

Summary of Recommended Changes to the Qualified Allocation Plan and Procedural Manual for 2021 and 2022

The Qualified Allocation Plan (QAP) and Procedural Manual are intended to meet three goals: compliance with IRS Code and State law, respond to the key priorities of the Agency and Washington County, and maximize the use of the tax credits. To further these aims, staff proposes one substantial change to the application cycle and several more minor changes to the scoresheet.

There are no statutory changes this year. The selection and preference scoring still aligns with the key priorities of the Agency and those of the County as outlined in its Comprehensive Plan. The proposed scoresheet changes seek to further these priorities. The application cycle change is to use a two-year QAP and credit reservation cycle instead of an annual one. The goal of this change is to allow developers and the Agency to utilize this valuable resource in a more efficient and effective manner.

Two-year QAP and credit reservation: Currently the QAP is issued on an annual basis and applications for 9% tax credits are submitted for each tax credit year on a forward allocating basis. Last year, for example, the CDA received applications in June 2019 for 2020 tax credits. Staff proposes to change this to a two-year cycle so that this year in June 2020 there will be applications for 2021 and 2022 tax credits with a corresponding 2021 and 2022 QAP. Based on applicant scoring, staff will recommend in October the awards for each tax credit year and issue the associated reservation letters. One letter would be to the highest scoring applicant for each year plus another letter to the second highest scoring applicant for any remaining credits for that year. Next June, applications for 2022 credits would not have to be submitted since the 2022 credits will have already been awarded this year. While the use of a two-year QAP is not uncommon, the two-reservation of credits is more so. Staff consulted Agency legal counsel as well as its regular developer and investor partners about the proposal. They all supported the innovative idea and found no regulatory or practical reasons not to move forward with it.

The benefits of a two-year QAP and credit reservation cycle are especially well suited for Washington County. The Agency's single year 9% tax credit allocation is not enough to fully fund a project and developers need to apply again the following year for additional credits. The two-year reservation cycle removes the need to submit a second application to receive the credit reservations necessary to fully fund a project. This allows it to potentially close on project financing a year earlier than under the current application cycle. The earlier closing produces a number of cost savings that can ultimately reduce funding gaps and help make projects more affordable. For instance, land acquisition cost can be reduced because developers will no longer need to pay a premium on a purchase agreement to extend it for two or more years. Construction cost can also be locked in a year earlier and save on the estimated 5% annual inflation cost. Finally, the time and money that goes into producing an additional application for the supplemental tax credits would be eliminated. Currently a project with a previous reservation receives 30 points which virtually assures it to be the highest scoring application in the next application cycle. The two-year reservation cycle takes this commitment one step further while adding a little more certainty to the development process.

Incent more federal/state/local philanthropic contributions: The point thresholds for this criterion are lowered to align with those from the state housing finance agency, Minnesota Housing, and recognize contributions at more realistic levels. The bottom threshold is lowered so that even small contributions can be valued. The top threshold is also lowered based on levels reflected in past applications.

Commitment to deep affordability: Points are awarded to projects that agree to provide rental assistance such as Housing Choice Vouchers or County Housing Support. A requirement has been added to continue the commitment for at least 10 years. This is consistent with the new requirements in the Minnesota Housing 2021 QAP. This type of assistance typically offers some of the deepest levels of affordability to residents. The new requirement ensures that this will be available for a substantial period of time.

Incent units for people with disabilities: Staff proposes to add a criterion with points for projects that include units targeted for people with disabilities. The recent Olmstead decision aims to offer more housing choices for people with disabilities aside from the traditional group home setting. Washington County Community Services reports there is a growing demand for these units in the county that this criterion helps to address. It also is consistent with the incentives for these units in the Minnesota Housing QAP.

Promote successful housing outcomes for residents who experience homelessness: A requirement was added to provide supportive services for homeless units instead of just offering additional points for providing the services. Typically, projects claim points for both the units and the services. Supportive services are often critically important for residents in these units to achieve successful housing outcomes. Because of this it makes sense to require these services instead of making them optional. This is consistent with the requirements for these units in the Minnesota Housing QAP. Text was also added to clarify the coordination required with Washington County Community Services.

Promote long term affordability: Previously only 4% projects could earn points for agreeing to extend the project's affordability beyond the minimum requirement. This incentive now includes 9% projects that agree to extend a project's affordability to 35 and 45 year thresholds. This is consistent with the long-term affordability incentives in the Minnesota Housing QAP.