

Summary of Proposed Changes and Review of Public Comments

The proposed changes are only to address two time-sensitive issues - (1) state law change that requires Minnesota Housing to incorporate “Local Actions to Support Housing” into its QAP and (2) federal law changes that lowers the requirement for tax-exempt bond financing from covering at least 50% of a project’s eligible HTC costs to only 25% - and to extend the QAP period by one year to allow sufficient time to evaluate the impact of the significant policy changes to the 2025 and 2026 Multifamily Consolidated RFPs.

Proposed Changes in Response to State Law

In the 2025 Minnesota Legislative session, the “Local Actions to Support Housing” was added to session law (Minnesota Laws 2025, chapter 32, article 3, section 13). The 2025 session law requires Minnesota Housing, where practicable, to award additional point(s) in competitive capital development programs to proposed projects located in jurisdictions that provide certain land use and zoning flexibilities identified in the law, which cannot exceed five percent of the total available points. This new requirement applies to selection criteria and scoring systems developed on or after May 23, 2025 and will remain effective through December 31, 2029. The local jurisdiction does not need to provide the flexibilities to the project, but one or more of the provisions in the law must be available in the local jurisdiction for the project to claim points.

In response to this state law, Agency staff recommends including Local Actions to Support Housing as a new two-point selection criterion in the 2026-2027 Self-Scoring Worksheet. One of the letters received during the public comment period included support for this provision.

Proposed Changes in Response to Federal Law

In July 2025, Congress passed H.R. 1, and the President signed it into law. One part of the law (Section 70422) makes it easier for projects to qualify for the 4% HTC. It lowers the requirement for tax-exempt bond financing from covering at least 50% of a project’s eligible HTC costs to only 25%. Once the new threshold is available, the reduced bond threshold means that the same amount of tax-exempt bonds can help more projects qualify for the 4% HTC.

Federal law makes the new threshold available in 2026. However, the QAPs currently refer specifically to the 50% test. Minnesota Housing proposes to update the language in Chapter 7.A of the 2024-2025 HTC QAP and Chapter 7.A, Chapter 7.B and Appendix A of the 2026-2027 QAP to allow for the shift from the 50% test to the “Minimum Percent” test on 4% HTC projects to allow the 2025 (and any future) change in federal housing tax credit law.

One of the letters received during the public comment period recommended including a defined ceiling of 30%, though the commentor noted that there may be a need for a higher percentage in certain situations to meet a project’s permanent debt financing needs. Under the current 50% test and under the new 25% test, incorporating a buffer is an identified best practice. Without a buffer, a project that

has a bond allocation could fail the test and no longer qualify for the 4% HTC because of cost increases. The proposed QAP language retains the buffer and does not institute a cap so that we can be responsive to project needs.

The proposed amendment refers to the “Minimum Percent” test instead of specifically the 25% test or a 30% ceiling to allow for flexibility to both meet the test and, when necessary, to meet the project’s permanent debt needs. The tax-exempt bonds are necessary to qualify for the 4% HTCs, but the bonds can also be the source of long-term permanent debt. The tax-exempt status of the bonds can provide a more favorable interest rate to the project. The shared goal is to use as few tax-exempt bonds as necessary to qualify the project for 4% HTCs while supporting the financial viability of the project. The proposed language for the QAP effectively operates as suggested by the commentor but retains flexibility when needed for project implementation.

Proposed 2026-2027 QAP Extension

Staff propose to amend the 2026–2027 QAP to extend it by one year, resulting in a 2026–2028 QAP. Following more than 15 months of community engagement, research and review, the board approved the 2026–2027 QAP and Self-Scoring Worksheet on November 21, 2024. This QAP reflected significant policy changes responding to extensive partner input and research. The 2025 Multifamily Consolidated RFP is the first application cycle and review under the new framework.

Extending the QAP provides applicants with predictable policies for an additional year and allows Minnesota Housing to assess outcomes from the 2025 and 2026 Multifamily Consolidated RFPs before advancing further major changes. Neither state nor federal law establishes how frequently a QAP must be updated.

Public Comments Overview

A central theme in public comments was a request to establish two separate Multifamily Consolidated RFP application “tracks”—one for permanent supportive housing (PSH) and one for preservation projects that do not add or potentially retain PSH units. Commenters noted the importance of PSH and the strain on providers caused by increasing resident needs, insufficient service funding and challenging operating conditions. They also highlighted growing demand for preservation resources.

For reasons summarized below, the proposed QAP amendment was not modified to incorporate the request for a two track application process. In the context of the QAP and in this memo, PSH includes projects that dedicate units to individuals or households that have experienced homelessness and/or dedicate units for people with disabilities.

Strategic Plan

While funding sources and terminology has evolved over time, PSH has been incentivized in various ways in the QAP and Self-Scoring Worksheet for more than 20 years. Going back to the Business Plan to End Long-Term Homelessness in 2010 and the advent of Housing Infrastructure

Bonds in 2012, PSH has been an integral part of Minnesota Housing's strategic objectives and funding processes. The Agency's 2024-2027 Strategic Plan, further supported by the One Minnesota Plan, includes the following objectives:

- Prevent and end homelessness;
- Focus on the people and places most impacted by housing instability;
- Support people with disabilities to live full, independent and integrated lives in the community; and
- Preserve and improve the condition and affordability of existing housing.

The QAP operationalizes these objectives by incentivizing units serving individuals and households experiencing homelessness and people with disabilities, which also advances our work on the Minnesota Olmstead Plan. The QAP also includes significant components related to preservation.

Incentivizing PSH in the Self-Scoring Worksheet

PSH projects are classified in two ways in section 1.C of the Self-Scoring Worksheet:

- **Primarily Supportive Housing:** This includes properties where 50% or *more* of the total units in a property are PSH units. These properties are generally developed and operated by nonprofit organizations. In most cases, the entire building is focused on providing PSH and supportive services.
- **Partially Supportive Housing:** This includes properties where *less* than 50% of the total units in a property are PSH units. These properties are developed and operated by both for profit and nonprofit organizations. In most cases, 5% to 10% of the units are dedicated as PSH units. These properties are often integrated settings in general occupancy or senior buildings.

When an applicant submits a proposal in the Multifamily Consolidated RFP, they choose if and how many PSH units to include. There is no requirement for an applicant to include PSH units. However, the competitive scoring framework, via the Self-Scoring Worksheet, incentivizes providing PSH units, whether new construction or preservation. Due to the highly competitive nature of the limited funding resources, most applicants elect to take the points and provide PSH units. A preservation project that is already providing PSH units may take the points for existing PSH units, which is often the case for Primarily Supportive Housing preservation proposals.

Even with the PSH incentive, not all preservation projects selected for funding elect to provide PSH units. For example, the 2024 Multifamily Consolidated RFP funding selections included eight preservation projects. Three of those eight projects were preserving Primarily Supportive Housing. Of the five other preservation projects, two were Partially Supportive Housing and

three projects did not provide PSH units. Past funding selections demonstrate that preservation projects, depending on the proposal, can still be selected for funding without choosing to provide PSH units. The limiting factor in project selections is most often funding availability.

Staff guidance during technical assistance emphasizes that PSH should only be selected if it aligns with project mission and feasibility. A competitive score alone is not sufficient. A project must demonstrate long-term viability, and PSH may not be suitable for every project.

Project Selection Tracks

The request for a two-track system—one track for preservation and one track for PSH—reflects the very real challenges that providers are experiencing. However, Minnesota Housing’s annual Multifamily Consolidated RFP is already built on a structure that balances multiple funding sources, geographic requirements and project types in ways that functionally create multiple tracks without establishing separate application or scoring systems.

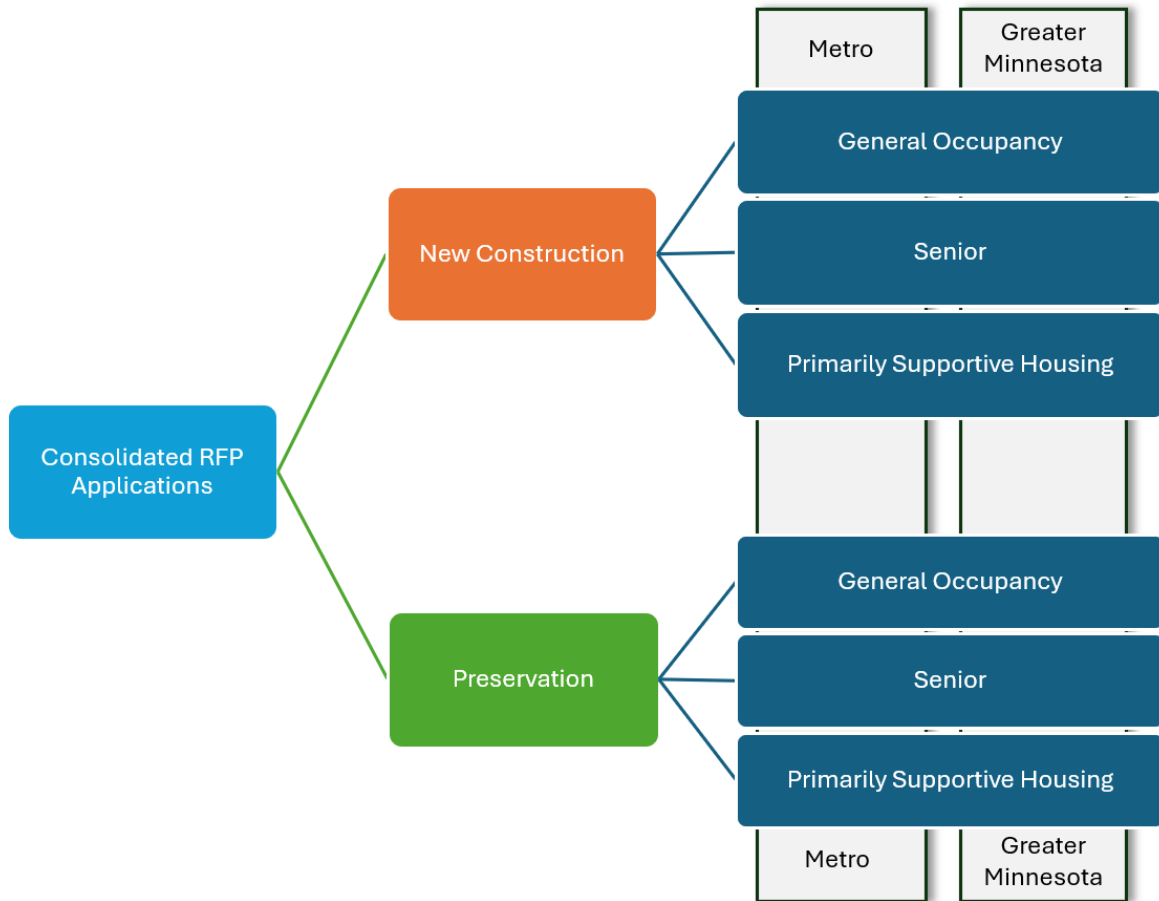
The Multifamily Consolidated RFP combines more than a dozen distinct funding sources—each with different eligible uses, geographic limitations and regulatory requirements—into a single application process. This design allows applicants to submit one proposal while Minnesota Housing determines which funding source best aligns with the proposal, rather than requiring applicants to navigate separate pipelines for each resource.

There is a need for affordable housing of all types in all corners of the state. Because each funding source carries its own opportunities and statutory requirements, selections must balance:

- Geographic distribution, including requirements in state statute for metro/Greater Minnesota balance;
- Balance of new construction and preservation;
- Differences in funding flexibility, such as sources that can be used only for preservation or only for deeply targeted units;
- A mix of project types, including general occupancy, senior housing, Primarily Supportive Housing, and Partially Supportive Housing; and
- Annual variations in the amount and type of funds available.

These factors mean that, even though all proposals use the same Self-Scoring Worksheet, projects do not compete in a single statewide ranking and there are effectively different project tracks within the Multifamily Consolidated RFP.

Figure 1. Minnesota Housing’s functional tracks by project type and geography in the Consolidated RFP



In practice, selections are made across several simultaneous and interdependent pathways—by geography, project type and funding source compatibility. For example, a lower-scoring preservation proposal may be selected above a higher-scoring new construction proposal because the available funding must be used for preservation or because of geographic balancing requirements. Similarly, a Greater Minnesota project may be selected ahead of a higher-scoring metro project due to statutory geographic distribution obligations.

Given this structure, creating formal tracks would not materially change selection outcomes but would reduce the flexibility Minnesota Housing needs to balance statutory requirements, funding availability, and geography. It could also inadvertently limit the Agency’s ability to match projects with the funding sources best suited to their feasibility and long-term stability.

Finally, removing or isolating PSH incentives from preservation projects would likely reduce the number of PSH units produced or maintained over time. This would run counter to Minnesota

Housing's Strategic Plan objectives and long-standing commitments to serving households experiencing homelessness and people with disabilities.

Some public comments expressed concern that certain project types are not competitive in the Multifamily Consolidated RFP. Staff agree that the need for affordable housing far exceeds the resources available. However, adjusting the competitive structure does not increase the number of projects that can be selected — it only shifts which projects are selected. Expanding the number and types of projects that can be funded requires additional resources.

Based on the Strategic Plan and for the reasons outlined in this memorandum, staff recommends maintaining the existing approach rather than adopting a formal two-track system or removing the PSH incentivizes.