MINNESOTA HOUSING

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

Last Updated: January 2025

Background

The Federal Tax Reform Act of 1986 established the Low-Income Housing Tax Credit (HTC) Program for qualified residential rental properties. The HTC Program is the principal federal subsidy contained within tax law for the 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) to distribute HTCs within their jurisdiction. The 2026-2027 QAP sets forth the requirements to allocate HTC from the state's HTC annual credit ceiling and award HTCs in connection with tax-exempt volume limited bonds—commonly referred to as 9% HTCs and 4% HTCs, respectively. The QAP is subject to modifications to help ensure the provisions conform to the changing requirements of the IRC and Treasury regulations, applicable state statute, and the changing environment and market conditions, and to best promote Minnesota Housing's Strategic Plan. The 2026-2027 QAP also sets the overall selection priorities for the competitive 2025 and 2026 Multifamily Consolidated Requests for Proposals (RFPs), which include deferred loans funded from state and federal funding resources.

Minnesota Housing's QAP includes two primary documents:

- Qualified Allocation Plan: includes detailed definitions and procedures for implementing the HTC Program
- Self-Scoring Worksheet: assigns preferences and points for developments that meet Minnesota Housing's HTC Program and deferred loan funding priorities.

The Self-Scoring Worksheet is comprised of six selection categories that establish the scoring framework; each selection category is broken down into selection criteria. The selection categories are: Greatest Need Tenant Targeting, Serves Lowest Income for Long Durations, Increasing Geographic Choice, Supporting Community and Economic Development, Efficient Use of Scarce Resources, and Building Characteristics.

The Methodology Guide provides additional information related to application of Minnesota Housing's geographic priorities, as reflected in the Self-Scoring Worksheet, for effectively distributing HTCs throughout the state. Although the Methodology Guide is not part of the QAP, it is a document that applicants use to understand the selection criteria.

The HTC Program is reviewed annually to address Internal Revenue Service (IRS) requirements and Minnesota Housing's Strategic Plan; more substantial policy changes are recommended every two years. The current 2024-2025 QAP was adopted by the Minnesota Housing board in November 2022 and approved by the governor in January 2023.

Copies of the current 2024-2025 QAP and Self-Scoring Worksheet are available on Minnesota Housing's Housing Tax Credits webpage.

The only revisions staff will make after board approval are nonmaterial edits for readability purposes such as formatting and spelling or grammar corrections. The 2026-2027 QAP will then be submitted to the governor's office for final approval.

Suballocator Participation

Minnesota Statute 462A.222, subdivision 1 authorizes the city of Minneapolis, city of St. Paul, Dakota County, Washington County, city of Duluth, city of St. Cloud, and the city of Rochester to be HTC suballocators. For the 2025 HTC Program year, the cities of Duluth, St. Cloud, and Rochester entered into Joint Powers Agreements under which Minnesota Housing agreed to perform certain allocation, award, and compliance functions on behalf of the suballocator. Suballocators make an annual determination to participate in a Joint Powers Agreement, which is typically executed prior to the release of Minnesota Housing's annual Multifamily Consolidated RFP in the spring.

QAP Development Process and Timeline

Initial planning for the development of the 2026-2027 QAP began in June 2023 with staff reviewing federal requirements, other states' QAPs, and best practices and policies. Staff also assessed how policies are playing out in actual situations through implementation of Minnesota Housing's annual Multifamily Consolidated RFP. When staff review proposals and score projects in the Multifamily Consolidated RFP, they learn what policies are working and not working, and what refinements and clarifications are needed. Staff also solicit feedback on the Multifamily Consolidated RFP through a survey to applicants and implement changes as a result of this feedback. Based on research, implementation, partner feedback, and previous public comments, staff proposed several recommendations for improvements, clarifications, and new incentives for tenant protections, climate resiliency, enhanced sustainability, racial equity, and other policies.

Initial engagement with the public began with an eNews in November 2023 and an information session for external audiences in December 2023. The Agency offered several engagement opportunities between November 2023 and March 2024 to gather 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 from stakeholders and hosted nine engagement sessions, both virtual and in-person, with more than 500 participants to inform the QAP. Staff proposed several policy revisions to the QAP because of feedback from the engagement sessions.

Table 1: 2026-2027 HTC QAP Development Timeline

Date	Activity
November 2023 – March 2024	Gathered feedback from communities and partners through several engagement sessions.
Wednesday, December 13, 2023	Initial engagement and information session via Go to Webinar.
Thursday, May 23, 2024	Proposed changes to QAP presented to Minnesota Housing board.
Thursday, June 6, 2024	First draft of proposed QAP, Self-Scoring Worksheet, and Methodology Guide released for public comment.
Thursday, June 6, 2024	First public comment period opens.
Tuesday, June 18, 2024	QAP Virtual Discussion via Go to Webinar.
Thursday, June 20, 2024	Minnesota Housing Partnership/Metropolitan Consortium of Community Developers co- sponsored discussion with Minnesota Housing.
Thursday, June 27, 2024	First public hearing via Go to Webinar.
Wednesday, July 3, 2024	First public comment period closes.
Thursday, September 12, 2024	Second draft of proposed QAP, Self-Scoring Worksheet, and Methodology Guide released for public comment.
Thursday, September 12, 2024	Second public comment period opens.
Thursday, September 19, 2024	Second public hearing via Go to Webinar.
Friday, September 20, 2024	Second public comment period closes.
Thursday, November 21, 2024	Minnesota Housing board meeting: final action.
December 2024	Submit QAP to the governor’s office for approval.

Public Hearing and Public Comments

The IRS requires that allocating agencies hold a public hearing where interested individuals have an opportunity to share ideas, ask questions, and express their views on the proposed changes to the QAP. Public hearings are advertised on the Minnesota Housing website and via Agency eNews, the State Register, and the Star Tribune at least 10 days before the events. Individuals and organizations have the opportunity to provide verbal or written comments on issues related to the QAP.

Minnesota Housing’s public comment and public hearing process includes two public comment periods. The first public comment period is designed for Minnesota Housing to share initial ideas to the public for changes and collect comments and questions. The feedback from this first public comment period is then used to identify areas of support, need for clarification, new ideas, and concerns. Staff evaluate and research all comments to propose additional changes or to clarify or update language in the second release of the draft QAP. The second public comment period is the forum to share the results from the first public comment period and address any new items or changes.

Access the public comments on Minnesota Housing's Qualified Allocation Plan (QAP) webpage under the 2026-2027 QAP Engagement section or through the links below:

- Public comments from the first release (June 6 – July 3, 2024)
- Public comments from the second release (September 12 – 20, 2024)

Summary of Engagement

The Agency held two public comment periods and two public hearings on the proposed changes to the QAP, Self-Scoring Worksheet, and Methodology Guide. The first public comment period was from June 6 through July 3, 2024. On June 27, 2024, Minnesota Housing held the first public hearing on the proposed changes. There were 23 participants from the public that attended the hearing, and four of those participants provided verbal comments at the hearing. In addition, Minnesota Housing received 28 comment letters with 110 distinct comments.

Staff reviewed the comments and proposed additional changes as a result of those comments. Updates to the proposed QAP, Self-Scoring Worksheet, and Methodology Guide were subsequently released on September 12, 2024, for a second round of public comments. Minnesota Housing accepted public comments from September 12 through September 20, 2024, and held a second public hearing on September 19, 2024. There were 28 participants from the public that attended the second hearing, and four of the participants provided verbal comments. In addition, Minnesota Housing received 8 comment letters with 30 distinct comments during the second and final public comment period.

This report outlines several significant public comment themes and questions received during both public comment periods, including recommendations that have been incorporated into the proposed QAP. This report also acknowledges comments that were not incorporated into the draft QAP or may have broader Agency applicability outside of the QAP.

Summary of Proposed Changes and Review of Public Comments

Minnesota Housing received a number of comments in support of the initial proposed changes to the QAP, Self-Scoring Worksheet, and Methodology Guide. The full set of comments is available on Minnesota Housing's Qualified Allocation Plan (QAP) webpage under the 2026-2027 QAP Engagement section.

Proposed Changes to the Self-Scoring Worksheet

Below is a summary of the proposed changes to the Self-Scoring Worksheet and the comments received during the public comment period.

General

- Administrative modifications to remove duplication, including clarifications from the scoring guide and minor revisions to streamline and/or clarify the scoring process and requirements.
- Update the template so the document meets current accessibility standards.

Selection Category 1: Greatest Need Tenant Targeting

Senior Housing (1.B.)

- For projects that provide housing that is restricted to persons 55 years of age or older.
    - **Proposed changes:**
        - 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.
        - Incorporate language that will require senior projects that agree to restrict the units to households with incomes at or below the county 30% Multifamily Tax Subsidy Projects (MTSP) income to align rents with the income restrictions. The rent requirement would be for any property that does not have rental assistance. This will ensure that the rents for the units remain affordable to households at the restricted income limits.
    - **Public comments:** Support for modifying the initial occupancy requirement from requiring 100% of the units to be occupied by a qualifying senior to a tiered approach to allow different points based on percentages of initial occupancy requirements.

Permanent Supportive Housing for High Priority Homeless (1.C.)

- For projects with units set aside for and rented to people that are High Priority Homeless, which means households prioritized for Permanent Supportive Housing by the Coordinated Entry System.
    - **Proposed changes:**
        - Modify the name of the overall selection criteria to “Permanent Supportive Housing for People Experiencing Homelessness.”

        - Add a criterion for "Other Homeless" units (in addition to High Priority Homeless [HPH] units) to provide an option for Primarily Supportive Housing projects that serve other homeless households, including individuals leaving institutions or other homeless populations not referred through the Coordinated Entry System. This will incentivize Primarily Supportive Housing projects to increase the total number of homeless units.
    - **Public comments:** These changes did not receive public comments.

People with Disabilities (PWD) Tier 2 (1.D.)

- People with Disabilities (PWD) units that will use United States Department of Housing and Urban Development Section 811 Project-Based Rental Assistance (HUD Section 811 PRA). Permanent housing proposals that are not restricted to people of a particular age group are set aside for and rented to people with a disability.
    - **Proposed changes:** For units that will use HUD Section 811 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.
    - **Public comments:**
        - Support for changing the minimum number of units required for points for PWD Tier 2.
        - Recommendations to consider pointing adjustments to the selection criterion.
    - **Changes resulting from public comment:** Staff increased the total number of points for PWD Tier 2 to make projects more competitive by reducing the pointing differential between Tier 1 and Tier 2. This will increase the likelihood of applicants choosing to apply for HUD Section 811 PRA and increase usage of the HUD Section 811 PRA Program.

Selection Category 2: Serves Lowest Income for Long Durations

Preservation (2.A.)

- Projects with existing rental assistance that has been in place for 15 years or more can take points under the Preservation criteria.
    - **Proposed changes:** 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 recommends 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 recommends changing the threshold from $5,000 to $0 to expand eligibility and allow more projects to be able to meet the threshold. Revisions would 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 a requirement that 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 types are also eligible: current and former public housing units converted under federal Rental Assistance Demonstration (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 Multifamily Consolidated RFP resources.

- **Public comments:**
  - Support for adjusting the thresholds so more projects meet the threshold requirements and are eligible for preservation points.
  - Feedback on the various levels of distress of Preservation projects and recommendations to place a higher importance on projects that are in the most severe distress through additional points and tiers for distressed properties.

        - Recommendations that Minnesota Housing create a separate scoring track to differentiate Preservation projects from new construction projects. Concerns that Preservation projects may not be able to compete with new construction projects.
        - Recommendations that Minnesota Housing create a separate scoring track to differentiate Preservation projects from Supportive Housing projects or projects with a larger amount of Supportive Housing units. Commenters expressed concerns that Preservation projects may not be able to compete with projects with Supportive Housing components.
    - **Public comment acknowledgement:** Minnesota Housing acknowledges the need for additional funds to preserve existing affordable housing throughout the state. Minnesota Housing does not have sufficient financial resources to select all the Preservation projects that apply for funding through the competitive Multifamily Consolidated RFP. Preservation projects can currently receive up to 40 points, which is proposed to increase to a maximum of 45 points in the 2026-2027 QAP. Preservation projects are scored in accordance with the Self-Scoring Worksheet and Scoring Guide. The projects that apply for deferred funding resources are then ranked based on the score and categorized by project type, geographic area, and deferred funding priorities. The result is that Preservation projects effectively do not compete against new construction projects, but the Multifamily Consolidated RFP allows for a single application process. Minnesota Housing strives to select a balance of Preservation projects that meet the policies we have incentivized in the Self-Scoring Worksheet. We recognize that Preservation and new construction projects may face challenges when incorporating Supportive Housing units into projects. The long-term sustainability and viability of the project is vital to protect public investment and the residents of affordable rental properties. While incorporating Supportive Housing units into a project is not a requirement, serving individuals and households that have experienced homelessness or are currently homeless remains a high priority for the State of Minnesota and the Agency. We believe it is important to continue to focus on ending homelessness and incentivize projects to serve the populations with the greatest need.
    - **Changes resulting from public comment:** Based on several comments received, staff made adjustments to Preservation selection criteria for the second public release:
        - Added language for the Risk of Loss Due to Critical Physical Needs threshold that modifies how distressed properties with negative cash flow will be analyzed. This will assist distressed properties by allowing negative cash flow to offset reserves in the calculation of physical needs. This will expand eligibility and increase the number of projects that can meet the threshold.
        - Modified the pointing options for Tier 1 – Existing Federal Assistance. This change simplifies the scoring for the criterion and reduces the number of existing

        - federally assisted units necessary to receive points, which will result in higher scores for Tier 1 projects.
        - Added points based upon the severity of the Critical Physical Needs of the property. Projects with Critical Physical Needs greater than $15,000 or $25,000 per unit can receive additional points. This will increase the total points available to 45.

Rental Assistance (2.B.)

- Projects with new rental assistance that has been in place for less than 15 years can take points under Rental Assistance.
    - **Proposed changes:**
        - 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.
    - **Public comments:**
        - Request to add language to specify that Native American Housing Assistance and Self Determination Act (NAHASDA) funding is included in this criterion as eligible Rental Assistance.
        - Request to add Tribes and Tribal entities that provide rental assistance under the Rental Assistance selection criterion and clarify that they are not considered private Rental Assistance.
    - **Changes resulting from public comment:**
        - Added NAHASDA as Rental Assistance and added Tribes and Tribal entities that provide rental assistance under the Rental Assistance selection criterion.
        - Clarified that Tribes and Tribal entities are not considered private Rental Assistance.

Selection Category 3: Increasing Geographic Choice

Proposed changes: Modify the name of the overall selection category to “Increasing Housing Choice.” Any proposed changes to the geographic-based selection criteria have also been incorporated into the Methodology Guide.

Need for More Affordable Housing Options (3.A.)

- Projects located in communities where there is a low share of affordable rental housing compared to all housing options or a large share of renters that are cost burdened by their rent.
  - **Proposed changes:**
    - Modify the name of the selection criterion 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. 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.
  - **Public comments:**
    - Support for reducing the maximum points and adding a new tier to create a three-tiered pointing structure, giving more communities opportunities for points so that all cities, regardless of size, will receive some points in this criterion.
    - Support for removing the 500-households threshold for Greater Minnesota in the Methodology Guide to include smaller communities.

Workforce Housing Communities (3.B.)

- Projects located in or near a city or township needing workforce housing.
  - **Proposed changes:**
    - Remove the hold harmless provision that was created due to the impacts of COVID-19 on employment across communities. This provision is no longer necessary. Staff will continue to monitor the employment trends and make 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 (4.B.)

- To receive Equitable Development points, there must be evidence that the project will 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.
  - **Proposed changes:**
    - Clarify that Federally Recognized Tribes of Minnesota or Tribally Designated Housing Entities (TDHE) or Tribal corporate entities developing on Tribal Reservations, Dakota Communities, or Tribal trust lands can meet the definition of a QSG and are not required to be an independent body separate and apart from the proposed project owner, sponsor, developer, development team, service provider, and management agent of record for the project due to the Tribal ownership structure.
    - 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 engagement opportunities with the same QSG prior to the application submission. The engagement can be in person or virtual and can include meetings, focus groups, survey, or similar venues.
  - **Public comments:** Support for clarifying that a Tribe or TDHE can be a Qualified Stakeholder Group (QSG).

Rural/Tribal (4.C.)

- 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.
  - **Proposed changes:** 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.
  - **Public comments:** Support for adding two new tiers to create a four-tiered pointing structure with the highest points available for smaller rural communities so that all communities have the opportunity for points.

Qualified Census Tracts/Community Revitalization or, Tribal Equivalent Areas, and Opportunity Zones (4.D.)

- The proposed housing is located in a Qualified Census Tract (QCT)/Community Revitalization Area, Tribal Equivalent Area, or Opportunity Zone.
  - **Proposed changes:** Remove Opportunity Zones as an option in this selection criterion since the federal program expires in 2026.
  - **Public comments:** This change did not receive public comments.

Black-, Indigenous-, People of Color-owned Business Enterprises, or Women-owned Business Enterprises (4.F.)

- Projects that include business entities that are owned or led by an individual(s) that is(are) Black, Indigenous, or other Person of Color, or business entities that are owned or led by one or more women.
  - **Proposed changes:**
    - Clarify the terms in each tier and what circumstances are eligible for points under Ownership/Sponsorship and Development Team criteria.
    - *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.
  - **Public comments:** Recommendations to add development consultants to the Development Team as an eligible member to recognize the value and role development consultants play in the development process.
  - **Changes resulting from public comment:** Development consultants were added as an eligible member of the Development Team. Applicants can now claim points if the entity meets the definition in the Self-Scoring Worksheet.

Selection Category 5: Efficient Use of Scarce Resources and Leverage

Financial Readiness to Proceed/Leveraged Funds (5.A.)

- This selection criterion calculates the secured funding commitments for one or more permanent capital funding sources at the time of application.

- **Proposed changes:**
  - 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 because the final structure of an existing debt cannot be determined prior to application. Minnesota Housing 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.
- **Public comments:**
  - Support for modifying the commitment contingency language, which will simplify the application process.
  - Support for clarifications made to various types of funds that are accepted under this selection criteria.

Other Contributions (5.B.)

- For projects that receive non-capital contributions. Contributions can come from any entity, including the federal government, a local unit of government, an area employer, and/or a private philanthropic, religious, or charitable organization.
  - **Proposed changes:**
    - 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. The reduction will make the points more attainable and increase the incentive for projects to pursue additional non-capital contributions.
  - **Public comments:**
    - Support for modifying the commitment contingency language which will simplify the application process.
    - Support for reducing the percentage requirements in each tier.
    - Recommendations to consider additional changes to further reduce the percentage for the lowest tier.

- **Changes resulting from public comment:** Further reduced the percentage requirements to change the lowest Tier from 1-1.49% to 0.01-1.49%. The calculation is based on the total development.

Intermediary Costs (5.C.)

- Intermediary costs are third-party service costs related to the project development.
  - **Proposed changes:** Decrease the points for the highest pointing tier to better align with the other points in the criteria.
  - **Public comments:** This change did not receive public comments.

Selection Category 6: Building Characteristics

Innovative Construction Techniques (6.A.)

- Minnesota Housing may select a project that will use Innovative Construction Techniques (ICT) that are anticipated to reduce total construction cost by at least 10% or reduce the time a project is under for construction by at least 20%.
  - **Proposed changes:** Remove ICT as a preference and add it as a selection criterion to prioritize projects that reduce construction cost and reduce the time a project is under construction.
  - **Public comments:**
    - Concerns that there is the potential for the criterion to be too subjective.
    - Requests for additional detail and specific requirements for this selection criterion.
  - **Changes resulting from public comment:** Staff provided additional details on the requirements involved to be eligible for ICT. Additional language was added to the Self-Scoring Worksheet to provide information about ICT and the requirements. More information will also be provided in the application materials.

Smoke Free Buildings (6.B.)

- The project will institute and maintain a written policy prohibiting smoking in all units and all common areas within the building(s) of the project.
  - **Proposed changes:** 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.
  - **Public comments:** This change did not receive a significant amount of comments.

Enhanced Sustainability (6.C.)

- The project will incorporate additional sustainability criteria into its design and complete a Multifamily Intended Methods Worksheet to demonstrate how the criteria will be met.
    - **Proposed changes:** 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.
    - **Public comments:**
        - Support for increasing 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.
        - Add two Passive House certification programs within Tier 4 of Enhanced Sustainability selection criterion for rehabilitation projects.
    - **Changes resulting from public comment:** Added two Passive House certification programs within Tier 4 of enhanced sustainability selection criterion for rehabilitation projects.

Proposed Changes to the QAP

Below is a summary of the proposed changes to the QAP and the comments received during the public comment period.

- **General:**
    - Administrative changes such as clarifications, removing unnecessary dates, and adjusting requirements to simplify and improve program implementation.
    - Minnesota Housing policies and procedures are incorporated in multiple resources and guides. Incorporated additional language to explain where information can be found and provide a list of the key documents.
    - Update the template so the document meets current accessibility standards.
- **Tenant Notice of Rent Increase (QAP Chapter 2.J.)**
    - **Proposed changes:**
        - Incorporate a new HTC rent increase policy requiring a 120-day notice when a tenant's rent will be increasing by more than 5%. Failure to comply with this policy was added as an Unacceptable Practice in the QAP Chapter 2.J.
        - The policy will also be added to the HTC Compliance Guide which applies to all existing HTC projects. The policy will be added to the Resident Notification, and Good Cause Lease Rider that is currently an addendum to resident leases in developments with Agency HTC. If a property owner violates the 120-day notification policy, they will be required to reduce the rent and credit the overage back to the resident for the months they had charged the higher rent, until they had given a notice that satisfies the required notice period.

- **Public comments:**
  - Feedback concerning annual rent increases in projects that are developed using HTCs and/or other Minnesota Housing funding. Recommendations to consider a policy that would limit the size of annual rent increases.
- **Public comment acknowledgement:**
  - Minnesota Housing acknowledges the need for additional conversations regarding rent increases for properties. Staff are monitoring the rent increase policy discussion at the state and federal level and will continue to monitor our portfolio when there are substantial rent increases.

- **Right of First Refusal (QAP Chapter 3.U.)**
  - Incorporate language to strengthen the nonprofit and tenant right of first refusal permitted by federal law to better protect and preserve the long-term affordability of HTC properties. The HTC Program, through Internal Revenue Code (IRC) Section 42(i)(7), offers nonprofit general partners a Right of First Refusal (ROFR). The ROFR can be used to obtain eventual ownership of the property at a minimum purchase price equivalent to the outstanding debt plus exit taxes. The provision allows nonprofit general partners to gain ownership of HTC projects as their investors exit after 15 years once the investor has claimed all HTCs and before the program's rent restrictions expire.
- **Rural Development/Small Project Set-Aside (QAP Chapter 2.D.)** will increase from $425,000 to $500,000 in 2026 and $525,000 in 2027.
  - **Public comments:** Support for the increased limits for the Rural Development/Small Project Set-Aside.
- **Development Limits (QAP Chapter 2.H.)** will increase from $1,700,000 to 1,850,000 in 2026 and $1,950,000 in 2027.
  - **Public comments:** Support for the increased amounts for the Development Limits.
- **Market Study (QAP Chapter 3.T.):** Revise the market study language to provide more flexibility on when the market study is required. Previously the Market Study was required at application. Now for the Multifamily Consolidated RFP/HTC Rounds 1 and 2, the Market Study will be required for projects that are selected at either 42M or Carryover.
  - **Public comments:** Support for the market study changes.
- **Simplify the Carryover and Placed in Service (8609) Application submission requirements** in Chapters 6 and 7 by creating a simplified table (Appendix A). This will address redundancies and clarify when documents are required.
- **Modify Unacceptable Practices Language (QAP Chapter 2.J.)**
  - Simplify and streamline the penalty language so the potential penalties are consistent for each unacceptable practice.
  - Administrative changes to language to ensure that it is clear and aligns with our current practice.

- Add an unacceptable practice regarding violation of state or federal laws. This will apply to any new or existing state or federal requirements including prevailing wage and wage theft.
- Update language to give discretion to Minnesota Housing to apply a less severe penalty, if appropriate, than the penalty set forth in prior QAPs.
- More clearly identify the circumstances that could result in negative points.

Other Public Comment Acknowledgements

Compliance

The Agency received several comments from residents with concerns related to their property owner or property manager in existing operating properties. The commenters included potential non-compliance issues, including general upkeep and maintenance of certain HTC properties.

Federal law requires that Minnesota Housing provide a procedure to monitor for compliance with Section 42 and to notify the IRS of non-compliance. All projects with HTCs are required to comply with the HTC Compliance Guide, which includes periodic inspections conducted by Minnesota Housing at least once every three years. Inspections include a sampling of units and tenant files.

IRS regulations require monitoring agencies to inspect properties using the U.S. Department of Housing and Urban Development's National Standards for the Physical Inspection of Real Estate (NSPIRE). If a property is not in compliance with Uniform Physical Condition Standards (UPCS), the compliance officer issues a notice of non-compliance, and the owner is given a period of time to make corrections. After the correction period, the compliance officer is required to notify the IRS of the non-compliance, regardless of whether it is corrected. Additionally, when Minnesota Housing staff receive complaints from residents regarding maintenance issues that are not compliant with UPCS, staff follow up with the owner or management agent until the issues are resolved.

Underwriting Standards

We received comments requesting that Minnesota Housing allow for some flexibility in underwriting as the market is constantly fluctuating due to external pressures. For context, the Underwriting Standards are a set of policies and performance metrics used to evaluate project feasibility, including the financial structure, loan terms, development costs, and operating costs. The underwriting process starts when applications are submitted and effectively ends when a project closes on funding to start construction.

The Underwriting Standards are reviewed on an annual basis to incorporate clarifications or improvements as a result of feedback from internal and external stakeholders, state and national trends, and industry best practices.

The underwriting process for a particular project draws upon information provided by the applicant, properties within Minnesota Housing's asset management portfolio, and other comparable properties. The Underwriting Standards also include a waiver process for unique situations.

Over time, a building's actual performance will be different than the original underwriting due to local, state, and national trends. In large part due to recent inflationary pressures on operating costs, actual operating trends have had a greater variation from the initial underwriting projections. Additional changes to the Underwriting Standards do not affect how operating properties are performing; however, the Underwriting Standards will continue to evolve for new project reviews.

Rental Housing Design/Construction Standards and Supporting Documentation

We received comments requesting that Minnesota Housing consider specific changes to the forms that are submitted at application and post-selection. The Agency is always exploring ways that we can streamline and clarify our processes, policies, and documents. We appreciate the feedback and will look at our processes and documentation as we prepare for the 2025 Multifamily Consolidated RFP/2026 HTC funding rounds.

Climate Resiliency

We received comments requesting that Minnesota Housing consider incorporating Climate Resiliency into the Self-Scoring Worksheet. We plan to incorporate climate resiliency policies into Minnesota Housing's Rental Housing Design/Construction Standards and/or the Minnesota Overlay to Enterprise Green Communities for the 2025 Multifamily Consolidated RFP/2026 HTC funding rounds. This will also allow more flexibility to incorporate any additional clarification and modifications for the 2026 Multifamily Consolidated RFP/2027 HTC funding rounds.