
Red Wing, City of	$ 259,686.16
Rice County	$ 1,027,498.99
Scott County	$ 2,212,970.85
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Swift County	$ 147,025.65
Washington County	$ 3,942,489.44
Winona, City of	$ 433,349.51
Wright County	$ 2,063,180.91
Total	**$ 56,609,709.00**

Adopted this 26th day of January, 2017

____
Chairman

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Board Agenda Item: 8.A
Date: 1/26/2017

Item: 2017 Division Work Plan Summary

Staff Contact(s):
Barb Sporlein, 651.296.3125, barb.sporlein@state.mn.us
John Patterson, 651.296.0763, john.patterson@state.mn.us

Request Type:

☐ Approval
- ☐ Motion
- ☐ Resolution

☒ No Action Needed
- ☒ Discussion
- ☐ Information

Summary of Request:
For informational purposes, staff is summarizing the major key initiatives in the 2017 Divisional Work Plans that implement the 2016-2019 Strategic Plan and 2017 Affordable Housing Plan.

Fiscal Impact:
None. These plans are consistent with the approved 2016-2019 Strategic Plan, 2017 Affordable Housing Plan and 2017 Operating Budget.

Meeting Agency Priorities:
☒ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota’s Changing Demographics
☒ Preserve Housing with Federal Project-Based Rent Assistance
☒ Prevent and End Homelessness
☒ Reduce Minnesota’s Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Background
- Strategy Management Framework

2017 Division Work Plans Summary

Minnesota Housing takes a systematic approach to its overall strategic management and performance reporting. The system includes a "family of documents" that is integrated and builds off each other. The planning documents include the Strategic Plan, Affordable Housing Plan, divisional work plans, and individual work plans (see attached outline of the planning documents in our Strategy Management Framework). Each has corresponding performance reports including quarterly reports to the board, quarterly reports for divisional review meetings, regular reports for program managers and staff, and individual performance appraisals. This system creates a strategy management feedback loop for continuous improvement - the result should be an agency that gets better and better at achieving its mission.

The 2016-2019 Strategic Plan was approved by the Board in July 2015. It defines the Agency's vision, mission, values, guiding principles, priorities, and strategies. It also includes the list of the Agency's ongoing work each year:

- Promote and Support Successful Homeownership
- Finance New Affordable Rental Opportunities
- Preserve the Existing Housing Stock
- Provide Housing Resources to Support Community and Economic Development
- Lead, Collaborate, and Take Action on Critical Housing Issues
- Strengthen the Financial and Organizational Capacity of the Agency

The five strategic priorities are:

1. Address Specific and Critical Local Housing Needs
2. Finance Housing Responsive to Minnesota's Changing Demographics
3. Preserve Housing with Federal Project-Based Rent Assistance
4. Prevent and End Homelessness
5. Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

The Affordable Housing Plan (AHP) is the annual business plan for carrying out the Agency's core work for the upcoming year and implementing the Strategic Plan. It was approved by the Board in September 2016. The AHP outlines key programmatic and policy initiatives for the year, specifies program-by-program funding, and establishes production targets. In total, the plan allocates over $1 billion of federal, state, and agency resources, which will assist or produce approximately 64,000 households or housing opportunities.

Each division develops an annual work plan for implementing the Strategic Plan and AHP. These plans identify funding and production levels, key division/section activities, responsibilities, expected outcomes and program level measures.

The 2017 Division work plans are ambitious, particularly in light of uncertainties that we will face this year, including:

- A legislative session with both bonding and appropriations, several new members in both houses, and a new majority in the Senate;
- Political and leadership changes in Washington;
- Rising interest rates;

- Changes in tax credit pricing;
- Availability of tax-exempt bonding authority;
- An expected large number of retirees and other staff turnover; and
- An office space decision due to our current lease expiring in August 2017, involving either a renovation-in-place or a move to another location.

Below is a summary of the key initiatives in the divisional work plans, but it is not an exhaustive list.

Single Family

- Maintain strong production of low-interest mortgages and enhancements (Start Up, Step Up, Deferred Payment Loans, Monthly Payment Loans) to support $600 million of mortgage production
- Achieve the goal of 35% of first-time homebuyer loans going to households of color or Hispanic ethnicity;
- Continue implementation of the new single-family loan origination system to improve operations and customer service;
- Develop a new single-family compliance management system in accordance with Consumer Financial Protection Bureau and other regulations;

Multifamily

- Continue to construct workforce housing to promote economic development by financing housing in parts of the state where companies are poised to expand but there is not enough affordable housing;
- Continue to expand options for Multifamily first mortgage lending and increase production through: (1) initiating HUD Multifamily Accelerated Processing (MAP) loans, (2) implementing the Treasury/FFB HUD risk share model, (3) utilizing the HUD Risk Share Streamlined Refinance product, and (4) continuing to collaborate on Fannie Mae and Freddie Mac products;
- Continue to implement the Olmstead Plan to provide increased housing options for persons with disabilities in integrated community settings;
- Continue to implement the Heading Home: Minnesota’s Plan to Prevent and End Homelessness, with a focus on families and youth when financing supportive housing;
- Assist Continuums of Care (consortiums of local homeless planning and service provider agencies) in developing and implementing the HUD-mandated Coordinated Entry System work (which includes information, assessments, and referrals for people needing supportive housing and homeless services);
- Continue carrying out the Multifamily Remodel Project, a multi-phased business process and technology improvement effort focusing on improving the 2017 RFP, streamlining the closing process, and establishing a new business development function;
- Streamline the Low Income Housing Tax Credit Qualified Allocation Plan and application process;
- Secure the new HUD Project Based Section 8 Contract once a procurement process is announced;
- Continue implementing and evaluating rent assistance pilot programs, which includes: (1) highly-mobile families with school-age children and (2) persons with disabilities (HUD Section

811 Program); and implement two new pilots: (1) landlord risk mitigation fund to encourage more landlords rent to people with imperfect histories (e.g. criminal records) and (2) rental assistance for exploited families;

Finance

- Manage the Agency's cash, debt, investments and liquidity
- Continue pursuing a best-execution policy that weighs the costs of selling tax exempt mortgage revenue bonds compared with selling our mortgaged-backed securities;
- Update the Risk Based Capital Study

Community Engagement, Diversity, and Capacity Building

- Continue to engage local communities to learn about their housing needs and help them identify and implement solutions through the regional Housing and Community Development Dialogues, focus groups, surveys, "voice of the customer" exercises and other forums;
- Build the capacity of local organizations to identify, create and implement housing solutions through technical assistance, capacity building grants, and other efforts;
- Continue to strengthen the capacity to work in partnership with Minnesota's Indian Tribes and urban Indians to meet their housing needs through consultation, work sessions, training, technical assistance, program development and housing investments;
- Address fair housing through the development of the Analysis of Impediments, analysis of the HUD's Affirmatively Further Fair Housing rule and assessment tool, as well as other Agency efforts;
- Implement the approved work plans related to the Governor's Diversity and Inclusion Executive Order, including procurement practices, State workforce and civic engagement;

Other

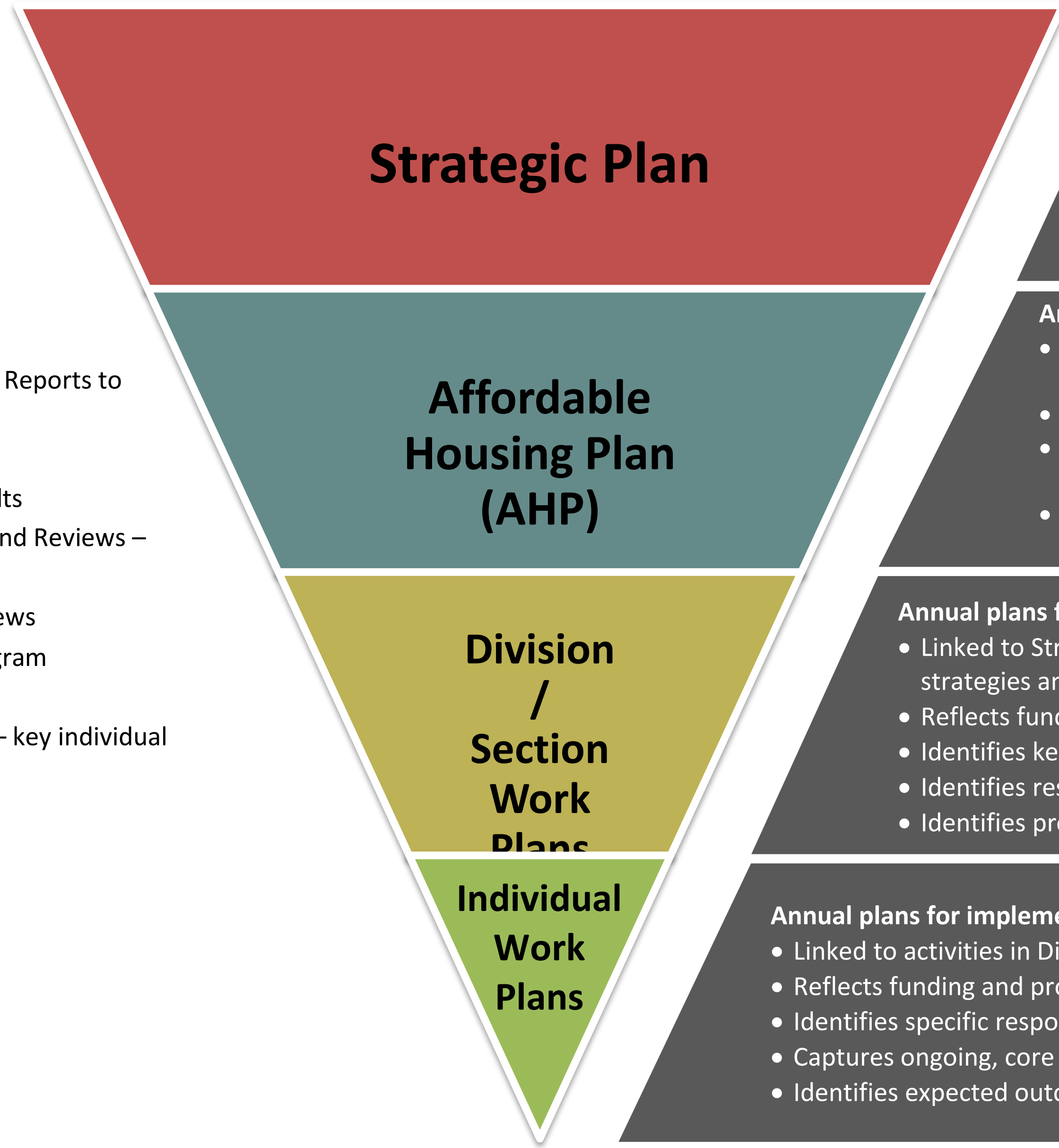
- Rebrand Minnesota Housing to match the new State enterprise branding;
- Build requirements and framework for Customer Relationship Management System, Business Intelligence, Data Strategy and Enterprise Content Management System as we implement the new Single Family Loan Origination System and complete Multifamily Remodel projects; and
- Update Agency Risk Profile and complete risk assessments on several agency programs.

Minnesota Housing Finance Agency

Strategy Management

Results Reporting

- Quarterly AHP Progress Reports to Board – high level cross-cutting measures
- Quarterly Division Results Management Reports and Reviews – detailed measures
- Staff Performance Reviews
- Annual Report and Program Assessment
- AHP Funding Requests – key individual program measures



1

Four year blueprint for Agency's work

- Mission
- Vision
- Values
- Core Work
- Priorities
- Strategies

2

Annual plan for implementing Strategic Plan

- Establishes funds available for commitment by program
- Identifies key policy and program initiatives
- Establishes production targets – number of units and households to be assisted
- Provides historical, market, and policy context and rationale

3

Annual plans for implementing Strategic Plan and AHP

- Linked to Strategic Plan core work, priorities and strategies and AHP initiatives
- Reflects funding and production levels in AHP
- Identifies key division/section activities
- Identifies responsibilities and expected outcomes
- Identifies program level performance measures

4

Annual plans for implementing Strategic Plan, AHP, Divisional Plans

- Linked to activities in Division/Section Work Plans
- Reflects funding and production levels in AHP
- Identifies specific responsibilities and activities
- Captures ongoing, core work
- Identifies expected outcomes

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Board Agenda Item: 8.B
Date: 1/26/2017

Item: Underwriter Performance Review

Staff Contact(s):

Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us
Terry Schwartz, 651.296.2404, terry.schwartz@state.mn.us

Request Type:

☐ Approval	☒ No Action Needed
☐ Motion	☒ Discussion
☐ Resolution	☐ Information

Summary of Request:

Pursuant to the Debt Management Policy, the performance of the Agency's investment bankers is to be reviewed by the Board on no less than a bi-annual basis. Due to the change in CFO early in 2016, this review was postponed and is now presented by the Agency's financial advisor. The existing underwriting team has been in place since 2014, and serves until the end of 2017. The Agency anticipates issuing an RFP for underwriting services later in 2017, with selections to take effect in 2018.

Fiscal Impact:

None.

Meeting Agency Priorities:

☐ Address Specific and Critical Local Housing Needs
☐ Finance Housing Responsive to Minnesota's Changing Demographics
☐ Preserve Housing with Federal Project-Based Rent Assistance
☐ Prevent and End Homelessness
☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):

- Underwriter Performance Reviews

Underwriter Performance Review
January 2015 through December 2016

As financial advisor to Minnesota Housing Finance Agency, we have prepared this review of the Agency's underwriters' performance. The purpose is to help board and staff evaluates the performance of the current underwriting team.

1. CURRENT UNDERWRITING TEAM

Members
Minnesota Housing selected its current underwriting team in November 2013 for calendar years 2014 through 2017. The team consists of: RBC (Royal Bank of Canada) as senior manager and two regular co-managers, Piper Jaffray and Wells Fargo Securities.

For the Residential Housing Finance Bond issues, which are retail-oriented, Minnesota Housing has also used, in addition to these managers, a selling group of up to twelve firms on retail-oriented transactions under the Residential Housing Finance Bond Indenture. Selling group members may submit orders from retail customers. This helps maximize orders, especially from Minnesota retail customers, and broadens distribution of the bonds. As appropriate to the character of the bond sale, Minnesota Housing may include a third co-manager, selecting the selling group firm which provided the most orders for bonds allotted to retail investors on its prior issue. This approach has helped provide an incentive for members of the selling group to submit retail orders and meaningfully support each bond sale.

For Rental Housing issues, which are relatively small and specialized, RBC acts as the sole manager.

Roles
The members of the underwriting team perform, and are expected to perform, distinct functions:

Senior Manager. RBC:
a) Serves as the lead underwriting manager between bond sales. Working with Agency staff, bond counsel and the financial advisor, the lead manager helps to provide numerous services in evaluating the market, keeping track ofMinnesota Housing's ongoing bond yield compliance requirements on past issues (both single family and multifamily), participating in and providing analyses at annual finance team meetings, and making suggestions and recommendations as to potential financing alternatives.
b) Represents the underwriting team in pricing the bonds, accepting orders, allotting bonds to orders, and committing the managers to underwrite unsold bonds; and
c) As the 'book-running' manager on each bond sale, leads the marketing campaign for the bonds and typically records most institutional investor orders (and generally receives the largest share of sales compensation, or "takedown," from each institutional order).
d) Receives the largest share of the management fee on each bond issue and also assumes the largest share of the risk on any bonds that are underwritten but not purchased by the public on the date of sale.

Regular Co-Managers. Piper Jaffray and Wells Fargo Securities are expected to:

a) Actively assist the Agency between bond sales in evaluating the market, participating in annual finance team meetings, and makings suggestions and recommendations as to potential financings.
b) At each bond sale, provide input as to potential bond pricing levels, and actively solicit both retail and institutional orders.
c) Receive a share of the management fee and take on a share of the risk on any unsold bonds; and
d) If for any reason the senior manager is unable to perform its functions (as happened in 2008 when the prior senior manager, UBS, abruptly closed its public finance offices) or is removed by the Agency, be able to immediately step into the role of senior manager and perform it quickly and well. Regular co-managers need to be thoroughly familiar with Agency financial needs and concerns, bond issues, and loan production.

Selling Group Members. These firms are included in the team solely to expand the distribution network for bond sales. They do not provide input into bond pricing, receive any management fee, or take risk on unsold bonds. Their salespeople receive a sales commission ("takedown") on orders they submit and for which bonds are allotted.

2. PERFORMANCE OF THE UNDERWRITING TEAM

The performance of the underwriting team is based on how well they helped Minnesota Housing achieve its particular financing objectives on both a long-term as well as short-term basis. We have looked at this both in terms of structuring approaches and of bond sales, since both are essential to Minnesota Housing achieving its goals.

Single Family Financing

The underwriters help Minnesota Housing find effective ways to finance single-family production where this meets Agency objectives. Specifically, the underwriters have been asked to meet two Agency criteria during 2015 and 2016:

- assuring that financing new production is at least as profitable for the Agency as selling loans directly in the secondary market (and helps stabilize future Agency income) and
- leveraging and minimizing the use of new volume cap, which is needed for rental housing projects including to help qualify for 4% low income housing tax credits.

Table 1. Single-Family Financings in 2015 and 2016 ($ mill.)

	New Production			Refunding	Total
	HFB	**RHFB**	**Total**	**RHFB**	
2015	207.1	138.6	345.7	160.4	503.1
2016					
Tax-Exempt	219.3	175.1	394.4	99.8	494.2
Taxable	152.3		152.3	15.1	167.4
Sub-Total	371.6	175.1	546.7	114.9	661.6
Two Year Total	524.2	313.7	837.9	275.3	1,164.7

The underwriting team has helped address these criteria in four key ways:

a) **Innovating and Marketing Single-Family Pass-Through Bonds.** The underwriters helped the Agency issue the first pass-through bonds in the country and then continue to develop and expand the market for such bonds. All the HFB issues are monthly-pass through bonds. The key has been finding investors who are willing to accept a lower yield on single-family bonds if they are structured like the underlying GNMA and Fannie Mae mortgage-backed securities, rather than more traditional tax-exempt bonds. This includes monthly payments, exact dollar amounts, pass-through of all principal received, and an easy ability to track prepayments on Bloomberg.

   The underwriters have consistently achieved approximately 40 basis points savings for Minnesota Housing compared to more traditional bond structures. By attracting more investors, recent tax-exempt pass-through bonds of the Agency have often been oversubscribed by three or more times. This has enabled the Agency to lower yields. On the most recent tax-exempt series in October, the bond yield for 30 year bonds was 2.30%. These yields have enabled the Agency to minimize the amount of zero participations needed to achieve full spread on these transactions.

b) **Leveraging Limited Bond Volume Cap.** Recognizing that the carryforward volume cap from past years is gradually being utilized and the increasing pressures on new cap, the underwriters have helped implement two key approaches in 2016 to minimize new volume cap needed.

   i) **Providing Drawdown Bond Facility.** A drawdown bond facility was implemented at the end of May as a private placement with an underwriter. At the end of each month, the principal on existing loans that would otherwise be used to call old bonds is refunded instead into the drawdown facility. The underwriter provides the short-term financing for the Agency to preserve and recycle this bond cap until several months later when the Agency can efficiently issue long-term bonds to make new loans. Since its implementation, the Agency has been able to preserve approximately $99 million. It is expected that this facility can help stretch the amount of new volume cap needed each year by approximately $200 million. The cost of this facility to the Agency is approximately $350,000 per year. In addition to providing the facility, there is extensive coordination each month to preserve the precise amount of old principal available.

   ii) **Marketing Taxable Pass-Through Bonds.** In 2016 as well, the underwriters helped structure and sell a significant amount of taxable pass-through bonds under the HFB indenture. By including taxable series on the three most recent HFB issues, the Agency saved over $150 million of new volume cap. There are many fewer investors interested in purchasing taxable rather than tax-exempt pass-through bonds, but the underwriters have been able to find several investors willing to purchase them at yields approximately 35 basis points higher than the tax-exempt series. As a result of the underwriters’ efforts, Minnesota Housing can now consider the use of taxable bonds on each HFB pass-through issue. The amount the Agency issues is ultimately constrained by the greater amount of zero participations needed to achieve full spread on such combined tax-exempt / taxable issues.

c) **Managing Zero Participations.** Zero participations help the Agency be able to earn full spread on each transaction. The underwriters monitor and manage these zero participations. This includes helping design RHFB bond issues with refundings to generate additional zeros and then using these zeros efficiently on HFB issues. This strategy has been very effective for the Agency. The Agency began 2015 with approximately $29 million of zero participations. By using a mix of RHFB refundings and HFB issues, the Agency will begin 2017 with $49 million in zero participations, a net increase of $20 million. This provides significant flexibility for the Agency going forward.

d) **Structuring, Selling and Providing Liquidity for RHFB Bonds.** The final key single-family achievement by the underwriters over the past two years is creating highly efficient RHFB bond issues. These issues refund old bonds at lower rates, finance new production and generate net zero participations. Underwriters have helped make such issues cost-effective for the Agency by:

i) **Designing Alternative Structures to Take Advantage of Market Opportunities.** The underwriters have been very effective on each of the four RHFB issues over the last two years in finding ways to minimize the additional cost of AMT maturities, selling Planned Amortization Class (or PAC) bonds at very attractive spreads to the market, attracting Minnesota in-state retail investors for shorter term bonds, and helping provide interest rate swaps and/or liquidity that has enabled Minnesota Housing to use a limited amount of variable rate debt. To illustrate the benefits of these approaches, the average bond yield on each of the two RHFB issues in 2016 was 2.75%.

ii) **Retail Sales.** In-state retail sales have generally been very strong, with initial retail order periods generating considerable interest.

Table 2. Retail Sales on RHFB Issues 2015 and 2016 ($ mill.)

Issue	**$ of Bonds Available to Retail Investors**	**In-State Retail Orders**	**%**
2015 ABCD	$ 63.3	$78.4	124%
2015 EFG	52.7	32.1	61%
2016 ABC	15.7*	5.2	33%
2016 DEF	51.4	35.9	70%
Total	$183.1	$151.6	Median 65%

*issue was primarily AMT bonds for institutional investors

iii) **Institutional Sales.** The underwriters have generally done very well in generating institutional orders, especially on the PAC bonds. These have often been oversubscribed by 3 to 4 times, allowing Minnesota Housing to achieve some of the tightest spreads on PAC bonds of all state HFAs.

Rental Housing and State Appropriation Bonds

The underwriters have performed well in structuring and marketing these bonds which help provide funding for affordable multi-family developments in the State.

Table 3. Rental Housing and State Appropriation Financing in 2015 and 2016 ($ mill.)

	Rental Housing Bonds	State Appropriation Bonds	Total
2015	18.8	68.7	87.5
2016	17.4	18.6	36.0
Two Year Total	36.2	87.3	123.5
Number of Projects to be financed	7 projects	16 plus community land trusts	23 plus community land trusts

Rental Housing Bonds. These financings have consisted of 7 series of bonds, each for an individual borrower, totaling $36.2 million. Each of these issues have been sold on a short-term basis to finance construction and allow these projects to qualify for 4% tax credits. Upon completion, the bonds are taken out by permanent debt. The most important role of the underwriter on each issue has been managing the transaction to help assure the bond amounts, sources and uses, and timing work for the project as it goes through numerous changes in finalizing its details. Many of the financings involve multiple sources of subsidy and public approvals. The underwriter has played a very effective role in this capacity.

State Appropriation Bonds. The State Appropriation (or Housing Infrastructure) Bonds are issued by Minnesota Housing but are backed by annual appropriations by the State of Minnesota. The most important innovation on these issues has been to design these issues so that the soft gap loans made from these funds can help projects meet the requirements for other funding sources, including in many cases 4% tax credits. A total of two issues were financed in 2015 and one in 2016, totaling $87.3 million. The key role of the underwriters is helping structure these issues so that they meet the needs of the underlying projects to be assisted while using the limited amount of annual State appropriation as efficiently as possible so the Agency can assist the most projects.

The in-state retail orders on these issues have been modest but the overall issues have been well-received.

Summary

The underwriting team has played a very effective role in helping Minnesota Housing meet its financing needs in each of these areas.

Board Agenda Item: 9.A
Date: 1/26/2017

Item: Post-Sale Report, Residential Housing Finance Bonds 2016 Series DEF

Staff Contact(s):
Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us

Request Type:

☐ Approval
- ☐ Motion
- ☐ Resolution

☒ No Action Needed
- ☐ Discussion
- ☒ Information

Summary of Request:
The agency sold $136,345,000 of Residential Housing Finance Bonds (RHFB), 2016 Series DEF on December 13, 2016 with a closing on December 22, 2016. In accordance with the Debt Management Policy the attached detailed post-sale report is provided by the Agency's financial advisor, CSG Advisors.

Fiscal Impact:
None.

Meeting Agency Priorities:
- ☐ Address Specific and Critical Local Housing Needs
- ☐ Finance Housing Responsive to Minnesota's Changing Demographics
- ☐ Preserve Housing with Federal Project-Based Rent Assistance
- ☐ Prevent and End Homelessness
- ☐ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Post-Sale Report

Agenda Item: 9.A
Post-Sale Report

MEMORANDUM

Date: **Jan. 10, 2017**

To: **Minnesota Housing Finance Agency**

From: **Gene Slater, Tim Rittenhouse, Eric Olson, David Jones**

Re: **Post-Sale Report**
$136,345,000 Residential Housing Finance Bonds (RHFB)
2016 Series DEF

KEY RESULTS FOR MINNESOTA HOUSING

Opportunity. This bond issue took advantage of the opportunity to economically refund several issues of outstanding bonds under the Residential Housing Finance Bond indenture ("RHFB") and to finance approximately $100 million of new mortgages.

Overall Purpose. Series DEF accomplished the following major objectives:

1. Enabled Minnesota Housing to profitably keep almost all tax-exempt eligible production on the balance sheet. This helps Minnesota Housing to earn net annual income over future years.
2. Generated significant savings by refunding old bonds at today's lower interest rates.
3. Achieved full spread, financing new loans without using any of Minnesota Housing's existing zero participations and creating zero participations to help assure a full spread on future issues.

Key Measurable Objectives and Accomplishments. The results of the issue were extremely successful:

Objective	**Result**
Finance new production on balance sheet	$100 million of new loans, primarily at low rates in 3% coupon pass-through MBS securities
Provide at least a similar return to the Agency as selling new loans on the secondary market	Higher return from including loans in the new issue (based on average prepayment speeds the Agency has recently experienced on similar loans).
Refund bonds at lower interest rates	Reduced average yield on approx. $36.3 million of old bonds from approx. 5.03% to 2.75% (average yield on entire new issue). The refunding savings are initially about $0.8 million per year. These savings allow new loans to be financed at full spread.
Strengthen the RHFB indenture going forward	Increases the expected net present value to the Agency by about $6.1 million.
Achieve full spread on the overall transaction	Agency will earn the maximum spread permitted by the IRS
Minimize use of any existing zero participations	None were needed
Increase zero participations for future issues	Increases the Agency's zero participations from approx. $39 million to $49 million. This net increase is impressive, since many new loans in Series DEF themselves needed zeros to achieve full spread.

Agenda Item: 9.A
Post-Sale Report

Variable Rate Debt. An important design decision was to include a variable rate series with an interest rate swap. This was Series F for $50 million. The benefit of including this was to lower the average all-in cost to Minnesota Housing and thus maximize the zeros created by the transaction for financing future production. This variable rate series was designed in accordance with the criteria that have been provided to the Board, including:

- having the swap match the term of the variable rate bonds,
- obtaining a highly rated liquidity facility, in this case from the AAA-rated Federal Home Loan Bank of Des Moines, and
- having that liquidity facility extend for the entire period until the swap is first optionally terminable at par by Minnesota Housing (in this case 7 years).

Because of the significant pay down of past variable rate series, the amount of Minnesota Housing's variable rate debt is very reasonable from a rating agency perspective, compared to other HFAs that use such debt.

Relationship to Recent and Future Issues and Loan Pipeline. In 2016, Minnesota Housing issued five successful new pass-through bond issues under its newer, Aaa-rated Homeownership Finance Revenue Bond indenture. It is desirable, however, to take advantage of the ability to refund and replace old higher rate bonds in the RHFB indenture together with efficiently financing new production. Blending the old and new loans in the same transaction creates financial efficiencies and future savings.

2016 Issues. A summary of the Agency's single-family financings for 2016 indicates the Agency financed $ 548.8 million of new production on balance sheet. In addition, the Agency refunded approximately 112.8 million of old bonds. The average cost of debt for all the issues was approximately 2.7%.

Indenture	Sale Date	$ of New Production from Taxable Bonds	Total $ New Production	$ of Refunding	Total Issue Size	Ave. Bond Yield	Net Change in Zeros
HFB							
2016 A	Jan. 12		$97.3 mill.	n.a.	$97.3 mill.	2.95%	- 8.2 mill.
2016 B	Mar. 10		51.0	n.a.	51.0	2.70%	- 1.2
2016 C & D	July 14	35.4 mill.	70.8	n.a.	70.8	2.53%	-2.4
2016 E & F	Sep. 12	65.9	101.4	n.a.	101.4	2.56%	-8.2
2016 G & H	Oct. 20	51.0	51.1 mill.	n.a.	51.1	2.48%	-4.5
Subtotal		152.3 mill.	371.6 mill.	n.a.	371.6 mill.		-24.5 mill.
RHFB							
2016 ABC	May 25		$75.1 mill.	$78.6 mill.	153.7 mill.	2.75%	13.0 mill.
2016 DEF	Dec. 13	___	100.0 mill.	36.3 mill.	136.3 mill.	2.75%	10.0
Subtotal		0.0 mill.	175.1 mill.	114.9 mill.	290.0 mill.		23.0 mill.
2016 Total		**$152.3 mill.**	**$546.7 mill.**	**$114.9 mill.**	**661.6 mill.**	**2.70%**	**-1.5 mill.**

Future Issues. The Agency is in a good position to continue its single-family program into 2017. It has increased the number of investors purchasing the Agency's pass-through bonds and has a significant balance of approximately $49 million of zero participations to help ensure it earns full spread on its future bond issues.

The major challenge in future years is likely to be new private activity bond volume cap. There is increasing demand for such volume cap for multi-family 4% tax credit projects (both by the Agency and local issuers), even as the volume of new single-family originations continues to be very high. To help deal with this demand, the Agency has three resources that can help it leverage new volume cap:

- The Agency still has single-family carryforward volume cap from several years ago that is gradually being depleted.
- Earlier in 2016, the Agency established a volume cap recycling line of credit with RBC that allows it to retain bond authority from old bonds being redeemed each month. This has proven very effectively in preserving old volume cap.
- Finally, the Agency's zero participations can help the Agency issue some amount of taxable bonds in conjunction with tax-exempt debt to partly reduce the amount of new volume cap needed.

Relationship to Pipeline. The new loans were hedged in the TBA market until the bond pricing was complete to protect the Agency from interest rate risk on its new lending.

TIMING AND STRUCTURE

Timing. The issue was priced on Tuesday Dec. 13th. The bonds closed on Thursday Dec. 22.

Sizing. The issue was sized at $136.3 million, including $36.3 million to refund old bonds plus $100.0 million for new lending.

Major Design Decisions. Key decisions by Minnesota Housing were to:

- Use available RHFB cash to redeem old bonds and help reduce the size of the refunding,
- Include a variable rate series of bonds that is efficiently sized, with a liquidity facility of 7 years to match the 7-year date on which the interest rate swap can be terminated at par. This approach is consistent with the criteria for such issues presented to the Board over the years.
- Structure the AMT bonds, 45% of the total financing, as the variable rate bonds and the short serial bonds. This incurs the least additional cost from AMT on overall bond yield.
- Place the non-AMT bonds near or at the end of the fixed rate maturity structure, including a large PAC bond that is 26% of the entire issue.

Rating. Bonds under the RHFB indenture are rated Aa1 by Moody's and AA+ by S & P.

BOND SALE RESULTS
Key highlights were:

1. **Retail Interest.** There were a total of $51.4 million of bonds available to retail investors (after excluding the PAC bonds, July 2017 bonds sold by sealed bid, and variable rate bonds that are only sold to institutions). On these retail-eligible maturities, $35.9 million of in-state retail orders were received. This was especially impressive since a portion of these bonds were AMT which generally attract less retail interest.

2. **Institutional Interest.** There was an extraordinary amount of institutional interest. This included $28 million of orders on the non-PAC bonds and $173 million of orders on the PAC bonds, which were oversubscribed by more than 5 times.

3. **Timing.** The bonds were sold during the week of Dec. 12 – 16th, which was the last week of significant bond issuance prior to the Holidays. The new issue calendar was somewhat lighter than in prior weeks. Minnesota Housing's issue was the only tax-exempt single-family housing issue sold during the week. Both the Treasury and municipal markets were relatively stable on the date of the sale, after weakening dramatically since the U.S. election. Both tax-exempt and Treasury yields had increased by over 60 basis points since the election, and both markets remain highly volatile. There has especially been concern in the tax-exempt markets as to what impact a Trump Presidency may have on both corporate and personal income tax rates and thus the value of owning tax-exempt bonds.

4. **Successful Sale.** The sale was extremely successful. Minnesota Housing was able to lower yields on several shorter maturities and to lower the yield on the PAC bond by 4 basis points.

5. **Comparable Transactions.** Minnesota Housing offered several types of fixed rate bonds:
   Series D (AMT) serial bonds from 2017 through 2021: totaling $11.3 million.
   Series E (Non-AMT) serial bonds from 2021 through 2026: totaling $27.2 million.
   Series E (Non-AMT) term bond due in 2031: $14.3 million.
   Series E (Non-AMT) PAC bond due in 2047 with a 4.4 year average life: $33.5 million.

   AMT Bonds. The most comparable AMT issues were MassHousing's $56.3 million issue at the end of November and SONYMA's $18.9 million issue prior to Thanksgiving. Both other issues are rated Aa1 by Moody's. Minnesota's spreads to MMD were slightly wider than MassHousing and SONYMA in the earlier maturities and about the same in 2021.

   Non-AMT Serial and Non-PAC Bonds. The most comparable Non-AMT issues were MassHousing on Nov. 29th and Maine on Nov. 22nd. Minnesota's spreads to MMD were about 5 basis points wider.

   Non-AMT PAC Bonds. Minnesota's PAC bond was priced at 82 basis points above the interpolated 4.4-year Municipal Market Data index. This was similar to Maine's and slightly wider than SONYMA.

In evaluating the results, key factors include the sale in the last effective window for the year and the increasing daily volatility in the markets.

UNDERWRITING

Underwriters. RBC was the senior manager; regular co-managers were Piper Jaffray and Wells Fargo. Northland was the rotating, third co-manager, based on its retail sales allotments on RHFB Series 2015 EFG and again on 2016 ABC which had a very small retail component.

Retail Sales. RBC brought in approximately three-quarters of the retail orders. Piper Jaffray brought in $6.5 million of retail orders; Wells brought in about $2.5 million but Wells Capital Management also provided significant orders through RBC as the senior manager.

Of the other underwriters, Cronin, Raymond James and Morgan Stanley brought in the most in-state retail orders.

Member	Role	Minnesota Retail Orders	Minnesota Retail Allotments
RBC	Senior Manager	24,235,000	18,025,000
Wells Fargo	Co-Manager	2,550,000	920,000
Piper Jaffray	Co-Manager	6,500,000	2,445,000
Northland	Co-Manager added	200,000	200,000
Subtotal for managers		33,485,000	21,5**90,000**
Cronin	Selling Group	1,250,000	1,000,000
Raymond James	Selling Group	500,000	500,000
Morgan Stanley	Selling Group	410,000	410,000
Fidelity Capital Markets	Selling Group	150,000	145,000
Robert W. Baird	Selling Group	85,000	85,000
Bank of America Merrill	Selling Group	0	0
Barclays	Selling Group	0	0
George K. Baum	Selling Group	0	0
City Securities	Selling Group	0	0
Edward Jones	Selling Group	0	0
UBS	Selling Group	0	0
Subtotal selling group		2,395,000	**2,140,000**
Total		35,880,000	**23,730,000**
As % of all non-PAC, sealed bid or variable rate bonds		70%	46%

Selling group performance varied significantly among firms, indicating:

- The benefit of continuing the use of a large and active selling group, rather than relying on only a few firms, especially given the variability from one issue to the next, and
- The value of rewarding a selling group member with the most orders by including them as a co-manager on the next issue.
- Several firms have not brought in any retail sales on the last few sales, and it may be worthwhile now or after the next transaction to trim the membership in the selling group

Underwriter Fees. Management fees were appropriate, consistent with industry standards, and in the same range as fees reported for other housing issues of similar size and structure.

ISSUE DETAILS

Key Dates:	RHFB 2016 Series DEF	
	Pricing:	Tuesday morning, Dec. 13, 2016
	Closing Date:	Thursday, Dec. 22, 2016

In the week prior to the sale the trade balance, consumer credit, initial jobless claims and wholesale inventories came in close to their expected levels. The more important economic news had been a week earlier (the week of Nov. 28th to December 2nd), with stronger increases in Gross Domestic Product (3.2% versus market expectation of 3.0%), Consumer Confidence (107.1 v. market expectation of 100.0%) and Personal Income (0.6% v. market expectation of 0.4%) and the unemployment rate dropped from 4.9% to 4.6%, the lowest rate since 2007.

There were no economic releases on the Monday or Tuesday of the sale week. Most attention was focused on the Federal Reserve meeting on Wednesday which resulted in the expected increase in the Fed rate.

Treasuries. Treasury yields have fluctuated significantly over the course of 2016. The 10-year Treasury started the year at 2.24%, dropped to a low of 1.71% in February. After increasing to as high as 1.94% in late April, the 10-year Treasury dropped again after the Brexit vote and was 1.53% on July 14 when Minnesota Housing's 2016 HFB C/D bonds were priced.

The largest change for the year has come since the election. The 10 year Treasury yield has ratcheted up, with increased expectations of future deficits due to higher infrastructure and defense spending combined with corporate and potentially personal income tax cuts, as well as much greater confidence in a Federal Reserve rate hike in December. The 10 year Treasury yield was **1.88**% on Election Day and ended the day of pricing at **2.48**%.

Municipals. While municipal bond yields closely track the movements in Treasury yields, the relationship has been distorted by high profile municipal credit events (Puerto Rico's problems, most recently) and international investment flows. From fall 2015 until this fall, positive funds flows into the municipal market had helped maintain strong demand and declining rates. Starting in September, municipal issuance increased significantly and municipal bonds underperformed Treasuries. Since the election, municipal bond rates increased faster than Treasuries as investors began to worry about the impact of future federal tax policy. Over the last six weeks, there have been significant outflows from municipal bond funds which have exacerbated the underperformance of municipal bonds versus Treasuries. During the week prior to the sale, municipals rallied with MMD dropping by about 15 basis points. This helped bring MMD levels more in line with Treasuries.

Issue	Date	10-Year Treasury	10-Year MMD	MMD/ Treasury Ratio	30-Year Treasury	30-Year MMD	MMD/ Treasury Ratio
2015 HFB A	1/12/15	1.92%	1.84%	95.8%	2.49%	2.63%	105.6%
2015 HFB B	3/10/15	2.14%	2.18%	102.0 %	2.73%	3.0%	110.0%
2015 HFB C	5/13/15	2.28%	2.24%	98.2%	3.02%	3.21%	106.3%
2015 RHFB ABCD	7/30/15	2.28%	2.23%	97.8%	2.96%	3.14%	106.1%
2015 HFB D	10/08/15	2.12%	2.04%	96.2%	2.96%	3.09%	104.4%
2015 RHFB EFG	11/24/15	2.24%	2.04%	91.1%	3.00%	2.98%	99.3%
2016 A	1/12/16	2.12%	1.78%	84.0%	2.89%	2.73%	94.5%
2016 B	3/1016	1.93%	1.88%	97.4%	2.70%	2.86%	105.9%
2016 RHFB ABC	5/25/16	1.87%	1.66%	88.8%	2.67%	2.45%	91.8%
2016 C/D	7/14/16	1.53%	1.41%	92.2%	2.25%	2.05%	91.1%
2016 E/F	9/12/16	1.68%	1.52%	90.5%	2.40%	2.23%	92.9%
2016 G/H	**10/20/16**	1.76%	1.73%	98.3%	2.50%	2.56%	102.4%
2016 RHFB DEF	**12/13/16**	2.48%	2.37%	95.6%	3.14%	3.16%	100.6%
Change from 2016 G/H		**+ 72 bp**	**+ 62 bp**	**-2.7%**	**+ 64 bp**	**+ 56 bp**	**-1.8%**

Board Agenda Item: 10.A
Date: 1/26/2017

Item: Report on Commissioner's Evaluation

Staff Contact(s):
Mary Tingerthal, 651.296.2172, mary.tingerthal@state.mn.us

Request Type:

☐ Approval
- ☐ Motion
- ☐ Resolution

☒ No Action Needed
- ☒ Discussion
- ☐ Information

Summary of Request:
The board will discuss the Commissioner's performance during the preceding year. This portion of the meeting will be closed pursuant to Minnesota Statutes Section 13D.05.

Fiscal Impact:
None.

Meeting Agency Priorities:
☒ Address Specific and Critical Local Housing Needs
☒ Finance Housing Responsive to Minnesota's Changing Demographics
☒ Preserve Housing with Federal Project-Based Rent Assistance
☒ Prevent and End Homelessness
☒ Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

Attachment(s):
- Materials will be distributed at the meeting

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