2026-2027 Qualified Allocation Plan: Summary of Engagement and Proposed Changes

Proposed changes to the 2026 – 2027 Low-Income Housing Tax Credit Qualified Allocation Plan and 2025-2026 Multifamily Consolidated Request for Proposals Funding Priorities

Background

The Federal Tax Reform Act of 1986 established the Low-Income Housing Tax Credit (HTC) Program for qualified residential rental properties. To be considered a qualified rental property, the HTC applicant must set aside a minimum number of units that meet both rent and income restrictions for each year of the HTC period. HTC Applicants must select one of the following minimum set-asides:

1. **20/50 Test:** A minimum of 20% of the residential units must be both rent restricted and occupied by individuals whose income is at or below the 50% Multifamily Tax Subsidy Project (MTSP) income limit, as established for different geographical areas and published by the U.S. Department of Housing and Urban Development (HUD), adjusted for family size.
2. **40/60 Test:** A minimum of 40% of the residential units must be both rent restricted and occupied by individuals whose income is at or below the 60% MTSP income limit, adjusted for family size.
3. **Average Income Test:** A minimum of 40% of the residential units must be both rent restricted and occupied by individuals whose imputed income average at initial occupancy is at or below the 60% MTSP income limit, adjusted for family size.

The HTC Program is one of the principal federal subsidies contained within tax law for acquisition/substantial rehabilitation and new construction of affordable rental housing. Section 42 of the Internal Revenue Code (IRC) requires that state allocating agencies develop a Qualified Allocation Plan (QAP) for distribution of tax credits within their jurisdiction.

Minnesota Housing's QAP describes how housing tax credits are distributed to multifamily rental projects. The QAP and the Self-Scoring Worksheet combine state and federally legislated requirements as well as priorities from Minnesota Housing's Strategic Plan. The QAP, which includes the Self-Scoring Worksheet, outlines the overall funding priorities for all the HTC funding rounds and annual Multifamily Consolidated Request for Proposals (RFP).

As part of the 2026-2027 QAP development process, Minnesota Housing led and participated in several engagement opportunities between November 2023 and March 2024 to gather early feedback from a variety of stakeholders including local units of government, community-based organizations, economic development organizations, state agencies, funding and collaborating partners, developers and communities most impacted by housing needs. Staff received early written comments and participated in nine engagement sessions with 512 participants to inform the QAP.

Summary of Engagement Feedback

Staff received feedback on several key themes and recommendations including:

- Consider ways to address climate resiliency in Minnesota Housing's building standards and prioritize Enhanced Sustainability.
- Continue to incentivize Innovative Construction Techniques (ICT), so that the option will be more enticing to developers and allow more projects that use ICT to move forward.
- Allow preservation projects that receive federal assistance where a portion of their senior units are designated for people with disabilities be eligible for the Senior Housing selection criterion.
- Consider additional changes to the geographic criteria to make projects in smaller, rural communities in Greater Minnesota more competitive, ensuring geographic balance. For example, provide more opportunities for projects in smaller, rural communities in Greater Minnesota such as adding points and/or tiers to selection criteria.
- Consider modifying the name of the Need for More Affordable Housing selection criterion. Every community in Minnesota needs more affordable housing. Remove the 500 minimum households threshold in Greater Minnesota in this selection criterion.
- Clarify the Equitable Development selection criterion so the eligibility requirements are clearer to applicants and communities applying for this category.
- Continue to support owners, sponsors and partners that are Black, Indigenous, and People of Color by reviewing the Black-, Indigenous-, People of Color-, and Women-owned Business Enterprises category.
- Continue to explore ways to simplify the criterion and streamline requirements to reduce barriers to the application process.
- Clarify in the QAP where certain policies and procedures can be found.
- Consider a policy to limit annual rent increases for HTC developments.

Summary of Proposed Changes

The following information is a summary of proposed policy, scoring and streamlining changes to the 2024-2025 QAP, including the 2024-2025 Self-Scoring Worksheet. For the proposed changes to the Self-Scoring Worksheet, the bold underlined headings refer to sections in the 2024-2025 Self-Scoring Worksheet.

Self-Scoring Worksheet

General Updates

- Update the template so the document meets current accessibility standards.
- Make administrative modifications to remove duplication, including clarifications from the scoring guide, or minor revisions to streamline and/or clarify the scoring process and requirements.
- Change the Innovative Construction Techniques (ICT) preference to a competitive pointing option by adding the ICT selection criteria to the Building Characteristics Selection Category.

Selection Category 1: Greatest Need Tenant Targeting

- **Senior Housing** – Modify the initial occupancy requirement from requiring 100% of the units be occupied by a qualifying senior to a tiered approach to allow different points based on percentages of initial occupancy requirements of 80%, 90% and 100%. The purpose of this change is to allow projects that primarily serve seniors but also serve other populations to claim points under the Senior Housing criterion.
- **People with Disabilities (PWD) Tier 2** – For PWD units that will use HUD Section 811 Project-based Rental Assistance (PRA), change the minimum number of units required for points for PWD Tier 2 to incentivize the use of HUD Section 811 PRA and increase the number of projects that move forward with a HUD Section 811 PRA award.

Selection Category 2: Serves Lowest Income for Long Durations

- **Preservation** – Projects with existing rental assistance that has been in place for 15 years or more can take points under the Preservation criteria. The proposed modifications are intended to reduce upfront application costs, remove barriers to the application process and clarify what is needed at application.
  - **Thresholds** – Projects must meet one of the three thresholds to be considered for points. The thresholds are as follows with suggested improvements.
    - **Risk of Loss Due to Market Conversion** – This threshold is for properties that are at risk of conversion to market rate housing and would lose the affordable units. Staff recommend a change to allow documentation to include other verifiable third-party data on comparable properties (dated within one year of application) approved by Minnesota Housing. This will reduce the cost to apply, since market studies will no longer be required at application for projects applying during the Multifamily Consolidated RFP/HTC Round 1 and 2.
    - **Risk of Loss Due to Critical Physical Needs** – This threshold is for properties that are at risk of losing units due to the critical needs of the physical property. Currently, a property's physical needs must exceed available reserves by at least $5,000 per unit. Staff recommend changing the threshold from $5,000 to $0 to

expand eligibility and allow more projects to be able to meet the threshold. Revisions will be made to Chapter 8 of the Building Standards for Critical Physical Needs so that more projects will qualify to meet the Risk of Loss Threshold.

    - **Risk of Loss Due to Ownership Capacity/Program Commitment** – This threshold is for properties in various situations where there is a risk of losing units because of certain conditions, such as an owner's financial hardship or an acquisition. Staff are not recommending changes to this threshold.

  - **Tier 1 - Existing Federal Assistance** – This tier is for projects with existing project based rental assistance. For clarity, the proposed change would add that federally-funded, long-term, project-based voucher contracts count as federal assistance.
  - **Tier 2 - Other Existing Federal Assistance and Critical Affordable Units** – Modify the requirement that at least 50% of the units have rents at or below 50% MTSP, to at least 50% of the units have rents at or below 60% MTSP so that more projects will be eligible for this criterion. For clarity, add that in this criterion, the following rental assistance type is also eligible: current and former public housing units converted under RAD Component 1 or under Section 18 Demolition and Disposition and any other successor programs developed for public housing. This addition helps the Agency prioritize traditional Section 8, Rural Development, and project-based voucher projects for the Multifamily Consolidated RFP resources.

- **Rental Assistance** – Projects with new rental assistance that has been in place for less than 15 years can take points under Rental Assistance.
  - Remove privately funded project-based rental assistance as an option. This is a rarely used option and only requires a four-year commitment. Removing this option protects residents from facing a cliff when the short-term rental assistance expires.
  - Modify Further Restricting Rental Assistance (FRRA) from 10 years to 15 years to be consistent with the 15 years currently required under the Rental Assistance selection criteria and to align with the initial compliance period for projects with HTCs.

Selection Category 3: Increasing Geographic Choice

The following proposed changes found in the bullets below will also be incorporated into the Methodology Guide which will also be released for public comment.

- **Need for More Affordable Housing Options** – Projects located in communities where there is a low share of affordable rental housing compared to all housing options in a community or a large share of renters that are cost burdened by their rent.
  - Change the name to Access to More Affordable Housing.
  - Add a new tier to create a three-tiered pointing structure, giving more communities opportunities for points because all cities, regardless of size, will receive some points in this criterion.

    - Remove the minimum 500-households threshold for Greater Minnesota in the Methodology Guide to include smaller communities that were not meeting this threshold in the current Methodology Guide. This change allows a project located in a community of any size to apply for funding.
    - Greater Minnesota large urban communities (Duluth, Rochester, St. Cloud, Moorhead) will be evaluated among all Greater Minnesota communities and no longer at the Census tract level to help with funding balance across the state.
    - The 7-County Metro will remain Census tract based, and all tracts will receive points.
- **Workforce Housing Communities**– Projects located in or near a city or township needing workforce housing.
    - Remove the hold harmless provision that was created due to the impacts of COVID-19 on employment across communities. This provision is no longer relevant. Staff will continue to monitor the employment trends and made minor adjustments as stated below.
    - Change how Top Job Centers and Job Growth Communities are evaluated. Include the Top 5 Job Centers by region (SE, SW, NE, NW, Central, West Central and 7-County Metro), mitigating regional differences in what is considered a regional job center.
    - Adjust the Net Five Year Job Growth Community definition to be more flexible in Greater Minnesota to having positive job growth in the last five years instead of a net job growth of at least 100 jobs. The 7-County Metro job growth definition remains the same.

Selection Category 4: Supporting Community and Economic Development

- **Equitable Development** – To receive Equitable Development points, there must be evidence that the project attempts to address the needs of a Community Most Impacted (CMI) by housing disparities and that a Qualified Stakeholder Group (QSG), with meaningful participation from that CMI, has a significant role in the project proposal.
    - Clarify that a Tribe or Tribally-designated Housing Entity can be a QSG as long as there are participants who are willing to sign the QSG letter that are not the proposed project owner, sponsor, developer, development team, service provider or management agent of record for the project.
    - Clarify requirements for Meaningful Engagement with the CMI through the QSG, so that applicants have a better understanding of the Agency goals and expectations for this selection criterion. Applicants are expected to conduct, at minimum, two meetings with the same QSG prior to the application submission.
- **Rural/Tribal** – Projects located in Rural/Tribal Designated Areas outside of the Metropolitan Area as defined by the 2026-2027 QAP and urbanized areas in Greater Minnesota.

  - Add two new tiers, to create a four-tiered pointing structure with the highest points available for smaller rural communities to recognize the added challenges that smaller, rural communities experience.
- **Qualified Census Tracts/Community Revitalization or, Tribal Equivalent Areas, and Opportunity Zones**
  - Remove Opportunity Zones as an option in this selection criterion since the program expires in 2026.
- Black-, Indigenous-, People of Color-, and Women-owned Business Enterprises – Applicants may select points for projects that meet this definition: Projects that include business entities that are owned or led by individuals who are Black-, Indigenous-, People of Color[1], **or** a woman. A Black-, Indigenous-, People of Color-, or Women-owned Business Enterprise is a Tribe or Tribally-designated housing entity, Tribal corporate entity, or other entity which is at least 51% owned by an individual(s) that is(are) Black, Indigenous, a Person of Color, or a woman. This includes nonprofits and governmental entities where the executive director or equivalent where the individual is Black, Indigenous, a Person of Color, or a woman. The individual(s) must also control and manage the daily business operations.
  - Clarify the terms in each tier and what circumstances are eligible for points under Ownership/Sponsorship and Development Team.
  - Partnership - The project sponsor, developer, general contractor, architect, or management agent partners with a Black-, Indigenous-, or People of Color-owned or Women-owned Business Enterprise entity with the goal of building the entity's capacity to develop, manage, construct, design, or own affordable housing in the future.
  - Change the name to Capacity Building Partnership to clarify and emphasize that the intention of the partnership component is to help build capacity for eligible entities.
  - Modify requirements to allow applicants to select more than one tier, which could result in additional points under this criterion.

Selection Category 5: Efficient Use of Scarce Resources and Leverage

- **Financial Readiness to Proceed/Leveraged Funds** – This selection criterion calculates the secured funding commitments for one or more permanent capital funding sources at the time of application.
  - Modify the commitment contingency language to account for typical conditions that funders require for selected projects.

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[1] Includes Native and Indigenous North and South American, Black and African-descendant, Hispanic or Latinx, Asian and Pacific Islander, and other non-white communities.

- Exclude funder commitments to modify existing debt as a commitment type because the final structure of an existing debt cannot be determined prior to application. The Agency can assess requests for modification to existing debt post-selection and post-closing.
    - Clarify the language for Payments in Lieu of Taxes (PILOT) to clarify that PILOT is only available for entities that are units of local government.
    - Clarify the examples for General Partner (GP) commitments, such as GP cash, seller loans, interim income and purchased reserves.
    - Add commitment types such as Interim Income and State Housing Tax Credit, which is a new Agency program and resource.
- **Other Contributions**
    - Modify the commitment contingency language to account for typical conditions that funders require for selected projects.
    - Exclude funder commitments to modify existing debt as a commitment type.
    - Clarify the language for Land Donation and PILOT.
    - Reduce percentage requirements in each tier to increase the incentive for projects to pursue additional non-capital contributions.
- **Intermediary Costs**
    - Decrease the points for the highest pointing tier to align better with the other points in the criteria.

Selection Category 6: Building Characteristics

- **Innovative Construction Techniques (ICT)** – Add as a selection criterion to prioritize projects that:
    - Reduce total construction cost by at least 10%; and/or
    - Reduce the time a project is under for construction by at least 20%.
- **Smoke Free Buildings** – Eliminate the Smoke Free Buildings selection criterion from the Self-Scoring Worksheet to simplify and reduce duplication. A Smoke-Free Policy pointing option (10 points) is currently included in the Minnesota Overlay to Enterprise Green Communities. In addition, most applicants select these points and property owners have created smoke free policies due to current HUD requirements, insurance requirements and resident satisfaction.
- **Enhanced Sustainability** – Increase points for Tiers 1-4 in the Enhanced Sustainability Selection Criterion to emphasize the importance of long-term sustainability and encourage projects to incorporate additional sustainability techniques.

QAP Proposed Changes

- Update the template so the document meets current accessibility standards.
- Right of First Refusal

    - Incorporate language to strengthen the nonprofit and tenant right of first refusal to better protect and preserve the long-term affordability of HTC properties.
- Minnesota Housing policies and procedures are incorporated in multiple resources and guides. We will incorporate additional language to explain where information can be found and provide a list of the key documents.
- Revise market study language to provide more flexibility on when the market study is required.
- Rural Development/Small Project Set-Aside will increase from $425,000 to $500,000 in 2026 and $525,000 in 2027.
- Development Limits will increase from $1,700,000 to 1,850,000 in 2026 and $1,950,000 in 2027.
- Protect tenants by updating the Unacceptable Practices for Non-Compliance in relation to rent violations, to include circumstances where owners did not provide 120 days' notice when the rent is increasing by more than 5%.
- Administrative changes such as clarifications, removing unnecessary dates and adjusting requirements to simplify and improve program implementation.

Other Proposed Policy Modifications

- Climate Resiliency
    - Incorporate climate resiliency policies into the Minnesota Housing's Rental Housing Design/ Construction Standards and/or the Minnesota Overlay to Enterprise Green Communities, which lay out requirements for HTC and MF Consolidated RFP projects.
- Tenant Notice of Rent Increase
    - Protect tenants by requiring 120 days' notice when a tenant's rent will be increasing by more than 5%. The 120-day window aligns with the timing for recertifying tenants and therefore should be less onerous for owners.