

WASHINGTON COUNTY COMMUNITY DEVELOPMENT AGENCY  
LOW INCOME HOUSING TAX CREDIT PROGRAM  
2021 AND 2022 QUALIFIED ALLOCATION PLAN

**ARTICLE I**

**Purpose**

**Section 1.0.** Section 42(m) of the Internal Revenue Code of 1986, as amended (the “Code”), requires that Tax Credit agencies develop and adopt a qualified allocation plan in connection with the allocation of Tax Credits. This Qualified Allocation Plan (this “QAP”) sets forth selection criteria that are appropriate to local conditions and priorities to be used by the Washington County Community Development Agency (the “Agency”) in the allocation of Housing Tax Credits (“Credit(s)” or “Tax Credit(s)”) to housing projects and provides procedures for the Agency to follow in monitoring for noncompliance with the provisions of Section 42 of the Code and in notifying the Internal Revenue Service (the “IRS”) of such noncompliance.

**ARTICLE II**

**Authority**

**Section 2.0.** Minnesota Statutes sections 462A.221 through 462A.225, as amended (the “Act”), provide that the federal allocation of Credits available in Minnesota should be allocated among certain cities and counties or their designees, including the Agency as designee for Washington County.

**Section 2.1.** This QAP was prepared by the Agency according to the procedures set forth in Section 42(m) of the Code and is to be governed under Section 42 of the Code, including applicable Treasury Regulations.

**ARTICLE III**

**General Concepts**

**Section 3.0.** This QAP sets forth selection criteria which reflect the housing policies of the Agency and will be used to determine the priorities for the allocation of Credits within Washington County. This QAP gives preference, as required by federal legislation, in allocating Credits among selected projects to:

- (a) Projects serving the lowest income tenants;
- (b) Projects obligated to serve qualified tenants for the longest periods; and
- (c) Projects in Qualified Census Tracts which contribute to a concerted community revitalization plan.

**Section 3.1.** Incorporated into the selection criteria to allocate Credits to specific projects are the following factors required under Section 42(m)(1)(C) of the Code:

- (a) Project location;

- (b) Housing needs characteristics;
- (c) Project characteristics, including whether the project includes the use of existing housing as part of a community revitalization plan;
- (d) Sponsor characteristics;
- (e) Tenant populations with special housing needs;
- (f) Public housing waiting lists;
- (g) Tenant populations of individuals with children;
- (h) Projects intended for eventual tenant ownership;
- (i) Energy efficiency of the project; and
- (j) Historic nature of the project.

**Section 3.2.** This QAP provides a procedure that the Agency (or an agent or other private contractor of the Agency) will follow in monitoring for noncompliance with the provisions of the Code and in notifying the IRS of such noncompliance of which the Agency becomes aware.

**Section 3.3.** This QAP provides for review of financial feasibility and marketability of each project and its viability as a qualified low income project throughout the credit period as of the application date, allocation date, and placed-in-service date, all as required by Section 42(m)(2) of the Code.

**Section 3.4.** This QAP applies to tax-exempt volume limited bond financed projects as required by Section 42(m)(1)(D) of the Code.

**Section 3.5.** The Housing and Economic Recovery Act of 2008 authorizes Tax Credit agencies to designate buildings placed in service after July 30, 2008, for which the eligible basis will be increased by 30 percent, based on a determination by the Tax Credit agency that such increase is required in order for such building to be financially feasible as part of a qualified low income housing project. This provision does not apply to buildings which receive Credits because they are financed with tax-exempt volume limited bonds. This QAP and the Agency's Procedural Manual (the "Agency's Manual") establish standards for the Agency to determine which buildings will be designated for such increased basis.

#### **ARTICLE IV** **Definitions**

**Section 4.0.** Metropolitan Area: The area over which the Metropolitan Council has jurisdiction, including only the counties of Anoka, Carver, Dakota (excluding the city of Northfield), Hennepin (excluding the cities of Hanover and Rockford), Ramsey, Scott (excluding the city of New Prague), and Washington.

**Section 4.1.** Single Room Occupancy: A unit having one bedroom or less with rents affordable at 30 percent of median income.

**Section 4.2.** Substantial Rehabilitation: Rehabilitation with a minimum cost that:

- (a) Equals or exceeds \$5,000 per unit, as required in Minnesota Statutes section 462A.221, subdivision 5; and
- (b) Equals or exceeds the greater of:
  - (i) An average qualified basis amount per low income unit for a building which meets the inflation adjusted amount published by the IRS annually in accordance with Section 42(e)(3)(D) of the Code; or
  - (ii) An amount that is not less than 20 percent of the adjusted basis of the building, as determined pursuant to Section 42(e)(3).

**Section 4.3.** Family Housing: A housing development that is not restricted to persons 55 years old or older. At least 75 percent of the units must contain two or more bedrooms and at least one-third of the 75 percent must contain three or more bedrooms.

**Section 4.4.** Federally Assisted Building: As defined by Section 42, any building which is substantially assisted, financed, or operated under section 8 of the United States Housing Act of 1937, section 221(d)(3), 221(d)(4), or 236 of the National Housing Act, section 515 of the Housing Act of 1949, or any other housing program administered by the Department of Housing and Urban Development (“HUD”) or by the Department of Agriculture Rural Development (“RD”).

**Section 4.5.** Households Experiencing Long-Term Homelessness: Persons, including individuals, unaccompanied youth, and families with children, lacking a permanent place to live continuously for one year or more or at least four times in the past three years. Any period of institutionalization or incarceration shall be excluded when determining the length of time a household has been homeless. See Minnesota Rules Chapter 4900.3705, Subpart 10a.

**Section 4.6.** Preservation of Federally Assisted Units: Any housing receiving project based rental assistance, operating subsidies, or mortgage interest reduction payments under a HUD or RD program that is not scheduled to sunset or expire.

**ARTICLE V**  
**Amount of Credit to Allocate**

**Section 5.0.** The maximum Credit amount to be allocated in any year by the Agency is established pursuant to the formula set forth in the Act and the limitations of Section 42(h)(3) of the Code. The Agency’s estimated Credit amount for 2021 is \$606,480.00. The Agency’s estimated Credit amount for 2022 is \$597,816.00.

**ARTICLE VI**  
**Allocation Policies**

**Section 6.0.** The Agency shall act as the designated Credit agency on behalf of Washington County.

**Section 6.1.** Pursuant to the Code and applicable regulations, the Agency shall monitor or cause to be monitored each project which receives an allocation of Credits for compliance with income and rent restrictions and other requirements of Section 42 of the Code and applicable Treasury Regulations as provided in Article X hereof.

**Section 6.2.** Owners of projects which displace low income tenants will be responsible for relocating those tenants in accordance with the Uniform Relocation Act of 1970, as amended.

**Section 6.3.** The Agency staff will process Tax Credit applications and administer the Credit program pursuant to this QAP and the Agency’s Manual, which corresponds to the applicable requirements of federal and state law. **Tax Credit applications must be submitted in the manner required by the Agency’s Manual and comply with the Agency’s submission requirements.** Required fees are outlined in the Agency’s Manual and shall be payable to the Agency. The Agency reserves the right to adjust fees due to changing circumstances in order to cover its costs associated with producing and delivering the Agency’s Tax Credit program.

**Section 6.4.** Project owners will be required to execute an extended low income housing commitment (the “Extended Use Agreement”) as required by Section 42(h)(6) of the Code. All projects, with the exception of those obtaining Credits in association with tax-exempt volume limited bonds over and above the State’s allocation of Credits, must maintain the duration of low income use for a minimum of 30 years. All tax-exempt volume limited bond projects must maintain the duration of low income use for a minimum of 20 years. The owner must agree that the provisions of Sections 42(h)(6)(E)(i)(II) and 42(h)(6)(F) (which provisions would permit the owner to terminate the restrictions under the Extended Use Agreement at the end of the compliance period in the event the Agency does not present the owner with a qualified contract for the acquisition of the project) do not apply to the project, and that the Section 42 income and rental restrictions shall apply for a period of 30 years (or 20 years for tax-exempt volume limited bond projects) beginning with the first day of the compliance period in which the building is a part of a qualified low income housing project.

**ARTICLE VII**  
**Application and Allocation Process**

**Section 7.0.** The allocation process for awarding Credits for projects located in Washington County consists of the following steps:

- (a) Each applicant shall notify the Agency of its intent to apply.
- (b) Each applicant shall timely complete, sign, date and submit to the Agency an original application in the manner required by the Agency’s Manual and complying with the Agency’s submission requirements utilizing forms supplied by the Agency

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or the Minnesota Housing Finance Agency (“Minnesota Housing”), including all required fees, deposits, and exhibits.

- (c) The Agency shall notify the chief executive officer (or the equivalent) of the local jurisdiction within which the project is located and provide such individual a reasonable opportunity to comment on the project.
- (d) The Agency staff or its consultants shall review and evaluate the application to:
  - (i) Ensure that minimum threshold requirements to qualify for Credits have been satisfied;
  - (ii) Assign points to the project according to the selection priorities section (Article IX) of this QAP; and
  - (iii) Determine the minimum amount of Credits necessary to make the project financially feasible and valuable.
- (e) Special tax counsel appointed by the Agency (“Tax Counsel”) shall also review the application if requested to do so by the Agency.
- (f) The Agency shall make a determination to approve or deny the reservation of Credits to the project based upon the selection priority criteria, the requirements of this QAP, and the availability of Credits during the competition; provided, however, that the Agency reserves the right (but shall not be obligated) to grant priority over higher ranking projects to projects that (i) have previously received Tax Credits and have an annual Tax Credit shortfall of at least five percent, but no more than 50 percent, of the total qualified annual Tax Credit amount and (ii) demonstrate readiness to proceed by having city approvals and all funding commitments in place (other than the Tax Credits the applicant is presently requesting). The Agency shall provide a written explanation, available to the general public, for any allocation of Tax Credits which is made in accordance with the above provision.
- (g) The Agency and Tax Counsel (if requested to do so by the Agency) shall reevaluate the application and amount of Credits for the project at the time of any commitment to allocate Credits and at the time the building is placed in service. At each evaluation, the Agency may reduce the amount of Credits to be allocated to the project or may revoke any commitment to allocate Credits to the project if it determines that the financial feasibility or viability of the project does not justify the originally applied for or committed Credits or that the criteria and requirements of this QAP have not been satisfied.
- (h) Certification by the applicant that the project has been placed in service.
- (i) The Agency issues IRS Form 8609, Low Income Housing Credit Allocation Certificate (“IRS Form 8609” or “Form 8609”).

**Section 7.1.** The Agency will evaluate project proposals to determine the amount of Credits to be allocated pursuant to Section 42(m)(2)(B) of the Code. The Agency will also evaluate project proposals to determine whether the permitted 30% increase in basis is required in order for such project to be financially feasible. In making such determinations, the Agency will consider whether: (i) the project meets housing priorities identified by the Agency, as evidenced by a competitive Credit score; and (ii) funding gaps remain for such project. In any event, the Credits allocated to a project, even if it is designated for a basis boost, will not exceed the amount the Agency determines is necessary for the financial feasibility of the project and its viability as a qualified low income housing project throughout the Credit period.

There will be three evaluations prior to delivery by the Agency of an executed Form 8609 for the project, which are as follows:

- (a) At the time of initial application/reservation;
- (b) At the time of commitment to allocate Credits/carryover allocation; and
- (c) At the time the building is placed in service.

**Section 7.2.** Prior to each evaluation, the eligible applicant will be asked to submit the most recent financial information on the project. Any federal, state or local subsidies anticipated must be certified. Misrepresentations of information will result in failure to issue IRS Form 8609, debarment from participation in the Tax Credit program, and possible criminal penalties. Such evaluations will be made by the Agency staff solely for purposes of complying with Section 42(m) of the Code and shall not be relied upon by any developer or investor or used in conjunction with any offering of interests in the entity owning the project to such person.

**Section 7.3.** Selected applicants failing to place a project in service in the allocation year for which the reservation was issued may be awarded a carryover credit if federal tax law requirements are met, including the requirement that more than 10 percent of the reasonably anticipated basis of the project be incurred on or before the date which is one (1) year after the date that the allocation is made. A complete carryover package in final form in accordance with the Agency's Manual must be submitted to the Agency on or before **4:30 p.m., October 1<sup>st</sup>** or the next calendar business day. The Agency's carryover procedures are intended to conform to the federal laws and are based upon the limited guidance received from the IRS. At any time, additional IRS guidance may be issued that will require further adjustments to this QAP and additional reviews of developments relating to carryover.

**Section 7.4.** The Agency's Credit program permits its owners to elect the applicable percentage either at reservation or placed in service. If the election is not made at the time the reservation letter is 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. However, Section 42(b)(2)(A) and (B) of the Code establish a minimum credit rate for non-federally subsidized new buildings. In the case of any new building which is not federally subsidized for the taxable year, the applicable percentage shall not be less than nine percent (9%). See Chapter 4 of the Agency's Manual for further guidance.

**Section 7.5.** The applicant shall make a minimum set-aside election and meet one of the income and rent level tests set forth in subparagraph (a), (b), or (c) below. The minimum set-aside election requirement for a qualified low-income housing project under Code Section 42(g) is irrevocable once made in the original application for Credits. If a Project fails to meet its elected minimum set-aside standard at the end of a year, it is not a qualified low-income housing project for the year under Code Section 42(g)(1)(C) and this noncompliance must be reported on IRS Form 8823. The owner may be subject to the loss of Tax Credits.

- (a) 20-50 Test. The project meets the requirements of this minimum set-aside if 20 percent or more of the residential units in such project are both rent-restricted and occupied by individuals whose income is 50 percent or less of area median gross income.
- (b) 40-60 Test. The project meets the requirements of this minimum set-aside if 40 percent or more of the residential units in such project are both rent-restricted and occupied by individuals whose income is 60 percent or less of area median gross income.
- (c) Average Income Test. The project meets the requirements of this minimum set-aside if 40 percent or more (25 percent or more in the case of a project described in section 142(d)(6)) of the residential units in such project are both rent-restricted and occupied by individuals whose income does not exceed the imputed income limitation designated by the project owner with respect to the respective unit. In order for a project to elect the minimum set-aside set forth in this subparagraph (c), the following requirements must be satisfied:
  - (i) This minimum set-aside is only available to projects with 100% Tax Credit units.
  - (ii) The project owner shall designate the imputed income limitation of each unit taken into account under this minimum set-aside. The designation of imputed income limitations below 60% shall be included in the Declaration.
  - (iii) The imputed income limitations designated for each unit shall have reasonable parity in terms of the layout, number of bedrooms and unit square footage.
  - (iv) The average of the imputed income limitations designated under this set-aside shall not exceed 60 percent of area median gross income.
  - (v) The designated imputed income limitation of any unit shall be 20 percent, 30 percent, 40 percent, 50 percent, 60 percent, 70 percent, or 80 percent of area median gross income.
  - (vi) Projects with more than one building must be designated as a multiple-building project on Form 8609.

- (vii) For projects which also have Project Based Housing Choice Vouchers (PBV), the designation of imputed income limitation for the PBV units must match the rent level of that unit. The maximum gross rent shall not exceed the lower of the designated rent limit or PBV Payment Standard rent limit.

**ARTICLE VIII**

**Procedure for Selecting Projects**

**Section 8.0.** In each calendar year, there will be competition for Credits pursuant to Minnesota Statutes section 462A.222. The Agency may reserve two or more years of Credits in a calendar year. The requirements and closing dates for applications shall be as set forth in the Agency’s Manual. As provided in the Agency’s Manual, all applications shall be submitted in the manner required by the Agency’s Manual and comply with the Agency’s submission requirements utilizing forms supplied by the Agency or Minnesota Housing.

**Section 8.1.** Projects which are determined to meet the threshold requirements of this QAP will be prioritized with the project receiving the most points being rated first, the project receiving the second most points being second, and so on.

**Section 8.2.** As described above, the Agency may elect to give priority in the award of Credits to projects that have previously received Tax Credits and have an annual Tax Credit shortfall of at least five percent, but no more than 50 percent, of the total qualified annual Tax Credit amount.

**Section 8.3.** Credits not committed or allocated by the Agency in connection with the allocation procedures of the Agency will be returned to Minnesota Housing for allocation in accordance with Minnesota Statutes section 462A.222, subdivision 3. If any commitment for Credits is reduced or revoked, the Credits may be reallocated as provided in the Agency’s Manual. If there are Credits from the current year’s annual ceiling returned from a project that is no longer eligible and if the Agency maintains a waiting list, the Agency may continue to commit or allocate the Credits until not later than December 31, at which time any uncommitted Credits must be transferred to Minnesota Housing.

**ARTICLE IX**

**Selection Priorities**

**Section 9.0.** Each competition will involve a two step process as follows:

- (a) The minimum requirements of Section 9.1 must be satisfied in order to qualify to be awarded points according to the selection and preference priorities set forth in Exhibit A, Self-Scoring Worksheet; and
- (b) Projects will be ranked according to points awarded as set forth in Exhibit A, Self-Scoring Worksheet; provided, however, that the Agency reserves the right (but shall not be obligated) to grant priority over higher ranking projects to projects that
  - (i) have previously received Tax Credits and have an annual Tax Credit shortfall of at least five percent, but no more than 50 percent, of the total qualified annual Tax Credit amount and
  - (ii) demonstrate readiness to proceed by having city approvals



and all funding commitments in place (other than the Tax Credits the applicant is presently requesting). The Agency shall provide a written explanation, available to the general public, for any allocation of Tax Credits which is made in accordance with the above provision.

**Section 9.1.** A project for which Credits are being sought must satisfy the following minimum requirements:

- (a) Under the Act, all projects must meet one of the following threshold types:
  - (i) New construction or Substantial Rehabilitation of projects in which, for the term of the extended use period (term of the Declaration of Land Use Restrictive Covenants (the “Declaration”)), at least 75 percent of the total Tax Credit units are Single Room Occupancy units which are affordable by households whose income does not exceed 30 percent of the median area income;
  - (ii) New construction or Substantial Rehabilitation of Family Housing projects that are not restricted to persons who are 55 years of age or older and in which, for the term of the extended use period (term of the Declaration), at least 75 percent of the Tax Credit units contain two or more bedrooms and at least one-third of the 75 percent contain three or more bedrooms;
  - (iii) Substantial Rehabilitation projects in neighborhoods targeted by the city for revitalization;
  - (iv) Projects that are not restricted to persons of a particular age group and in which, for the term of the extended use period (term of the Declaration), a percentage of the units are set aside and rented to persons:
    - (1) With a serious and persistent mental illness as defined in Minnesota Statutes section 245.462, subdivision 20, paragraph (c);
    - (2) With a developmental disability as defined in United States Code, Title 42, section 6001, paragraph (5), as amended through December 31, 1990;
    - (3) Who have been assessed as drug dependent persons as defined in Minnesota Statutes section 254A.02, subdivision 5, and are receiving or will receive care and treatment services provided by an approved treatment program as defined in Minnesota Statutes section 254A.02, subdivision 2;
    - (4) With a brain injury as defined in Minnesota Statutes section 256B.093, subdivision 4, paragraph (a); or
    - (5) With permanent physical disabilities that substantially limit one or more major life activities, if at least 50 percent of the units in the

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project are accessible as provided under Minnesota Rules, Chapter 1341;

- (v) Projects, whether or not restricted to persons of a particular age group, which preserve existing subsidized housing, if the use of Credits is necessary (1) to prevent conversion to market rate use or (2) to remedy physical deterioration of the project which would result in loss of existing federal subsidies; or
  - (vi) Projects financed by Farmers Home Administration, or its successor agency, which meet statewide distribution goals.
- (b) Pursuant to Section 42 of the Code, before the Credit allocation is made, a comprehensive market study of the housing needs of low income individuals in the area to be served by the project must be conducted at the developer's expense by a disinterested party approved by Minnesota Housing. The market study must be conducted in accordance with Minnesota Housing's requirements and must be completed by a market analyst on the Minnesota Housing Authorized Contractor List. The market study must be submitted at the time of application and have an effective date within six months of the date of application. An update may be accepted if the effective date of the market study is within 12 months of the application date. The Agency may require additional information or market justification after submission of the market study and before the Credit allocation is made.
- (c) The project must be financially feasible and viable as documented by information in the application which reasonably satisfies the Agency that the sponsor is reasonably experienced and the project is creditworthy, can be completed in a timely manner, has a positive after debt service cash flow, demonstrates reasonable operating expenses relative to comparable projects in the past, and complies with applicable building, land use, and zoning ordinances. In making its evaluation, the Agency will also consider: (i) whether the city in which the project will be located has provided negative comments on the proposed project; (ii) whether the area in which the project is located can support the proposed rents; and (iii) whether there is a need for housing at such rental levels in the project area. In making its evaluation, the Agency shall take into account the sources and uses of funds and the total financing planned for the project, any proceeds or receipts expected to be generated by reason of tax benefits, the percentage of the housing Credit dollar amount used for project costs other than the cost of intermediaries, and the reasonableness of the developmental and operational costs of the project.
- (d) All projects must comply with Minnesota Housing's Rental Housing Design/Construction Standards and the appropriate local, state, or federal requirements or building code; e.g., to be considered an accessible unit, the unit must be designed to meet the standards in the Minnesota State Building Code, Minnesota Rules Chapter 1341, and be certified as complying by a registered architect.

- (e) Applicants must agree to utilize public housing waiting lists in Washington County in marketing units to the public.
- (f) The applicant must demonstrate by information in the application that the project is a qualified low income building under Section 42(c)(2) of the Code.
- (g) The applicant must agree to enter into an Extended Use Agreement in form and substance acceptable to the Agency and Tax Counsel.
- (h) After reviewing the applications and recommendations, the Agency reserves the right to choose not to award any Credits or to terminate any further award of Credits after a portion of the total Credits available has been awarded.

**Section 9.2.** If two or more proposals have an equal number of points, the following will be used to determine selection:

**TIE BREAKERS:**

- (a) The first tie breaker will be the total number of points in the Preference Priorities criteria;
- (b) If a tie still remains, the second tie breaker will be if the city in which the project is located has not received Tax Credits in the last two years;
- (c) If a tie still remains, the third tie breaker will be the lowest percentage of cost of intermediaries; and
- (d) If a tie still remains, the fourth tie breaker will be by lot.

**ARTICLE X**

**Monitoring Compliance with Housing Credit Requirements**

**Section 10.0.** Recordkeeping and Record Retention Provisions.

- (a) Recordkeeping. Under the record keeping provision of Treasury Regulation Section 1.42-5, the owner of a Tax Credit project must keep records for each qualified Tax Credit building in the project showing each year:
  - (i) The total number of residential rental units in the building (including the number of bedrooms and the size in square feet of each residential rental unit);
  - (ii) The number and percentage of residential rental units in the building that are Tax Credit units, offices and management units;
  - (iii) The rent charged on each residential rental unit in the building (including any utility allowances) as well as any additional charges to tenants.

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Documentation must include rent rolls, tenant ledgers, leases and utility allowances as required by the IRS;

- (iv) The number of occupants in each Tax Credit unit and the household's student status;
- (v) The Tax Credit unit vacancies in the building, marketing information and information which shows when and to whom each of the next available units was rented;
- (vi) The annual income certification and annual student certification of each Tax Credit tenant;
- (vii) Documentation to support each Tax Credit Tenant's Income Certification, including application/recertification questionnaire and verifications. Anticipated income of all persons expecting to occupy the unit must be verified and included on a Tenant Income Certification **prior** to occupancy and, for mixed income projects, recertified **annually** for continued eligibility;

**Note:** Projects that receive a 100% allocation of Tax Credits must have ALL identified noncompliance corrected before ceasing annual income recertifications. The Authority or its Authorized Delegate will determine whether a 100% Tax Credit project is eligible for exemption of future tenant income recertifications and will notify the owner.

- (viii) The eligible basis and qualified basis of the building at the end of the first year of the credit period;
- (ix) The character and use of the nonresidential portion of the building included in the building's eligible basis under Section 42(d) (e.g., tenant facilities that are available on a comparable basis to all tenants and for which no separate fee is charged for use of the facilities, or facilities reasonably required by the project);
- (x) Records demonstrating that any state or Agency established set-aside elected by the owner has been complied with for each year of the compliance period; and
- (xi) Any additional records necessary to verify compliance with additional restrictions included in the carryover agreement or Declaration.

The IRS has released its Guide for Completing Form 8823 Low-Income Housing Credit Agencies Report of Noncompliance or Building Disposition (the "8823 Guide"). The 8823 Guide does not change any Section 42 rules or policies. It is intended to provide guidance regarding what the IRS considers "in compliance" and for consistency in reporting "out of compliance" and "back in compliance" on

IRS Form 8823. The Agency will monitor and report noncompliance according to instructions in the 8823 Guide.

The 8823 Guide was updated in October 2009 and again in January 2011. In 2009, the 8823 Guide was updated based on amendments to Section 42 by the Housing Assistance Tax Act of 2008, HUD's revisions to Handbook 4250.3, and revisions to Treas. Reg. 1.42-10. Revisions were also made to clarify existing text. In 2011, the IRS further updated the 8823 Guide to make several technical corrections and clarifications.

Visit: <https://www.irs.gov/pub/irs-utl/lihc-form8823guide.pdf> for the 8823 Guide. Owners and managers should read the 8823 Guide and must make any needed changes to policies and procedures.

- (b) Record Retention. The owner of a Tax Credit project must retain the records described in paragraph 10.0(a) of this section for each building in the project for at least six years after the due date (with extensions) for filing the federal income tax return for that year. The records for the first year of the credit period, however, must be retained for at least six years beyond the due date (with extensions) for filing the federal income tax return for the last year of the compliance period of the building.

**Note:** See IRS Revenue Ruling 2004-82, published August 30, 2004, which clarifies that owners may comply with the record retention provisions under Treasury Regulation Section 1.42-5(b) by using an electronic storage system instead of maintaining hardcopy (paper) books and records, provided that the electronic storage system satisfies the requirements of IRS Revenue Procedure 97-22. Owners must maintain applicant and tenant information in a way to ensure confidentiality. Any applicant or tenant affected by negligent disclosure or improper use of information may bring civil action for damages and seek other relief, as appropriate. Owners must dispose of records in a manner that will prevent any unauthorized access to personal information such as burn, pulverize, shred, etc.

- (c) Inspection Record Retention. Under the inspection record retention provision, if a State or local government unit issues any violation report or notice, the owner of a Tax Credit project must attach a statement summarizing the violation report or notice issued by any governmental unit or a copy of the original local health, safety or building code violation reports or notices that were issued by the State or local government unit (as described in Treas. Reg. 1.42-5 (c)(1)(vi)) for the Agency's inspection, and state whether the violation report or notice remains uncorrected.

**Section 10.1. Certification and Review.**

- (a) Certification. The owner of a Tax Credit project shall certify to the Agency, under penalty of perjury, at least annually for each year of the 15-year compliance period on Minnesota Housing Form HTC-12 Owner's Certification of Continuing Program Compliance, or other equivalent forms designated by the Agency, that the

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project is in compliance with the requirements of Treasury Regulations Section 1.42-5 paragraph (c)(1), certification and review provisions. The owner's certification requires the owner to certify that the project meets the following for the preceding 12-month period and if not, an explanation of the circumstances for noncompliance and of the owner's planned return to compliance is required:

- (i) The project met the minimum requirements of the 20-50 test under Section 42(g)(1)(A), the 40-60 test under Section 42(g)(1)(B), the average income test under Section 42(g)(1)(C), or the 15/40 test for "deep rent-skewed" projects under Section 42(g)(4) and 142(d)(4)(B), whichever minimum set aside test is applicable to the project;
- (ii) There has been no change in the applicable fraction (as defined in Section 42(c)(1)(B)) for any building in the project;
- (iii) At initial occupancy, the owner has received a Tenant Income Certification with supporting documentation and an Annual Student Certification from each low income household. At annual recertification, the owner has received an Annual Student Certification and, where applicable, a Tenant Income Certification with supporting documentation from each low income household;
- (iv) Each low income unit in the project has been rent restricted under Section 42(g)(2);
- (v) No tenants in low income units were evicted or had their tenancies terminated other than for good cause and no tenants had an increase in the gross rent with respect to a low income unit not otherwise permitted under Section 42;
- (vi) All units in the project are and have been for use by the general public and used on a non-transient basis, except for transitional housing for the homeless provided under Section 42(i)(3)(B)(iii) of the Code;
- (vii) No finding of discrimination under the Fair Housing Act, 42 U.S.C. §§ 3601-3619, has occurred for the project. A finding of discrimination includes an adverse final decision by the Secretary of HUD (24 C.F.R. § 180.680), an adverse final decision by a substantially equivalent state or local fair housing agency (42 U.S.C. § 3616a(a)(1)), or an adverse judgment from a federal court;
- (viii) Each building in the project is and has been suitable for occupancy, taking into account local health, safety, and building codes (or other habitability standards) and the state or local government unit responsible for making local health, safety, or building code inspections did not issue a violation report for any building or low income unit in the project;

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- (ix) There has been no change in the eligible basis (as defined in Section 42(d)) of any building in the project since the last certification submission;
- (x) All tenant facilities included in the eligible basis under Section 42(d) of any building in the project, such as swimming pools, other recreational facilities, parking areas, washer/dryer hookups, and appliances were provided on a comparable basis without charge to all tenants in the building;
- (xi) If a low income unit in the project became vacant during the year, reasonable attempts were or are being made to rent that unit or the next available unit of comparable or smaller size to tenants having a qualifying income before any units were or will be rented to tenants not having a qualifying income;
- (xii) If the income of tenants of a low income unit in the project increased above the limit allowed in Section 42(g)(2)(D)(ii), the next available unit of comparable or smaller size in the building was or will be rented to tenants having a qualifying income;
- (xiii) An extended low income housing commitment as described in section 42(h)(6) was in effect, including the requirement under section 42(h)(6)(B)(iv) that an owner cannot refuse to lease a unit in the project to an applicant because the applicant holds a voucher or certificate of eligibility under section 8 of the United States Housing Act of 1937, 42 U.S.C. 1437f. Owner has not refused to lease a unit to an applicant based solely on their status as a holder of a Section 8 voucher and the project otherwise meets the provisions, including any special provisions, as outlined in the Declaration;
- (xiv) The owner received its Credit allocation from the portion of the state ceiling set-aside for a project involving “qualified non-profit organizations” under Section 42(h)(5) of the Code and its non-profit entity materially participated in the operation of the development within the meaning of Section 469(h) of the Code;
- (xv) There has been no change in the ownership or management of the project;
- (xvi) The property is in compliance with Violence Against Women Reauthorization Act of 2013;
- (xvii) The owner has not evicted any resident or refused to renew any lease except for good cause;
- (xviii) The owner continues to comply with all it agreed to in its application for Credits, including all federal and state level requirements and any commitments for which it received points or other preferential treatment in its application;

- (xix) The property has not suffered a casualty loss resulting in the displacement of residents;
  - (xx) The owner has not refused to lease a unit to an applicant based solely on their status as a holder of a Section 8 voucher; and
  - (xxi) The project is otherwise in compliance with the Code, including any Treasury Regulations, this QAP, and all other applicable laws, rules, and regulations.
- (b) Review. The Agency shall review the certifications submitted under Section 10.1(a) above for compliance with the requirements of Section 42. Under the review procedure:
- (i) The Agency shall require an owner of a Tax Credit project to submit to the Agency a completed, Agency signed copy of IRS Form 8609 for the first year of the Credit period, together with Schedule A and Form 8586; and
  - (ii) The Agency shall inspect Tax Credit projects once every three years, and review the low income tenant income certifications for each low income tenant in at least 20 percent of the low income units in those projects and the documentation the owner has received to support those certifications. All projects shall have their first compliance inspection no later than the year following the first Credit period.

The Tax Credit projects to be inspected shall be chosen in a manner that will not give owners of low income housing projects advance notice that their records for a particular year will or will not be inspected. However, the Agency may give an owner reasonable notice that an inspection will occur so that the owner may assemble records; for example, 30 days' advance notice of inspection.

**Section 10.2.** Auditing. The Agency shall have the right to perform an audit inspection of any Tax Credit project at least through the end of the Declaration compliance period of the buildings in the project. An audit includes a physical inspection of any buildings in the project, as well as a review of the records described in Section 10.0. The auditing provisions of this Section 10.2 are required in addition to any inspection of low income certifications and documentation under Section 10.1(a) above.

**Section 10.3.** Notification of Noncompliance.

- (a) General. The Agency shall give the notice described in Treas. Reg. 1.42-5(e)(2) and paragraph (b) of this section to the owner of a Tax Credit project and the notice described in Treas. Reg. 1.42-5(e)(3) and paragraph (c) of this section to the IRS.
- (b) Notice to Owner. The Agency shall provide prompt written notice to the owner of a Tax Credit project if the Agency does not receive the certification described in Sections 10.1(a) or 10.2, is not permitted to audit or inspect the tenant income certifications, supporting documentation and rent records described in



Section 10.1(b) or 10.2 hereof, or discovers by audit, inspection, review or some other manner that the project is not in compliance with the provisions of Section 42 of the Code or its Declaration.

- (c) Notice to IRS. The Agency shall file Form 8823, Low-Income Housing Credit Agencies Report of Noncompliance or Building Disposition, with the IRS no later than 45 days after the end of the correction period (as described in paragraph (d) of this section, including extensions permitted under that paragraph) and no earlier than the end of the correction period, whether or not the noncompliance or failure to certify is corrected. The Agency must indicate on Form 8823 the nature of the noncompliance or failure to certify and indicate whether the owner has corrected the noncompliance or failure to certify. Any change in either the applicable fraction or eligible basis that results in a decrease in the qualified basis of a project under Section 42(c)(1)(A) is noncompliance that must be reported to the IRS under this paragraph. If the Agency reports on Form 8823 that a building has gone entirely out of compliance and will not be in compliance at any time in the future, the Agency need not file Form 8823 in subsequent years to report that building's noncompliance.
- (d) Correction. Project owners shall provide to the Agency any evidence of noncompliance correction and correspondence to or received from the IRS with respect to any reported noncompliance. The owner must supply any missing certifications and bring the project into compliance with the provisions of Section 42 of the Code within a period specified by the Agency in the notice, not exceeding 90 days from the date of notice to the owner described in paragraph (b) of this Section 10.3. The Agency may extend the correction period for up to six months, but only if the Agency determines there is good cause for granting the extension.

**Section 10.4. Delegation of Authority.**

- (a) General. The Agency may retain an agent or other private contractor (the "Authorized Delegate") to perform compliance monitoring. The Authorized Delegate must be unrelated to the owner of any building that the Authorized Delegate monitors. The Authorized Delegate may be delegated all of the functions of the Agency to monitor compliance, except for the responsibility of notifying the IRS under Section 10.3 of this Section. For example, the Authorized Delegate may be delegated the responsibility of reviewing tenant certifications and documentation under Section 10.1(b) hereof, the right to audit buildings as described in Section 10.2 hereof, and the responsibility of notifying building owners of lack of certification or noncompliance under Section 10.3 hereof. The Authorized Delegate must notify the Agency of any noncompliance or failure to certify.
- (b) Limitations. In the event the Agency delegates compliance monitoring to an Authorized Delegate, the Agency shall use reasonable diligence to ensure that the Authorized Delegate properly performs the delegated monitoring functions.

Delegation by the Agency of compliance monitoring functions to an Authorized Delegate shall not relieve the Agency of its obligation to notify the IRS of any noncompliance of which the Agency becomes aware.

- (c) Liability. Compliance with the requirements of Section 42 is the responsibility of the owner of the building for which the Credit is allowable. The Agency's obligation to monitor for compliance with the requirements of Section 42 does not make the Agency liable for an owner's noncompliance.

**ARTICLE XI**  
**Amendments to QAP**

This QAP is subject to modification or amendment at any time to ensure that the provisions contained herein conform to the requirements of the Code, applicable state law, and all official interpretations thereof. Such modifications or amendments and the manner of adoption thereof shall not be inconsistent with the Code. Amendments required solely to comply with the Code, applicable regulations, or applicable state law may be approved by the Executive Director. The Agency may also make non-substantive changes to this QAP to update population changes or dates or for other minor updating.

**ARTICLE XII**  
**Credits for Buildings Financed by Tax-Exempt Volume Limited Bonds**

Section 42 establishes a separate set of procedures to obtain Tax Credits through the issuance of tax-exempt volume limited 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 volume limited bonds, the project must satisfy the requirements for allocation of a housing credit dollar amount under the qualified allocation plan applicable to the area in which the project is located. This QAP shall apply to all projects for which the Agency is the issuer of the bonds and all other projects located within the area covered by this QAP. The project must comply with the qualified allocation plan that is in effect for the calendar year in which the tax-exempt volume limited bonds were first allocated by the Minnesota Department of Finance to the issuer. If the tax-exempt volume limited bonds are issued on a short-term basis, the year the tax-exempt volume limited bonds are issued on a long-term basis may occur any time after the year the tax-exempt volume limited bonds were allocated and the effective qualified allocation plan will always be the qualified allocation plan for the year in which the tax-exempt volume limited bonds were allocated.

The Agency must make a determination that the above requirements are satisfied. Subsequent to this determination, the Agency will issue the appropriate determination letter. Application for this determination must be made to the Agency at least 30 days prior to the issuance of the tax-exempt volume limited bonds sufficient, together with any tax-exempt volume limited bonds issued

previously for the same project, to finance at least 50 percent of the aggregate basis of the building(s) and land it is located on.

In order to qualify under this QAP, a developer must demonstrate that the project is eligible for not less than **30** points. The threshold requirements in this QAP and the Agency's Manual do not apply to tax-exempt volume limited bond financed projects using Credits not counted in the state's volume cap.

Important: In order to begin the above process, the developer must submit to the Agency all documents required for an application for Tax Credits as established by this QAP and the Agency's Manual and any additional information requested by the Agency. These documents are those required for an application for Tax Credits under Chapter 7 and for an application for a Preliminary Determination Letter under Chapter 8 of the Agency's Manual, and any additional information required by the Agency. The developer must also submit to the Agency the required application and Agency counsel fees identified in the Agency's 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 volume limited bonds, the governmental unit which issues the bonds (or on behalf of which the bonds were issued) must make a determination that the Credit amount to be claimed does not exceed the amount necessary for the financial feasibility of the project and its viability as a qualified housing project throughout the Credit period.

The determination by the issuer shall be made in a manner consistent with this QAP and the Agency's Manual. Section 42 requires that the issuer evaluation must consider:

- (i) The sources and uses of funds and the total financing planned for the project;
- (ii) Any proceeds or receipts expected to be generated by reason of tax benefits;
- (iii) The percentage of the housing credit dollar amount used for project costs other than the cost of intermediaries;
- (iv) The reasonableness of the developmental and operational costs of the project; and
- (v) A comprehensive market study of the housing needs of low-income individuals in the area to be served by the project, conducted before the Credit allocation is made and completed by a market analyst on the Minnesota Housing Authorized Contractor List at the developer's expense.

This determination must be made **prior to the issuance of the bonds** in an amount sufficient, together with any tax exempt volume limited bonds issued previously for the same project, to finance at least 50% of the aggregate basis of the building(s) and the land it is located on.

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- (c) Section 42 provides that in order for a project to be eligible for Tax Credits, the taxpayer/owner must enter into an extended use agreement (Declaration of Land Use Restrictive Covenants). Section 42(h)(6)(C)(ii) provides that the Credit amount claimed for buildings financed by tax-exempt volume limited bonds by the taxpayer/owner under Section 42(h)(4) may not exceed the amount necessary to support the applicable fraction specified in the extended use agreement for the buildings.
- (d) Subsequent to the project being placed in service, the owner must submit to the Agency an application and appropriate fees for Form 8609 meeting the requirements of this QAP and the Agency's Manual. The owner must also submit to the Agency any other related fees identified in the Agency's Manual.

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**EXHIBIT A**  
**Self-Scoring Worksheet**

*[See Attached]*

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