

City of Ramsey
Agenda
City Council Work Session
Tuesday January 10, 2012
Immediately following Personnel
Lake Itasca Room 7550 Sunwood Drive NW

- 1. Call to Order**
- 2. Topics for Discussion**
 1. Discuss Potential Improvements to Garnet Street NW, located within NOW AND THEN ESTATES
 2. Review Development Proposal from Podawiltz Development for Town Center Gardens 3rd Addition
 3. Proposed Lease Agreement for 6745 Hwy 10 by Independent Auto Service
 4. Review Council Organizational Resolution
 5. Review Building Code Options for Fire Suppression
 6. Discuss Mayor's Recommendations of Desirable Changes and Improvements Pursuant to City Charter 2.6.2
- 3. Future Topics for Discussion - *See Attached Calendar***
 1. Review Future Topics/Calendar
- 4. Mayor/Council/Staff Input**
- 5. Adjournment**

CC Work Session

2. 1.

Meeting Date: 01/10/2012

By: Tim Himmer, Engineering/Public Works

Title:

Discuss Potential Improvements to Garnet Street NW, located within NOW AND THEN ESTATES

Background:

Street maintenance activities on Garnet Street NW, between 167th Avenue and the BROOKFIELD subdivision, have not occurred on the City's standard maintenance plan. Maintenance activities have been delayed in this area for several reasons over the years; including the idea that adjacent development would expand to this area and thus result in new street layouts and/or installation of utilities, poor subgrade, and discussions with the residents regarding potential fixes and assessments. This roadway segment is one of the lowest rated streets in the City, and accounts for a large portion of the City's annual patching budget.

Staff has met with the residents along this street on several occasions over the past 3 years, and they feel that the City has not properly maintained this street by providing regularly scheduled overlays and sealcoats and should therefore be responsible for the premature deterioration. They have also complained about damage to the road that occurred during construction activities associated with the BROOKFIELD subdivision. They have stated that they would not be supportive of the options outlined to date, due to cost considerations, and would most likely counter-petition the improvement. They have asked that the road continue to be patched to a good condition until such time that an improvement project can be initiated that would keep assessments in line with what other neighborhoods are paying for a similar improvement. They were also interested in the status of the discussion related to a potential franchise fee, as that may make the costs more palatable.

This item was most recently discussed by the Public Works Committee on November 15, 2011, and the direction from that meeting was to approach the residents with a proposal to reconstruct the roadway with concrete curb & gutter, a sidewalk, and all utilities. The residents would only be required to contribute 50% of the road costs, and the City would address the required soil corrections with the utility installation. There would be no utility costs attributed to the residents at this time; they would just have to pay trunk and connection charges in the future if/when they decide to connect to the municipal utility system. Attached is an estimate of the costs associated with such an improvement.

This proposal was outlined to the residents at an open house on December 14, 2011. The consensus from those in attendance was to wait for the possible franchise fee funding option that may be utilized in the future for roadway improvements. They also expressed concern with the inclusion of concrete curb and gutter, utilities, and a sidewalk. They wanted to maintain the rural character of their neighborhood, and not cause a chain reaction of development that might drive some of their neighbors out. Attached are a few e-mails received by staff related to this project.

Observations:

To date staff has received comments from 8 of the potential 13 assessable property owners; 6 have said they would like to wait on the possible franchise fee funding options & request delaying improvements (keep patching), 1 has said he is interested in fixing the street as soon as possible (regardless of cost), and 1 remains undecided.

While going through the long term street maintenance and reconstruction initiative, it was discussed that we could utilize the Public Improvement Revolving (PIR) Fund as seed money for this program and initiate a pilot project. Staff was considering this segment of Garnet Street as that kick-off project; an example for what the program would provide and accomplish. This improvement is currently included in the Capital Improvement Program (CIP) as a 2012 project but there is not money available in the PIR fund to this extent to complete this improvement (see below).

Funding Source:

The funding source identified in the CIP for the Garnet Street reconstruction project is the PIR fund. There have been recent discussions to utilize this fund for a one time transfer for the 2012 budget cycle, which would deplete the balance to a point where this reconstruction improvement would not be feasible. Should the City Council decide to advance the project for 2012 construction a feasibility study would be completed, consistent with the special assessment (429) process, which would identify total costs and funding sources.

Council Action:

Based upon discussion.

Attachments

[Project Estimate](#)

[Resident E-mail 1](#)

[Resident E-mail 2](#)

[Resident E-mail 3](#)

Form Review

Inbox	Reviewed By	Date
Brian Olson	Brian Olson	01/05/2012 08:39 AM
Kurt Ulrich	Kurt Ulrich	01/05/2012 08:56 AM
Form Started By: Tim Himmer		Started On: 12/29/2011 03:52 PM

Final Approval Date: 01/05/2012

	<u>Total Project Cost</u>	<u>Street Total</u>	<u>Sewer & Water Total</u>	<u>Storm Total</u>	<u>Proposed Assessment</u>	*
Reconstruction with utilities	\$ 714,314.25	\$ 342,065.75	\$ 325,747.50	\$ 46,501.00	\$ 13,156.38	**

Includes 30% overhead

Storm improvements to be paid through the stormwater utility fund

* Assumes 13 assessable parcels, and a 50% contribution from the City for the street improvement (including necessary subgrade corrections).

** This does not include any costs associated with utility installation.

Trunk and lateral benefit fees for sanitary sewer & water would apply if/when they decide to connect to the municipal system.

2012 water fees/lot	\$ 11,003.00	
2012 sanitary fees/lot	\$ 5,118.00	
	\$ 16,121.00	Total connection charges/lot

Tim Himmer

From: mikeandtara@q.com
Sent: Saturday, December 31, 2011 7:22 PM
To: Tim Himmer
Subject: Nowthen Estates (Garnet St NW)

Hi Tim,

Mike and I were unable to make it to the meeting regarding our road (Garnet St NW). We live at 16700 Garnet Street NW. We want to inform you that we do not want city sewer, water, curbs or gutters. We are fine with you just patching our road.

We especially do not see the need for a sidewalk down our road since there is one parallel to County Road 5. We bought our house here 15 years ago because it had a country feel. We were never for the development behind us and believe that since you opened our road for this development that is what has made our road go down hill fast and this was because of greedy people in this City and look where that got them. The development is not even close to being finished.

We heard that there might be a proposal to charge all residents and business owners in Ramsey a monthly fee of about \$20 or \$25.00 a month for road maintenance. We would be fine with this if this included taking care of our road.

You can call either Tara or Mike at 763-753-9315 if you have any questions.

Happy New Year.

Tara Monson

Tim Himmer

From: M Strantz [mstrantz@q.com]
Sent: Wednesday, December 28, 2011 4:27 PM
To: Tim Himmer
Subject: Garnet St NW

Tim,
Please accept this e-mail as I am against any road, curb or side walk upgrades in front of my house at this time.

Thank you
Mike Strantz
16701 Garnet St. NW
Ramsy, MN

Tim Himmer

From: Tim Himmer
Sent: Monday, December 19, 2011 10:05 AM
To: 'Gary Smith'
Cc: CM McGlone; Mayor Ramsey; Brian Olson
Subject: RE: Garnet Street NW

Follow Up Flag: Follow up
Flag Status: Flagged

Categories: Green Category

Thanks for your feedback Gary. I'll make sure to include this information in the Council case when this item is brought forward to work session (hopefully in early January). I just wanted to clarify one item that you brought up below – utilities are not paid for by City tax dollars; a separate enterprise fund exists for both the sanitary sewer and water utilities. These funds generate money from development fees and the utility users that are connected to the system, no general tax dollars are used for utility improvements. As discussed at the meeting, there is also a stormwater utility that generates funds from all residents (quarterly charge on your utility bill) to correct drainage issues throughout the City.

To date I have heard from 6 (out of 13 potential assessable) property owners on this street

- 4 at the open house that said they would like to wait for the franchise fee (if that were to occur) before repairing/replacing the road
- 1 said we should fix the road the right way, regardless of cost, and be done with it once & for all
- 1 said they were still undecided and they would be collecting additional information before ultimately deciding how to proceed

City charter says a project can be initiated by residents, with a petition received by 35% of assessable property owners. The City can also initiate a project by Council direction. In either scenario, the affected property owners can counter-petition the improvement if more than 50% oppose the project. As usual, I'm available to discuss this matter and/or answer questions that you may have so feel free to contact me at any time. Thank again, and have a great holiday season.

Tim Himmer

City Engineer

City of Ramsey

7550 Sunwood Drive NW
Ramsey, MN 55303
(763) 433-9893
thimmer@ci.ramsey.mn.us

From: Gary Smith [<mailto:smithgr46@yahoo.com>]
Sent: Sunday, December 18, 2011 9:49 PM
To: Tim Himmer
Cc: CM McGlone; Mayor Ramsey; smithgr46@yahoo.com
Subject: Garnet Street NW

Hi Tim,

Thanks for having a meeting with the residents on Garnet street even though only 4 out of 13 residents showed up. The information you shared with us was helpful with regards to what to do with our street. It was pretty much unanimous amongst us to wait for the franchise fee before rebuilding our street. I am sending this to council member McGlone and Mayor Ramsey since they represent our ward and the city.

Since our meeting I started to think why would the city want to put city sewer, water, and curbs and gutter on our street so that people could divide their properties and hook up to city sewer and water somewhere in the

future. To me this does not make sense to put in those utilities now and probably nobody will hook up since it would be more cost effective to replace a septic system if it goes bad. The city is just tying up tax dollars with the hope of someday possibly recouping the costs later if or when somebody does decide to hook up to these services. I thought that when a new development was built next to an existing neighborhood it was not supposed to affect the dynamics of an existing neighborhood. City sewer and water is not necessary on Garnet street. The only issue we have is the road is simply breaking apart due to the clay under the street.

Now and Then estates was designed and built around everyone having 2.5 acre lots and that is the way it should still be maintained and not to have people start dividing up their properties. Density transitioning was a big issue when the Brookfield addition was put in right beside this development. This will come up again if people start selling off parts of their properties. Not everyone wants neighbors that close to each other. I for one came out here for the large lot size and quietness. I can tell you now since I live right next to the Brookfield addition more density transitioning should have been done.

Also, it was pretty much unanimous that the people in attendance did not want a sidewalk. I know the members on the council want to have city sewer and water as well as sidewalks on all these road projects but not all neighborhoods or developments need it. Just because Brookfield and 167th Avenue have it does not mean it is cost effective to run it down our street. All Garnet street needs is for the clay to be removed and possibly a storm sewer and a road similar to what we have. It lasted 20 years with poor clay conditions beneath it. Feel free to call me at 612-269-4156 after 4:30 during the week or anytime on the weekend.

Sincerely,

Gary Smith

16821 Garnet St. NW

Ramsey, Mn. 55303

CC Work Session

2. 2.

Meeting Date: 01/10/2012**By:** Tim Gladhill, Community Development**Title:**

Review Development Proposal from Podawiltz Development for Town Center Gardens 3rd Addition

Background:

The City has been contacted by Podawiltz Development regarding a potential development in an already platted portion of Town Center Gardens 3rd Addition. The Property was platted as 58 townhome units. The Property is currently owned by 21st Century Bank. The Developer desires to construct an approximately 40 unit rental townhome project on the Property. In addition, the Developer desires to modify the approved and recorded Plat, resulting in a net reduction in the number of units.

The Developer is also seeking City financial participation as part of an application to the Minnesota Housing Finance Agency (MHFA) for Section 42 tax credits, a competitive financing opportunity also known as the Housing Tax Credit (HTC). The Developer is requesting between \$201,000 and \$471,000 in local contribution. According to the Developer, a contribution of \$201,000 would provide two (2) selection points and a contribution of \$471,000 would provide four (4) selection points. The Developer will present background on the HTC Application and the forecasted range of points that would be necessary for a successful application.

Staff discussed the Housing and Urban Development (HUD) Community Development Block Grant (CDBG) or the Metropolitan Council's Livable Communities Act (LCA) as potential funding sources. The Developer also inquired as to whether the City would be interested in assisting through Tax Increment Financing (TIF), and has stated that TIF assistance will likely be necessary in order to score high enough to secure the requested tax credits. Finally, the Developer also inquired if the City would be willing to waive certain application, license, or development fees or fast track approval processes. Mike Podawiltz of Podawiltz Development will present a business plan to the City Council.

Before continuing discussions with the Developer, Staff is seeking policy feedback as to whether the City Council is interested in pursuing TIF, CDBG, or LCA funding for the project.

Notification:

No notification required at this time. A Public Hearing would be held on any proposal to re-plat the Property.

Observations:

Mike Podawiltz, of Podawiltz Development Corporation, will be presenting the project proposal to the City Council. There are multiple site plan review items that need to be addressed, which will be addressed at a future date if necessary. At this time, Staff is seeking feedback on potential City participation prior to Staff spending additional time discussing and reviewing further with the potential Developer.

The Developer is seeking Section 42 tax credits, administered through the Minnesota Housing Finance Agency (MHFA). The Developer is asking that the City participate financially in order to increase the chance of successful award of said financing. Evaluation of the HTC Applications are based on a points system, and City participation includes additional points. A copy of the most recent HTC Self Scoring Sheet is attached for the City Council's review. At minimum, it appears that the Developer would need to score at least 30-40 points to be considered. In initial discussions with the Developer, it appears a score even higher than that will be required for a successful application.

The City could participate with outside funding opportunities such as CDBG or LCA funds, both competitive processes. The City could also participate through the creation of a new TIF District, as the Property currently lies

outside TIF District #14 encompassing The COR and surrounding areas. As noted above, the Developer has stated he believes TIF assistance will be necessary, regardless of a successful CDBG or LCA award, in order to have a successful HTC application.

The Developer also seeks to revise the approved site plan to introduce a new floor plan to the development. The Developer states that the existing plat is very limiting. The area is zoned COR-4a, and the Development Guidelines would apply. Copies of three (3) potential site plans are included for the City Council's review. The Developer has provided Staff with samples of other projects it has completed, with photos attached for the City Council's review. In Staff's initial review, the architectural renderings warrant additional review and modification in order to meet the requirements of the Design Guidelines. The Developer has stated he is open to considering other renderings and making certain modifications.

The deadline for CDBG funds is January 12th. The Developer was instructed to prepare the necessary background information for the CDBG application, as Staff had not received authorization to seek CDBG funding. If the consensus of the City Council is to authorize staff to submit an application for CDBG, City Staff will complete the remaining, necessary sections of the application.

The deadline for LCA funds is anticipated to be on or about May, 2012. Staff will revisit this funding source when the funding cycle is opened for 2012, and bring back a case for consideration by the City Council.

The Developer was forwarded a TIF application in the event the Developer decides to proceed forward with said request. While this appears to be a TIF eligible project and Staff is seeking policy input from the City Council as to whether the City is supportive of the request for TIF, other options such as CDBG and LCA funding should be researched further first. Staff is working with the developer to explore options to secure the desired number of points for the HTC Application that may not include TIF assistance. The Developer states it is seeking to secure 2.1% of the total development costs through TIF, abatement, grants, donations, etc.

Recommendation:

Staff recommends that the City Council provide direction to Staff as to whether the City is interested in participating financially to the Podawiltz development in Town Center Gardens 3rd Addition between \$201,000 and \$471,000 through TIF, CDBG grants, LCA grants, or other license/fee waivers.

Funding Source:

Review of the request is being processed as part of regular staff duties. If the Developer decides to proceed forward with a land use application, an escrow will be established to handle costs associated with processing the application in accordance with applicable City Code.

Council Action:

Based on discussion. Staff is looking for feedback as to the level of participation, if any, the City Council is comfortable with either through grant applications or TIF assistance. The City Council would review the proposed plat/site plan in greater detail if such application is submitted by the Developer. Specifically, Staff is looking for policy feedback on the following:

1. Submittal of CDBG Application
2. Submittal of LCA Application
3. Establishment of TIF District and providing TIF assistance to the proposed project
4. Waiving of application and license fees
5. Fast track approval processes

Attachments

Site Location Map

Background on Section 42 Tax Credit

Previous HTC Self Scoring Sheet

HTC Manual

Proposed Site Plan Concept #1

Proposed Site Plan Concept #2

Proposed Site Plan Concept #3

Podawiltz's Previous Project Photos

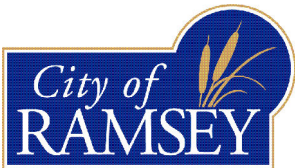
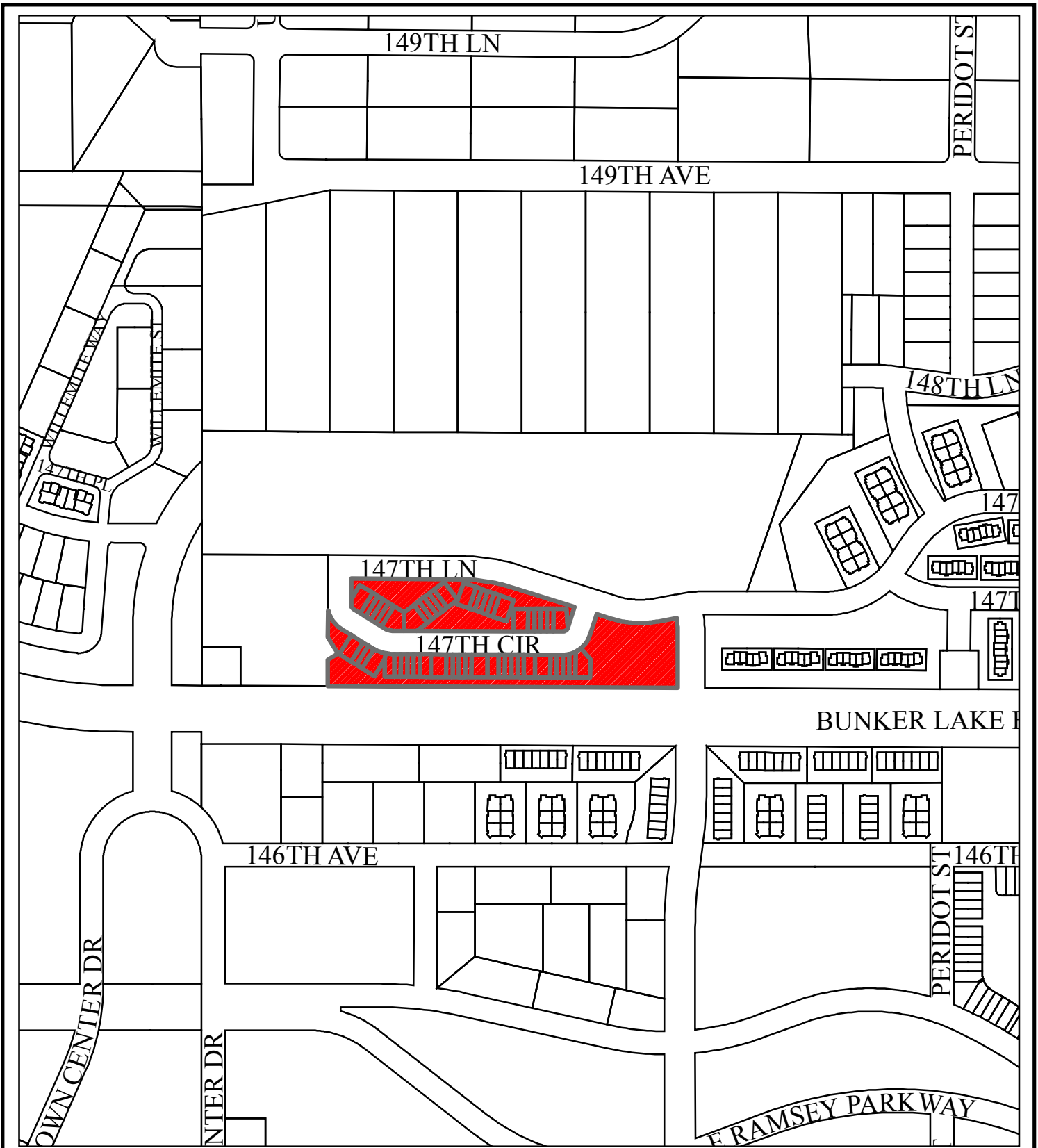
Podawiltz Buffalo Tenant Profile

Approved Plat-Town Center Gardens 3rd Addition

Approved Site Plan-Town Center Gardens 3rd Addition

Form Review

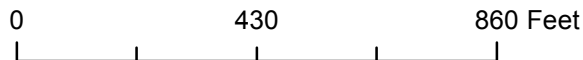
Inbox	Reviewed By	Date
Aaron Backman	Tim Gladhill	01/05/2012 12:07 PM
Tim Gladhill (Originator)	Tim Gladhill	01/05/2012 12:51 PM
Aaron Backman	Jo Thieling	01/05/2012 12:52 PM
Heidi Nelson	Heidi Nelson	01/05/2012 01:29 PM
Kurt Ulrich	Kurt Ulrich	01/05/2012 02:05 PM
Form Started By: Tim Gladhill		Started On: 12/20/2011 11:26 AM
	Final Approval Date: 01/05/2012	



Podawiltz Development Proposal

Legend

- Site
- Parcels



Housing Tax Credit Program

Allocation

The Federal Tax Reform Act of 1986 created the Housing Tax Credit (HTC) Program for qualified residential rental properties. The HTC offers a ten year reduction in tax liability to owners and investors in eligible affordable rental housing units produced as a result of new construction, rehabilitation, or acquisition with rehabilitation.

Minnesota Housing was designated by the Minnesota Legislature as the primary allocating Agency of HTC in Minnesota. Qualified local cities and counties have also been designated by the Legislature as suballocators of the HTC.

Section 42 of the Internal Revenue Code ("Section 42") requires that tax credit allocating agencies develop an allocation plan for the distribution of the tax credits within the jurisdiction of the allocating agency. The MHFA Qualified Allocation Plan (QAP) combines state and federally legislated priorities with other priorities established by the MHFA following receipt of comments from the public, local municipalities and federal agencies.

Compliance

Section 42 (m)(i)(B)(iii) of the Internal Revenue Code requires housing credit agencies to include in their Housing Tax Credit Allocation Plan a procedure to monitor all tax credit projects for compliance with the requirements of Section 42, the Housing Tax Credit Program (HTC), throughout the compliance period.

In Minnesota, Minnesota Housing has been designated by the Legislature as the primary apportionment agency for the state. The Legislature also has designated the following cities and counties as suballocators: Dakota County, Duluth, Minneapolis, Rochester, St. Cloud, St. Paul, and Washington County.

An allocating agency must have a procedure for monitoring compliance with the provisions of the Code and notifying the Internal Revenue Service (IRS) of any noncompliance of which it becomes aware whether or not it is corrected. The monitoring requirements became effective on January 1, 1992, were amended on January 14, 2000, and apply to all tax credit projects, even if the projects received an allocation prior to 1992. The IRS has issued final regulations, Income Tax Regulation 1.42-5 ("1.42-5"), relating to the requirements for compliance monitoring.



Self-Scoring Worksheet

2012 Housing Tax Credit Program

Development Name: _____

Development Location: _____

Development City: _____

Please note the following:

1. Minimum Point Requirements:
 - Request for Minnesota Housing Finance Agency (Minnesota Housing) administered tax credits from the State's volume cap must demonstrate the project is eligible for not less than 30 points.
 - Request for tax credits in association with Tax Exempt Bonds over and above the State's allocation of Housing Tax Credits must demonstrate the project is eligible for not less than 40 points.
2. Documentation of Points:
 - Indicate the selection and/or preference priority points expected for your project. Where multiple points per section are available please check the appropriate box () for points claimed. **Attach directly to this self-scoring worksheet, a separate detail sheet and documentation that clearly supports points claimed. Minnesota Housing will determine actual selection points awarded – points will not be awarded unless documentation is provided along with the application to justify the points claimed.**
3. Extended Duration:
 - All projects with the exception of those obtaining tax credits in association with Tax Exempt Bonds over and above the State's allocation of Housing Tax Credits must maintain the duration of low-income use for a minimum of 30 years. The owner agrees that the provisions of IRC §§ 42(h)(6)(E)(i)(II) and 42(h)(6)(F) (which provision would permit the owner to terminate the restrictions under this agreement at the end of the compliance period in the event Minnesota Housing 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 the period of 30 years beginning with the first day of the compliance period in which the building is a part of a qualified low income housing project.
4. Design Standards:
 - The project must meet the HTC Design Standards and be evidenced by a Design Standards Certification form executed by the owner and architect. Additional design requirements will be imposed if Large Family Housing points are claimed/awarded or points are claimed/awarded which require specific design elements (i.e. High Speed Internet).
5. A Declaration of Land Use Restrictive Covenants:

Covering the rent restrictions and occupancy requirements presented at selection must be recorded against the property.

ROUND 1 – MINIMUM THRESHOLD REQUIREMENTS

For applications submitted in Round 1, all applicants statewide must meet one of the following threshold types. Please indicate the Threshold item you meet:

A. In the Metropolitan Area:

1. New construction or substantial rehabilitation in which, for the term of the extended use period (term of the Declaration of Land Use Restrictive Covenants), at least 75 percent of the total tax credit units are single room occupancy units with rents affordable to households whose income does not exceed 30 percent of the area median income.
2. New Construction or substantial rehabilitation family housing projects that are not restricted to persons 55 years old or older in which, for the term of the extended use period (term of the Declaration of Land Use Restrictive Covenants), at least 75 percent of the total tax credit units contain two or more bedrooms and at least one-third of the 75 percent contain three or more bedrooms; or
3. Substantial rehabilitation projects in neighborhoods targeted by the city for revitalization.

B. Outside the Metropolitan Area:

1. Projects which meet a locally identified housing need and which are in short supply in the local housing market as evidenced by credible data such as local council resolution submitted with the application. (For Threshold Letter – Sample Format, see HTC Procedural Manual, Reference Materials Index.)

C. 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 of Land Use Restrictive Covenants), 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 § 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;
3. who have been assessed as drug dependent persons as defined in Minnesota Statutes § 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 § 254A.02, Subdivision 2;
4. with a brain injury as defined in Minnesota Statutes § 256B.093, Subdivision 4, paragraph (a); or
5. with permanent physical disabilities that substantially limit major life activities, if at least 50 percent of the units in the project are accessible as provided under Minnesota Rules Chapter 1341.

D. Preserve Existing Subsidized Housing

1. Projects, whether or not restricted to persons of a particular age group, which preserve existing subsidized housing, if the use of tax credits is necessary to (1) 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

E. Rural Development:

1. Projects financed by Rural Development, which meet statewide distribution goals.

Selection Priorities	Developer Claimed	Minnesota Housing Awarded
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1. Large Family Housing	10 Points	_____	_____
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The proposal is for a project that provides family housing that is not restricted to persons 55 years old or older. At least 75 percent of the total tax credit units must contain two or more bedrooms. The tenant selection plan must give preference to families with minor children.

Note: If points are claimed/awarded for this category, then no points may be claimed/awarded from the selection priority categories of **Single Room Occupancy Housing** or **Special Populations**.

2. Single Room Occupancy Housing	10 Points	_____	_____
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At least 50% of the total tax credit units must be one bedroom or less with rents affordable to households whose incomes do not exceed 30 percent of AMI.

Note: If points are claimed/awarded for this category, then no points may be claimed/awarded from the selection priority categories of **Large Family Housing** or **Special Populations**.

3. Strategically Targeted Resources	10 to 12 Points	_____	_____
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- The proposal is for the rehabilitation of an existing structure – *10 points*

Note that for all HTC rehabilitation proposals:

- the amount of rehabilitation must exceed:
 - a) \$5,000 per low-income unit for the project; and the greater of
 - b) \$6,100 qualified basis per low-income unit per building; or
 - c) 20 percent of the adjusted basis.

A qualified preservation project that received full points for “Preserves Federally Assisted Low Income Housing” may qualify if rehabilitation exceeds the greater of (b) or (c) above.

Calculation is based on rehabilitation hard costs and cannot include intermediary costs or soft costs identified in the application; plans and/or scope of work provided at the time of application.

- The rehabilitation proposal is part of a community revitalization or stabilization plan – *2 additional points*

Must be evidenced by a letter from the city verifying that the proposed project is part of an approved community revitalization area as established by resolution or other legal action.

OR

- The proposal is for new construction and will utilize existing sewer and water lines without substantial extensions – *10 points*

4. Special Populations	3 or 10 Points	_____	_____
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Projects that are not restricted to persons of a particular age group and in which, for the term of the extended use period (Declaration of Land Use Restrictive Covenants), a percentage of the units are set aside and rented to persons with the following disabilities:

- (a) a serious and persistent mental illness as defined in Minn. Stat. § 245.462, subdivision 20, paragraph (c);
- (b) a developmental disability as defined in United States Code, Title 42, Section 6001, paragraph (5), as amended;
- (c) assessed as drug dependent as defined in Minn. Stat. § 254A.02, subdivision 5, and are receiving or will receive care and treatment services provided by an approved treatment program as defined in Minn. Stat. § 254A.02, Subdivision 2.
- (d) a brain injury as defined in Minn. Stat. § 256B.093, Subdivision 4, paragraph (a); or
- (e) permanent physical disabilities that substantially limit major life activities, if at least 50 percent of the units in the project are accessible as provided under Minnesota Rules Chapter 1341.

- A project in which at least 50 percent of the total units are set aside and rented to such persons – *10 points*

OR

- A project in which at least 25 percent of the total units are set aside and rented to such persons – *3 points*

Selection Priorities	Developer Claimed	Minnesota Housing Awarded
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The applicant must contact the human services department for the county where the project will be located to discuss the proposal. The applicant must submit a letter from the human services department indicating that its staff has reviewed the proposed project, and stating whether there is a need for such housing and if the project would be eligible for funds to assist with the social service needs of the residents.

In addition, if the project will be delivering supportive services to residents in these units, the applicant must complete and submit the Supportive Housing application materials, including the narratives, forms and submittals identified in the Common Application for Multifamily Rental Housing Resources.

Note: If points are claimed/awarded for this category, then no points may be claimed/awarded from the selection priority categories of **Large Family Housing** or **Single Room Occupancy Housing**

5. Economic Integration	1 or 2 Points	_____	_____
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One (1) or Two (2) Points will be awarded to projects that meet one of the following (check one box below):

- The proposed housing provides project economic integration by providing at least 25 percent but not greater than 50 percent of the total units in the project as qualified HTC low income units (does not include full-time manager or other common space units) * - 2 points

OR

To promote economic integration, projects are awarded points for being located in higher income communities that are close to jobs ([link to the methodology description, maps and census tract list](#)).

- The proposed housing is located in a census tract eligible for 1 point
- The proposed housing is located in a census tract eligible for 2 points

6. Project Location – Top Growth Communities	5 or 10 Points	_____	_____
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The proposed housing is needed to increase or sustain the supply of affordable housing in top growth cities or townships ([link to Project Location – Top Growth Communities list](#)).

- The proposed housing is located in a top growth city/township eligible for 10 points
- The proposed housing is located in a top growth city/township eligible for 5 points

7. Regulatory Cost Avoidance/Cost Reduction	1 to 7 Points	_____	_____
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One or more of the following: (One point for each box checked, with a maximum of 7 points)

- Donation or waiver of project specific local government development fees
- Donation or waiver of project specific assessments or infrastructure costs
- Density bonus (an increase in density granted under specific provisions of the zoning ordinance above the maximum density otherwise allowed in the applicable zoning district.)
- Flexibility in zoning code requirements
- WAC/SAC reductions
- Fast-track permitting and approval
- Historic tax credits (at time of application, submit letter from State Historic Preservation Office (SHPO) confirming historic nature of building)

If donation/waiver of project specific assessments, infrastructure costs or local government development fees are claimed for points in this section, it cannot also be claimed in the selection points category of **Local/Philanthropic Contributions**.

To receive these points, documentation of the terms and conditions of the regulatory cost avoidance/cost reduction measure must be provided from the contributor of the assistance or authorized local official, at the time of the application. The documentation shall be in the form of a project specific letter of intent, city or council resolution, letter of approval, statement of agreement or eligibility, or memorandum of

Selection Priorities	Developer Claimed	Minnesota Housing Awarded
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understanding. If the documentation provided contains words synonymous with “consider” or “may” (as in “may award”) regarding the regulatory cost avoidance/cost reduction, the points will not be awarded.

The applicant must submit accurate, complete, and credible evidence of the amount of cost savings for each regulatory cost avoidance/cost reduction measure and record the savings in Section VII G of the MF Application Form. Proceeds stemming from historic tax credits must be shown as a source on the application form at the time of application.

8. Local/Philanthropic Contributions	2 to 10 Points	
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Points are awarded for projects that are receiving contributions from a local unit of government; an area employer; and/or a private philanthropic, religious or charitable organization.

Identity of Interest exclusion: Contributions from any part of the ownership entity will be considered general partner cash and excluded from the calculation unless the contributions are awarded by local units of government or non-profit charitable organizations pursuant to a funding competition.

Total local/philanthropic contributions \$ _____ divided by Total Development Cost \$ _____ equals (rounded to the nearest tenth)

- | | |
|--|---|
| <input type="checkbox"/> 20.1% and above – 10 points | <input type="checkbox"/> 5.1 – 10% – 4 points |
| <input type="checkbox"/> 15.1 – 20% – 8 points | <input type="checkbox"/> 2.1 – 5% – 2 points |
| <input type="checkbox"/> 10.1 – 15% – 6 points | <input type="checkbox"/> 0 – 2% – 0 points |

Local/Philanthropic Contributions include:

- Monetary grants/donations
- Tax increment financing - calculate Net Present Value (NPV) by using NPV discounted by Applicable Federal Rate (AFR)
- Tax abatement (calculate NPV by using NPV discounted by AFR)
- Land donation of the development site
- In-kind work and materials donated at no cost
- Local government donation/waiver of project specific costs
- Reservation land not subject to local property taxes
- Reservation land with long-term low cost leases
- Deferred loans with a minimum term that is co-terminus with the HTC Declaration with an interest rate at or below the AFR
- Grants from non-profit charitable organizations converted to deferred loans with a minimum term that is co-terminus with the HTC Declaration with an interest rate at or below the AFR. Award letter from the non-profit charitable organization contributor must be provided at the time of application verifying the project specific (restricted) contribution

If donation/waiver of project specific assessments, infrastructure costs or local government development fees is claimed for points in this section, it cannot also be claimed in the selection point category of Regulatory **Cost Avoidance/Cost Reduction**.

To qualify for points for tax increment financing or tax abatement, there must be satisfactory documentation that the contribution is committed to the development at the time of application.

At the time of application, written documentation from the contributor justifying the amount and the terms of the contribution must be provided and be consistent with current market comparable costs. Within 6 months of the date of selection (Minnesota Housing Board selection date) the applicant must provide Minnesota Housing with documentation of a firm commitment, authorization or approval of the local/philanthropic contribution(s). The documentation must state the amount, terms and conditions and be executed or approved at a minimum by the contributor. Documentation containing words synonymous with “consider” or “may”, (as in “may award”) regarding the contribution, will not be considered acceptable. Lack of acceptable documentation will result in the reevaluation and adjustment of the tax credits or RFP award, up to and including the total recapture of tax credits or RFP funds.

Selection Priorities	Developer Claimed	Minnesota Housing Awarded
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9. Readiness to Proceed **1 to 24 Points**

Financial Readiness to Proceed – (0-20 points)

Minnesota Housing shall award points to applicants who have secured funding **commitments** for one or more funding sources at the time of application except that commitments for funding from Minnesota Housing and Funding Partners (i.e. Minnesota Department of Employment and Economic Development, Family Housing Fund, Greater Minnesota Housing Fund, Metropolitan Council Local Housing Incentive Account, Minnesota Green Communities) are only included if obtained in a previous funding cycle/round.

Commitment documentation must state the amount, terms and conditions and be executed or approved by the lender or contributor and the applicant. Documentation containing words synonymous with “consider” or “may”, (as in “may award”) regarding the commitment will not be considered acceptable.

The calculation below must exclude first mortgage financing and any anticipated proceeds from the current tax credit request.

Syndication proceeds from tax credits awarded in a previous cycle/round may be included if verification is included in the application. Acceptable verification is an executed syndicator agreement or executed Letter of Intent from the syndicator which is acceptable to Minnesota Housing;

The executed Letter of Intent must:

- Be current within 15 days of submission of the application
- Contain a projected closing date for the development
- Contain a projected equity price for the purchase of the credit
- Contain a detailed explanation of the assumptions being used by the syndicator to arrive at the projected equity price

Total eligible funding secured, awarded or committed (excluding first mortgage financing and any anticipated proceeds from the current tax credit request) \$_____ Divided by Total Development Cost \$_____ equals Percentage of Funds Committed _____% (round to nearest tenth)

- 50% or more of funding secured, awarded or committed – *10 points*
- 40% to 49.9% or more of funding secured, awarded or committed – *8 points*
- 30% to 39.9% or more of funding secured, awarded or committed – *6 points*
- 20% to 29.9% of funding secured, awarded or committed – *4 points*
- 10% to 19.9% of funding secured, awarded or committed – *2 points*
- 9.9% and below of funding secured, awarded or committed – *0 points*

OR

- Minnesota Housing competitive round projects **with no funding gap and no request for deferred loan funding through the Multifamily Consolidated RFP** exclusive of amortizing first mortgages and proceeds from the tax credits requested at the time of this application*. – *20 points*

*Projects that have secured all of the necessary funding are expected to proceed more quickly and add to the affordable housing supply, therefore, developments awarded points in this Selection Priority are expected to make significant progress towards closing within 180 days of selection. Significant progress towards closing includes but is not limited to establishing and maintaining site control, completion of infrastructure, obtaining all required municipal approvals, demonstration of financial feasibility including commitments for interim and permanent financing and firm commitment for syndication or executed limited partnership agreement. A subsequent request for deferred loan funding prior to issuance of 8609 or failure to submit sufficient documentation of such continued and significant progress to Minnesota Housing may result in the development’s housing tax credit award being rescinded and subsequently awarded to other competitive tax credit developments.

Non-Financial Readiness to Proceed – (1 point for each box checked up to a maximum of 4 Pts)

Points will be awarded to projects that evidence Non-Financial Readiness to Proceed by submitting verification of the following;

- Land use and zoning approvals
- Project Specific Title Commitment and Survey* (if project is located on tribal trust land, only the survey needs to be submitted to be eligible)
- Verification that all infrastructure for the project is complete
- Draft Building permits

*At application, a new survey does not need to be conducted if the legal description and building footprint has not changed for a rehabilitation development.

Selection Priorities	Developer Claimed	Minnesota Housing Awarded
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10. Intermediary Costs (Soft Costs)	1 to 6 Points	_____
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Points will be given to projects with the lowest intermediary costs on a sliding scale based on percentage of total development costs. For HTC selected projects, this percentage will be enforced at issuance of the IRS Form 8609.

Intermediary cost amount: \$ _____ divided by Total Development Costs \$ _____ Equals Intermediary Percentage _____% (rounded to the nearest tenth).

- | | |
|--|---|
| <input type="checkbox"/> 0.0 – 15% – 6 points | <input type="checkbox"/> 25.1 – 30% – 1 point |
| <input type="checkbox"/> 15.1 – 20% – 3 points | <input type="checkbox"/> 30.1 & over – 0 points |
| <input type="checkbox"/> 20.1 – 25% – 2 points | |

11. Unacceptable Practices	-10 to -25 Points	_____
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Minnesota Housing will impose penalty points for unacceptable practices as identified in Chapter 3 F of the Housing Tax Credit Procedural Manual.

12. Eventual Tenant Ownership	1 Point	_____
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The proposal must include a financially viable plan to transfer **100 percent** of the HTC unit ownership after the end of the 15-year compliance period from the initial ownership entity (or Minnesota Housing approved "Transfer of Ownership") of the project to tenant ownership.

The unit purchase price at time of sale must be affordable to buyers with incomes meeting HTC eligibility requirements. To be eligible, the buyer must have an HTC qualifying income at the time of initial occupancy (HTC rental tenant) or time of purchase. The plan must incorporate an ownership exit strategy and the provision of services including homeownership education and training. The Declaration of Land Use Restrictive Covenants will contain provisions ensuring compliance with these home ownership program commitments by the Owner. (Refer also to Chapter 4 W of the HTC Procedural Manual for additional information.)

Until the time the HTC units are purchased by qualified tenants or in the event the HTC units are not acquired by qualified tenants, the owner will extend the duration of low-income use for the full extended use period (30 years).

13. Underserved Populations	3 to 10 Points	_____
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The development serves an underserved population defined as single head of household with minor children, individuals and households of color and one of the following is true:

- Marketing efforts or project design features will be used that will attract underserved populations including collaborations and partnerships proposed with members or organizations addressing the needs of underserved populations – 3 points

Or

- Marketing efforts or project design features will be used that will attract underserved populations including collaborations and partnerships proposed with members or organizations addressing the needs of underserved populations; and the applicant has past successful experiences in marketing to or working with underserved populations
- 1 Underserved Populations – 5 points
- 2 Underserved Populations – 10 points

(NOTE: see selection priority #4 for Disabled Individuals)

Selection Priorities	Developer Claimed	Minnesota Housing Awarded
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14. Temporary Priority – Foreclosed Properties **3 to 10 Points**

The proposal addresses a temporary housing priority and is eligible for the award of points by the Commissioner or the Board of the Minnesota Housing Finance Agency pursuant to authority cited in the Rules of the Minnesota Housing Finance Agency.

(Note: Points cannot be taken in this section for a Temporary Priority if a priority section has been specifically created for it elsewhere in this self-scoring worksheet.)

Priority is given to applications proposing to acquire and rehabilitate a “Foreclosed Property” (A home or residential property has been foreclosed upon if any of the following conditions apply: a) the property’s current delinquency status is at least 60 days delinquent under the Mortgage Bankers of America delinquency calculation and the owner has been notified of this delinquency, or b) the property owner is 90 days or more delinquent on tax payments, or c) under state, local, or tribal law, foreclosure proceedings have been initiated or completed, or d) foreclosure proceedings have been completed and title has been transferred to an intermediary aggregator or servicer that is not an NSP grantee, subrecipient, contractor, developer, or end user.) or are located in a NSP3 Target Area or Foreclosure Priority Area identified by Minnesota Housing.

http://www.mnhousing.gov/resources/apply/multifamily/MHFA_009340.aspx

In cases where the project involves a “Foreclosed Property”, the proposed project cannot be a conversion (adaptive reuse/conversion to housing from another use).

The project must consist of a minimum of 12 units and all units must be located on one parcel or contiguous site.

Metropolitan Area: - Points may be claimed for only one of the following (maximum of ten (10) points):

- For applications proposing to acquire and rehabilitate a Foreclosed Property which is located in one of the Minnesota Housing designated NSP3 target areas. – 10 points
- For applications proposing to acquire and rehabilitate a Foreclosed Property which is located in one of the designated Foreclosure Priority Areas. – 5 points
- For applications proposing a project that is located in a Minnesota Housing designated NSP3 target area. – 5 points
- For applications proposing to acquire and rehabilitate a Foreclosed Property which is not located in one of the designated Foreclosure Priority Areas. – 3 points
- For applications proposing a project to acquire and rehabilitate a property that is located in one of the designated Foreclosure Priority Areas. – 3 points

Greater Minnesota: - Points may be claimed for only one of the following (maximum of five (5) points):

- For applications proposing to acquire and rehabilitate a Foreclosed Property which is located in one of the designated Foreclosure Priority Areas. – 5 points
- For applications proposing to acquire and rehabilitate a Foreclosed Property which is not located in one of the designated Foreclosure Priority Areas. – 3 points
- For applications proposing a project to acquire and rehabilitate a property that is located in one of the designated Foreclosure Priority Areas. – 3 points

For applications proposing to acquire and rehabilitate a project which has been foreclosed, applicant must provide at the time of application:

- Evidence of applicant’s ownership rights to the property
- Narrative which clearly identifies (1) the number of tenant leases which are valid and in force and (2) the terms and conditions of those leases which would have a direct impact on Minnesota Housing’s analysis and underwriting of the project proposed in the application.

Note: Failure to acquire good title to the property will result in the reevaluation and adjustment of the tax credits or RFP award, up to and including the total recapture of tax credits or RFP funds.

Selection Priorities	Developer Claimed	Minnesota Housing Awarded
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15. Preservation of Existing Housing Tax Credit Units

10 Points

IMPORTANT NOTE

THESE POINTS ARE AVAILABLE ONLY TO EXISTING MINNESOTA HOUSING TAX CREDIT PROJECTS APPLYING FOR TAX CREDITS FROM MINNESOTA HOUSING'S COMPETITIVE ALLOCATION PROCESS (CONSOLIDATED RFP) and QUALIFIED TAX EXEMPT PROJECTS APPLYING FOR A PRELIMINARY DETERMINATION LETTER FROM MINNESOTA HOUSING AS THE CREDIT ALLOCATOR.

To obtain the related points, the existing tax credit housing must meet the following criteria:

1. The development received a Minnesota Housing allocation of housing tax credits and is eligible to and will exercise their option under the provisions of Section 42(h)(6)(E)(i)(II) and 42(h)(6)(F) within the next 12 months;
and
2. Applicant agrees to maintain the Housing Tax Credit Units in the development for at least 30 years;
and
3. The proposal will not result in the displacement of existing low and moderate income residents;
and
4. Units must be considered at risk of going to market rents, where the market rents of comparable units exceed the tax credit rent limits by 10 percent and the proposed rents will increase by more than 30 percent within two years of the Housing Tax Credit Application date. The risk of conversion must be supported by information contained in the application and with final determinations made by Minnesota Housing;
or
5. Tax credit units would no longer remain decent, safe, and affordable due to physical deterioration or deterioration of capacity of current ownership/management entity.

Selection Priorities	Developer Claimed	Minnesota Housing Awarded
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16. Permanent Housing for Individuals Experiencing Long-Term Homelessness	5 to 110 Points	
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Minnesota Housing Competitive Round or Tax Exempt Points (“non-Bonus” points) – 5 or 10 Points

“Non-Bonus” points will be awarded to permanent housing proposals in which a minimum of 5% (rounded up to the next full unit) of the total units, but no fewer than 4 units are set aside and rented to households experiencing long-term homelessness as defined in Minnesota Rules, Chapter 4900.3705:

- 5% to 49.99%, but no fewer than 4 units – 5 points
- 50% to 100%, but no fewer than 20 units – 10 points

Minnesota Housing Competitive Round or Non-Tax Exempt Points (“bonus” points) – 100 Points

100 points (“bonus points”) will be available until a total of \$1,755,000 (estimated 25 percent of Minnesota Housing’s administered credit authority) in tax credits are awarded for qualifying permanent housing proposals for households experiencing long-term homelessness selected in the 2012 Housing Tax Credit competitions. Once this maximum amount is reached, the 100 points (“bonus” points) will no longer be awarded for the remaining 2012 Tax Credit Program competitive funding rounds. If qualified per the requirements of this section, applicants may claim the “bonus points”. Minnesota Housing will make point reductions relating to the “bonus points” funding limits following its review of all applications in the funding round which claim these points. Qualified proposals may earn a maximum of 10 points (“non-bonus” points) and may continue to compete in the appropriate set-aside.

To receive points under this category, the proposal must meet all of the following conditions:

- a) the applicant must complete and submit the Supportive Housing application materials, including the narratives, forms and submittals identified in the Common Application for Multifamily Rental Housing Resources; and
- b) the applicant agrees to pursue and continue renewal of rental assistance, operating subsidy, or service funding contracts for as long as the funding is available.

Minnesota Housing recognizes that rental assistance, or operating subsidies, and supportive services may be necessary to effectively serve households experiencing long-term homelessness. If the necessary rental assistance, operating support, or tenant service funding for the project is withdrawn or terminated due to reasons not attributable to the actions or inactions of the owner, and alternative funding is unavailable, and the project is otherwise in full compliance with all the terms of the funding for the project, the owner may petition Minnesota Housing to modify its requirements. Minnesota Housing may (i) relax or eliminate the requirement for supportive services or (ii) relax or eliminate the requirement that the assisted units be occupied by households experiencing long-term homelessness. Should Minnesota Housing eliminate the requirement that the assisted units be occupied by households experiencing long-term homelessness, Minnesota Housing will permit the owner to phase out the targeting of tax credit units to households experiencing long-term homelessness and convert the rents of those units to the 50% tax credit rent limit without jeopardizing the tax credit allocation, provided that more restrictive threshold, selection priority or funding requirements do not apply. If such conversion occurs, in order to retain the tax credit allocation, the above described 50% tax credit rent limit and the Section 42 minimum set-aside elected for the project by the owner must be maintained for the remainder of the tax credit compliance period and extended use period.

A proposal which is awarded scoring points from this category and is selected to receive tax credits will be required to comply with the Long-Term Homelessness reporting requirements as defined by Minnesota Housing. The Tax Credit Declaration of Land Use Restrictive Covenants, including a specific Rider to the Declaration, will contain performance requirements related to these long-term homelessness units and will be recorded with the project.

17. High Speed Internet Access	1 Point	
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The development will provide High Speed Internet access via installation of all appropriate infrastructure and connections for cable, DSL or wireless internet service to every unit in the development. This will be a design requirement if points are taken.

Selection Priorities	Developer Claimed	Minnesota Housing Awarded
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18. Minimizing Transportation Costs and Promoting Access to Transit 2 or 3 Points

Points will be awarded for Transit Oriented Developments or developments that promote Access to Transit ([Link to maps and eligible census tracts.](#))

Metropolitan Area:

To receive 3 Points for Transit Oriented Development in the metropolitan area, a development must be:

- Located within a one half mile radius of a completed or in progress LRT, BRT, or commuter rail station

To receive 2 Points for promoting access to public transportation in the metropolitan area, a development must be:

- Located within one quarter mile of a high service public transportation fixed route stop¹; or
- Located within one half mile of an express bus route stop; or
- Located within one half mile of a park and ride; or
- Located within a Transit Improvement Area designation by MN Department of Employment and Economic Development (DEED)².

Greater Minnesota:

To receive 3 Points for promoting access to transit, a development in Greater Minnesota must be:

- Located within one half mile of a public transportation fixed route stop (including express bus stop and park and ride stations); or
- Located within a Transit Improvement Area designation by MN Department of Employment and Economic Development (DEED); or
- Located within a census tract that is within 5 miles of 2,000 low and moderate wage jobs **AND** meets one of the below:
 - The proposed housing is within 1 mile of at least four different types of facilities listed below.**
Attach a map identifying the property location with exact distances to at least four of the following facility types: supermarket/convenience store, public school, library, licensed child care center, usable park space/dedicated walking or biking trails, bank, medical or dental office, post office, laundry/dry cleaner, pharmacy, place of worship, community or civic center that is accessible to residents, arts or entertainment center, police station, fire station, fitness center/gym, restaurant, neighborhood serving retail, office building/employment center; or
 - The proposed housing has access to dial-a-ride* services during standard workday hours.**
Applicants must provide documentation of access and availability of service and describe how the service is a viable transit alternative that could be used for transportation to work, school, shopping, services and appointments.

*Minnesota Department of Transportation defines dial-a-ride as: *“A demand-responsive service in which the vehicle is requested by telephone and vehicle routing is determined as requests are received. Origin-to-destination service with some intermediate stops is offered. Dial-A-Ride is a version of the taxicab using larger vehicles for short-to-medium distance trips in lower-density subregions”.*

At the time of application, the applicant must submit a map identifying the location of the project with exact distances to the eligible public transit station/stop and include a copy of the route, span and frequency of service.

¹ High service fixed route stop defined as those serviced during the time period 6 AM through 6:30 PM and with service approximately every half hour during that time.

² DEED has designated 53 station areas near commuter rail, light rail and bus rapid transit stations in the Twin Cities. The TIAs encompass a ½ mile radius around the stations. More information at http://www.positivelyminnesota.com/Government/Financial_Assistance/Site_Cleanup,_Redevelopment,_Transit_Funding/Transit_Improvement_Areas.aspx

Selection Priorities	Developer Claimed	Minnesota Housing Awarded
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19. Smoke Free Buildings	1 Point	_____
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One (1) point will be awarded for projects that will institute and maintain a written policy* prohibiting smoking in all the units and all common areas within the building/s of the project. The project must include a non-smoking clause in the lease for every household.

Projects awarded a point in this scoring criteria will be required to maintain the smoke-free policy for the term of the declaration.

*The written policy must be submitted with the application and should include procedures regarding transitioning to smoke-free for existing residents and establishment of smoking areas outside of units and common areas if applicable. Consequences for violating the smoke-free policy are determined by owner but must be included in the written policy.

Preference Priorities	Developer Claimed	Minnesota Housing Awarded
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1. Serves Lowest Income Tenants/Rent Reduction

5 to 13 Points

Scores are based on gross rent level including utilities before rental assistance. Eligible units must have rents affordable to households whose incomes do not exceed 30 percent or 50 percent of median income without rental assistance.

In addition to the elected income limit of 50 percent or 60 percent AMI for the full term of the declaration (refer to the Minimum Set-Aside), the applicant agrees to maintain deeper rent structuring for which selection points are requested.

Applicants may choose either option 1 or 2, and in addition, option 3 for the development. This selection will restrict rents only (tenant incomes will not be restricted to the 50 percent or 30 percent income level by claiming points in this section).

- Option 1 – A project in which 100 percent of the HTC unit rents representing _____ units are in the county 50 percent HUD area median rent limit – *10 points*
- Option 2 – A project in which at least 50 percent of the HTC unit rents representing _____ units are at the county 50 percent HUD area median rent limit – *5 points*

OR

- Option 3 – In addition to Option 1 or 2, a project that further restricts 30 percent of the above restricted units to the county 30 percent HUD area median rent limit representing _____ units – *3 additional points*

NOTE: If points are claimed/awarded for this category, then no points may be claimed/awarded from the selection priority category of Rental Assistance for the same units.

IMPORTANT

All 50 percent rent restricted units must meet the 50 percent area median rent for a minimum of five years after the last placed in service date for any building in the property. After the five year period has expired, rent may be increased to the 60 percent rent limit over a three year period with increases not to exceed the amount listed in the table below, provided that more restrictive threshold, selection priority or funding requirements do not apply.

All 30 percent rent restricted units must meet the 30 percent area median rent for a minimum of five years after the last placed in service date for any building in the property. After the five year period has expired, rent may be increased to the 40 percent rent limit over a three-year period with increases not to exceed the amount listed in the table below, provided that more restrictive threshold, selection priority or funding requirements do not apply.

YEAR	30% of 50% Rent Levels	30% of 30% Rent Levels
1 – 5	30% of 50%	30% of 30%
6	30% of 53%	30% of 33%
7	30% of 57%	30% of 37%
8	30% of 60%	30% of 40%

Minnesota Housing will incorporate these restrictions into the Declaration of Land Use Restrictive Covenants. The applicant must demonstrate to sole satisfaction of Minnesota Housing that the property can achieve these reduced rents and remain financially feasible [IRC § 42(m)(2)]. Points are contingent upon financial plans demonstrating feasibility, positive cash flow on a 15-year pro forma and gaining Minnesota Housing management approval (for management, operational expenses, and cash flow assumptions).

Preference Priorities	Developer Claimed	Minnesota Housing Awarded
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2. Preservation of Federally Assisted Units	20 Points	_____	_____
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DEFINITION - Any housing receiving project based rental assistance, operating subsidies, or mortgage interest reduction payments. This includes public housing, Section 236 and Section 221(d)(3) interest reduction payments, and any development with project based Section 8, rent supplement, or rental assistance payments contract.

Preserves federally assisted low income housing which, due to mortgage prepayments or expiring rental assistance, would convert to market rate use or due to physical deterioration or deterioration of capacity of current ownership/management entity would lose its federal subsidies. Minnesota Housing, at its sole discretion, must agree that a market exists for a conversion to market rate housing.

In order to obtain the related points, the federally assisted housing must meet the following:

- 1 Units must be considered at risk of losing assistance within two years of the Housing Tax Credit Application date as supported by information contained in the application and with final determinations made by Minnesota Housing.
- 2 Applicant must agree to continue renewals of existing project based housing subsidy payment contract for as long as the assistance is available.
- 3 Applicant must agree to maintain the Housing Tax Credit Units in the development for at least 30 years.

Except for “good cause” applicant must not evict existing subsidized residents and must continue to renew leases for those residents.

Following selection, developments awarded points through this category which have an identity of interest will be required to provide an as-is appraisal acceptable to Minnesota Housing to substantiate the acquisition price reflected in the application. Prices which are unsubstantiated or inconsistent with comparable current market pricing will be subject to re-evaluation and adjustment of the tax credits or RFP award, up to and including the total recapture of tax credits or RFP funds.

3. QCT/Community Revitalization	1 Point	_____	_____
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A point is awarded to projects that are located in a Qualified Census Tract (See Qualified Census Tract – Reference Materials Index) and are part of a concerted plan that provides for community revitalization. This must be evidenced by a letter from the city verifying that the proposed project is part of an approved community revitalization area as established by resolution or other legal action.

Preference Priorities	Developer Claimed	Minnesota Housing Awarded
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4. Rental Assistance **4 to 21 Points**

Priority is given to an owner that submits with the application a **fully executed binding commitment** (i.e. binding Resolution/binding Letter of Approval from the governing body) for project based rental assistance awarded in accordance with 24 CFR Ch. IX, Section 983.51. The assisted units must be located in buildings on the project site. **For the purpose of this section, if a proposal contains existing project based assisted units, these units will be counted towards meeting required Rental Assistance percentages.**

Rent for assisted units must be at or below Fair Market Rents (or appropriate payment standard for the project area). Receiving these points and agreeing to a minimum number of assisted units does not release owners from their obligations under the Minnesota Human Rights Act and Section 42 prohibiting refusal to lease to the holder of a voucher of eligibility under Section 8 of the United States Housing Act of 1937 because of the status of the prospective tenant as such a holder.

A current request for Minnesota Housing Rental Assistance will not receive Rental Assistance points. A past award of existing Rental Assistance will be counted toward meeting the required percentages. Indicate the applicable combinations of the below components. Points for A, B and C cannot be claimed in any combination.

- (A) For developments agreeing to set aside and having the required binding commitment for at least 51 percent of the total units for project based rental assistance – *13 points*
- (B) For developments agreeing to set aside and having the required binding commitment for at least 20 percent but under 51 percent of the total units for project based rental assistance – *10 points*
- (C) For developments agreeing to set aside and having the required binding commitment for at least 10 percent but under 20 percent of the total units for the project based rental assistance – *6 points*
- (D) For selection components A, B or C above, if, in addition, the above binding commitments are coupled with a binding commitment to provide the project based rental assistance for a minimum 10 year contract term – *4 points*
- (E) For selection components A, B or C above, if, in addition, the above binding commitments are coupled with a binding commitment to provide the project based rental assistance for a 5 to 9 year contract term – *2 points*

NOTE: If points are claimed/awarded for A, B, C, D or E above, then no points may be claimed/awarded from the preference priority categories of Serves Lowest-Income Tenants/Rent Reduction for the same units.

- (F) For developments that cooperatively develop a housing plan/agreement to provide **other** Rental Assistance (e.g. Section 8, portable tenant based, formal recommendation for McKinney Vento Shelter Plus Care rent assistance, or other similar programs approved by Minnesota Housing) to meet the existing need as evidenced at application by a letter of intent signed by both the applicant and the local housing authority or other similar entities – *4 points*

To receive these points, the applicant must comply with all program requirements for the assistance for which priority points were given, including maintaining rents within the appropriate payment standard for the project area in which the project is located for the full compliance and extended use period of the housing tax credits.

As a condition of Carryover or 8609, the applicant must submit a copy of the fully executed contract for the project-based rental assistance to be included in the development.

For project based rental assistance in conjunction with a binding commitment for an “extended term contract” at time of application the applicant must submit a binding commitment for the “extended term contract” for project based assistance for a minimum of 5 or 10 years which is signed by the Local Housing Authority or other similar entity. As a condition of Carryover or 8609, the applicant must submit a fully executed copy of the “extended term contract” for the project based assistance to be included in the development.

For Other Rental Assistance (e.g., Section 8, portable tenant based, formal recommendation for McKinney Vento Shelter Plus Care rent assistance or other similar rent assistance programs approved by Minnesota Housing), at time of application the applicant must submit a letter of intent to cooperatively develop a housing plan/agreement which is signed by the applicant and Local Housing Authority or other similar entity along, with the completed Agreement to Utilize Public Housing and Section 8 Waiting Lists. As a condition of Carryover or 8609, the applicant must submit a fully executed copy of the cooperatively developed housing plan/agreement.

Preference Priorities	Developer Claimed	Minnesota Housing Awarded
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TOTAL POINTS

Developer
Claimed

Minnesota
Housing
Awarded

Under penalty of perjury, Owner hereby certifies the information provided herein is true and accurate.

Name of Owner:

By: _____
(Signature)

Of: _____
(Name of Legal Entity)

Its: _____
(Title) (Managing General Partner)

(Print or type name of signatory)

Note: During the competition process, Minnesota Housing’s review of the submitted self-scoring worksheet is only to validate that the points claimed are eligible, to reduce points claimed if not eligible, and to determine points awarded. Minnesota Housing will not award additional points which are not initially claimed by the Applicant/Owner. Many performance obligations are created by the claiming of certain scoring points. As such, Minnesota Housing cannot and will not assume the position of creating any such performance obligations on behalf of the Applicant/Owner. In addition, applications funded under the Joint Powers Agreement must also comply with the suballocators selection criteria defined in their Qualified Allocation Plan.



2012
Housing Tax Credit Program
Procedural Manual

The Minnesota Housing Finance Agency does not discriminate on the basis of race, color, creed, national origin, sex, religion, marital status, status with regard to public assistance, disability, familial status, or sexual or affectional orientation in the provision of services.

Minnesota Housing is an equal opportunity employer.

This information will be made available in alternative format upon request.

INTRODUCTION	1
CHAPTER 1 – THE MINNESOTA HOUSING MISSION STATEMENT	2
CHAPTER 2 – ROLE OF THE SUBALLOCATORS	3
A. Round 1.....	3
B. Round 2.....	3
C. Joint Powers Agreement	3
D. Subsidy Layering Review	3
E. Suballocator Reporting	3
CHAPTER 3 – POLICIES AND PROCEDURES	4
A. Application Cycle.....	4
B. Multiple Buildings	5
C. Nonprofit Set-aside	5
D. Rural Development/Small Project Set-Aside	6
E. Developer and Development Limits	6
F. Transfer of Ownership	6
G. Unacceptable Practices	7
H. Minimum Underwriting Factors.....	8
I. Identity of Interest	8
J. Disclosure and Eligibility of Development Team	8
K. Determination of Credit Amount	9
L. Requests for Additional Credit Amounts	9
M. Resubmission Process for Non Select Projects	10
N. Qualified Census Tracts, Difficult Development Areas and State Designated Basis Boosts	10
O. Reservations.....	11
P. Administrative Errors	12
Q. Waiting List	12
R. Carryover Allocations	12
S. Final Allocations.....	13
T. Monitoring for Compliance.....	13
U. Qualified Contract	14
V. Tenant Selection Plan.....	15
W. Other Conditions.....	15
X. Revisions to the Manual and Allocation Plan.....	15
CHAPTER 4 – FEDERAL PROGRAM REQUIREMENTS	16
A. Eligible Activities	16
B. Applicable Percentage	16
C. Qualifying Rehabilitation	16
D. Existing Buildings.....	17
E. Exception to the Ten-Year Rule	17
F. Federal Subsidies	17
G. Review of Federally Assisted Projects	18
H. Federal Subsidy Layering Review	18
I. Project Eligibility	18
J. Affordable Rents	19
K. Tenant Eligibility	19
L. Eligible Basis.....	20
M. Qualified Basis	21
N. Applicable Fraction	21
O. Economically Integrated Projects	21

P.	Annual Credit Amount	22
Q.	Declaration of Land Use Restrictive Covenants	22
R.	Ineligible Properties	22
S.	Passive Loss Restrictions	22
T.	State Volume Limits	22
U.	Recapture	23
V.	Market Study	23
W.	Tenant Ownership	23
X.	Fair Housing and Contract Compliance Policy	23
CHAPTER 5 – DEVELOPMENT STANDARDS		25
A.	Project Cost Reasonableness	25
B.	Minimum Underwriting Standards for Amortizing Debt and Maintenance and Operating Expenses Benchmarks	25
C.	Eligible Basis Tax Credit Fees	25
D.	Reserves/Contingencies	27
E.	Comparative Analysis	27
F.	Property Standard	27
CHAPTER 6 – PROJECT SELECTION		29
A.	First Rounds - Application Requirements	29
B.	Scoring	29
C.	Tie Breakers	29
D.	Market Review	29
E.	Design Review	30
F.	Development Team Review	30
G.	Site Review	30
H.	Maintenance and Operating Expense Review and Underwriting Certification	31
I.	Financial Feasibility	31
CHAPTER 7 – SUBMISSION REQUIREMENTS		32
A.	Application Requirements	32
	1. <i>Market Study:</i>	32
	2. <i>Narratives and Project Schedule: (submit electronically)</i>	33
	3. <i>Forms:</i>	33
	4. <i>Submittals:</i>	34
B.	Carryover Requirements	39
C.	Placed in Service Requirements	42
CHAPTER 8 – TAX EXEMPT PROJECTS SEEKING TAX CREDITS		47
A.	General	47
B.	Application for Issuance of Preliminary Determination Letter	47
C.	Election of Applicable Percentage	47
D.	Requests for Building Identification Numbers (BIN)	48
E.	Election of Gross Rent Floor	48
F.	Application for Issuance of Form 8609	48
G.	Tax Exempt Placed in Service	48
CHAPTER 9 – FEES		52
A.	Application Fee	52
B.	Supplemental Application Fee	52
C.	Reservation Fee	52
D.	Allocation Fee	52
E.	Allocation Late Fee	52

F.	Tax Exempt Credit Preliminary Determination Fee	53
G.	Tax Exempt Credit 8609 Fee.....	53
H.	Monitoring Fee.....	53
I.	Transfer of Ownership Fee	53
J.	Check Cashing Procedure.....	53
K.	Right to Adjust Fees.....	53

CHAPTER 10 – ALLOCATION SCHEDULE OF CRITICAL DATES.....54

CHAPTER 11 – HTC FORMS56

Application Materials	56
Post Application Materials	57

Introduction

The Federal Tax Reform Act of 1986 created the Housing Tax Credit (HTC) Program (see Section 42 of the Internal Revenue Code) for qualified residential rental properties. The HTC offers a reduction in tax liability to owners and investors in eligible low-income rental housing projects involving new construction, rehabilitation, or acquisition with rehabilitation.

The Minnesota Housing Finance Agency (Minnesota Housing) has been designated by the Minnesota Legislature as the primary allocating agency of Housing Tax Credits (HTC) in Minnesota. Qualified local cities and counties have also been designated by the Legislature as suballocators of the HTC.

Section 42 of the Internal Revenue Code ("Section 42") requires that housing credit allocating agencies develop an allocation plan for the distribution of the tax credits within the jurisdiction of the allocating agency (IRS Regulations 1.42-17 Qualified Allocation Plan). Minnesota Housing's *Qualified Allocation Plan (QAP)* (see Minnesota Housing website, Multifamily Housing Tax Credit Allocation section) combines state and federally legislated priorities with other priorities established by Minnesota Housing following receipt of comments from the public, local municipalities and federal agencies. The *QAP* is subject to modification or amendment to ensure the provisions conform to the changing requirements of Section 42 and applicable state statutes. No assurances can be given that IRS guidance will not require further adjustments to the *QAP* and additional review of selected developments.

Minnesota Housing is also required to monitor HTC projects during the Compliance Period as well as notify the Internal Revenue Service (IRS) of any noncompliance with the requirements of Section 42 of which it becomes aware. All applicants should review the IRS Regulations 1.42-5 Monitoring Compliance. In addition, Minnesota Housing will monitor the projects during the remaining term of the Declaration of Land Use Restrictive Covenants (Declaration).

This information summarizing the HTC program is provided as a brief overview. It is not comprehensive and should not be relied upon for income tax purposes. The tax credits are allocated to the owner (taxpayer). The owner is solely responsible for compliance with Section 42.

Minnesota Housing is under no obligation to undertake an investigation of the accuracy of the information submitted in an application. Minnesota Housing's review of a proposed housing project does not constitute a warranty of the accuracy of the information, nor of the quality or marketability of the housing to be purchased, constructed, or rehabilitated pursuant to the HTC program. Developers, potential investors and interested parties should undertake their own independent evaluation of the feasibility, suitability and risk of the project. If any information submitted by the applicant in connection with the allocation of HTCs by Minnesota Housing is later found to have been incorrect or there has been a subsequent change in any material respect, it is the responsibility of the applicant to inform Minnesota Housing and to request a reexamination of the application.

This manual is provided solely for use in applying for housing tax credits from Minnesota Housing and may not be relied upon in structuring or investing in specific transactions, compliance with the Internal Revenue Code, Treasury Regulations or any other laws or regulations governing Tax Credits. Interested parties should consult with a knowledgeable tax professional prior to entering into any commitment concerning the use and claim of housing tax credits.

Chapter 1 – The Minnesota Housing Mission Statement

The vision of Minnesota Housing is for all Minnesotans to live in affordable homes.

Our mission is to finance and advance affordable housing opportunities for low and moderate income Minnesotans to enhance quality of life and foster strong communities.

Chapter 2 – Role of the Suballocators

Suballocators were authorized by the 1990 legislature to allocate and monitor tax credits to eligible projects in their cities or counties. The suballocators award their allotted tax credits in Round 1 of competition.

A. Round 1

During Round 1, for-profit applicants must apply directly to the suballocator for a credit allocation if the project falls within a suballocator's jurisdiction. Nonprofit applicants may apply to the Minnesota Housing nonprofit set-aside or the suballocator individually or concurrently. Any unused tax credits are returned to Minnesota Housing prior to Round 2.

B. Round 2

In Round 2, projects located in suballocator jurisdictions may apply directly to Minnesota Housing.

C. Joint Powers Agreement

A suballocator may elect to enter into a Joint Powers Agreement with Minnesota Housing. Under a Joint Powers Agreement, Minnesota Housing shall perform certain functions related to the credit allocation and compliance monitoring in exchange for the transfer of the suballocators' tax credits to Minnesota Housing.

D. Subsidy Layering Review

Suballocators are responsible for entering into an agreement with the U.S. Department of Housing and Urban Development (HUD) to perform subsidy layering reviews.

E. Suballocator Reporting

As the primary and lead housing credit agency for the state of Minnesota, Minnesota Housing is responsible for collecting and filing the required form with the IRS each year on the last day of February. The local suballocators have agreed to submit the following information to Minnesota Housing no later than January 31st for all tax credit activity that has occurred in the preceding year:

1. A completed Minnesota Multifamily Rental Housing Common Application form for each development receiving an allocation through a reservation, carryover, or issuance of 8609 for tax credits issued from volume cap and through tax-exempt bonds.
2. A copy of the Reservation/Binding Agreement, original Carryover Agreement, a completed IRS Form 8610 Schedule A for each development receiving a Carryover Allocation, and copies of the IRS Form 8609s.
3. A Suballocator Compliance Activity Report containing the results of inspection activity conducted during each monitoring year with copies of any forms 8823 filed with the Internal Revenue Service.
4. From time to time there may be other requests for information for federal and state reporting purposes.

Chapter 3 – Policies and Procedures

A. Application Cycle

The Minnesota Housing allocation procedure for Housing Tax Credits has two annual funding cycles (Round 1 and Round 2).

Round 1 uses a forward selection process. Tax credit selections for Round 1 take place in the fall of the year preceding the allocation year of the credits.

Round 2 will make available for allocation, credit authority remaining or returned since Round 1. Additionally, Round 2 will establish a waiting list for credits that may be returned.

Minnesota Housing will accept applications in accordance with the *QAP*. The closing date for receipt of applications for each competition can be found in Chapter 10 Allocation Schedule of Critical Dates. (Application closing dates subsequent to the first competition may be approximate depending upon availability of tax credits and ability of Minnesota Housing to process applications).

The Multifamily and Housing Tax Credit application materials can be found at <http://www.mnhousing.gov/housing/developers/common-app/index.aspx>

The Multifamily Consolidated Request for Proposal Guide provides a comprehensive resource of all Minnesota Housing Multifamily application materials, including: narrative requirements, submittals, Minnesota Housing forms, and reference materials. Minnesota Housing encourages you to visit our website to access these materials.

Minnesota Housing will base its selection decision upon the application and attachments received on the application due date. No applications, attachments or documentation will be accepted after the application due date unless requested by Minnesota Housing.

Several application requirements, forms and submittals must be electronically submitted as defined on the Multifamily Master Application Checklist (http://www.mnhousing.gov/resources/apply/multifamily/MHFA_004722.aspx). In addition to the electronically submitted items, one original full application package plus two photocopies of the full application package must be submitted. The entire application and all required submissions must be complete and legible or the application will be returned. Applications will not be accepted by facsimile. Refer to the Multifamily Consolidated Request for Proposal Guide for details.

Applications should be submitted no later than 5:00 p.m. on the application due date to:

Minnesota Housing Finance Agency
Housing Tax Credit Administrator
400 Sibley Street, Suite 300
St. Paul, MN 55101-1998

Upon receipt of an application, as required by federal law, Minnesota Housing will notify the Chief Executive Officer of the local jurisdiction where the proposed project is planned. This notification will include characteristics of the proposed HTC project and provide an opportunity for the local unit of government to comment on the project. Minnesota Housing will also notify the local public housing authority, City Administrator, and the suballocators.

Information submitted in an application for Housing Tax Credits is public information that is accessible to the public pursuant to Minnesota Statutes, Chapter 13.

B. Multiple Buildings

Projects may include “multiple buildings” having similarly constructed housing units, provided the buildings are located on the same tract of land, are owned by the same person for federal income tax purposes and are financed pursuant to a common plan of financing. Scattered site buildings on different tracts of land will also qualify if the project meets all of the other requirements described above and the project is 100 percent rent restricted.

C. Nonprofit Set-aside

Federal law requires that 10 percent of the total annual credit available be reserved each year exclusively for projects involving ownership by nonprofit organizations which have a 501(c)(3) or (c)(4) status or appropriate equivalent designation approval from the IRS. On an annual basis, Minnesota Housing and suballocators may reserve an additional 5 percent for a total annual nonprofit set-aside of 15 percent.

The nonprofit must be local, organized and incorporated in the state of Minnesota and have significant experience in Minnesota as a sponsor, owner, or manager of low-income housing. The nonprofit must have the fostering of low-income housing as one of its exempt purposes and must “materially participate” in the ownership, development and operation of the low-income project through the term of the Declaration.

The intent of Section 42 is to ensure that a for-profit entity or individual does not set up a “sham” nonprofit organization in order to tap the nonprofit set-aside. This could include establishing a nonprofit organization for the specific project, without any history, experience, local community involvement, or financial strength.

The nonprofit organization must demonstrate that the nonprofit is acting independently and free from influence of control by the for-profit project team members. Minnesota Housing reserves the right to contact the officers and directors of the nonprofit organization to determine their independence.

Minnesota Housing will require that all nonprofits applying for the nonprofit set-aside, disclose all identity of interest between the nonprofit and any member of the for-profit project team. An identity of interest would include any officer, director, partner, stockholder, relative, seller or owner of land or building involved, processing agent, real estate salesperson or broker, employee, or anyone acting to represent any for-profit member of the project team who controls or influences the decisions of the nonprofit.

If there is an identity of interest, affiliation or conflict, as determined by Minnesota Housing, Minnesota Housing will disqualify the nonprofit from receiving credits from the nonprofit set-aside. In making this determination, Minnesota Housing will consider the following:

1. The nonprofit’s history, funding sources and composition of its board;
2. Past experience and anticipated future activities of the nonprofit, including involvement in the local community;
3. Sources and manner of funding of the nonprofit;
4. The nonprofit’s degree of financial strength for completion and operation of the project during the term of the Declaration;
5. The relationship of the principals involved in the formation of the nonprofit organization with for-profit individuals concerning the tax credit application. A nonprofit cannot be affiliated with or controlled by a for-profit entity by:
 - a. Having more than a 25 percent share of common board members; or
 - b. Having more than 25 percent of its funding, directly or indirectly, from the parent entity; or
 - c. Having any other type of association that is not considered an arms-length affiliation.

6. The extent to which the nonprofit materially participates within the meaning of Section 469(h) of the Internal Revenue Code in the development and operation of the project throughout the term of the Declaration. Minnesota Housing will also look at the nonprofit's involvement in the project-related construction, management, ownership interest, sharing of fees and funding provisions.

If the nonprofit set-aside is exhausted during a round, the nonprofit applicant with proposed projects in Minnesota Housing's jurisdiction may be eligible for tax credits from the appropriate for-profit set-aside and selected based upon its point ranking. (See also Article 4 and 5 of the QAP). However, any proposal with a qualified nonprofit applicant must comply with the nonprofit requirements of IRC Section 42(h)(5)(C) and (D) including material participation for the term of the declaration. This requirement is a covenant on the land that shall apply to all subsequent owners.

D. Rural Development/Small Project Set-Aside

Eligible projects must have either:

- A Rural Development (RD) financing commitment or,
- A site located in an *RD service area* (Housing Tax Credit Manual Chapter 11 Reference Materials section) and consisting of twelve (12) or less units.

All projects within this set-aside must meet all applicable HTC Design Requirements. First priority will go to projects with applications for financing or a commitment from Rural Development. A developer may have a maximum award of two (2) projects within this set-aside each allocation year. Once a project has elected to participate in this set-aside, the project may not be transferred to an alternative set-aside in the existing round. The tax credits will not be allocated to an RD project until a financing commitment has been executed.

E. Developer and Development Limits

During the allocation year, no more than 10 percent of the State's per capita volume limit in tax credits may be awarded to any one developer or general partner. No more than \$1,000,000 in cumulative tax credits may be awarded to any one development.

At the sole discretion of Minnesota Housing, these limits may be waived for projects that involve community revitalization, historic preservation, preservation of existing federally assisted buildings, housing with rents affordable to households at or below 30 percent of median income or in response to significant proposed expansions in area employment or natural disaster recovery efforts. Minnesota Housing may also waive these limits during Round 2 if there are excess tax credits at year-end.

Applicants should not assume that this waiver will be automatically provided or rely on this statement when determining the scope of the proposed project.

F. Transfer of Ownership

Minnesota Housing strongly discourages the transfer of ownership in projects that have been awarded tax credits. For the long term viability of quality housing, Minnesota Housing's position is that the development and management teams making the decisions in developing the tax credit housing need to also own and operate the project for the long term. Any transfer of title of a selected project or transfer of more than a 50 percent interest in a general partner or change in a nonprofit partner prior to a date five years after the project's new construction/rehabilitation placed in service date will be considered a material change in the project and **will be subject to the approval of Minnesota Housing**. Owners wishing to change or transfer ownership must submit a completed and executed *Notice of Intent to Transfer Ownership* (HTC 27), *Transfer Agreement* if prior to issuance of 8609 (HTC 20), a transfer of ownership fee, (See Chapter 9) and any other documentation that Minnesota Housing deems necessary.

G. Unacceptable Practices

1. Unapproved Transfer of Ownership:

Any unapproved change or transfer of ownership from selection through five years after the project's new construction/rehabilitation placed in service date will have an effect on all individuals/entities from the development and management team on each side of the transfer that submit applications in future HTC rounds. These entities may be penalized as follows:

For four funding rounds from the date Minnesota Housing discovers an unapproved change or transfer of ownership:

- a. First Transfer (-10 points on each application submittal)
- b. Two or More Transfers (-25 points on each application submittal)

In addition, if Minnesota Housing becomes aware of a transfer of ownership by an individual or entity without proper notification and approval by Minnesota Housing, Minnesota Housing reserves the right to determine that all parties involved in the transfer will not be eligible for participation in Minnesota's HTC program for a period of ten years.

2. Displacement of Section 8 Tenants:

Minnesota Housing will not accept applications that have displaced (or will displace) Section 8 tenants in a housing project because rents will be increased above the Section 8 Payment Standard Rent limit. Rehabilitation projects that have existing Section 8 tenants may not increase those rents (in Section 8 units only) above HUD's Payment Standard Rents after completion of rehabilitation.

- a. Minnesota Housing has agreed to partner with the local HUD area office to determine if tenants of rehabilitation projects;
 1. were displaced prior to application;
 2. are displaced after rehabilitation has been completed.
- b. If Minnesota Housing and the local HUD area office agree that intentional displacement of Section 8 tenants has occurred, with exception given to lease violations by the tenant, Minnesota Housing will:
 1. reduce or rescind the reservation/allocation of the tax credits to the project prior to issuance of 8609;
 2. assess a -25 point penalty to all parties involved in ownership/management of the project for four funding rounds following notification of the assessment of the negative points by Minnesota Housing. This also applies to tax-exempt tax credit projects, owners, and managers.

3. Changes to Project:

The award of tax credits is based upon information provided in the application and the preliminary plans submitted with the application. Until the property is placed in service, any material changes to the project or building design (i.e., changes in unit mix or unit size, that affect applicable *Design Standards for HTC 2012*, or design features required for preference points) as submitted in the application require written notification to and approval from Minnesota Housing. Any changes that have not been previously approved by Minnesota Housing could result in a proportional loss of tax credits up to the full amount of the allocation as well as the assessment of penalty points to the owner/developer of up to -25 points.

4. Late 8609 Application Submissions Resulting in the Loss of Tax Credit Authority to the State:

When Minnesota Housing becomes aware that a late submission of a complete and acceptable 8609 application package by a development's owner/agent results in the loss of any volume of housing tax credit authority to the state of Minnesota, Minnesota Housing reserves the right to determine that all

parties involved will not be eligible for future participation in Minnesota's HTC Program for a period of up to ten years.

5. Filing of Non-Agency Approved 8609 with the IRS:

When Minnesota Housing becomes aware that a development's owner/agent has filed an 8609 with the Internal Revenue Service in advance of the owner/agent's receipt of the Minnesota Housing signed version of the approved 8609, or if the owner/agent electronically files an 8609 with the Internal Revenue Service which does not accurately reflect the information contained on the Minnesota Housing signed version of the approved 8609, Minnesota Housing will file an 8823 Notice of Non-Compliance with the IRS and reserves the right to determine that all parties involved will not be eligible for future participation in Minnesota's HTC Program for up to a period of ten years. This applies to credits issued by Minnesota Housing, suballocators and in conjunction with tax-exempt bonds.

6. Repeated non-compliance with Minnesota Housing's Fair Housing Policies, Procedures, and/or Requirements:

Repeated failure to comply with Minnesota Housing's Fair Housing Policies, Procedures, or Requirements will be penalized. Minnesota Housing will impose up to a -25 point penalty on future housing credit developments to all parties involved in ownership and/or management on the development(s) that repeatedly are found in non-compliance. The penalty points will be in effect for four funding rounds following notification of the assessment of the negative points by Minnesota Housing. This also applies to tax-exempt tax credit projects, owners, and managers.

H. Minimum Underwriting Factors

A development selected for a reservation of tax credits is selected based upon the underwriting factors relating to maintenance and operating expenses and permanent financing stated by the applicant in its application and as approved by Minnesota Housing (See Chapter 6.H). These factors will be monitored throughout the tax credit process until Minnesota Housing's issuance of the approved IRS Form 8609. Minnesota Housing WILL NOT ALLOW ANY SIGNIFICANT ADJUSTMENTS TO THESE FACTORS. Changes in these factors could lead to the revocation of the tax credit allocation.

I. Identity of Interest

The applicant must disclose any and all relationships (generally based on financial interests or family ties) with others involved in the project. A written disclosure to Minnesota Housing detailing the nature of all identity of interest relationships is required for all parties.

J. Disclosure and Eligibility of Development Team

The applicant must disclose on the Multifamily Rental Housing Common Application Form the names and addresses, including corporate officials where applicable, of all parties that have a significant role in the project ("significant parties"). These significant parties include, but are not limited to general partners, accountants, architects, engineers, financial consultants, any other consultants, management agents and the general contractor (each team member must complete a *Qualification Form*.) Minnesota Housing must be satisfied that those who will own and operate the project are familiar with and prepared to comply with the requirements of the program.

The following significant parties are not eligible to participate in the Tax Credit Program:

1. Significant parties who have been convicted of, enter an agreement for immunity from prosecution from, or plead guilty, including a plea of *nolo contendere*, to a crime of dishonesty, moral turpitude, fraud, bribery, payment of illegal gratuities, perjury, false statement, racketeering, blackmail, extortion, falsification or destruction of records;

2. Significant parties who are currently debarred from any Minnesota program, other states' program(s), or any federal program(s);
3. At the sole discretion of Minnesota Housing, significant parties who have serious and persistent compliance monitoring violations may not be eligible; or
4. At the sole discretion of Minnesota Housing, significant parties having an Identity of Interest with persons or entities falling into any of the above categories may not be eligible.

K. Determination of Credit Amount

Federal law mandates that, although a proposed project may be eligible for up to 70 percent or up to 30 percent present value credit amount, Minnesota Housing may not allocate more credit than is necessary for the financial feasibility of the project and its viability as a qualified affordable housing project throughout the compliance period.

After a project meets the development selection criteria, including marketability, Minnesota Housing will evaluate each proposed project, taking into consideration:

1. Development costs, including developer fees, builder profits, contractor overhead, and general conditions.
2. All sources and uses of funds.
3. Projected income and expenses.
4. Proceeds expected to be generated from the sale of tax credits, including historic tax credits.
5. The difference between total project costs and total available financing resources, which is referred to as the GAP. A calculation is made to determine the amount of tax credits needed by the project to fund the GAP over a ten-year period, based on the estimated market value of the tax credits.

Based on this evaluation, Minnesota Housing will estimate the amount of credit to be reserved for each application. This determination is made solely at Minnesota Housing's discretion and is not a representation as to the feasibility of the project. Rather, it will serve as the basis for making a reservation of credits. The amount of the tax credit can change during the process due to variations in cost, mortgage amount, tax credit percentage, syndication proceeds, etc.

This analysis to determine the maximum amount of tax credits must be performed by both Minnesota Housing and the owner/developer at the time of application, at the time a carryover allocation is approved, and at the time the project is placed in service, providing all project costs are finalized and certified.

If there are changes in resources and/or uses of funds or other material changes, Minnesota Housing will adjust the tax credit amount to reflect the changes, and the tax credit may be reduced. Tax credit amounts will not automatically be increased above the initial reservation request or allocation amount. Requests for additional tax credits for the project must follow the procedures in Chapter 3.L of the manual and will depend upon the availability of credits.

L. Requests for Additional Credit Amounts

Projects that have had a justifiable increase in eligible basis or previously received a partial allocation may be eligible to apply for supplemental tax credit amounts. To receive a supplemental tax credit amount, the owner must submit an application when applications are due for Round 1, Round 2, or at the time the carryover application is submitted.

Developers who have a Minnesota Housing reservation from the current year will be required to submit a revised Multifamily Rental Housing Common Application Form, documentation supporting the increased amount of credits requested, an updated and revised Self-Scoring Worksheet, any new or revised documentation obtained since the previous application and a supplemental application fee.

A complete application package with all attachments and a full application fee will be required for an application for additional tax credits for developments initially awarded tax credits from a suballocator or that have a tax credit allocation from a prior year.

Minnesota Housing permits only one supplemental or additional tax credit allocation award for each development. Awards of additional credits requested as part of a carryover application are not counted against this limit.

Applications that are submitted for an additional tax credit amount will be subject to the same evaluation process described above, the availability of credits, as well as limitations on the time period for allocation of additional credits under Section 42.

M. Resubmission Process for Non Select Projects

In a current allocation year, if a project fails to receive credits in Round 1, it may be considered for a reservation of tax credits in Round 2 by following these guidelines. Re-submittal must occur by Minnesota Housing's HTC application deadline. Minnesota Housing will not consider applications resubmitted after the deadline. A resubmitted application must include the following:

1. Cover letter requesting resubmission with a copy of Minnesota Housing's non-selection letter attached.
2. Re-signed and re-dated Multifamily Rental Housing Common Application Form (all changes from the initial application must be clearly identified).
3. Any new or revised documentation obtained since the previous application.
4. An updated and revised *Self-Scoring Worksheet* including all documentation that clearly supports the points claimed.
5. Any documentation Minnesota Housing deems necessary (upon request only).
6. The Supplemental Application fee.

Minnesota Housing reserves the right to require a full, new application for any project. This right will be exercised if staff feels the proposed project differs substantially from the initial application.

N. Qualified Census Tracts, Difficult Development Areas and State Designated Basis Boosts

Federal law permits, but does not require, Minnesota Housing to reserve a greater amount of credits than the legislated maximum credit percentage for projects in areas that meet one of the following criteria:

1. Qualified census tracts (QCT) designated by HUD in which 50 percent of the population has an income of less than 60 percent of the area median or has a poverty rate of at least 25 percent; where such areas do not comprise more than 20 percent of the overall population, (For a current list of the HUD-designated QCTs on the Internet, link through Minnesota Housing's web site [HTC Reference Materials] or go directly to <http://qct.huduser.org/index.html> or <http://209.48.228.153/qctmap.html>)
2. Difficult development areas (DDA) designated by HUD as having high construction, land, and utility costs relative to area median income.

For DDA information, reference the same web site defined for QCT above.

3. State Designated Basis Boost - Buildings Designated by State Housing Credit Agency [pursuant to 42(d)(5)(B)(v)]*

It is the goal of Minnesota Housing to optimize the use of all available sources of funding for multifamily developments; including private investor equity, amortizing loans and deferred loans to produce the maximum number of affordable rental units in the most sustainable, quality, cost effective and geographically diverse developments possible which meet Minnesota Housing's strategic priorities. Consistent with this goal, the following criteria will be used to determine if, when, and in what amount, Minnesota Housing will provide a basis boost for housing tax credit developments on a building by building basis to obtain financial feasibility.

- a. Development must meet state identified housing priorities as evidenced by competitive tax credit score.
- b. Funding gaps remain for top ranking tax credit developments.
- c. Credits allocated in connection with the basis boost shall be no more than needed to achieve financial feasibility.

*Note: Requests by Applicants/Developers to Minnesota Housing to apply the 30% State designated basis boost must be formally made in writing. The request should clearly outline the reasons supporting the request and clearly demonstrate how the proposal meets the criteria established by Minnesota Housing for receiving boost considerations.

O. Reservations

Once staff has ranked applications and determined allowable credit amounts for each application, staff will make recommendations to Minnesota Housing's Board of Directors for final approval of the reservation of credits. After the ten-day adjustment period (referenced below), the selected applicant will have 20 days to acknowledge selection by returning an executed project profile, and the appropriate reservation fee (See Chapter 9).

A development selected for a reservation of tax credits is selected based upon many specific factors relating to the application including site location. **Reservations are site specific.** Changing a development's site could lead to the revocation of the tax credit reservation/allocation.

Minnesota Housing's tax 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. Upon receipt of the required documents, Minnesota Housing will complete its reservation review and send reservation agreements to be executed by the owner. Each reservation shall be conditioned upon receipt of written certification, evidence of timely progress toward completion of the project acceptable to Minnesota Housing, and evidence of compliance with federal tax requirements.

Choosing the gross rent floor date as the date of allocation or the date of placed in service can be done at any time from reservation forward but the election must be made and the completed election form received by Minnesota Housing no later than the date the project is placed in service. If you choose to make the election as of the date of the reservation, submit a fully executed *Gross Rent Floor Election Form* (HTC 26) including each building of the development in which there are housing tax credit units. If the required Owner-executed forms with all elections made by the owner, are not submitted to Minnesota Housing by a date no later than the placed in service date, the gross rent floor date will be effective on the allocation date of the tax credits.

Minnesota Housing maintains the right not to reserve tax credits for any project if it determines, in its sole discretion, that a reservation for such project does not further the purpose and goals as set forth in Chapter 1 of this plan.

P. Administrative Errors

If the applicant believes that Minnesota Housing has misinterpreted, was not aware of a submission item, or miscalculated the applicant's selection points or credit amount at time of application/reservation, the applicant must submit in writing evidence supporting their position within five business days of Minnesota Housing's notification of application status. Notification will be in the form of a selection or non-selection letter. The first business day after the date on this letter will be the first day of the notification period.

If the evidence provided by the applicant is accepted and the selection points of the project are affected, Minnesota Housing will re-rank all projects in the order of descending selection points. After an additional five-business day period, Minnesota Housing's rankings will stand and reservations for selected projects will be distributed.

Q. Waiting List

In Round 2, eligible applications will be maintained on a waiting list until the end of the year in the event Minnesota Housing receives National Pool credits or returned credits. The waiting list will follow Minnesota Housing's selection point ranking. Generally, projects will be chosen in order; however, depending on time and funds available, Minnesota Housing reserves the right to make modifications to the waiting list. Projects placed on the waiting list must be fully evaluated for underwriting, market and financial viability prior to receiving consideration for a tax credit allocation. A project must satisfy these reviews to be eligible for selection from the waiting list. If an application is not selected for a reservation of tax credits by the end of the calendar year, there will be no further consideration. An applicant currently on the waiting list must submit a completely new application packet in the next funding round, which is a new tax credit year, to receive consideration for a tax credit allocation.

R. Carryover Allocations

Federal law (IRS Regulations 1.42-06 Carryover Allocation) provides that Minnesota Housing may give a carryover allocation to certain qualified building(s), which are to be placed in service no later than December 31 of the second year after the allocation year for which the reservation was issued. To receive a carryover allocation, the owner must submit a complete carryover application package to Minnesota Housing no later than November 1 of the allocation year for which the reservation was issued.

Federal law requires that more than 10 percent of the expected basis in the project (including land) must be expended by the later of the date which is one year after the date that the allocation is made or the close of the calendar year in which the allocation is made. A written certified public accountant's (CPA) certification must be submitted verifying the owner has incurred required expenditures. As decided by the owner, submission of the CPA certification may be made at the time of carryover application or at a later date as provided for by Section 42 and by the Minnesota Housing Tax Credit Program Procedural Manual. However, the carryover allocation agreement must be executed prior to December 31 of the allocation year for which the reservation was issued. For a carryover agreement to be valid it must include, among other things, the amount of the reasonably expected basis at the end of the second year after the initial reservation and the carryover basis expended by the later of the date which is one year after the date that the allocation is made or the close of the calendar year in which the allocation is made. If the final CPA certified carryover basis and expenditure information is not available at the time the carryover application is due, an estimate of the expenditure of greater than 10 percent of the expected basis must be performed by the owner and submitted to Minnesota Housing no later than November 1 of the allocation year for which the reservation was issued. The final CPA certifications must be submitted to Minnesota Housing prior to the deadlines established by Section 42 and by no later than Minnesota Housing's submission deadlines identified in Chapter 7.B of this manual. Failure to comply with the submission dates will result in significant penalties as outlined in Chapter 9.E. Additional carryover requirements are given in Chapter 7.B.

Minnesota Housing's Housing Tax Credit 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 the QAP and additional reviews of developments relating to carryover.

S. Final Allocations

Except for carryover allocations, no allocation of tax credits will be made until a building or project is placed in service, and the proper documentation and fees have been received. The final amount of credits is determined when the project is placed in service.

Final allocations (Form 8609) may be requested when all eligible buildings are placed in service and the proper documentation and fees have been received. Minnesota Housing may establish, at its sole discretion, required deadlines prior to year-end for final allocation requests in order to permit timely processing of documents. If an owner of a tax credit development does not intend to obtain a carryover allocation, but instead intends to take a project from credit reservation directly to placed-in-service status, an allocation via issuance of 8609 must be obtained prior to year-end of the allocation year for which the reservation was issued. The tax credit application for issuance of such 8609's must be submitted to Minnesota Housing on or before November 1 of the allocation year for which the reservation was issued.

A project that has neither received a Carryover Allocation nor has been placed in service and issued appropriate 8609's before December 31st of the year of allocation will lose its entire allocation of credits.

The tax credit amount that will be allocated is based on Minnesota Housing's final determination of the qualified basis for the building or project and a review of the project costs as outlined in this Procedural Manual. The allocation may be reduced to comply with federal law based on the final review of the project.

Prior to final allocation, the project owner is required to execute and record a Declaration of Land Use Restrictive Covenants.

Non-compliance with the terms of a reservation of credits or a carryover allocation will result in a loss of credits.

T. Monitoring for Compliance

Federal law requires that Minnesota Housing provide a procedure to be used in monitoring for compliance with Section 42 and for notifying the Internal Revenue Service of noncompliance. Minnesota Housing is required to apply the monitoring procedure to all tax credit projects developed within Minnesota Housing's jurisdiction including tax credits issued with tax-exempt bonds since the inception of the HTC Program. Minnesota Housing shall perform such duties in accordance with its Housing Tax Credit Compliance Manual. Copies are available upon request.

1. All tax credit recipients shall submit an annual certification to Minnesota Housing in a manner, form, and time established by Minnesota Housing. The certification will include, but is not limited to, the submission of completed IRS forms and compliance monitoring fees. Owners are required to certify whether or not the property is in compliance with Section 42 regulations and also whether or not the property complies with the restrictions and/or set-asides under which the allocation was awarded.

In addition to the annual owner certification requirements, owners shall submit a copy of the Characteristics of Tenant Household report, which details demographic data on households initially occupying units in the development from the placed in service date to the end of the compliance period.

2. A review of tenant certifications including the tenant applications, third party verifications and supporting documentation of income, as well as general project appearance will be conducted in accordance with Minnesota Housing's Compliance Manual. The compliance report including tenant name(s), household information, amount and sources of income, rents, utility allowance or cost, and other unit information is required to be maintained at all times and will be submitted annually. All tax

credit recipients will also maintain, as part of the official project records, the tenant applications, income certifications and verification of tenants' income. If a property received its credit allocation based on serving specific targeted population(s), the tenant files must also contain supporting documentation showing that the unit is serving such population(s).

3. Minnesota Housing will conduct its first monitoring inspection no later than the end of the second year of the credit period. Such inspection will include, but is not limited to, a review of tenant files and physical inspection of 20 percent of the low-income units.
4. Minnesota Housing will conduct a compliance inspection of each development at least once every three years. Such inspection will include, but is not limited to, a review of tenant files and physical inspection of 20 percent of the low-income units.
5. Minnesota Housing shall have access to all official project records, including IRS reporting forms, upon reasonable notification. All official project records or complete copies of such records must be made available to Minnesota Housing upon request.
6. To accomplish its compliance monitoring responsibilities, Minnesota Housing will charge a fee of \$25 for each unit in the project annually. The fee for properties covered by the Memorandum of Understanding by and between Minnesota Housing and USDA Rural Development is \$15 per unit per year. Minnesota Housing reserves the right to adjust the annual fee to offset administrative costs.
7. Minnesota Housing will promptly notify the IRS of any project noncompliance within its responsibility as contained in Section 42. Minnesota Housing has no jurisdiction to interpret or administer Section 42, except in those instances where specific delegation has been authorized.
8. Properties that received a credit allocation in 1990 and later are subject to a minimum 15-year Extended Use Period. Minnesota Housing has defined compliance requirements and monitoring procedures during the Extended Use Period in the Housing Tax Credit Compliance Manual.

U. Qualified Contract

Section 42(h)(6)(E)(i)(II) of the Internal Revenue Code created a provision that housing credit agencies respond to the request for presentation of a qualified contract for tax credit developments with expiring compliance periods. The request for presentation of a qualified contract may occur after year 14 of the compliance period. The request for presentation of a qualified contract is a request that the housing credit agency find a buyer (who will continue to operate the property as a qualified low-income property) to purchase the property for a "qualified contract" price pursuant to IRS regulations. If the housing credit agency is unable to find a buyer within one year, the extended use period is terminated.

Many owners have chosen to waive the right to request a qualified contract and have committed to thirty years or more of operation as low-income rental housing. Owners should review the respective QAP, development tax credit application, carryover agreement, and Declaration of Land Use Restrictive Covenants to determine whether the development has waived the right to request a Qualified Contract prior to contacting Minnesota Housing.

A Request for Qualified Contract may be submitted only once for each development. If an owner rejects an offer presented under the Qualified Contract or withdraws its request at any time after the Notification Letter and Application Materials have been received by Minnesota Housing, no other opportunity to request a Qualified Contract will be available for the development in question.

Owners who are contemplating requesting the presentation of a Qualified Contract should directly contact a member of Minnesota Housing tax credit team for reference to the Qualified Contract Guide.

V. Tenant Selection Plan

Minnesota Housing requires that a Tenant Selection Plan (Plan) is readily available to anyone interested in such Plan for review and/or retention. Minnesota Housing will not develop or provide such a Plan to owners or management companies.

Federal, State and local fair housing laws should be consulted when owners/managers are developing a Plan. It is the responsibility of the owner/manager to have a thorough understanding of the basis under which discrimination is prohibited.

A Plan developed for the purpose of objectively selecting potential residents should have a focus on demonstrating an ability to live in harmony with others in a respectful manner. Factors to consider of persons interested in the available housing should include but not be limited to income eligibility, ability to pay the required rent, deposits, and applicable tenant paid utilities; previous rental history; references, expectations of all residents to management, neighbors, visitors to the development, etc. (Also see related items in Chapter 7 B and C, and Chapter 8 G.)

W. Other Conditions

No member, officer, agent, or employee of Minnesota Housing shall be personally liable concerning any matters arising out of, or in relation to, the allocation and monitoring of Housing Tax Credits.

X. Revisions to the Manual and Allocation Plan

To the extent necessary to facilitate the award of Housing Tax Credits that would not otherwise be awarded, this Procedural Manual and attached QAP may be modified by Minnesota Housing from time to time. Minnesota Housing may make minor administrative modifications deemed necessary to facilitate the administration of the HTC Program or to address unforeseen circumstances. Further, the Board is authorized to waive any conditions that are not mandated by Section 42 on a case-by-case basis for good cause shown.

A written explanation will be made available to the general public for any allocation of a housing credit dollar amount that is not made in accordance with Minnesota Housing's established priorities and selection criteria.

The QAP may be amended for substantive issues at any time following public notice and public hearing. Said hearing will be held at the main offices of the Minnesota Housing Finance Agency in St. Paul, Minnesota. Any substantive amendments will require approval of Minnesota Housing Board of Directors and the Governor.

To the extent that anything contained in the Manual and QAP does not meet the minimum requirements of federal law or regulations, such law or regulation shall take precedence.

Chapter 4 – Federal Program Requirements

A. Eligible Activities

Eligible activities for tax credits include new construction, rehabilitation, or acquisition with rehabilitation.

B. Applicable Percentage

There are two levels of applicable percentage, depending upon whether the building is new or existing, whether there are rehabilitation expenditures and whether the buildings are federally subsidized.

1. New Buildings and Qualifying Rehabilitation Expenditures (if neither is federally subsidized):
 - With respect to new buildings or qualifying rehabilitation expenditures which are not subsidized, the applicable percentage is an amount resulting in aggregate credits having a present value of 70 percent of qualified basis. Traditionally, this has resulted in a credit percentage of approximately 9 percent.
2. New Buildings and Qualifying Rehabilitation Expenditures that are Federally Subsidized and Existing Buildings:
 - With respect to new buildings and qualifying rehabilitation expenditures which are federally subsidized, and the acquisition of existing buildings that are rehabilitated, the applicable percentage is an amount which results in aggregate credits having a present value of 30 percent of qualified basis. Traditionally, this has resulted in a credit percentage of approximately 4 percent.

The 9 percent and 4 percent credit percentage represents the maximum potential rate.

Section 42(b)(2)(A) and (B) of the Internal Revenue Code establishes a **temporary** minimum credit rate for non-federally subsidized buildings. In the case of any new building which is placed in service by the taxpayer after July 30, 2008 and before December 31, 2013, and which is not federally subsidized for the taxable year, the applicable percentage shall not be less than 9 percent.

Those preparing an application for tax credits are strongly cautioned to carefully evaluate the Applicable Percentage anticipated for the proposed project and the date on which its buildings are expected to be placed in service. As stated above, Section 42(b)(2) of the Internal Revenue Code, establishes a temporary 9 percent minimum credit rate for certain non-federally subsidized new buildings placed in service BEFORE DECEMBER 31, 2013.

Depending upon the Applicable Percentage assumptions you choose to use in your project's application, and the Applicable Percentage elections you may make at a time of credit Reservation, placing a building in service on or after December 31, 2013 may have very significant impacts upon the financial viability of your project. A 9 percent Applicable Percentage may not be available to a building if it is placed in service on or after December 31, 2013.

Applicants are strongly advised to consult closely with their tax credit professionals (legal and tax) for guidance with respect to structuring a project to use either the 9 percent or the 4 percent tax credit.

C. Qualifying Rehabilitation

Rehabilitation expenditure requirements are established both by state and federal law.

Under Section 42(e), rehabilitation expenses qualify for the credit if the expenditures for each building:

1. Are able to be allocated to one or more low income units or substantially benefit low income units; and
2. Equal the greater of:
 - a. An average of \$6,100 in qualified basis per low income unit for a building [as increased by cost of living adjustment per Section 42(e)(3)(D)]; or
 - b. An amount that is not less than 20 percent of the adjusted basis of the building, as determined pursuant to Section 42(e)(3).

In addition to the Section 42(e) requirements, Minnesota Statutes Section 462A.221, Subdivision 5, requires rehabilitation expenditures for the project of an average of \$5,000 per unit.

It is necessary to acquire an existing building in order to incur qualifying rehabilitation expenditures with respect to that building. In such a case, the costs of acquiring the existing building may be eligible for the 30 percent present value credit and the rehabilitation expenditures may be eligible for the 70 percent present value credit.

D. Existing Buildings

In order for an existing building to qualify for the 30 percent acquisition credit in connection with rehabilitation, there must have been a period of at least 10 years between the date the building was acquired and the date it was last placed in service.

Please note that the 10-year rule also applies to existing tax credit projects applying for a new allocation of acquisition credits at the end of the original 15-year compliance period.

E. Exception to the Ten-Year Rule

Exceptions to the ten-year rule are provided in Section 42(d)(6) for federally or State assisted buildings, certain low-income buildings subject to mortgage prepayment, and buildings acquired from insured financial institutions in default. Certain other situations are exempt from the ten-year rule, such as:

1. A person who inherits a property;
2. A government unit or qualified nonprofit group if income from the property is exempt from federal income taxation;
3. A person who gains a property through foreclosure (or instrument in lieu of foreclosure) of any purchase money security interest, provided the person resells the building within 12 months after placing the building in service following foreclosure; or
4. Single family residences that had no use during the prior ten-year period except, as an owner-occupied principal residence will not be treated as being placed in service for purposes of the ten-year holding period. Note that although the 10-year rule does not apply, the property must still be rehabilitated to claim the acquisition costs of such a property.

F. Federal Subsidies

The determination of whether a building is federally subsidized is addressed in Section 42(i)(2). In general, a building is treated as federally subsidized if there is financing which is tax exempt under Section 103 the proceeds of which were used (directly or indirectly) in the building or its operation.

Federal grants are not to be taken into account in determining eligible basis. The eligible basis of a building shall not include any costs financed with the proceeds of a federally funded grant.

Owners of a property receiving a federal subsidy have the option of treating the subsidy amount as if it were a federal grant and deducting the amount of the subsidy from the qualified basis or costs against which the amount of the credit is calculated.

G. Review of Federally Assisted Projects

Minnesota Housing will review projects using Rural Development Section 515 Rural Housing Loan funds in accordance with Minnesota Housing's currently approved underwriting practices and procedures. So as to achieve a coordinated underwriting to the extent reasonably possible, it is the responsibility of the applicant to provide Minnesota Housing with available underwriting requirements and other requirements for the project which have been established by Rural Development. Prior to issuance of the IRS Form 8609, the applicant must submit to Minnesota Housing a copy of RD Form 3560-51, Multiple Family Housing Obligation-Fund Analysis for reference in the determination of the final allocation of tax credits to a project.

H. Federal Subsidy Layering Review

Section 911 of the Housing and Community Development Act of 1992 requires that specific procedures be followed for subsidy layering review when tax credits and HUD assistance are combined in a single project. Sponsors of projects that combine HUD assistance and tax credits should be aware that subsidy layering review must be completed for their projects, and should contact Minnesota Housing to receive additional information prior to submitting their application.

Suballocators are responsible for assuring that subsidy layering reviews are completed for developments within their jurisdiction where they are the housing credit allocating agency.

Subsidy layering review is required for the following programs, but not limited to:

- Metropolitan Housing Opportunity Program (MHOP),
- U.S. Housing and Urban Development (HUD) Insurance
- Section 8 project-based rental assistance, etc.

At a minimum the following documents must be submitted:

1. Rental Housing Project Income analysis and appraisal, signed and dated by HUD (Form 2264a);
2. A line item sources and uses statement,
3. Partnership (Syndication) Agreement, spelling out the equity contributions and dates of disbursement; and
4. Copy of Multifamily Rental Housing Common Application Form.

I. Project Eligibility

The purpose of the housing tax credit is to assure that a sufficient number of rental units are available on an affordable basis to low income persons. Applicants should be cautioned that this set-aside represents the minimum number of units that must meet both rent and income restrictions to qualify for tax credits for each year of the credit period. A project must, for a specific period of time, meet one of the following minimum tests:

- 20/50 Test:
To meet the 20/50 Test, a minimum of 20 percent of the residential units must be both rent restricted and occupied by individuals whose income is at or below the 50 percent Multifamily Tax Subsidy Project limits, "MTSP limits" (as established for different geographical areas and published by the U.S. Department of Housing and Urban Development) adjusted for family size; or
- 40/60 Test:
To meet the 40/60 Test, a minimum 40 percent of the residential units must be both rent restricted and occupied by individuals whose income is at or below the 60 percent MTSP limits, adjusted for family size.

Once made, the choice between the 20 percent at 50 percent formulation and the 40 percent at 60 percent formulation is irrevocable.

Note: The actual number of restricted units within the project must be consistent with the initial applicable fraction selected at the time of reservation. Also, IRS defines each building as a separate project unless owner elects to treat certain buildings as a multiple-building project on line 8b of IRS form 8609. See the instructions for making a multiple-building election on form 8609.

J. Affordable Rents

The rent restrictions for the units are governed by Section 42 and regulations, rulings and other announcements by the IRS. The following summary is not intended to be comprehensive. A violation of the tenant income or rental restrictions in Section 42 may result in project ineligibility or a reduction in basis and/or credit amount.

Rent Restriction: For a unit to count as a low-income unit, the gross rent may not exceed 30 percent of the imputed tenant income limitation. The imputed income limitation applicable to a unit equals the permissible income limitations that would apply if the number of individuals occupying the unit were:

1. One individual in the case of a studio apartment; and
2. 1.5 individuals per bedrooms in the case of a unit with one or more separate bedrooms.

Therefore, the rent restrictions applicable to a low-income unit are determined by which test is elected and how many bedrooms are contained in the unit. Current income limits, as derived from the Department of Housing and Urban Development, for Minnesota counties are described in the *Rent and Income* tables found in the Multifamily Common Application Reference Materials section.

For tax credit compliance purposes, "gross rent" means all payments by the tenant, including non-optional charges and payments for utilities other than telephone and cable. If the tenant pays utilities directly, the maximum rent that can be paid to the landlord is reduced by a utility allowance determined in accordance with rules under Section 8 of the U.S. Housing Act of 1937 (Section 8). IRS Regulations (Section 1.42-10 Utility Allowance, as amended) provides guidance relating to Utility Allowances and lays out options for establishing them. The options, depending on assistance or regulation characteristics of the project or the tenant, may require use of an RD utility allowance, a HUD utility allowance, a PHA/HRA utility allowance, an Agency Estimate, a HUD utility Schedule Model, an Energy Consumption Model, or a utility allowance produced with information obtained through a local utility company in a manner consistent with Section 1.42-10. Utility allowances must be updated at least annually.

Federal, state and local rental assistance payments (such as Section 8 payments) made on behalf of the tenant are not included in gross rent.

Additional rent restrictions may apply if the award of tax credits was made based on such additional restrictions.

K. Tenant Eligibility

To be a low income unit for purposes of determining the qualified basis, the tenant must have income at or below 50 percent of the applicable MTSP limits if the 20/50 Test is elected, or 60 percent of MTSP limits if the 40/60 Test is elected. The unit must be rent restricted as set forth above, and the unit must be suitable for occupancy.

The combined household income of all tenants occupying a tax credit eligible unit must be less than or equal to the elected income requirements as shown on *Rent and Income Limits*.

Section 42 does not allow households comprised of full time students to qualify as low-income units unless certain exceptions are met. The student exceptions are found in Section 42 (i)(3)(D):

CERTAIN STUDENTS NOT TO DISQUALIFY UNIT - A UNIT SHALL NOT FAIL TO BE TREATED AS A LOW-INCOME UNIT MERELY BECAUSE IT IS OCCUPIED

1. by an individual who is
 - i A student and receiving assistance under title IV of the Social Security Act,
 - ii A student who was previously under the care and placement responsibility of the State agency responsible for administering a plan under part B or part E of title IV of the Social Security Act, or
 - iii Enrolled in a job training program receiving assistance under the Job Training Partnership Act or under other similar Federal, State or local laws, or
2. entirely by full time students if such students are
 - i single parents and their children and such parents are not dependents (as defined in IRC § 152 determined without regard to subsections (b)(1), (b)(2), and (d)(1)(B) thereof) of another individual and such children are not dependents of another individual other than a parent of such children, or
 - ii. married and file a joint tax return

See Chapter 17 of the Guide for Completing Form 8823, Low-Income Housing Credit Agency's Report of Noncompliance or Building Disposition, for additional guidance.

L. Eligible Basis

In general, the eligible basis of a building is equal to the building's adjusted basis for acquisition, rehabilitation or construction costs for the entire building, subject to certain conditions and modifications set forth in Section 42(d). As a general rule, the adjusted basis rules of Code Section 1016 apply, with the exception that no adjustments are made for depreciation. Some of the special provisions for determining eligible basis under Section 42(d) are:

The eligible basis may be increased for new buildings and rehabilitation to existing buildings that are located in designated qualified census tracts (QCT), difficult development areas (DDA) or in developments utilizing the state designated basis boost.

The cost of the non-low income residential units in a building is included in eligible basis only if the quality of these units does not exceed the average quality of the low-income units. If the cost of a non-low income unit exceeds the cost of a low-income unit (using the average cost per square foot and assuming the same size) by more than 15 percent, the entire cost of the non-low income unit must be excluded from the building's eligible basis. If the excess cost is not more than 15 percent, the owner may make an election to exclude only the excess cost of the non-low income unit(s) from eligible basis.

The cost of depreciable property used in common areas or provided as comparable amenities to all residential units (e.g., carpeting and appliances) is included in determining eligible basis. The cost of tenant facilities (e.g., parking, garages, and swimming pools) may be included in eligible basis if there is no separate charge for use of the facilities and they are available to all tenants in the project.

The cost of a community service facility is included in basis only if the building is located in a qualified census tract. The eligible basis of that facility must not exceed 25 percent of first \$15 Million of eligible basis plus 10 percent of additional basis in the project. All community service facilities that are part of the same qualified low-income housing project shall be treated as one facility. A community service facility is defined as a facility that is part of the qualified low-income housing project designed to serve primarily individuals including tenants and non-tenants whose income is 60 percent or less of area median income. **Only limited guidance has been issued by the IRS regarding these changes. No assurances can be given that additional IRS guidance will not require further adjustments to the QAP and additional reviews of selected developments.**

Eligible basis is reduced by federal grants, residential rental units that are above the average quality standard of the low-income units, historic rehabilitation credits, and nonresidential rental property. Buildings located in

areas designated as a QCT, DDA or developments utilizing the State designated basis boost may be eligible for an increase in allowable basis.

M. Qualified Basis

Qualified basis is the portion of the eligible basis applicable to low income housing units in a building. Qualified basis is the product of a project's eligible basis multiplied by the applicable fraction.

N. Applicable Fraction

The applicable fraction is the lesser of:

1. The unit fraction, which is the number of low-income units in a building divided by the total number of residential rental units; or
2. The floor space fraction is the total floor space of the low-income units in the building divided by the total floor space of the residential rental units in the building.

A full time resident manager's unit is not considered a residential unit and must not be included in the numerator or denominator for calculating the applicable fraction.

Throughout the planning, construction and placed in service periods, the applicable fraction has different nuances. At initial application and at carryover, the "**estimated project applicable fraction**" will be used. It is an approximate goal that the developer is striving to attain. It is calculated by project in order to obtain a rough estimate of the percentage of eligible units and square footage needed and an estimate of the total amount of tax credits necessary for a particular project.

At the time that the placed in service application for 8609 is made, the "**targeted applicable fraction**" for each **building** is calculated. The targeted applicable fraction is determined on a building-by-building basis. Each building in a multiple building development could have a different applicable fraction. Because the estimated project applicable fraction is approximate, the targeted applicable fraction calculated by building will frequently differ unless the project has a 100 percent applicable fraction. The targeted applicable fraction is also listed as part of the extended use criteria in the *Declaration of Land Use Restrictive Covenants*, which is recorded and remains with the property.

O. Economically Integrated Projects

Project Economic Integration:

Projects under common ownership and management that have tax credit units and market rate units are considered to be economically integrated. These projects receive priority points for selection. (See Selection Priority #5, *Self-Scoring Worksheet*.) In an economically integrated project each building must have an applicable fraction of less than 100 percent. Unless otherwise approved by Minnesota Housing, all buildings must be expected to have comparable applicable fractions with necessary variations due to building size. The number of tax credit units will be determined by the developer. A complete application for the entire project will be necessary at the time of application. HTC selection points will generally be based upon the characteristics of only the tax credit units, with the exception of economic integration points and similarly classed categories.

Note: The actual number of restricted units within the project must be consistent from selection, through carryover and to approval of an 8609 and maintained throughout the term of the declaration.

Community Economic Integration:

Projects located in higher income communities that are close to jobs are considered to promote economic integration. Projects with these characteristics are awarded points for being located in such communities (refer to the methodology description, maps and census tract list attachments referenced in the *Self-Scoring Worksheet*).

P. Annual Credit Amount

The tax credit is available each year for 10 years. The amount of tax credit awarded is based on the Qualified Basis multiplied by the applicable percentage. However, Section 42(m)(2) requires Minnesota Housing to limit the amount of credit to the amount necessary to assure project feasibility under rules established by the IRS. Therefore, the actual amount of tax credits awarded could be less than the maximum allowable if the analysis reveals the project would still be feasible with fewer tax credits.

The IRS publishes the applicable percentages on a monthly basis. These figures are used to calculate the maximum allowable annual credit amount for which the project will be eligible. (Also see Chapter 4.B)

Q. Declaration of Land Use Restrictive Covenants

Prior to an allocation of Section 42 tax credits, a project will be subject to a *Declaration of Land Use Restrictive Covenants* (Declaration) between the owner and Minnesota Housing through which the owner commits the building(s) to low income use for an extended use period of at least 15 years after the conclusion of the 15-year compliance period (a total of 30 years).

The Declaration terminates upon: (a) foreclosure of the building (or deed in lieu of foreclosure); or (b) during the extended use period, upon failure of Minnesota Housing to find a purchaser by the end of one year after a request by the owner to Minnesota Housing to find a purchaser for the low income portion of the building, at a statutory minimum purchase price, unless the owner has waived it's right to exercise their option. Throughout the term of the Declaration and for a three year period after the termination of the Declaration, the Owner shall not evict or terminate the tenancy of an existing tenant of any low-income unit other than for good cause and shall not increase the gross rent above the maximum allowed under the Code with respect to such low-income unit. Beginning with the 2007 tax credit program, Tax Credits (non-competitive credits, 4%) allocated in association with issuance of Tax Exempt Bonds will not be subject to the waiver of rights to request a Qualified Contract. Beginning with the 2006 tax credit program, owners applying for the 9 percent credits (competitive credits, 9%) must commit their developments to Section 42 income and rent restrictions for a period of 30 years beginning with the first day of the compliance period in which the building is part of a qualified low income housing project.

The Declaration must be recorded in accordance with 42(h)(6) as a restrictive covenant and submitted to Minnesota Housing prior to Minnesota Housing issuing the allocation (IRS Form 8609). The Declaration will set forth the commitments made by the owner to Minnesota Housing in obtaining points including any additional rent restrictions and occupancy requirements placed upon the building at the time of reservation. Non-compliance with these additional conditions may result in serious penalties being applied to the owner entities which could result in a ban on future allocations of tax credits being made to the owner entities.

R. Ineligible Properties

Any residential rental unit that is part of a hospital, nursing home, sanitarium, lifecare facility, trailer park, or intermediate care facility for the mentally and physically handicapped is not for use by the general public and is not eligible for credit under section 42. Projects with buildings having four or fewer residential units must comply with 42(i)(3)(c).

S. Passive Loss Restrictions

There is a limit on the amount of credit any individual may effectively use due to passive loss restrictions and alternative minimum tax provisions. Consult your tax attorney or accountant for clarification of this regulation.

T. State Volume Limits

Each state is limited to the amount of tax credits it may allocate annually. Minnesota's 2012 per capita volume limit is expected to be approximately **\$11,403,438**.

Projects with tax-exempt bond financing, which are subject to a separate volume limitation, are not counted against the state volume limit. (See Article 9 of the *QAP* and Chapter 8 of the Manual for further details.)

U. Recapture

Minnesota Housing reserves the right to recapture tax credits from projects that do not provide evidence satisfactory to Minnesota Housing of progress toward completion of the project in accordance with the project schedule (submitted at initial application and updated at carryover), or noncompliance with the terms of the allocation.

Part of the credit will also be recaptured if the qualified basis at the close of any year is less than the amount of such basis at the close of the preceding taxable year, or if the minimum number of qualified low-income units is not maintained for the complete extended use period.

V. Market Study

Internal Revenue Code Section 42(m)(1)(A)(iii) requires that a comprehensive market study of the housing needs of low-income individuals in the area to be served by a developer's housing credit project must be conducted by a disinterested party, at the developer's expense, who is approved by the housing credit agency. (Also refer to the Market Study Guidelines on the Minnesota Housing web site)

W. Tenant Ownership

Minnesota Housing will review projects incorporating tenant ownership provisions in accordance with Sec. 42(h)(6), IRS Revenue Ruling 95-49 and Minnesota Housing's requirements. It is the responsibility of the applicant to provide Minnesota Housing with any additional information or clarification as may be necessary. Minnesota Housing requires that developments proposing an eventual tenant ownership component must have 100 percent of the development's tax credit units specified for this ownership component. (See also Chapter 7.A.)

X. Fair Housing and Contract Compliance Policy

1. It is the policy of Minnesota Housing to administer and provide fair and equal housing opportunity in all Minnesota Housing programs to ensure all residents of Minnesota of similar income levels in the same housing market area have equal access to Minnesota Housing programs in a manner that affirmatively furthers fair housing. Further, it is the policy of Minnesota Housing to prohibit discrimination in the sale, rental, financing, or other services related to housing on the basis of race, color, creed, religion, national origin, sex, sexual orientation, marital status, status with regard to receipt of public assistance, disability, or familial status.

The Policy exists to assist all persons involved with Minnesota Housing financed programs in providing fair housing opportunities. The Policy applies to Minnesota Housing staff and everyone doing business with Minnesota Housing.

It is required that all Minnesota Housing programs are marketed affirmatively using specific steps for each program. These steps include but are not limited to:

- a. Conducting public information forums and other outreach activities geared toward informing and encouraging participation of protected groups.
- b. Marketing strategies that reach protected groups (groups of people that come under any of the categories on which bases discrimination is prohibited as mentioned in the opening paragraph) using conventional methods such as print and electronic media, as well as personal contact, mailings, and use of consultants or Minnesota Housing staff.
- c. Reviewing federal, state and/or local fair housing guidelines periodically to ensure compliance. Failure to comply with Minnesota Housing's fair housing policies, procedures or requirements will prompt Minnesota Housing staff to report non-compliance matters to Minnesota Housing's Commissioner. Continued non-compliance may result in appropriate action by the Commissioner, including the assessment of up to -25 penalty points. (Refer to Chapter 3.G Unacceptable Practices.)

2. It is the policy of Minnesota Housing to take affirmative action to provide equal opportunity in all of our programs and other endeavors. Minnesota Housing's goal is to achieve a client and recipient mix that is representative of the people who live in our state and our communities, so that all employment and contractual benefits that develop as a result of our programs will be shared by all residents of Minnesota. This policy applies to all Minnesota Housing employees and everyone with whom we do business.
3. Memorandum of Understanding among the U.S. Department of the Treasury, the U.S. Department of Housing and Urban Development and the U.S. Department of Justice.
 - The parties to this agreement, among other measures, agree to share information with the appropriate state housing finance agency including the name of the low-income housing tax credit property owner, the address of the property and a summary of current actions, including, charges, lawsuits, settlement agreement or consent decree and other actions.

The U.S. Department of Housing and Urban Development (HUD) enforces the Fair Housing Act. Minnesota Housing will refer complainants to HUD for follow-up and/or investigation. Any finding of discrimination, adverse final decision by HUD, adverse final decision by a substantially equivalent state or local fair housing agency, or an adverse judgment from a federal court is a violation that Minnesota Housing must report to the Internal Revenue Service

Chapter 5 – Development Standards

All applications to Minnesota Housing for Housing Tax Credits will be evaluated according to the following standards (Small projects, local redevelopment or revitalization projects, and projects developed in difficult-to-develop areas may be considered eligible for variances from these standards, if justified.):

A. Project Cost Reasonableness

Minnesota Housing will evaluate the costs of each proposed project in comparison to current comparable projects to determine whether the proposed costs are reasonable taking into consideration unique characteristics of the project and its comparability to similar projects. Additional documentation will be required if the proposed costs are not comparable or reasonable. Current Minnesota Housing tax credit project comparables will continue to be the driving factor in approving project costs.

B. Minimum Underwriting Standards for Amortizing Debt and Maintenance and Operating Expenses Benchmarks

Minnesota Housing has established Minimum Underwriting Standards and Management and Operating Expenses (M&O) Benchmarks based upon Minnesota Housing’s existing portfolio of developments and the recommended Best Practices for HTC Underwriting adopted by the National Council of State Housing Agencies (NCSHA) in 1998. These Minnesota Housing *Minimum Underwriting Standards* are described in the Multifamily Consolidated Request for Proposal Guide.

Comparisons will be made to M&O data available from Minnesota Housing’s maintenance data based on comparable projects. Determinations on whether proposed budgets are reasonable will also be based upon Minnesota Housing’s management, maintenance and operating experience. M&O numbers will be evaluated on an expense per room/per year basis; the M&O number will not include reserves, taxes and other tax assessments.

Minnesota Housing requires all first mortgage lenders to use minimum underwriting standards including; maintenance and operating expense estimates, which are not less than the benchmarks contained in *Maintenance and Operating Expense Review & Underwriting Certification (HTC 29)* in their underwriting calculations. Written lender certification and supporting documentation is required.

C. Eligible Basis Tax Credit Fees

Developer Fees: Include developer overhead, developer processing fees, developer profit, and any other amounts received by the Developer. Minnesota Housing will limit the amount of developer fees for the purposes of calculating eligible basis to determine the amount of tax credit. The developer fee is calculated by Minnesota Housing as follows:

The maximum allowable developer fee is calculated on a percentage of the total development cost less the developer fee.

In some instances, the developer may want to delegate some of the responsibilities to a third party, such as a processing agent or consultant. In such cases, the delegated responsibilities must be thoroughly understood by all parties involved and the fee paid to the third party shall be included as part of the developer fee. The limits are subject to Minnesota Housing review. The following limits will be used by Minnesota Housing:

Project Type	Development Limits	Maximum Developer Fee
New Construction or Substantial Rehabilitation	First 50 Units	15%

New Construction or Substantial Rehabilitation	Units 51 and over	8%
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Consultant Fees: Consultant application processing fees will be included within the developer fee limitation and should not exceed 2 percent of total mortgageable costs. Syndication related consultant fees are not to be included in the eligible basis of the project.

Net Construction Cost: Construction costs and on-site work not including contractor profit, general requirements, and overhead. Minnesota Housing will limit the amount of contractor fees for the purpose of calculating eligible basis to determine the amount of tax credit.

Contractor Profit: The maximum contractor profit is 6 percent of net construction costs.

General Requirements: Items of costs to be considered in this allowance include: on-site supervision, signs, field office expenses, temporary sheds and toilets, temporary utilities, equipment rental, clean-up costs, rubbish removal, permits, watchmen’s wages, material inspection and tests, all of the builder’s insurance (except builder’s risk), temporary walkways, fences, roads and other similar expenses. The maximum general requirements allowed is 6 percent of the net construction cost.

Contractor Overhead: Minnesota Housing allows a contractor an overhead allowance based on a percentage of the net construction cost. The permitted maximum allowance is 2 percent.

It is possible to exceed expenses in one area, if other areas are not at their maximum. Minnesota Housing will allow the collective balance of contractor profit, general requirements and contractor overhead to equal 14 percent.

Developer as Contractor: When the developer and the contractor are the same entity, in addition to the fee limits stated above, the combined balance of developer fee, contractor profit, contractor overhead and general requirements may not exceed 20 percent of the total development cost.

Total Mortgageable Cost: The following is a partial listing of cost items that are mortgageable within total development costs:

1. Construction costs, including material and labor costs for all residential structures site preparation, residential parking facilities and site improvements, demolition, general requirements, general contractor’s overhead, and profit;
2. Fees, including architectural design and construction administration, soils exploration, environmental analysis, survey, attorney, and other consultant fees, Housing Tax Credit Program syndication fees, developer’s fees (subject to maximum amounts set by Minnesota Housing), reasonable marketing costs, and contractor’s bond premium;
3. Financing and carrying costs, including interest during construction, insurance, real estate taxes, Minnesota Housing financing and inspection fees, title and recording costs, and where applicable, the Development Contingency fund(Minnesota Housing retains the right to limit carrying costs);
4. Land and improvements, building acquisition, subject to Minnesota Housing property valuation policy;
5. Development Cost Escrow (DCE);
6. Furnishings and equipment; and
7. Cost of providing Letters of Credit.

D. Reserves/Contingencies

Minnesota Housing will require documentation of the amount and disposition of reserves/contingencies. If they revert back to the developer, general partner, or any ownership interest, Minnesota Housing will consider the reserves/contingencies as deferred developer fees and the above limits will apply. For letters of credit, bonds, etc., use the actual cost, not face value, when completing the Development Cost Section VI of the HTC application.

E. Comparative Analysis

Notwithstanding these Development Standards and the Selection Criteria within this manual and the QAP, each and every proposed project is analyzed on a comparative basis in a variety of categories to ensure the highest value for the tax credits awarded.

F. Property Standard

The purpose of design standards is to provide the best long-term affordable housing value for the resources that are invested and to further “best practice” designs that improve quality and control costs. To accomplish this, Minnesota Housing architects will emphasize providing technical assistance for these purposes. More detailed review and imposition of requirements will be reserved for those projects in which Minnesota Housing is a significant lender, when necessary for legal compliance, or to further a specifically articulated policy goal. In all instances, the goal will be to provide design review at the time and in the manner in which it can be most useful to further the goals of a project. The following sets forth more specific details:

All completed developments must comply with all applicable codes, rules and regulations, mandated by the funding sources including but not limited to:

- The Minnesota State Building Code (all State adopted codes including but not limited to International Building Codes, including the Minnesota Amendments), even in municipalities and cities where the State Building Code has been rescinded.
- Minnesota Housing Accessibility Requirements.
- Fair Housing Act (for accessibility) must be complied with as prescribed in the current edition of Fair Housing Act Design Manual, as published by U.S. Department of Housing and Urban Development.
- Federal Section 504 must be followed through, when funded by United States Department of Housing and Urban Development (HUD), United States Department of Agriculture (USDA) (for rural housing) and United States Department of Health and Human Services (HHS) (for transitional housing).
- All developments must comply with Section 5: Energy Efficiency criteria as contained in the 2008 Enterprise national Green Communities Criteria as amended by the 2009-2010 Minnesota Overlay in accordance herewith:
 - New construction - compliance with MANDATORY Criteria 5-1a, 5-2, 5-3a, 5-3b, and 5-4 is required.
 - Rehabilitation – compliance with MANDATORY Criteria 5-1a, 5-2, 5-3a 5-3b and 5-4 is applicable only to those improvements enacted upon at time of rehabilitation. Existing equipment and/or appliances that shall remain (not improved) are exempt from this requirement.
 - Compliance with MANDATORY Criteria 5-1b is not required.

Furthermore, when a tax credit proposal receives a Minnesota Housing first mortgage and/or a significant percentage of its funding from Minnesota Housing deferred funds, the development is subject to an additional Minnesota Housing design review for the compliance with the Minnesota Housing Multifamily Housing Design Standards. When a tax credit development receives a smaller percentage of funding from Minnesota Housing deferred funds without a Minnesota Housing first mortgage, the applicability of the Minnesota Housing Multifamily Housing Design Standards is solely determined by Minnesota Housing. The development must comply with any additional design requirements imposed pursuant to such review. The Standards can be found at: <http://www.mnhousing.gov/housing/architects/multifamily/index.aspx> .

When State funds are involved, additional design requirements shall include, but are not limited to, the state statutory requirement for single family homes, duplexes, triplexes and multilevel townhouses to comply with the Minnesota Visitability Requirements. The Visitability Standards are found at:

http://www.mnhousing.gov/idc/groups/public/documents/document/mhfa_006424.pdf.

- Additional design requirements will also be imposed if a developer claims and is awarded Large Family Points on the HTC Self-Scoring Worksheet. To satisfy the Large Family Points on the HTC Self-Scoring Worksheet, all of the units included in the application/development must meet the following minimum dimensions:
 - For the living room -- 11 feet 6 inches.
 - For the bedrooms – 9 feet 6 inches, and 100 sq. ft. in area.
- Variance Requests for Rehabilitation Developments (no variances will be allowed for new construction)
 - The rehabilitation of an existing building/development may satisfy the requirement if the lineal dimensions are within 15% of the dimensions identified above.
 - 15% reduction is clarified as follows:
 - For the living room – 9 feet 9 inches.
 - For the bedrooms – 8 feet 1 inch, with 85 sq. ft. in area.
 - Variance request must be submitted to and approval obtained from Minnesota Housing **prior to application submission**. Applicants not obtaining approval for variance prior to application submission may be subject to the assessment of penalty points to the owner/developer of up to - 25 points (see Chapter 3.G)
- Additional design requirements will also be imposed if a developer claims and is awarded points on the HTC Self-Scoring Worksheet, which require the development to include specific design elements (e.g. High Speed Internet.)

The owner and architect must certify compliance with all required Minnesota Housing HTC Design Standards and where points have been awarded that all the applicable standards and development features have been incorporated into the final working plans.

Chapter 6 – Project Selection

A. First Rounds - Application Requirements

All applicants statewide must meet one of the threshold types as defined in Article 6.2 of the *QAP*. Greater Minnesota projects should also refer to the sample *Threshold Letter* in the Housing Tax Credits Reference Materials section for a suggested letter format relating to evidencing thresholds. Cautionary note: in meeting the requirements of thresholds, fractions of units are not counted as a whole unit. Where unit percentage calculations result in a fraction of a unit being required, the fraction of a unit must be rounded up to next whole unit.

In the final competition, projects that previously received an allocation of tax credits will receive priority in accordance with the provisions of Article 6.5 of the *QAP*.

B. Scoring

To efficiently and effectively process the large quantity of applications submitted, Minnesota Housing will first rank proposals in accordance with the Selection Priorities and Preference Points (*Self Scoring Worksheet*) and, if necessary, Chapter 6.C Tie-Breakers, below. The highest-ranking proposals based on the Selection Priorities and Preference Points will then be reviewed in accordance with the following Project Selection requirements described in D through J of this Chapter. Lower ranking proposals will only be processed further if tax credit volume cap remains available after the higher-ranking proposals are processed.

C. Tie Breakers

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

1. First tie breaker: priority will be given to the project with the greater number of points in Preference Priority criteria; if a tie still remains;
2. Second tie breaker: priority will be given to a project located in a city that has not received tax credits in the last two years; if a tie still remains;
3. Third tie breaker: priority will be given to the project with the highest “Percentage of Funds Committed” as measured by the Selection Priority category of Readiness to Proceed; if a tie still remains;
4. Fourth tie breaker: priority will be given to the project with the lowest percentage of intermediary costs; if a tie still remains;
5. Fifth tie breaker will be by lot.

D. Market Review

Minnesota Housing will conduct a market review to determine the housing needs of low-income individuals in the area to be served by the project. Minnesota Housing will evaluate the completed *HTC Market Qualification Form*, the Market Study and in-house occupancy data to determine the marketability of the proposed project. For market consideration, applicants are responsible for providing evidence to document any new employment in the community at the time of application. Minnesota Housing relies heavily on the applicant for current information regarding housing need and job/economic growth within specified jurisdictions. Minnesota Housing may contact the applicant if there is a question as to the marketability of the proposed projects. The applicant may be given an opportunity to adjust the unit mix and/or number of units and resubmit prior to Minnesota Housing scoring of selection priority points.

Proposed projects that do not appear marketable and do not modify their proposal will not receive further consideration in the current funding round.

E. Design Review

The proposed owner and architect must certify compliance with all the required development features outlined in the *2012 Housing Tax Credit Design Standards* before the project will be scored and ranked. Minnesota Housing will review project costs based on comparability and reasonableness. Minnesota Housing may, as its sole discretion, reject applications that appear to have excessive project costs. (Also refer to Chapter 5.A Project Cost Reasonableness and 5.F Property Standard).

F. Development Team Review

Minnesota Housing will also consider the following factors when evaluating an application for a tax credit allocation.

1. The ability and capacity of the development team to proceed expeditiously to complete the proposed development.
2. The prior record of the development team in meeting Minnesota Housing and IRS reporting requirements.
3. The experience of the development team in developing and managing similar residential housing.

Proposed projects from applicants that do not appear to have the experience, capacity or ability will not receive further consideration in the current funding cycle.

G. Site Review

Minnesota Housing staff will conduct a site inspection for each project passing all the project selection requirements described in parts A through F of this Chapter for consistency with the principles of sound, affordable housing development. Site inspections will be conducted to analyze physical characteristics, surrounding property and community, location of schools, shopping, public transportation, employment centers, community and housing service facilities, availability of utilities, water and sewage treatment facilities, and the suitability of the site for the proposed housing.

For purposes of Minnesota Housing's investment in affordable housing, the principles are as follows:

- **Linkage:** Housing development should be part of a comprehensive community development effort that links housing, jobs, transportation, recreation, retail services, schools, social and other services.
- **Jobs:** Housing is part of the infrastructure necessary to sustain economic vitality. New housing should be located near jobs and in areas of job growth and should address housing needs of the local work force. Preference will be given to proposals that provide housing in communities with job and household population growth.
- **Land Use:** Housing must be developed to maximize the adaptive reuse of existing residential rental buildings and the use of existing infrastructure, where financially feasible. In cases of new development, housing that maximizes the efficient use of land and infrastructure and minimizes the loss of agricultural and green space.
- **Transportation:** Housing must be developed near regional and interregional transportation corridors and transit ways.

Minnesota Housing will consider, but is not limited to, the following environmental criteria when evaluating a proposed site.

1. Noise
2. Flood plains and wetlands
3. Site safety
4. Toxic and hazardous waste

5. Underground storage tanks
6. Asbestos and lead based paint

Minnesota Housing may, at its sole discretion, reject applications or recapture tax credits from projects that appear unsuitable for the housing proposed.

H. Maintenance and Operating Expense Review and Underwriting Certification

Minnesota Housing has established *Minimum Underwriting Standards and Management and Operating Expense Benchmarks* (Also refer to Chapter 5.B Minimum Underwriting Standards for Amortizing Debt and Maintenance and Operating Expense Benchmarks) based upon Minnesota Housing's existing portfolio of developments and the recommended Best Practices for HTC Underwriting adopted by the National Council of State Housing Agencies (NCSHA) in 2002. These *Minimum Underwriting Standards* are described in the Multifamily Consolidated Request for Proposal Guide on Minnesota Housing's web site.

Minnesota Housing will evaluate the completed *Multifamily Housing Application* and Lender Certification contained in the *Maintenance and Operating Expense Review and Underwriting Certification Form* (HTC 29) to determine the underwriting criteria used to calculate amortizing debt including but not limited to vacancy rates, debt coverage ratios, construction contingencies, management and operating expenses, reserve accounts, and inflation factors.

Minnesota Housing will contact the applicant if there are any questions regarding the maintenance and operating budget. While Minnesota Housing strongly encourages the use of the published minimum standards and benchmarks, the applicant will be given an opportunity to adjust the M&O budget and resubmit prior to Minnesota Housing scoring of selection priority points. At a minimum, the following information must be submitted with the HTC application.

1. Owner narrative summary supporting the proposed maintenance and operating number included in the application.
2.
 - a. For new construction: Copies of year-end operating information from three comparable developments that have been in operation at least five years.
 - b. For existing developments: Copies of audited financial statements for at least three years, as long as the development has been in operation for at least five years.
3.
 - a. For new construction: Name and phone number of local building inspector or housing official who can be contacted concerning each comparable development and its physical condition.
 - b. For existing developments: Copies of three years of annual inspection reports by the local building inspector or housing official.

The applicant should not assume this request will be automatically approved. If no supporting data is provided, the minimum underwriting standards and benchmarks will be used. Minnesota Housing also reserves the right to reject or adjust the maintenance and operating numbers based upon the information supplied, specific development type, circumstances and/or significant changes to the economics of the development's current marketplace.

I. Financial Feasibility

Proposals that meet the Project Selection Requirements in paragraphs B through H will be evaluated for financial feasibility as required by Section 1.42-17(a)(3) and Chapter 3K of this Procedural Manual. Projects determined not to be financially feasible will not be processed further in the current funding cycle.

Chapter 7 – Submission Requirements

It is the applicant's responsibility to be aware of the submission requirements needed to proceed to the next step in obtaining an allocation. If the applicant is unable to meet the submission requirements (financing, zoning, site control, syndication, construction start, etc.) in a timely manner, or if approvals have expired, the application will no longer be processed and the application fee will be forfeited.

The Multifamily and Housing Tax Credit application materials can be found through the Minnesota Housing website, <http://www.mnhousing.gov/housing/developers/common-app/index.aspx>. If a Minnesota Housing Multifamily first mortgage and/or deferred loan are sought in conjunction with the tax credit application, many HTC forms and submissions are identical to the forms and submissions required for other Minnesota Housing funding sources under the Consolidated Request for Proposals (RFP) or open pipeline. The submissions for an HTC application package must follow the stacking order outlined in the Multifamily Master Application Checklist. The checklist can be found by going to http://www.mnhousing.gov/resources/apply/multifamily/MHFA_004610.aspx

All submissions must be separated by tabs with an index listing each attached submission item. **DO NOT** submit applications in three ring binders or with plastic casing around the pages. Submissions should be bound only by staples, binder clips, or rubber bands.

- The primary application method for requesting Minnesota Housing Multifamily Housing Resources is electronic. (For details, see the Multifamily Consolidated Request for Proposal Guide at the above web address.)

The Application for Tax Credits must be signed by one general partner (and the nonprofit partner, if appropriate), officer, director or corporate officer stating that under penalties of perjury, all facts and statements contained in the application and all documents and attachments submitted are true to the best of their knowledge.

Any submissions not meeting the directions above will be returned to the applicant and fees paid will not be refunded.

A. Application Requirements

At a minimum, the following application submission items must be completed as applicable, based upon the specific housing proposal. If a submission item within a specific subgroup identified below is not applicable to your application, list the item and indicate "not applicable". Asterisked (*) items below relate to HTC and/or Deferred Loan program selection criteria or funding priorities. If the application and required attachments are not legible and complete, the application will be returned. No application, attachments or documentation will be accepted after the application due date unless requested by Minnesota Housing.

1. Market Study:

A comprehensive market study of the housing needs of low-income individuals in the area to be served by the project conducted by a disinterested party on the Minnesota Housing Authorized Contractor list must be submitted with the application at the developer's expense.

Developers/owners will contact and hire the contractor of their choice from the Authorized Contractor list to perform the required market study in the form and format outlined in Minnesota Housing's Market Study Guidelines found at

<http://www.mnhousing.gov/housing/developers/allocation/index.aspx>.

Schedules and fees will be arranged between the developer/owner and the Authorized Contractor. Minnesota Housing will not endorse or recommend any contractor on the Authorized Contractor list and will not be a party to the individual transactions.

2. Narratives and Project Schedule: (submit electronically)

The Minnesota Multifamily Rental Housing Narrative Questions and Project Schedule must be specific to your housing proposal. For additional detail, reference the Narratives Required section as found on the Multifamily Master Application Checklist. Note: Requests by Applicants/Developers to Minnesota Housing to apply the State designated 30% basis boost must be formally made in writing. The request should clearly outline the reasons supporting the request and clearly demonstrate how the proposal meets the criteria established by Minnesota Housing for receiving boost considerations. When part of an application package, the request should be incorporated into the required narrative component.

3. Forms:

Application Fee Remittance Form:

Complete form and attach with the payment to top of application packet. (See Chapter 9 Fees).

Multifamily Rental Housing Common Application Form: (submit electronically)

Signed by at least one general partner involved in this project and the nonprofit corporation where a nonprofit set-aside is requested. An incomplete Multifamily Rental Housing Common Application Form will not be accepted and will be returned to the applicant. Complete and provide all required information for all team members listed on the Multifamily Rental Housing Common Application Form. (see above item 2. for information regarding applying for the State designated 30% basis boost).

Notification of Local Official Form (HTC 18): (submit electronically)

Minnesota Housing will ask the local official or suballocator for comments regarding any project that falls within their jurisdiction.

Local HRA/PHA Notice and Agreement Form* (HTC 11): (submit electronically)

Section 42(m)(1)(C) requires Minnesota Housing to consider the applicant's ability to utilize the local public housing authority's waiting list when filling vacant tax credit units. Complete in full and attach Letters of Intent (described in the following submittals section) as applicable.

Market Qualification Form: (submit electronically)

Complete the Market Qualification Form and attachments as appropriate (See also Chapter 6.D).

Qualifications Forms: (submit electronically)

Complete all of the following applicable Qualification forms for purposes of evaluating organizational capacity:

- Qualifications of Developer – Form 203A
- Qualifications of Architect – Form 206A
- Qualifications of General Contractor – Form 209A
- Qualifications of Management and Marketing Agent – Form 210A
- Qualifications of Processing Agent – Form 205A
- Qualifications of Attorney – Form 208A
- Qualifications of Primary Service Provider – Form 215A
- Qualifications of Rental Assistance Administrator – Form 216A

Self-Scoring Worksheet Form:

Submit a completed original self-scoring worksheet and documentation supporting all points claimed signed by at least one general partner and if applicable, nonprofit general partner.

Maintenance and Operating Expense Review and Underwriting Certification Form, (HTC 29):

See Chapter 6.H.

Design Standards Certification, (HTC Form 33).

Release of Information Authorization Form (HTC Form 17):

To be completed by the developer/owner and if known, the management firm.

Determination of Tax Credit Form (optional) (HTC Form 8):

Complete to determine the maximum allowed tax credit amount (results on this form should be cross-referenced with Section IX. H. of the Minnesota Multifamily Rental Housing Common Application form).

4. Submittals:**Threshold Evidence:**

For Round 1, provide evidence of meeting one of the threshold types defined in Article 6.2 of the Minnesota Housing QAP. A copy of the QAP and Sample Letter Format are located in the Housing Tax Credit Allocation or Housing Tax Credits Reference Materials sections. Cautionary note: In meeting the requirements of thresholds, fractions of units are not counted as a whole unit. Where unit percentage calculations result in a fraction of a unit being required, the fraction of a unit must be rounded up to next whole unit.

Application Fee:

Submit a check for the appropriate application fee (See Chapter 9).

Evidence of Site Control: (submit electronically)

Evidence of title or adequate site control must be submitted with the application. Acceptable evidence includes the following: warranty deed, contract for deed, purchase commitment, option, or letter of intent from governmental body for sole developer, etc. The evidence of site control must be current, fully executed and extend to anticipated date of carryover allocation, placed in service or provide provisions for extension. For allocation, an attorney's opinion that the applicant has ownership of the property will be required in accordance with Section 42.

Owners should be cautioned that tax credit reservations are site specific and the entire described property is subject to the terms and covenants of the Minnesota Housing Declaration of Land Use Restrictive Covenants for Housing Credits.

Loss of site control will result in cancellation of Reservation or Carryover allocation.

Minnesota Housing will not accept applications from different applicants for the same site.

Legal description of land (not property Tax ID Number):

Submit on a separate 8½" by 11" sheet of paper labeled "Exhibit A, Legal Description".

Location map*: (submit electronically)

Provide a legible map including major roads, cross streets and clear directions to the site. Do not use a zoning map for a location map. A complete city map is required for projects located outside the seven county metro area. Site maps must identify the location of:

- usable park space/dedicated walking or biking trails,
- public schools,
- sources of employment,
- shopping and retail services,
- public transit routes and stops,
- regional and interregional transportation corridors and transit ways,
- recreational facilities,
- social and special service institutions,
- hospitals and health clinics,
- licensed child care centers, and
- competitive developments.

Also, provide a list with exact distances from the proposed housing to each of the items above.

Minimizing Transportation Costs and Promoting Access to Transit map:

When required as supporting documentation for points claimed on the Self-Scoring Worksheet in the Minimizing Transportation Costs and Promoting Access to Transit criterion, the applicant must submit a map identifying the property location with exact distances to at least four of the following facility types:

- supermarket/convenience store,
- public schools,
- library,
- licensed child care center,
- usable park space/dedicated walking or biking trails,
- bank,
- medical or dental office,
- post office,
- laundry/dry cleaner,
- pharmacy,
- place of worship,
- community or civic center that is accessible to residents,
- arts or entertainment center,
- police station,
- fire station,
- fitness center/gym, restaurant,
- neighborhood serving retail,
- office building/employment center.

Photographs: (submit electronically)

Provide clear digital photographs of exterior and interior of building, if existing; or site and surrounding areas, if new construction. Photographs must show clear and unobstructed views of the property (e.g. No snow cover).

Strategically Targeted Resources*:

If the proposal is for the rehabilitation of an existing structure, which is part of a community revitalization plan or stabilization effort, provide a letter from the city verifying that the proposed project is part of an approved community revitalization area as established by resolution or other legal action, or evidence from the applicable entity that the proposal has undergone a stabilization needs assessment.

If the proposal is for new construction, provide evidence the proposed housing development will utilize existing sewer and water lines without substantial extensions.

Planning and Development*:

Submit evidence showing that the housing proposal is in compliance with the local comprehensive plan or city or regional master plan.

Rent Assistance Payment Standards*: (submit electronically)

If proposing use of project based rent assistance, or if project based rent assistance exists in the development, attach a copy of the Payment Standards or Payment Standard Exceptions for the community in which the housing is proposed.

Utility Allowance Schedule: (submit electronically)

Provide a current utility allowance in a manner consistent with the options provided in IRC 1.42-10, as amended (i.e. as appropriate, a utility allowance from RD, HUD, PHA/HRA, local utility company, an Agency Estimate, a HUD utility Schedule Model, an Energy Consumption Model). Include a breakdown of the utilities that a tenant pays directly (i.e., heat, electricity, etc.), the utility allowance for each type of utility (i.e., gas, electric, etc.), for the various unit types (one bedroom, two bedroom, etc.) and housing types

(apartments, townhomes, etc.). Also, include a list of each unit type, total tenant paid utilities, contract rent, and gross rent.

Letter of Intent to Produce a Cooperatively Developed Housing Plan*:

For developments proposing some form of non project-based rental assistance, such as Section 8, portable tenant based, formal recommendation for McKinney Vento funding, HUD operating subsidy or other similar rent assistance programs approved by Minnesota Housing, submit a letter of intent to produce a cooperatively developed housing plan/agreement which is signed by the applicant and the Local Housing Authority or other similar entity along with the completed Agreement to Utilize Public Housing and Section 8 Waiting Lists.

Commitment for Project Based Rental Assistance*: (submit electronically)

For proposals including project-based rental assistance, at time of application the applicant must submit a fully executed binding commitment* for the project-based assistance (*binding Resolution/Letter of Approval from the governing body). As a condition of Carryover or 8609, the applicant must submit a fully executed copy of the contract for the project-based assistance to be included in the development. Various combinations of contract terms may apply. It is important that applicants also refer to the self-scoring worksheet for additional details/requirements.

Regulatory Cost Avoidance/Cost Reduction Documentation*:

Provide documentation of the terms and conditions of a regulatory cost avoidance/cost reduction measure from the contributor of the assistance or authorized local official. The documentation shall be in the form of a project specific letter of intent, city or council resolution, letter of approval, statement of agreement or eligibility, memorandum of understanding, or in case of historic credits, a letter from Minnesota's State Historic Preservation Office (SHPO). Also provide the calculation method and expected dollar amount of the cost savings for this proposal. For tax credit developments using historic credits, there must be satisfactory documentation that the resource will provide additional investment capital to the development that will reduce the demands on the state and federal housing resources.

Preliminary Architectural/Construction Requirements for New Construction: (submit electronically)

For building schematics:

- Site Plan (generally no less than 1/32" per foot scale for the original, printable on no larger than 11X17 for electronic submission)
- Building Plans (generally no less than 1/16" per foot scale and printable on no larger than 11X17 for electronic submission)
- Typical dwelling unit plans (generally no less than 1/8" per foot scale and printable on no larger than 11X17 for electronic submission)
- Building elevations (generally no less than 1/16" per foot scale and printable on no larger than 11X17 for electronic submission); and
- Building Section (generally no less than 1/16" per foot scale and printable on no larger than 11X17 for electronic submission)

Scope of Work for Acquisition and/or Rehabilitation of Existing Building(s): (submit electronically)

A scope of work must be submitted for each building. Housing credit properties must provide a minimum of 15 years, and often 30 years or more of affordable housing use. A capital needs assessment represents a qualified professional's opinion of a property's current overall physical condition and identifies significant deferred maintenance, existing deficiencies, and material building code violations that affect the property's use and its structural and mechanical integrity. Selected applicants receiving tax credits for rehabilitation are strongly encouraged to get a capital needs assessment by a competent third party, such as a licensed architect or engineer. The assessment should include a site visit and physical inspection of the interior and exterior of units and structures, as well as an interview with available on-site property management and maintenance personnel to inquire about past repairs/improvements, pending repairs, and existing or chronic physical deficiencies. The assessment should also consider the presence of hazardous materials on site.

If a current Capital Needs Assessment performed by a qualified individual is available at the time of application, it must be submitted with the application package. If one is required for the proposal by

funders other than Minnesota Housing, it must be submitted to Minnesota Housing as soon as it becomes available. Minnesota Housing reserves the right to require that a Capital Needs Assessment be produced by a qualified individual and submitted as part of the underwriting and due diligence submissions it requires for the proposal.

Proposed Sources of Funds Including Local and Philanthropic Contributions*: (submit electronically)

Provide a current form of documentation of proposed sources of funds including but not limited to a. through f. below, stating all terms and conditions (e.g. source dollar amount, term, amortization as applicable, interest rate, debt service coverage, etc.).

- a. Construction financing;
- b. Permanent financing (for RD Projects AD622 and letter of conditions);
- c. Secondary financing;
- d. Grants – letter from granting authority;
- e. Syndication proceeds; and
- f. Other sources of funds and contributions, including any federal, state, local and private subsidies.

At the time of application, written documentation from the lender or contributor justifying the amount and the terms of the funds and/or contributions must be provided. Documentation for local and philanthropic contributions must be consistent with current market comparable costs. Within 6 months of the date of selection (Minnesota Housing Board selection date) the applicant must provide Minnesota Housing with documentation of a firm commitment (or authorization of approval) for each funding source and/or contribution. The documentation must state the amount, terms and conditions and be executed or approved at a minimum by the lender or contributor.

Documentation containing words synonymous with “consider” or “may,” (as in “may award”) regarding a commitment of funding, will not be considered acceptable. Lack of acceptable documentation will result in the reevaluation and adjustment of the tax credits or RFP award, up to and including the total recapture of tax credits or RFP funds.

Additionally, for tax credit developments using tax abatement, there must be satisfactory documentation that the resource will provide additional investment capital to the development that will reduce the demands on the state and federal housing resources. For tax increment financing to qualify for points, there must be satisfactory documentation that the resource is committed to the development at the time of application.

Preservation of Federally Assisted Housing*:

If the proposal is for preservation of federally assisted housing, please provide a copy of all relevant documents such as, HAP Contract, Regulatory Agreement, Note, Mortgage, amortization schedules, restrictive covenants, copy of most recent REAC or RD inspection report.

If applicable, following selection, developments awarded points through this category which have an identity of interest will be required to provide an as-is appraisal acceptable to Minnesota Housing to substantiate the acquisition price reflected in the application. Prices which are unsubstantiated or inconsistent with comparable current market pricing will be subject to re-evaluation and adjustment of the tax credits or RFP award, up to and including the total recapture of tax credits or RFP funds.

Relocation Plan: (submit electronically)

If temporary or permanent displacement or relocation of current tenants is necessary, include a relocation plan for minimizing relocation and displacement of tenants and a relocation budget.

Rent Roll: (submit electronically)

If an existing development, provide the most recent rent roll.

For applications seeking points through the Self-Scoring Worksheet category of Temporary Priority – Foreclosed Properties, the applicant must also supply narrative which clearly identifies (1) the number of tenant leases which are valid and in force and (2) the terms and conditions of those leases which would

have a direct impact on Minnesota Housing's analysis and underwriting of the project proposed in the application

Ten Year Rule Compliance:

For applications seeking acquisition credits, provide evidence that each building complies with the 10-year rule in 42(d) or an approved IRS waiver of the 10-year rule.

A 15-year after tax cash flow pro forma:

Must reflect required payments of any deferred developer fees.

Nonprofit Proof of Status:

If nonprofit, proof of nonprofit status (IRS approval) must be included: (See Chapter 3.C. for more details.)

- a. A description of the nonprofit's intended participation in the development and operation of the project.
- b. Articles of Incorporation.
- c. Internal Revenue Service (IRS) documentation of status. A nonprofit must have IRS 501(c)(3) or (4) or appropriate approval from the IRS or expect to receive such designation prior to carryover allocation and meet requirements of Internal Revenue Code 42(h)(5).

Tenant Ownership Plan*:

If applicable, provide a detailed proposal for eventual tenant ownership. The proposal should incorporate a financially viable plan to transfer 100 percent of the HTC unit ownership after the 15-year compliance period from the initial ownership entity of the project (or Minnesota Housing approved "Transfer of Ownership") to tenant ownership.

The unit purchase price at the time of sale must be affordable to incomes meeting HTC eligibility requirements. To be eligible, the buyer must have an HTC qualifying income at the time of initial occupancy (HTC rental tenant) or time of purchase. The plan must incorporate an ownership exit strategy and the provision of services including home ownership education and training. The Declaration of Land Use Restrictive Covenants will contain provisions ensuring compliance with these home ownership program commitments by the Owner. (Refer also to Chapter 4.W of this Manual for additional information.)

Evidence of Supportive Services*:

To obtain points under the Special Populations Priority (*Self Scoring Worksheet*), if a proposal sets aside a percentage of units for persons with disabilities, and if the project will be delivering supportive services to residents in these units, the applicant must complete and submit the Supportive Housing application materials, including the narratives, forms and submittals identified in the Common Application for Multifamily Rental Housing Resources.

Housing for Persons with Disabilities*: (submit electronically)

The applicant must contact the human services department for the county where the project will be located to discuss the proposal. The applicant must submit a letter from the human services department indicating that its staff has reviewed the proposed project, and stating whether there is a need for such housing and if the project would be eligible for funds to assist with the social service needs of the residents.

Evidence of targeting units for Households Experiencing Long-Term Homelessness*:

In accordance with the State's Plan to End Long-Term Homelessness, Minnesota Housing, in cooperation with the Departments of Human Services and Corrections, and a broadly inclusive working group, has developed a business plan to achieve this goal. Tax credits represent one of several resources selected to attain this goal.

To receive points under this category, the proposal must meet all of the following conditions:

- a. Proposals must set aside a minimum of 5% of the total units, but no fewer than 4 units serving households experiencing long-term homelessness as defined in Minnesota Rule, Chapter 4900.3705;

- b. The applicant must complete and submit the Supportive Housing application materials, including the narratives, forms and submittals identified in the Common Application for Multifamily Rental Housing Resources, and;
- c. The applicant agrees to pursue and continue renewal of rental assistance, operating subsidy, or service funding contracts for as long as the funding is available.

Minnesota Housing recognizes that rental assistance, or operating subsidies, and supportive services may be necessary to effectively serve households experiencing long-term homelessness. If the necessary rental assistance, operating support, or tenant service funding for the project is withdrawn or terminated due to reasons not attributable to the actions or inactions of the owner, and alternative funding is unavailable, and the project is otherwise in full compliance with all the terms of the funding for the project, the owner may petition Minnesota Housing to modify its requirements. Minnesota Housing may (i) relax or eliminate the requirement for supportive services or (ii) relax or eliminate the requirement that the assisted units be occupied by households experiencing long-term homelessness. Should Minnesota Housing eliminate the requirement that the assisted units be occupied by households experiencing long-term homelessness, Minnesota Housing will permit the owner to phase out the targeting of tax credit units to households experiencing long-term homelessness and convert the rents of those units to the 50% tax credit rent limit without jeopardizing the tax credit allocation, provided that more restrictive threshold, selection priority or funding requirements do not apply. If such conversion occurs, in order to retain the tax credit allocation, the above described 50% tax credit rent limit and the Section 42 minimum set aside elected for the project by the owner must be maintained for the remainder of the tax credit compliance period and extended use period.

A proposal which is awarded scoring points from this category and is selected to receive tax credits will be required to comply with the Long Term Homelessness reporting requirements as defined by Minnesota Housing. The Tax Credit Declaration of Land Use Restrictive Covenants, including a specific Rider to the Declaration, will contain performance requirements related to these long-term homelessness units and will be recorded with the property.

Smoke Free Building/s*:

If applicable, provide the written policy prohibiting smoking in all the units and all common areas within the building/s of the project for the term of the declaration. The project must include a non-smoking clause in the lease for every household.

The written policy must be submitted with the application and should include procedures regarding transitioning to smoke-free for existing residents and establishment of smoking areas outside of units and common areas if applicable. Consequences for violating the smoke-free policy are determined by owner but must be included in the written policy.

Other documents:

Instruments as are necessary and as may be required by Minnesota Housing.

B. Carryover Requirements

Several changes to Section 42 of the Internal Revenue Code were included in legislation passed by Congress in July 2008 as part of the Housing and Economic Recovery Act of 2008. These amendments made certain changes to the Carryover Allocation requirements. Only limited guidance has been issued by the IRS regarding these changes. No assurances can be given that additional IRS guidance will not require further adjustments to the QAP and additional reviews of selected developments relating to carryover.

In addition to meeting requirements of federal law, the applicant of a selected project must provide no later than 5:00 p.m., November 1 or the next calendar business day of the year in which the reservation was issued, a complete carryover package in final form containing all the required documents in a form satisfactory to Minnesota Housing. Late fees will be enforced (See Chapter 9).

Note: Requests by Applicants/Developers to Minnesota Housing to apply the 30% State designated basis boost at time of carryover application must be formally made in writing. The request should clearly outline the reasons supporting the request and clearly demonstrate how the proposal meets the criteria established by Minnesota Housing for receiving boost considerations.

Minnesota Multifamily Rental Housing Common Application Form:

As part of your Carryover application package, an updated Minnesota Multifamily Rental Housing Common Application Form for Tax Credits must be submitted in both printed and electronic form. Please refer to Minnesota Housing's web site at www.mnhousing.gov/housing/tax-credits/allocation/MHFA_005165.aspx for additional important carryover information and related forms. A printed and fully signed/executed version of the application form, with all changes from initial credit reservation application highlighted and initialed, must be submitted with your application package. The updated application form must be signed by at least one general partner involved in the project and if applicable, the nonprofit partner. For material changes, refer to Manual Chapter 3.G.3 An electronic version of this updated application form should be submitted to Minnesota Housing at the same time you submit your printed application package. Submit the completed Multifamily Rental Housing Common Application form electronically at: <http://www.mnhousing.gov/login/index.aspx>.

Application forms containing incomplete revisions including those not highlighted, initialed and dated are not acceptable and will be returned to the applicant.

Project Schedule (Minnesota Housing Form 104):

Provide an Updated Project Schedule.

Owner Certification/Application for Carryover Allocation (HTC 4):

Provide a signed and notarized Owner Certification/Application for Carryover Allocation Form for every building.

Building Information (HTC 5):

Provide a completed Building Information Form.

Attorney's Opinion Letter:

Provide an Attorney's Opinion Letter in an approved Minnesota Housing Form verifying:

- a. The legal description of the project property (to be attached to the opinion and labeled Exhibit A) and that it is correct and identical to the property identified in i) the application and ii) the reservation letter.
- b. The name of the entity that will be/is the owner for tax purposes, and/or has demonstrated continued site control of the land and depreciable real property identified as the project in the application and the reservation letter.
- c. i) The name, legal designation and Tax Identification Number (TIN) of the ownership entity that will receive the tax credits, ii) the legal designation of the party that signed the application.
- d. The name, legal designation, and Tax Identification Number (TIN) of all the general partner(s), and the names of the managing partner(s), contact person(s) and the required authorized signatories. If the partners are an organized entity, such as a limited liability corporation, a limited liability partnership, or an organized partnership, provide the above information for each such entity.
- e. Identification and copies of any waivers required by Section 42 obtained from the IRS.

Certified Public Accountant's Certification (HTC 6):

Provide a written Certified Public Accountant's Certification in an approved Minnesota Housing Form verifying:

- a. The amount of the reasonably expected basis, the carryover basis, and the percent of the expenses incurred.
- b. More than 10 percent of the reasonably expected basis on the project must be expended by the later of the date which is one year after the date that the allocation is made or the close of the calendar year in which the allocation is made. If the final carryover basis and expenditures information is not available at the time the carryover application is due, the application must include a written estimate of this information prepared by the owner. Final CPA certifications of this information must be submitted to

Minnesota Housing prior to the deadlines established by Section 42 and by no later than Minnesota Housing's submission deadline of May 1, 2013* and **.

(*If not a business day, then the next calendar business day.)

(**Upon written request by the owner / applicant Minnesota Housing will consider an extension to this deadline, via written request. Minnesota Housing will issue a written response to all extension requests. An extension until October 1, 2013* will be the maximum allowable.)

- c. Also include a statement of non-affiliation with the developer and/or owner.

Sources of Funds:

Identify the sources of construction, interim and permanent financing. Provide a firm letter of commitment in the form of a binding agreement as set forth in Minnesota Statutes Section 513.33. The agreement must:

- a. Be in writing,
- b. Specify the consideration for the transaction and pertinent terms,
- c. Be signed by both the lender and the borrower (for RD Projects, Form 1944-51); and
- d. Be current and state both the effective and expiration dates.

Maintenance and Operating Expense Review and Underwriting Certification (HTC 29):

Provide a completed and signed form by the primary lender (See Chapter 6.H).

Rental Assistance:

Provide a description of any governmental assistance and/or rental assistance. This includes copies of any contracts/agreements executed or any applications made for rental assistance for the project. This also includes copies of executed cooperatively developed housing plans/agreements between owner and local housing authority or other similar entity if Rental Assistance points were awarded to the development. (Refer to the Rental Assistance section of the *Self Scoring Worksheet*.)

Gross Rent Floor Election (HTC 26):

If choosing to make the election at this time, supply a fully executed Statement of Election of Gross Rent Floor including each building of the development in which there are housing tax credit units. If the required fully executed form(s) with all elections made by the owner are not submitted to Minnesota Housing by a date no later than the date the project is placed in service, , the gross rent floor will be determined to have been elected as the gross rent effective on the allocation date (the earlier of carryover or 8609) of the tax credits.

Fair Housing and Equal Employment Opportunity Forms:

It is the policy of the Minnesota Housing Finance Agency to take affirmative action to provide equal opportunity in all of its endeavors. Complete, execute and return the following forms:

- a. Affirmative Fair Housing Marketing Plan
Describing the marketing strategies that an owner will use, including, but not limited to special efforts the owner will make to attract persons who are least likely to apply in addition to a broad cross section of the local population without regard to religion, sex, national origin or status as a recipient of public assistance.
- b. Equal Employment Opportunity Policy Statement

Tenant Selection Plan:

Provide a written tenant selection plan describing the tenant selection policy that an owner will use that must be submitted, reviewed and approved by Minnesota Housing prior to the issuance of the 8609. The written tenant selection plan must establish procedures that, at a minimum, meet the following applicable requirements:

- a. Minimum and Maximum Household Size: While IRS regulations do not specifically address occupancy requirements, Minnesota Housing encourages maximum utilization of space for developments receiving priority for serving large families; therefore:
 1. The written occupancy policies should set a minimum of at least one person per bedroom and set maximum standards of at least two persons per bedroom. Owners should also comply with state and local laws, regulations and financing requirements (e.g., if Rural Housing Service, Use RHS regulations), and;

2. Where two equally qualified households apply for a unit, preference should be given to the larger household that is most suitable to the unit size; and
- b. Cooperatively Developed Housing Plan/Agreement to Provide Other Rental Assistance: Minnesota Housing requires a development receiving priority under the Rental Assistance category for entering into a cooperatively developed housing plan/agreement with the local Public Housing Authority or Redevelopment Authority or other similar entity to provide other rental assistance ; therefore:
 1. The written selection plan between the owner and the local housing authority or other similar entity must include provisions to support and implement the cooperatively developed housing plan/agreement to provide other rental assistance.

Smoke Free Building/s*:

If applicable, provide the written policy prohibiting smoking in all the units and all common areas within the building/s of the project for the term of the declaration. The project must include a non-smoking clause in the lease for every household.

The written policy must be submitted with the application and should include procedures regarding transitioning to smoke-free for existing residents and establishment of smoking areas outside of units and common areas if applicable. Consequences for violating the smoke-free policy are determined by owner but must be included in the written policy.

Identity of Interest:

Provide a written disclosure as to any and all Identity of Interest parties (See Chapter 3 I & J).

Allocation Fee:

Submit the nonrefundable Allocation Fee, based on the annual tax credit reservation amount (See Chapter 9 D and E). Additional fees for additional credits secured at carryover will be collected following the award. Complete an Application Fee Remittance Form and attach with the payment to top of application package.

Project Design Certification Form:

Provide a completed form signed and dated by the Developer and the Architect.

Unit and Development Characteristics Profile Form:

Provide a completed form indicating the unit counts and the related funding sources.

C. Placed in Service Requirements

Generally, the placed in service date for HTC purposes, for a newly constructed building or for rehabilitation expenditures in an existing building, is the date when the first unit in the building is certified as available for occupancy. The placed in service date must occur for all buildings within a project within two years after the allocation year of tax credits.

An approved Minnesota Housing 8609 form must contain the signature of the authorized Minnesota Housing representative. Minnesota Housing will issue an approved IRS Form 8609 within 30 days after all the following items have been received by Minnesota Housing in a satisfactory form and substance. Issuance of the Minnesota Housing approved IRS Form 8609 is to be done only by Minnesota Housing or, as applicable, an authorized Suballocator. An approved Form 8609 shall not be created by any other entity. The owner/agent shall not file a Form 8609 with the Internal Revenue Service in advance of the owner/agent's receipt of the Minnesota Housing signed version of the approved Form 8609. In addition, the owner/agent shall not electronically file a Form 8609 with the Internal Revenue Service which does not accurately reflect the information contained on the Minnesota Housing signed version of the approved Form 8609. (Also refer to Chapter 3.G Unacceptable Practices.) A condition to this effect will be added to the Carryover Agreement.

If Minnesota Housing is the credit-allocating agency, filing a complete 8609 application package now involves certain documents being filed electronically. Please refer to Minnesota Housing's website at http://www.mnhousing.gov/housing/tax-credits/allocation/MHFA_004683.aspx for additional important

information and forms for filing an 8609 application with Minnesota Housing. If your credit-allocating agency is a suballocator, please contact the suballocator for additional filing instructions.

Transmittal Letter:

Provide a transmittal letter indicating the project name, address and Minnesota Housing assigned HTC number. The letter should request the issuance of IRS Form 8609 and list the following required documents. In the letter, please list the revised information and explain the basis for the changes. The letter must be dated and signed by the owner or authorized individual.

Placed in Service Evidence:

Provide evidence that all buildings have been Placed in Service. Submit a copy of the Certificate of Occupancy provided by the local governmental authority having jurisdiction for each building. If not available from the local government, a Certificate of Substantial Completion prepared by the architect will be accepted. For acquisition and rehabilitation, the developer must provide supporting documentation for the elected date.

Utility Allowance Schedule:

Provide a current utility allowance in a manner consistent with the options provided in IRC 1.42-10 (i.e. as appropriate, a utility allowance from RD, HUD, PHA/HRA, local utility company, an Agency Estimate, a HUD utility Schedule Model, an Energy Consumption Model). Include a breakdown of the utilities that a tenant pays directly (i.e., heat, electricity, etc.), the utility allowance for each type of utility (i.e., gas, electric, etc.), for the various unit types (one bedroom, two bedroom, etc.) and housing types (apartments, townhomes, etc.). Also, include a list of each unit type, total tenant paid utilities, contract rent, and gross rent.

Final Cost Certification (HTC 9):

Provide a final cost certification that evidences the CPA's Audit report and cost certification based upon an audit of the owner's schedule of total project costs.

All costs of projects with five or more units owned by all entities must be cost certified by a CPA when construction has been completed and before Minnesota Housing can complete its final evaluation.

Projects with four or less units must submit a sworn construction statement and/or certification by owner, as appropriate.

Multifamily Rental Housing Common Application Form:

As part of your 8609 application package, an updated Multifamily Rental Housing Common Application Form for Tax Credits must be submitted in both printed and electronic form. A printed and fully signed/executed version of the application form, with all changes from the most recent of your initial credit reservation application or as applicable your carryover application highlighted and initialed, must be submitted with your application package. In particular, check to ensure that changes in number of units, rents, utility allowance, source of funds (loans, grants, etc.), hard and soft cost changes and qualified basis are updated on the revised application pages. The updated application form must be signed by at least one general partner involved in the project and if applicable, the nonprofit partner. For material changes, refer to Manual Chapter 3.G.3. An electronic version of this updated application form should be submitted to Minnesota Housing at the same time you submit your printed application package. Submit the completed Multifamily Rental Housing Common Application form electronically at: <http://www.mnhousing.gov/login/index.aspx>.

Application forms containing incomplete revisions including those not highlighted, initialed and dated are not acceptable and will be returned to the applicant.

Attorney's Opinion Letter:

Provide an Attorney's Opinion Letter in an approved Minnesota Housing Form verifying:

- a. The legal description of the project property (to be attached to the opinion and labeled Exhibit A) and that it is correct and identical to the property identified in i) the application, ii) the reservation letter and iii) the carryover agreement (if one was issued for the project).
- b. The name of the entity that is the owner for tax purposes of the property to be part of the project and which is described in Exhibit A of the opinion.

- c. i) The name, legal designation and Tax Identification Number (TIN) of the ownership entity that will receive the tax credits, ii) the legal designation of the party that signed the application, iii) the business is in good standing and duly authorized in Minnesota.
- d. The name, legal designation, and Tax Identification Number (TIN) of all the general partner(s), and the names of the managing partner(s), contact person(s) and the required authorized signatories. If the partners are an organized entity, such as a limited liability corporation, a limited liability partnership, or an organized partnership, provide the above information for each such entity.
- e. Identification and copies of any waivers required by Section 42 obtained from the IRS.

Reserves, Contingencies, and any Cash Savings:

Provide a signed and dated statement documenting the amount and disposition of Reserves, Contingencies, and any cash savings. If any of the above reverts back to developer/owner, general partner or any ownership interest, Minnesota Housing will consider them deferred developer fees, and for purposes of tax credit allocation, restrict the developer fees as specified in this Procedural Manual.

Minnesota Housing Finance Agency Declaration of Land Use Restrictive Covenant:

Provide a copy of the unrecorded Minnesota Housing Declaration of Land Use Restrictive Covenants for Housing Tax Credits. The Declaration must be completed and recorded before the end of the first credit period to preserve the tax credits allocated to the project. Check with your tax advisor as to timing of filing and claiming of credits. HUD may require that certain Riders be attached to your tax credit Declaration if your development has primary financing via a HUD direct insured loan. Check with your financing and legal advisors to determine if this may be required of your development.

Final Tax Credit Proceeds or Receipts:

Documentation of the final amount of tax credit proceeds or receipts generated. Provide a copy of the final Syndication, Private Placement, or Individual Investment Agreements disclosing terms and conditions.

8609 Certification by Owner (HTC 3):

Provide a completed, executed and notarized original 8609 Certification by Owner/Application, verifying:

- a. The placed in service date as defined in IRS Notice 88-116 for each building and/or type of tax credit. Month and year should correspond with occupancy certificate. If the month and year do not correspond, submit a written statement indicating the reason.
- b. Compliance with all applicable design requirements; and
- c. Compliance with all requirements of selection, and additional or special conditions of reservation, commitment, or carryover.

Final Loan or Grant Documents:

Provide copies of final permanent loan and/or grant documents for all sources of funds (loan/grant agreements, mortgage and note) that support the amount, terms and conditions stated on the Multifamily Rental Housing Common Application Form. Minnesota Housing must evaluate all final sources of funds to ensure the amount of tax credits allocated to a project do not exceed the amount necessary for financial feasibility. Therefore, Minnesota Housing will not issue an IRS Form 8609 prior to the execution of final permanent loan documents, or its equivalent, for all funding sources.

Maintenance and Operating Expenses Review and Underwriting Certification (HTC 29):

See Chapter 6.H.

15-Year After-Tax Cash Flow Pro Forma:

Provide a 15-year after-tax cash flow pro forma (for five or more units). Where applicable, the cash flow pro forma must reflect required payment of deferred developer fees.

Governmental Assistance and/or Rental Assistance:

If not previously provided as part of a carryover application, provide a description of any governmental assistance and/or rental assistance. This includes copies of any contracts/agreements executed or any applications made for rental assistance for the project. This also includes copies of Cooperatively Developed Housing Plans/Agreements between owner and the local housing authority or other similar entity if Rental

Assistance points were awarded to the development. (Refer to the Rental Assistance section of the scoring worksheet.)

Transfer Ownership:

If the ownership entity has changed, provide a copy of the assignment, a revised *Transfer Agreement* (HTC 20) and *Notice of Intent to Transfer Ownership* (HTC 27), and *Release of Information Authorization Form* (HTC 17) (See Chapter 3.F & G), and the Transfer of Ownership Fee (See Chapter 9).

Partnership Agreement:

Provide a copy of the executed final Partnership Agreement.

Photographs:

Provide clear photographs of completed building(s).

Building Map (HTC 28):

Provide a completed Building Map for each building.

Identity of Interest:

A written disclosure as to any and all Identity of Interest parties (see Chapter 3.I and J).

Affirmative Action and Equal Opportunity Forms:

It is the policy of the Minnesota Housing Finance Agency to take affirmative action to provide equal opportunity in all of its endeavors. Complete, execute and return the following forms:

- a. Affirmative Fair Housing Marketing Plan describing the marketing strategies that an owner will use, including, but not limited to special efforts the owner will make to attract persons who are least likely to apply in addition to a broad cross section of the local population without regard to religion, sex, national origin or status as a recipient of public assistance.
- b. Equal Employment Opportunity Policy Statement.

Tenant Selection Plan:

Provide a written tenant selection plan describing the tenant selection policy that an owner will use that must be submitted, reviewed and approved by Minnesota Housing prior to the issuance of the 8609. The written tenant selection plan must establish procedures that, at a minimum, meet the following applicable requirements:

- a. Minimum and Maximum Household Size: While IRS regulations do not specifically address occupancy requirements, Minnesota Housing encourages maximum utilization of space for developments receiving priority for serving large families; therefore:
 1. The written occupancy policies should set a minimum of at least one person per bedroom and set maximum standards of at least two persons per bedroom. Owners should also comply with state and local laws, regulations and financing requirements (e.g., if Rural Housing Service, Use RHS regulations), and;
 2. Where two equally qualified households apply for a unit, preference shall be given to the larger household that is most suitable to the unit size; and
- b. Cooperatively Developed Housing Plan/Agreement to Provide Other Rental Assistance: Minnesota Housing requires a development receiving priority under the Rental Assistance category for entering into a cooperatively developed housing plan/agreement with the local Public Housing Authority or Redevelopment Authority or other similar entity to provide other rental assistance ; therefore:
 1. The written selection plan between the owner and the local housing authority or other similar entity must include provisions to support and implement the cooperatively developed housing plan/agreement to provide other rental assistance.

Smoke Free Building/s*:

If applicable, provide the written policy prohibiting smoking in all the units and all common areas within the building/s of the project for the term of the declaration. The project must include a non-smoking clause in the lease for every household.

The written policy must be submitted with the application and should include procedures regarding transitioning to smoke-free for existing residents and establishment of smoking areas outside of units and common areas if applicable. Consequences for violating the smoke-free policy are determined by owner but must be included in the written policy.

Allocation Fee:

Submit the non-refundable allocation fee, based on the annual tax credit allocation amount (if not already paid at carryover.) (See Chapter 9). Complete an Application Fee Remittance Form and attach with the payment to top of application package.)

Chapter 8 – Tax Exempt Projects Seeking Tax Credits

A. General

Section 42 of the Internal Revenue Code establishes a separate set of procedures to obtain housing tax credits through the issuance of tax-exempt 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 of the information contained in Article 9 of the *State of Minnesota Housing Tax Credit Qualified Allocation Plan*.

The project must comply with the QAP that is in effect for the calendar year in which the tax-exempt bonds were first allocated by the Minnesota Department of Finance to the issuer. If the tax-exempt bonds are initially issued on a short-term basis, the year the tax-exempt bonds are reissued on a long-term basis may occur anytime after the year the tax-exempt bonds were allocated and the effective QAP will always be the QAP for the year in which the tax-exempt bonds were allocated. The application and all required submissions must be complete and legible or the application will be returned. Applications should be submitted to the:

Minnesota Housing Finance Agency
Housing Tax Credit Administrator
400 Sibley Street, Suite 300
St. Paul, MN 55101-1998

Developers should also be aware of the requirements of Minn. Stat. § 474A.047 including subdivision 1, which requires the extension of existing U.S. Department of Housing and Urban Development (HUD) Housing Assistance Payment (HAP) contracts to the full extent available.

B. Application for Issuance of Preliminary Determination Letter

Prior to Bond issuance, the developer must submit to Minnesota Housing a full and complete application for issuance of a Preliminary Determination by Minnesota Housing pursuant to Section 42(m)(1)(D) [also see the Qualified Allocation Plan for additional detail]. The developer must submit to Minnesota Housing all documents required for an application for tax credits under Chapter 7 of the Housing Tax Credit Program Procedural Manual and any additional information requested by Minnesota Housing. For projects in which Minnesota Housing is the allocating agency, the developer must submit an application fee (review fee). (See Chapter 9) In addition, if the issuer of the bonds is not Minnesota Housing, the initial submission must include a preliminary determination issued by the issuer of the bonds addressing the tax credit dollar amount and project costs pursuant to Section 42(m)(2)(D) of the Internal Revenue Code [also see the *Qualified Allocation Plan for additional detail*]. Based upon the submission of documents, Minnesota Housing will prepare a letter with its preliminary determination pursuant to Section 42(m)(1)(D) as to whether the project satisfies the requirements for allocation of a housing credit dollar amount under the *Qualified Allocation Plan*. A Preliminary Determination fee must be submitted to Minnesota Housing prior to release of the letter (See Chapter 9). **This process may take six weeks or more from the time the full application package is submitted. All applicants should develop their timelines and schedules accordingly.**

C. Election of Applicable Percentage

Section 42 of the Internal Revenue Code requires that the Owner elect the applicable percentage for the project. The election is made at the time the tax-exempt obligations are issued to fix the percentage for the month in which the building is placed in service or the month in which the tax-exempt obligations are issued. If the election is not made at the time the tax exempt obligations are 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.

D. Requests for Building Identification Numbers (BIN)

At the time of application for issuance of a Preliminary Determination letter, the applicant must obtain Building Identification Numbers (BIN) for each of the proposed buildings in the development. Minnesota Housing will assign all BIN numbers. An address or other specific legal description is needed for each BIN number to be identified with. The address and BIN numbers will be needed as part of an application for Form 8609.

E. Election of Gross Rent Floor

The Owner/Taxpayer of a qualified tax credit project financed with tax exempt bonds is permitted under IRS Revenue Procedure 94-57 to fix the date of the gross rent floor to be the date on which Minnesota Housing initially issues its Preliminary Determination letter to the building or the Placed in Service date (*Gross Rent Floor Election Form*). The election of one of the two timing options must be completed and the election form(s) received by Minnesota Housing by a date no later than the date the project is placed in service. If no election is made and/or no form(s) received by Minnesota Housing by a date no later than the date the project is placed in service, then the gross rent floor date will automatically be fixed by Minnesota Housing to be the initial issuance date of the Preliminary Determination letter for the building.

F. Application for Issuance of Form 8609

Subsequent to the project being placed in service and prior to a Form 8609 being issued for the project by Minnesota Housing, the Owner must submit an application for the issuance of Form 8609 to Minnesota Housing. The application must contain those items as identified in Section G below titled Tax Exempt Placed in Service. For projects for which Minnesota Housing is the allocating agency, the developer must submit an 8609 fee based upon the requested annual tax credit amount. (See Chapter 9)

G. Tax Exempt Placed in Service

Placed in service dates for HTC purposes must be established for all buildings using credits including acquisition credits (which are treated as a separate building for tax credit purposes). Generally, the placed in service date for a newly constructed building or for rehabilitation expenditures in an existing building, is the date when the first unit in the building is certified as available for occupancy. The placed in service date for acquisition credits is generally the date of the acquisition of the building. Except for buildings eligible to receive tax credits outside the state cap by virtue of the issuance of tax exempt financing, the placed in service date for all buildings of a credit project must occur within two years after the allocation year of the tax credits. It is highly recommended that Owners/Developers of tax-exempt projects seek the appropriate legal and bond professional advice on these matters.

An approved Minnesota Housing Form 8609 must contain the signature of the authorized Minnesota Housing Finance Agency representative. Minnesota Housing will issue an approved IRS Form 8609 within 30 days after all of the following items have been received by Minnesota Housing in a satisfactory form and substance. Issuance of the Minnesota Housing approved IRS Form 8609 is to be done only by Minnesota Housing or, as applicable, an authorized Suballocator. An approved Form 8609 shall not be created by any other entity. The owner/agent shall not file a Form 8609 with the Internal Revenue Service in advance of the owner/agent's receipt of the Minnesota Housing signed version of the approved 8609. In addition, the owner/agent shall not electronically file a Form 8609 with the Internal Revenue Service which does not accurately reflect the information contained on Minnesota Housing signed version of the approved 8609. (Also refer to Chapter 3.G Unacceptable Practices).

Transmittal Letter:

A transmittal letter indicating the project name, address and Minnesota Housing assigned HTC number. The letter should request the issuance of IRS Form 8609 and list the following required documents. In the letter, please list the revised information and explain the basis for the changes. The letter must be dated and signed by the owner or authorized individual.

Placed in Service:

Submit evidence that all buildings have been Placed in Service. Submit a copy of the Certificate of Occupancy provided by the local governmental authority having jurisdiction for each building. If not available from the local government, a Certificate of Substantial Completion prepared by the architect will be accepted. For acquisition and rehabilitation, the developer must provide supporting documentation for the elected date.

Evidence of Tax Exempt Bond:

Submit evidence from the issuer of the bonds that the project received an approval of an allocation of tax-exempt bond volume cap from the state of Minnesota.

Utility Allowance Schedule:

Provide a current utility allowance in a manner consistent with the options provided in IRC 1.42-10 (i.e. as appropriate, a utility allowance from RD, HUD, PHA/HRA, local utility company), an Agency Estimate, a HUD utility Schedule Model, an Energy Consumption Model). Include a breakdown of the utilities that a tenant pays directly (i.e., heat, electricity, etc.), the utility allowance for each type of utility (i.e., gas, electric, etc.), for the various unit types (one bedroom, two bedroom, etc.) and housing types (apartments, townhomes, etc.). Also, include a list of each unit type, total tenant paid utilities, contract rent, and gross rent.

Final Cost Certification (HTC 9):

Provide a *Final Cost Certification* when construction has been completed that evidences the CPA's Audit report and cost certification based upon an audit of the owner's schedule of total project costs.

Multifamily Rental Housing Common Application Form:

Provide an updated HTC *Multifamily Rental Housing Common Application Form* signed by at least one general partner involved in this project and if appropriate, nonprofit partner. Highlight all changes from Preliminary Determination Application, re-date and initial the revised pages. For material changes, refer to Chapter 3.G.3. Incomplete revisions or those not highlighted, initialed and dated are not acceptable and will be returned to the developer. In particular, check to ensure that changes in number of units, rents, utility allowance, source of funds (loans, grants, etc.), hard and soft cost changes and qualified basis are updated on the revised application pages.

Determination of Credits:

Provide evidence that the governmental unit which issued the bonds (or on behalf of which the bonds were issued) made a determination that the amount of credits allocated to the project do not exceed the amount necessary to assure project feasibility pursuant to Section 42(m)(2)(A) and (B), including a copy of the final written determination (and the analysis on which it was based) that the credits allocated to the building did not exceed the maximum tax credit based upon the lesser of the eligible basis or the amount necessary to achieve financial feasibility. The issuer analysis and determination must address all of the items set forth in Section 42(m)(2)(B). The determination must be based upon the list of the submission requirements described in Chapter 7.C of the manual.

Attorney's Opinion Letter:

Provide an Attorney's Opinion Letter in a Minnesota Housing approved form verifying:

- a. The legal description of the project property (to be attached to the opinion and labeled as Exhibit A) and that it is correct and identical to the property identified in i) the application and ii) the preliminary determination letter issued by Minnesota Housing and iii) the legal description of the property financed with the tax exempt bonds.
- b. The name of the entity that is the owner for tax purposes of the property to be part of the project and which is described in Exhibit A of the opinion.
- c. The name, legal designation and Tax Identification Number (TIN) of the ownership entity that will receive the tax credits, ii) the legal designation of the party that signed the application, iii) the business is in good standing and duly authorized in Minnesota.
- d. The name, legal designation, and Tax Identification Number (TIN) of all the general partner(s), and the names of the managing partner(s), contact person(s) and the required authorized signatories. If the

- partners are an organized entity, such as a limited liability corporation, a limited liability partnership, or an organized partnership, provide the above information for each such entity.
- e. Identification and copies of any waivers required by Section 42 obtained from the IRS.
 - f. The buildings identified in the application qualify for an allocation of credits under Section 42(h)(4).

Reserves, Contingencies, and any Cash Savings:

A signed and dated statement documenting the amount and disposition of Reserves, Contingencies, and any cash savings. If any of the above reverts back to developer/owner, general partner or any ownership interest, Minnesota Housing will consider them deferred developer fees, and for purposes of tax credit allocation, restrict the developer fees as specified in this Procedural Manual.

Minnesota Housing Finance Agency Declaration of Land Use Restrictive Covenants:

A copy of the unrecorded Declaration of Land Use Restrictive Covenants for Housing Tax Credits.

(NOTE: A copy of a properly recorded Declaration, in final form and content as approved by Minnesota Housing following its review, must be provided to Minnesota Housing prior to the release of any 8609's to the Owner).

(NOTE: A Declaration must be completed and recorded before the end of the first credit period to preserve the tax credits allocated to the project. Check with your tax advisor as to timing of filing and claiming of credits).

Final Tax Credit Proceeds or Receipts:

Documentation of the final amount of tax credit proceeds or receipts generated. Provide a copy of the final Syndication, Private Placement, or Individual Investment Agreements disclosing terms and conditions.

8609 Certification by Owner/Application Form:

Submit a fully completed, executed and notarized original *8609 Certification by Owner/Application Form*, (HTC 3) verifying:

- a. The placed in service date as defined in IRS Notice 88-116 for each building and/or type of tax credit. Month and year should correspond with occupancy certificate. If the month and year do not correspond, submit a written statement indicating the reason.
NOTE: It is highly recommended that Owners/Developers of tax exempt projects seek the appropriate legal and bond professional advice on these matters.
- b. Compliance with all applicable design requirements; and
- c. Compliance with all requirements of the Preliminary Determination letter issued by Minnesota Housing on the project and the requirements of Article 9 of the State of Minnesota Housing Tax Credit Qualified Allocation Plan.

Final Loan or Grant Documents:

Provide copies of final loan and/or grant documents for all sources of funds (loan/grant agreements, mortgage and note) that support the amount, terms and conditions stated on the HTC Application.

Maintenance and Operating Expenses Standards and Certification (HTC 29):

Provide a Maintenance and Operating Expenses Standards and Certification, (See Chapter 6.H).

15-Year After-Tax Cash Flow Pro Forma:

Provide a 15-year after-tax cash flow pro forma (for five or more units) signed by the lending institution or source of credit enhancement, if any, signifying that they are aware of the figures presented on the HTC application. (The proforma must reflect required payments of any deferred developer fees).

Other Documents:

Provide such documents and instruments as are necessary and as may be required by Minnesota Housing.

Transfer Ownership:

If the ownership entity has changed, submit a copy of the assignment, a revised *Transfer Agreement* (HTC 20) and *Notice of Intent to Transfer Ownership* (HTC 27), an updated *Qualification Form* for all the new team

members, a written disclosure as to any and all Identity of Interest parties and *Release of Information Authorization Form* (HTC 17) (See Chapter 3 F & G), and the Transfer of Ownership Fee (See Chapter 9).

Partnership Agreement:

Provide a copy of the executed final Partnership Agreement.

Photographs:

Provide clear photographs of completed building(s).

Building Map Form (HTC 28):

Provide a completed Building Map Form.

Affirmative Action and Equal Opportunity Forms:

It is the policy of the Minnesota Housing Finance Agency to take affirmative action to provide equal opportunity in all of its endeavors. Complete, execute and return the following forms:

- a. Affirmative Fair Housing Marketing Plan describing the marketing strategies that an owner will use, including, but not limited to special efforts the owner will make to attract persons who are least likely to apply in addition to a broad cross section of the local population without regard to religion, sex, national origin or status as a recipient of public assistance.
- b. Equal Employment Opportunity Policy Statement.

Tenant Selection Plan:

Provide a written tenant selection plan describing the tenant selection policy that an owner will use that must be submitted, reviewed and approved by Minnesota Housing prior to the issuance of the 8609. The written tenant selection plan must establish procedures that, at a minimum, meet the following applicable requirements:

- a. Minimum and Maximum Household Size: While IRS regulations do not specifically address occupancy requirements, Minnesota Housing encourages maximum utilization of space for developments receiving priority for serving large families; therefore:
 1. The written occupancy policies should set a minimum of at least one person per bedroom and set maximum standards of at least two persons per bedroom. Owners should also comply with state and local laws, regulations and financing requirements (e.g., if Rural Housing Service, Use RHS regulations), and;
 2. Where two equally qualified households apply for a unit, preference shall be given to the larger household that is most suitable to the unit size; and
- b. Cooperatively Developed Housing Plan/Agreement to Provide Other Rental Assistance: Minnesota Housing requires a development receiving priority under the Rental Assistance category for entering into a cooperatively developed housing plan/agreement with the local Public Housing Authority or Redevelopment Authority or other similar entity to provide other rental assistance ; therefore:

The written selection plan between the owner and the local housing authority or other similar entity must include provisions to support and implement the cooperatively developed housing plan/agreement to provide other rental assistance.

Smoke Free Building/s*:

If applicable, provide the written policy prohibiting smoking in all the units and all common areas within the building/s of the project for the term of the declaration. The project must include a non-smoking clause in the lease for every household.

The written policy must be submitted with the application and should include procedures regarding transitioning to smoke-free for existing residents and establishment of smoking areas outside of units and common areas if applicable. Consequences for violating the smoke-free policy are determined by owner but must be included in the written policy.

8609 Fee:

Submit a non-refundable 8609 fee based upon the annual tax credit amount (See Chapter 9) along with a completed *Fee Remittance Form*.

Chapter 9 – Fees

A. Application Fee

An \$800 application fee must be submitted with all applications. The fee is non-refundable. For multi-building projects, Minnesota Housing will require only one application and a single fee.

B. Supplemental Application Fee

The application fee for projects requesting supplemental tax credits is \$350.00. This fee is non-refundable and will be charged to projects that resubmit their proposals in Round 2 of the allocation year and were underwritten by Minnesota Housing in Round 1.

1. A non-selected project will be required to submit a new application package as described in Chapter 3.M.
2. A selected project (must have been selected in the same year) requesting additional credits will be required to submit a new application package as described in Chapter 3.L.

C. Reservation Fee

After the project has been selected, a reservation fee of 3.5 percent of the annual credit amount to be reserved must be paid to Minnesota Housing. The developer will have approximately 30 days in which to pay the reservation fee and maintain their tax credit selection/reservation. An additional 3.5% reservation fee must also be paid for any additional credits awarded and allocated through carryover and must be paid following issuance of the Carryover Agreement. A reservation fee is non-refundable and will not be adjusted if the final tax credit amount is reduced or the tax credits are returned or unused.

D. Allocation Fee

At the time the taxpayer/owner submits an application for a carryover allocation or for issuance of IRS Form(s) 8609 (whichever occurs earlier), an allocation fee will be due which is equal to 3.5 percent of the annual tax credit allocation amount. This fee is non-refundable and will not be adjusted if the final tax credit amount is reduced or the tax credits are returned or unused.

Note: See section C. above for fee information relating to additional credits allocated at carryover.

E. Allocation Late Fee

Developers submitting a carryover package or, if an owner has elected not to request a carryover, an 8609 package prior to the end of the year of allocation for which the reservation was issued that:

1. Do not submit a carryover/8609 application by the established due date; or
2. Submit a substantially incomplete carryover/8609 application by the established due date; or
3. Do not submit the carryover CPA final certification by the established due date

Must pay a \$1,000 late fee plus an additional penalty fee of \$200 for each business day from the original due date through the date on which Minnesota Housing receives a substantially complete carryover/8609 application.

The fee will not be allowed as an eligible cost in carryover/8609 basis and must be paid at the time the carryover/8609 application is substantially complete.

F. Tax Exempt Credit Preliminary Determination Fee

A Preliminary Determination Fee must be submitted to Minnesota Housing prior to issuance of a Preliminary Determination letter. For projects for which Minnesota Housing is the allocating agency, the developer must submit a fee equal to three and one-half percent (3.5%) of the requested annual tax credit amount. This fee is non-refundable.

G. Tax Exempt Credit 8609 Fee

An 8609 Fee must be submitted at the time of application to Minnesota Housing for Form 8609. For projects for which Minnesota Housing is the allocating agency, the developer must submit an 8609 fee equal to three and one-half percent (3.5%) of the requested annual tax credit amount. This fee is non-refundable.

H. Monitoring Fee

Minnesota Housing will charge an annual monitoring fee of \$25 per unit, based on the total number of units, with a minimum of \$50 except for projects covered by the memorandum of understanding (MOU) between Minnesota Housing and the U.S. Department of Agriculture, Rural Housing Service. The compliance monitoring fee will be \$15 per unit per year for projects covered by the MOU. This fee may be increased depending upon the requirements of the U.S. Treasury, IRS, or increased costs of Minnesota Housing. The fee will be due in a manner and time as prescribed by Minnesota Housing. Failure to pay the fee will result in Minnesota Housing notifying the IRS that the project is out of compliance.

During the extended use period required by Internal Revenue Code Section 42(h)(6), Minnesota Housing will charge a monitoring fee of \$15 per unit per year. No HTC monitoring will be required during this time for properties with project-based Section 8, Rural Development or HUD Contract Administration since these properties are already subject to monitoring and consequences under those programs are in place, and no HTC monitoring fee will be charged. However, if a property is no longer subject to monitoring for HUD and/or Rural Development programs, then the owner must notify Minnesota Housing Tax Credit compliance staff immediately so that the property can be placed back on the monitoring schedule. At that time, the property will be subject to the \$15 per unit per year monitoring fee.

I. Transfer of Ownership Fee

A non-refundable transfer of ownership fee of \$2,500 must be submitted to Minnesota Housing along with updated materials of the new owner/management team for each project in which 50 percent or more of the ownership entity is new since reservation or carryover allocation. Prior to 8609, changes in ownership must be approved by Minnesota Housing. See Chapter 3.G. Unacceptable Practices for further details on Transfer of Ownership.

J. Check Cashing Procedure

Applicant's payments for fees (in the form of checks) will be held pending verification of the accuracy of the amount tendered and submitted materials.

K. Right to Adjust Fees

Minnesota Housing reserves the right to adjust fees due to changing circumstances in order to cover its costs associates with producing and delivering Minnesota's Housing Tax Credit Program.

Chapter 10 – Allocation Schedule of Critical Dates

2012 Allocation Dates

Public Hearing	Minnesota Housing – 400 Sibley St, Saint Paul	February 23, 2011
Request for Proposal	Publish RFP for Round 1 and 2 in <u>State Register</u> and <u>Statewide Star Tribune</u>	April 25, 2011
2012 HTC Webinar	Minnesota Housing	May 10, 2011
2012 Round 1	Applications Due	June 14, 2011
	Selections Announced	October 27, 2011
	Reservation Materials & Fees Due	December 2, 2011
2012 Round 2	Applications Due	January 31, 2012
	Selections Announced	April 26, 2012
	Reservation Materials and Fees Due	May 16, 2012
2012 Carryovers Due	Applications Due – Complete Carryover packages and appropriate fees must be enclosed	November 1, 2012
2012 8609* *Applicable when no Carryover Agreement completed for 2-year extension.	Applications Due – Complete 8609 packages for 2010 Allocations. Appropriate fees must be enclosed. When a Carryover Agreement is not executed, an IRS Form 8609 must be issued to the 2010 project before the end of the year to retain your tax credits.	November 1, 2012

2011 Allocation Dates

Public Hearing	Minnesota Housing – 400 Sibley Street, Saint Paul	February 24, 2010
Request for Proposal	Publish RFP for Round 1 and 2 in <u>State Register</u> and <u>Statewide Star Tribune</u>	April 26, 2010
2011 HTC Webinar	Minnesota Housing	May 6, 2010
2011 Round 1	Applications Due	June 15, 2010
	Selections Announced	October 28, 2010
	Reservation Materials & Fees Due	December 1, 2010
2011 Round 2	Applications Due	February 1, 2011
	Selections Announced	April 28, 2011
	Reservation Materials and Fees Due	May 2, 2011
2011 Carryovers Due	Applications Due – Complete Carryover packages and appropriate fees must be enclosed	November 1, 2011
2011 8609* *Applicable when no Carryover Agreement completed for 2-year extension.	Applications Due – Complete 8609 packages for 2011 Allocations. Appropriate fees must be enclosed. When a Carryover Agreement is not executed, an IRS Form 8609 must be issued to the 2011 project before the end of the year to retain your tax credits.	November 1, 2011

Previous Years Allocation of Credits

Placed in Service Allocation	Packages are due no later than 15 days after the last day of the first year of the credit period. Section 42 states the owner shall elect the first year of the credit period in the year the project is placed in service or the year following.
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2011 Compliance Dates

February 15, 2012	Owners Certifications Due
When filed with IRS	Completed 1 st year 8609, Schedule A, and 8586 due

Chapter 11 – HTC Forms

Application Materials

ALPHA INDEX OF HTC FORMS

All HTC Application Forms are identified in the Multifamily Consolidated Request for Proposal Guide and are available on Minnesota Housing’s Multifamily Web Site (www.mnhousing.gov).

Forms	Form Location on Minnesota Housing Web Site	HTC Form Number
Building Identification Number (BIN) Request Form (Tax Exempt Bonds Only)	D. Tax Exempt Bond Forms	HTC Form 31
Determination of Tax Credit Form	B. MHFA Supplemental Forms/HTC	HTC Form 8
Election of Applicable Percentage Form (Tax Exempt Bonds Only)	D. Tax Exempt Bond Forms	HTC Form 34
Fee Remittance Form	A. Application Fees	HTC Form 25
Local HRA/ PHA Notice and Agreement Form	B. MHFA Supplemental Forms	HTC Form11 MHR Form 101
Maintenance & Operating Expense Review & Underwriting Certification	B. MHFA Supplemental Forms/HTC	HTC Form 29 MHR Form 329
Market Qualification Information Form	Common Application Forms	HTC Form 32 MHR Form 102
Notification of Local Official Form	B. MHFA Supplemental Forms	HTC Form18 MHR Form 103
Design Standards Certification	B. MHFA Supplemental Forms/HTC	<i>HTC Form 33</i>
Project Schedule	B. MHFA Supplemental Forms	<i>MHR Form 104</i>
Qualifications of Architect	Common Application Forms	<i>MHR Form 206A</i>
Qualifications of Attorney	Common Application Forms	<i>MHR Form 208A</i>
Qualifications of Developer	Common Application Forms	<i>MHR Form 203A</i>
Qualifications of General Contractor	Common Application Forms	<i>MHR Form 209A</i>
Qualifications of Management and Marketing Agent	Common Application Forms	<i>MHR Form 210A</i>
Qualifications of Processing Agent	Common Application Forms	<i>MHR Form 205A</i>
Qualifications of Primary Service Provider	F. Supportive Housing/Supplemental Forms/Submittals	<i>MHR Form 215A</i>
Release of Information Authorization	B. MHFA Supplemental Forms/HTC	HTC Form 17 MHR Form 317
Self Scoring Worksheet	B. MHFA Supplemental Forms/HTC	

Post Application Materials

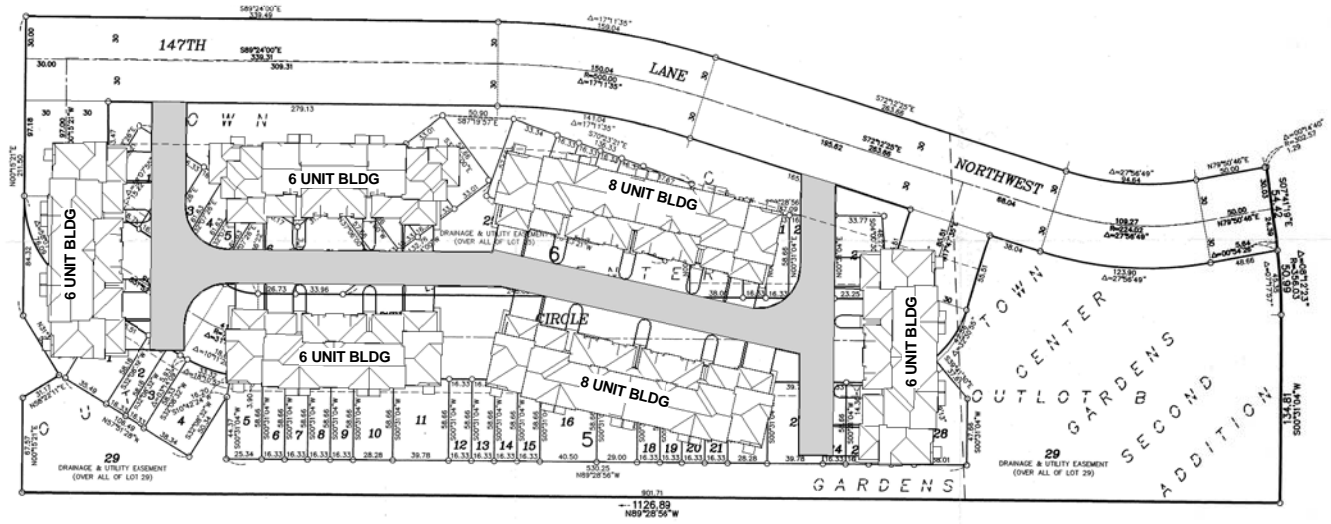
Forms	Form Location / Web Link (Below links updated as Minnesota Housing web site is updated)	HTC Form Number
8609 Certification by Owner/Application Exhibit A-Determination of Targeted Applicable Fraction and Qualified Basis by Building	HTC Allocation / 8609	HTC3 Exhibit A
Building Map	HTC Allocation / 8609	HTC28
Declaration of Land Use Restrictive Covenants Exhibit A Legal Description Exhibit B Applicable Fraction	HTC Allocation / 8609	
Final Cost Certification	HTC Allocation / 8609	HTC9
Gross Rent Floor Election Form (see carryover or 8609 web site)	HTC Allocation / See Carryovers or 8609's	HTC26
Notice of Intent to Transfer Ownership or Change Owner Name or Status	HTC Allocation / Changes in Ownership	HTC27
Transfer Agreement (Prior to Issuance of 8609(s))	HTC Allocation / Changes in Ownership	HTC Form 20

TOWN CENTER GARDENS THIRD ADDITION

31-19 April 11-11

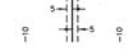
CITY OF RAMSEY
COUNTY OF ANOKA
SEC. 28, TWP. 32, RING. 25

INSET A



Scale
1" = 40'-0"

DRAINAGE AND UTILITY
EASEMENTS ARE SHOWN THUS:
(NO SCALE)



PBA ARCHITECTS
PBA ARCHITECTS, INC.
1851 BIRCH LANE NE
LONGVILLE, MN 55865
TEL: (612)353-4753
FAX: (612)353-4782

PROPOSED TOWN CENTER GARDENS HOUSING

PROPOSED SITE PLAN

RAMSEY, MINNESOTA

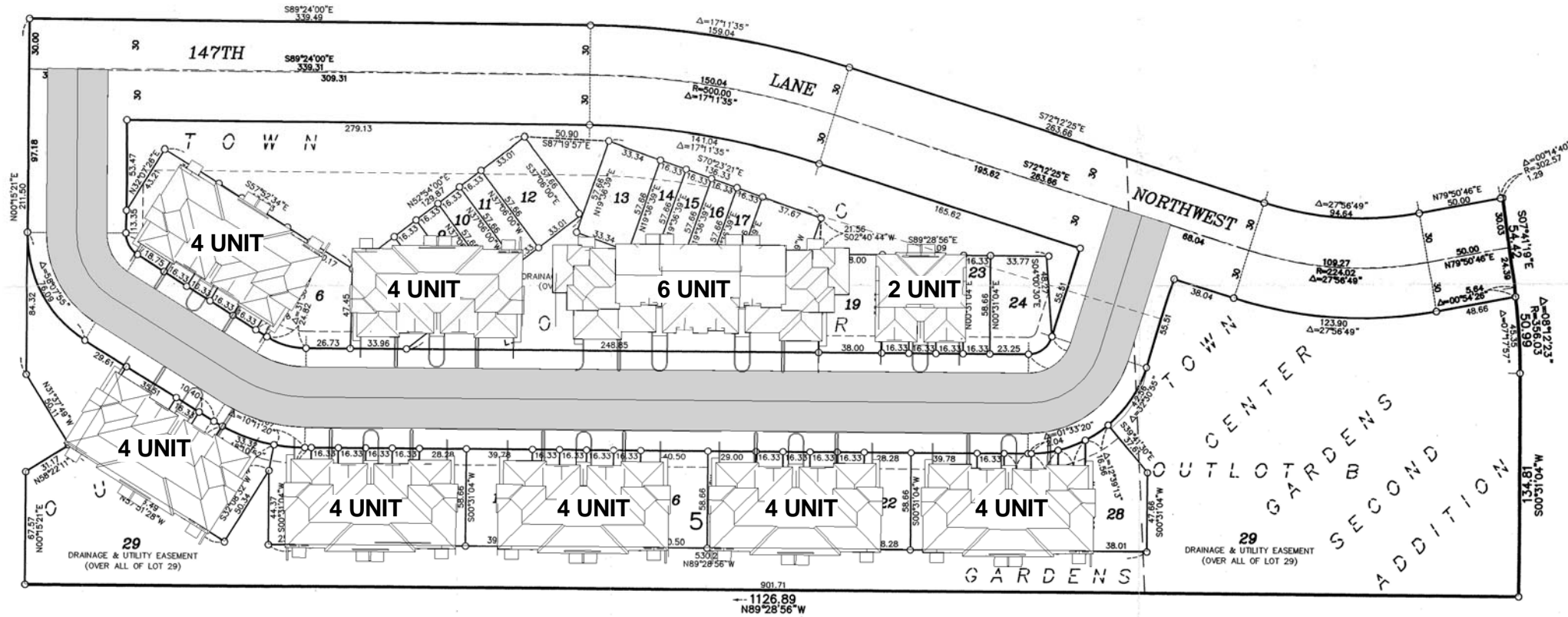
PBA ARCHITECTS
PBA ARCHITECTS, INC.
1851 BIRCH LANE NE
LONGVILLE, MN 55865
TEL: (612)353-4753
FAX: (612)353-4782

Date Issue Date
Scale 1" = 40'-0"

A101

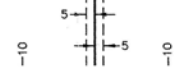
TOWN CENTER GARDENS THIRD ADDITION

INSET A



① Site
1" = 40'-0"

DRAINAGE AND UTILITY
EASEMENTS ARE SHOWN THUS:
(NO SCALE)



PBA ARCHITECTS, INC.
1851 BIRCH LANE NE
LONGVILLE, MN. 56655
TEL: (612)353-4753
FAX: (612)353-4782

PROPOSED TOWN CENTER GARDENS HOUSING

PROPOSED SITE PLAN

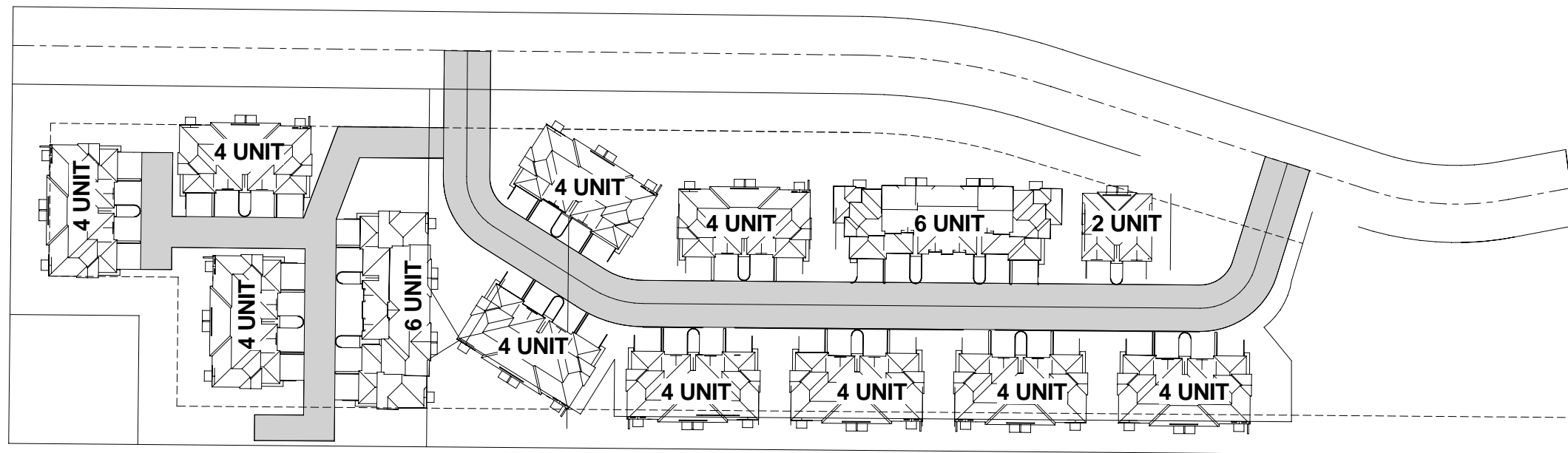
RAMSEY, MINNESOTA



PBA ARCHITECTS, INC.
1851 BIRCH LANE NE
LONGVILLE, MN. 56655
TEL: (612)353-4753
FAX: (612)353-4782

Date 12/30/11
Scale 1" = 40'-0"

A101



① Site
1" = 50'-0"



PBA ARCHITECTS, INC.
1851 BIRCH LANE NE
LONGVILLE, MN. 56655
TEL.: (612)353-4753
FAX: (612)353-4782

PROPOSED TOWN CENTER GARDENS HOUSING -SITE 'B'

PROPOSED SITE PLAN

RAMSEY, MINNESOTA



PBA ARCHITECTS, INC.
1851 BIRCH LANE NE
LONGVILLE, MN. 56655
TEL.: (612)353-4753
FAX: (612)353-4782

Date 1/4/2012
Scale 1" = 50'-0"

A101

Kornovich Development Company, Inc.

1st Avenue
Lake, MN 55319

Phone:
Cell:
Fax:

1976-1980

Kornovich Construction built custom single family homes, twinhomes, and small multi-family buildings in Central Minnesota.

1981-1994

Lonnie was Partner and Vice President of Schmitz Kornovich, Inc. For sale single family homes and townhomes were the primary focus in the early to mid 1980's. From the mid 1980's through 1994 Schmitz Kornovich, Inc. developed, built, and sold 2,338 units of market rate and tax credit multi-family housing throughout Minnesota, Wisconsin, South Dakota, and Iowa.

AUGUST 1994

Kornovich Development Company, Inc. was formed. Officers of the corporation are Lonnie L. Kornovich and Karen K. Kornovich. The primary focus of the company is multi-family developments. Kornovich Development Company, Inc. ranked 17th in the State of Minnesota in 1996 and ranked 386th Nationally in 1997 by Professional Builders for number of units built in 1996.

From early 2000 until present Kornovich Development Company, Inc. has expanded into Luxury Apartment Complexes with projects in Arizona and Minnesota. Also, Specialty Care and Senior Housing as well as Land Development.

From August 1994 through July 2010 Kornovich Development Company, Inc. has successfully developed, built, and closed 1,935 multi-family units. Kornovich Development Company, Inc. has also supplied limited construction management services, as well as consulting on an additional 963 units in Minnesota, Wisconsin, Michigan, and Arizona.

Lonnie L. Kornovich

Karen K. Kornovich

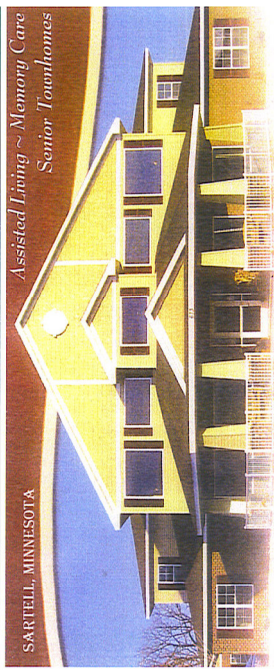
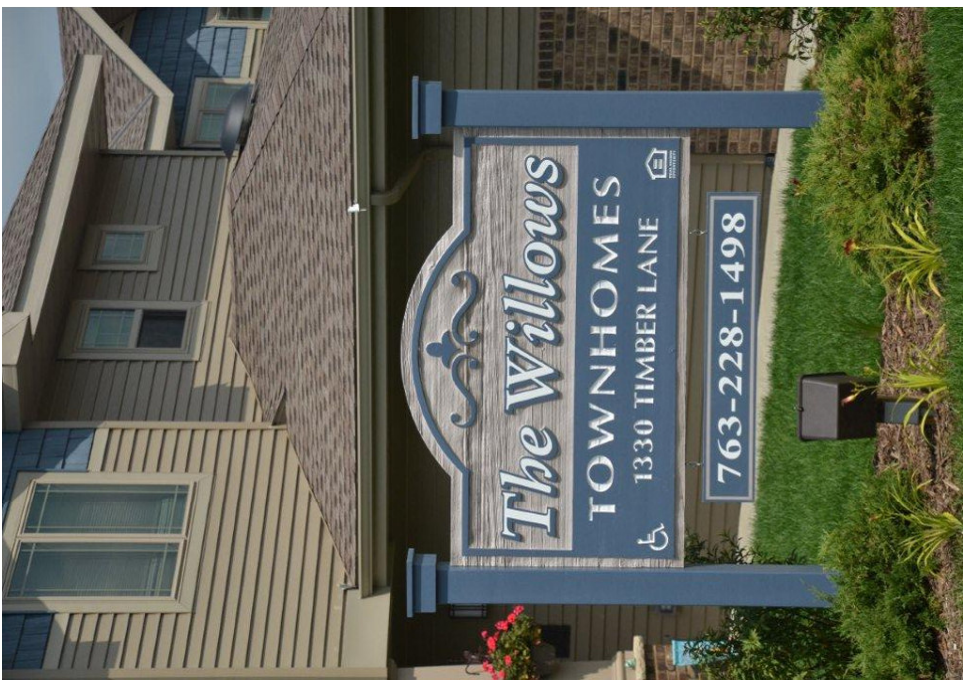
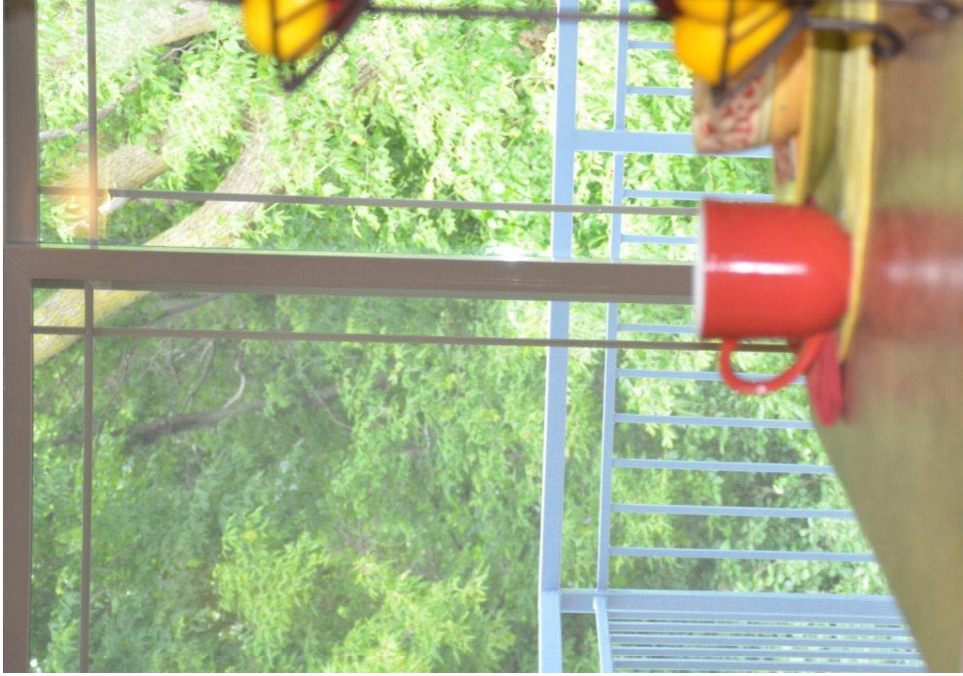












**Class 'A' Luxury Apartments, Assisted Living,
Memory Care, & Senior Townhomes**



CHASKA,
MINNESOTA



PHOENIX, GOODYEAR & CASA GRANDE,
ARIZONA



Comparative Tenant Profile

Occupation / Employment:

Teacher	10.0 %.
Self Employed	12.0 %
Dancer	4.0%
Retired	8.0%
Cosmetologist	4.0%
Health Care Worker	25.0 %
Bartender	4.0%
Post Office	4.0%
Motel Clerk	4.0%
Daycare	4.0%
Manufacturing	21.0 %

Average Household Income:

\$35,600.

Average Family Size

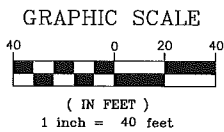
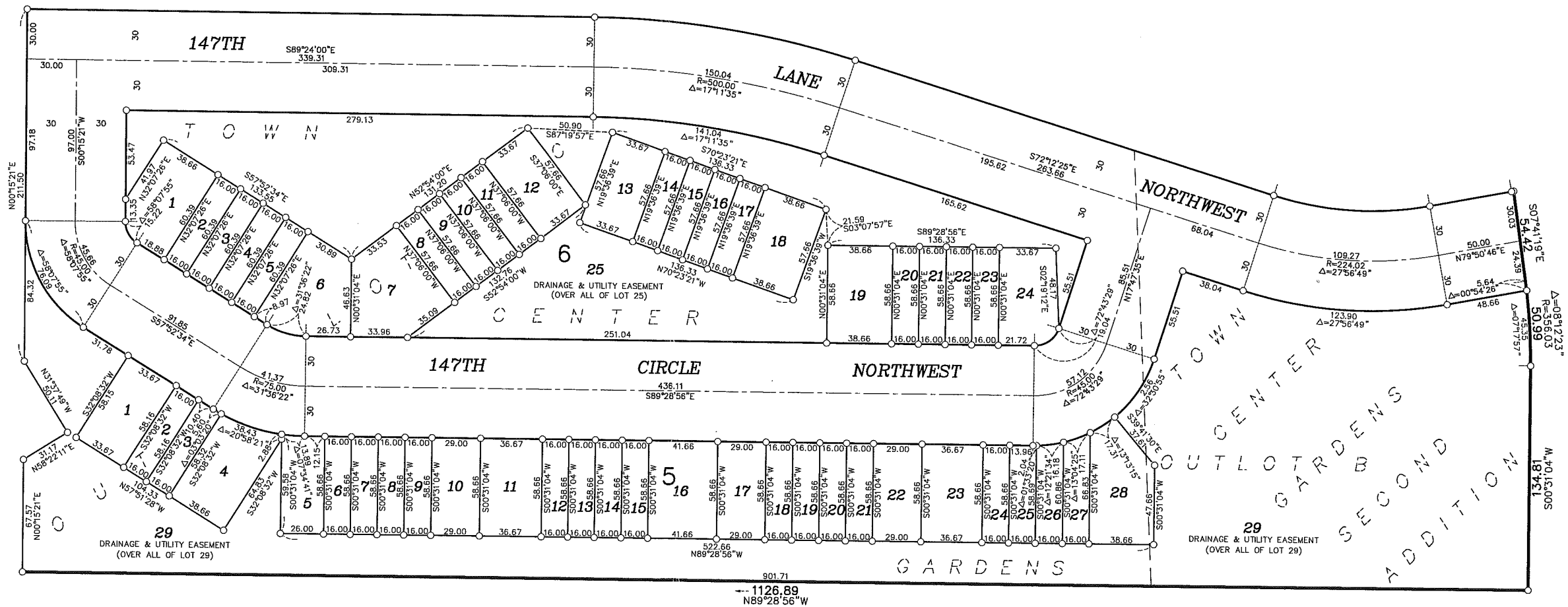
3.25

Number of Single Person Households

4

TOWN CENTER GARDENS THIRD ADDITION

'INSET A'

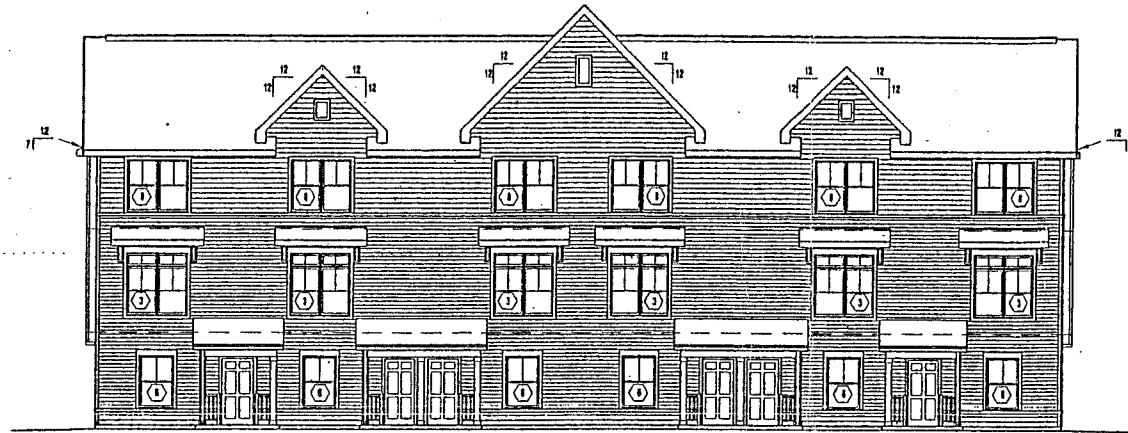


All monuments required by Minnesota Statute, whether shown on this plat or not, will be set within one year of the recording date of this plat, and shall be evidenced by a 1/2 inch by 14 inch iron pipe marked by RLS 20595.

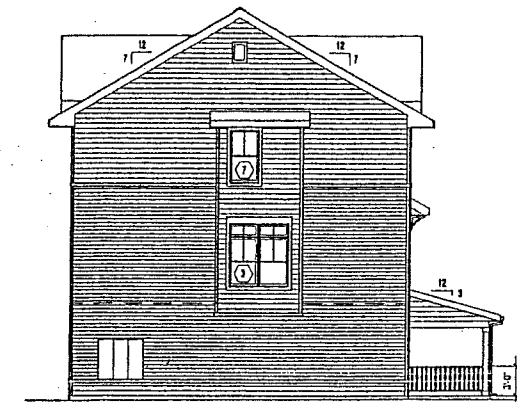
○ Denotes 1/2 inch by 14 inch iron monument set and marked with license number 20595

For the purposes of this plat the bearings are based on the most northerly line of Outlot A, TOWN CENTER GARDENS, which is assumed to have a bearing of South 89°28'49" East.

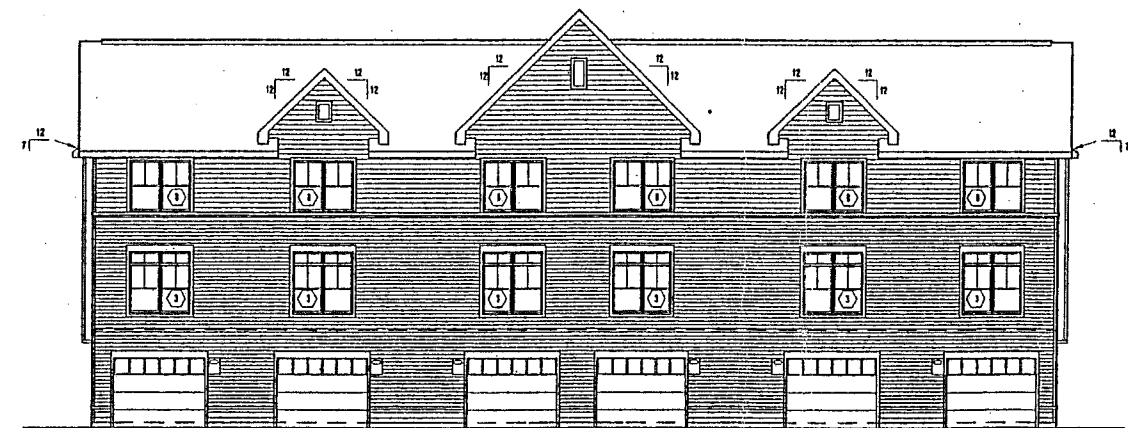
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SEE 104.01 FOR ELEVATION NOTES
3 FRONT ELEVATION
 1/8" = 1'-0"



SEE 104.01 FOR ELEVATION NOTES
1 SIDE ELEVATION
 1/8" = 1'-0"



SEE 104.01 FOR ELEVATION NOTES
4 BACK ELEVATION
 1/8" = 1'-0"

2 NOT USED
 1/8" = 1'-0"

ELEVATION KEY

- A ASPHALT SHINGLES
- B VINYL SIDING - 4" EXPOSURE
- C VINYL SIDING - 8" EXPOSURE
- D 3 1/2" x 3 1/2" VINYL CORNER POST
- E 1 1/2" VINYL WINDOW TRIM
- F 1 1/2" ROSE W/AIL, WRAPPED TREATED WOOD WINDOW / DOOR HEAD TRIM
- G 1 1/2" RUNNING VINYL TRIM
- H VINYL INSIDE CORNER
- I FREE TAIL LVL, FASCIA & VENTED SOFFIT
- J GUTTERS
- K DOWNSPOUTS W/ SPASHBLOCK
- L METAL VALLEY FLASHING
- M RIDGE VENT
- N LIGHT W/ ADDRESS - SEE 104.00
- P WOOD COLUMN SHEATHED W/ 1/4 COMP. TRIM BD.
- R OIL GARAGE DOOR
- S 18" W/ PAINTED 3RD METER & PANEL BD.
- T 18" W/ LOUVER W/ 3 1/2" VINYL SURROUND
- U ROCK FACE CHAUPER
- X 1/2" ENTRY DOOR
- Y GUARD RAIL
- Z STEP FLASHING

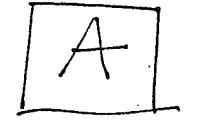
ATTIC VENTILATION

- DL 30" W/ LOUVER W/ 3 1/2" VINYL SURROUND 50 SF = 50 SQ. IN CLEAR VENT AREA
- CE FIBRO DOOR
- EE 1/2" FIBR METAL WRAPPED VENTRIAL 12 = 258 SQ. IN
- FF HEATER ROOM DOOR 258 / 18 SQ. IN FT = 14'-10" LINEAL FT OF RIDGE VENT
- HH WOOD PICKET GUARD RAIL / HAND RAIL
- KK COMPOSITE FASCIA BOARD EAVE VENT 518 SQ. IN / 2 = 258 SQ. IN
- LL 258 / 18 SQ. IN FT = 14'-2" LINEAL FT OF EAVE VENT

UNIT #:

- AREA 1 (HIGH ROOF)
 432 SF / 150 = 2.88 SQ. IN CLEAR VENT AREA
 RIDGE VENT
 405 SQ. IN / 2 = 202.5 SQ. IN
 202.5 / 18 SQ. IN FT = 11'-3" LINEAL FT OF RIDGE VENT
- EAVE VENT
 405 SQ. IN / 2 = 202.5 SQ. IN
 202.5 / 18 SQ. IN FT = 11'-3" LINEAL FT OF EAVE VENT
- AREA 2 (LOW ROOF)
 177 SF / 150 = 1.18 SQ. IN CLEAR VENT AREA
 RIDGE VENT
 180 SQ. IN / 2 = 90 SQ. IN
 90 / 18 SQ. IN FT = 5'-0" LINEAL FT OF RIDGE VENT
- EAVE VENT
 180 SQ. IN / 2 = 90 SQ. IN
 90 / 18 SQ. IN FT = 5'-0" LINEAL FT OF EAVE VENT

250 Third Avenue North
 Suite 450
 Minneapolis, MN 55401
 TEL 612/338-2029
 FAX 612/338-2088
 http://www.LHBcorp.com
 MINNEAPOLIS • DULUTH



CLIENT:
BrightKEYS Building & Development Corporation
 ADDRESS
 ADDRESS

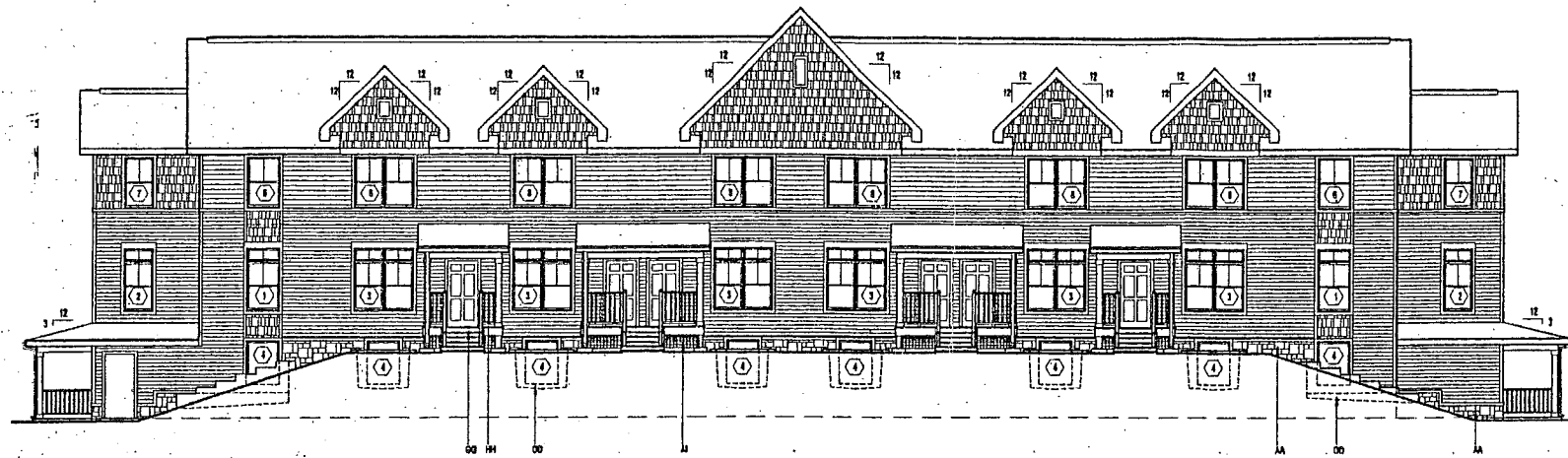
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PRELIMINARY
 NOT FOR CONSTRUCTION
 05-03-04

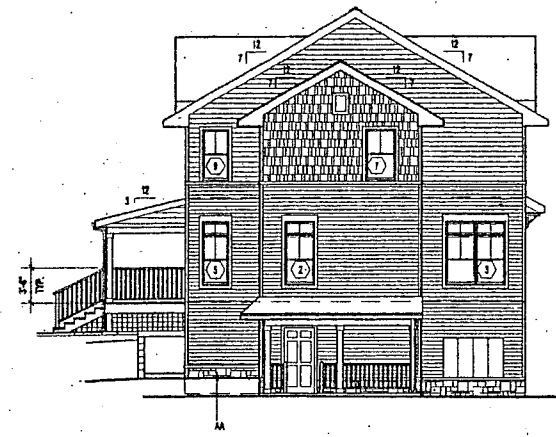
COPYRIGHT 2004 BY LHB, INC. ALL RIGHTS RESERVED.
 PROJECT NAME:
CLOVER FIELD
2 BR TOWNHOMES

CHASKA, MINNESOTA
 DRAWING TITLE:
BUILDING ELEVATIONS
6 UNIT BUILDING

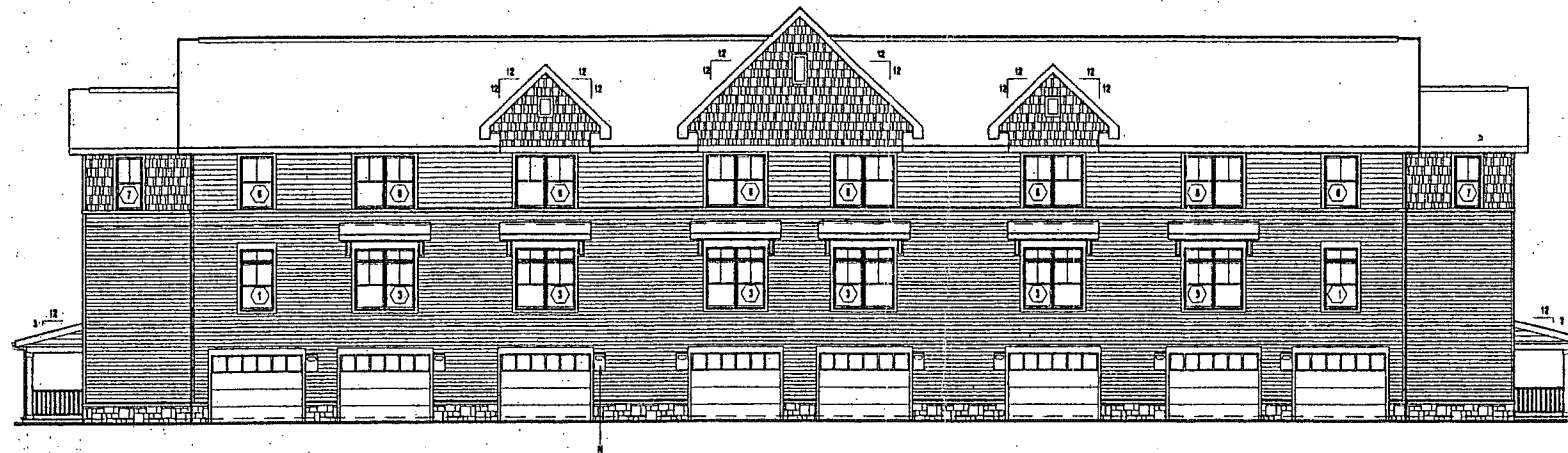
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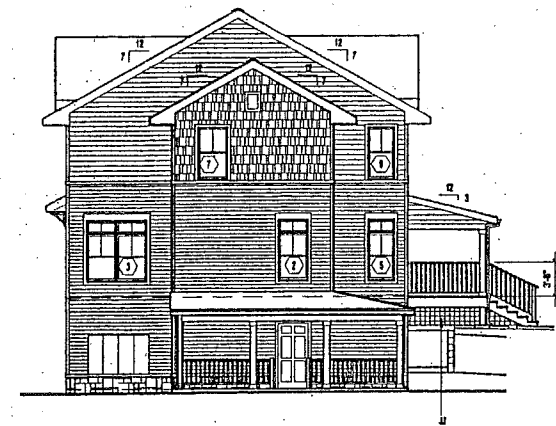
SEE 283.01 FOR TYPICAL ELEVATION NOTES
3 FRONT ELEVATION
 1/8"=1'-0"



SEE 283.01 FOR TYPICAL ELEVATION NOTES
1 SIDE ELEVATION
 1/8"=1'-0"



SEE 483.01 FOR TYPICAL ELEVATION NOTES
4 BACK ELEVATION
 1/8"=1'-0"



SEE 283.01 FOR TYPICAL ELEVATION NOTES
2 SIDE ELEVATION
 1/8"=1'-0"

ATTIC VENTILATION

UNIT A: 527 SF / 158 = 3.36 SF = 516 SQ. IN CLEAR VENT AREA
 RIDGE VENT
 214 SQ. IN / 2 = 258 SQ. IN
 258 / 148 SQ. IN / FT = 1.74 LINEAL FT OF RIDGE VENT
 EAVE VENT
 316 SQ. IN / 2 = 259 SQ. IN
 259 / 18 SQ. IN / FT = 14.39 LINEAL FT OF EAVE VENT

UNIT B: AREA 1 (BACK ROOF)
 422 SF / 158 = 2.67 SF = 408 SQ. IN CLEAR VENT AREA
 RIDGE VENT
 408 SQ. IN / 2 = 204 SQ. IN
 204 / 118 SQ. IN / FT = 1.73 LINEAL FT OF RIDGE VENT
 EAVE VENT
 408 SQ. IN / 2 = 204 SQ. IN
 204 / 14 SQ. IN / FT = 14.57 LINEAL FT OF EAVE VENT

AREA 2 (SIDE ROOF)
 177 SF / 158 = 1.12 SF = 159 SQ. IN CLEAR VENT AREA
 RIDGE VENT
 159 SQ. IN / 2 = 79 SQ. IN
 79 / 18 SQ. IN / FT = 4.39 LINEAL FT OF RIDGE VENT
 EAVE VENT
 118 SQ. IN / 2 = 59 SQ. IN
 59 / 18 SQ. IN / FT = 3.28 LINEAL FT OF EAVE VENT

ELEVATION KEY

- A. ASPHALT SHINGLES
- B. VINYL SIDING - 4" EXPOSURE
- C. VINYL SIDING - 4" EXPOSURE
- D. 3 1/2" x 3 1/2" VINYL CORNER POST
- E. 1 1/2" VINYL WINDOW TRIM
- F. 1/4" PRE-FIN. MET. WRAPPED TREATED WOOD
- G. WINDOW / DOOR HEAD TRIM
- H. 1 1/2" RIBBING VINYL TRIM
- I. PRE-FIN. MET. FASCIA & VENTED BOFFIT
- J. GUTTERS
- K. DOWNSPUTS W/ SPAN BRACK
- L. METAL VALLEY FLASHING
- M. RIDGE VENT
- N. LIGHT W/ ADDRESS - SEE PLAN 2D
- O. VINYL SIDING - CEDAR SHAKE PATTERN
- P. WOOD COLUMN SHEATHED W/ FL COMP. TRIM BO.
- Q. 3/4" WRAPPED W/ PRE-FIN. METAL
- R. 0.5L GARAGE DOOR
- S. 18" x 18" PAINTED WOOD METER & PANEL BO.
- T. 18" x 18" LOUVER W/ 3 1/2" VINYL SURROUND
- U. ROCK FACE GAUFRER
- V. UNIT ENTRY DOOR
- X. 2" H. GUARD RAIL
- Z. STEP FLASHING
- AA. CULTURED STONE W/ WATERABLE TOP BAND
- BB. 32" x 12" LOUVER W/ 1 1/2" VINYL SURROUND
- CC. PATIO DOOR
- DD. AREA WELL
- EE. PRE-FIN. METAL WRAPPED VLD BEAM
- FF. WATER ROOM DOOR
- GG. WOOD FRAMED PORCH & STEPS
- HH. WOOD POCKET GUARD RAIL / HAND RAIL
- II. LATTIC BOARD
- JK. COMPOSITE FASCIA BOARD

250 Third Avenue North
 Suite 450
 Minneapolis, MN 55401
 TEL 612/338-2029
 FAX 612/338-2088
 http://www.LHBcorp.com
 MINNEAPOLIS DULUTH



CLIENT:
BrightKEYS Building & Development Corporation
 1809 NORTHWESTERN AVENUE
 STILLWATER, MN 55802

10-11-04 ISSUED FOR CONSTRUCTION
 NO DATE REVISION

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 PROJECT NAME:
HERITAGE GREEN 2 BR TOWNHOMES

HUDSON, WISCONSIN
 DRAWING TITLE:
BUILDING ELEVATIONS
 8 UNIT BUILDING
 LIVING ROOM ENTRY

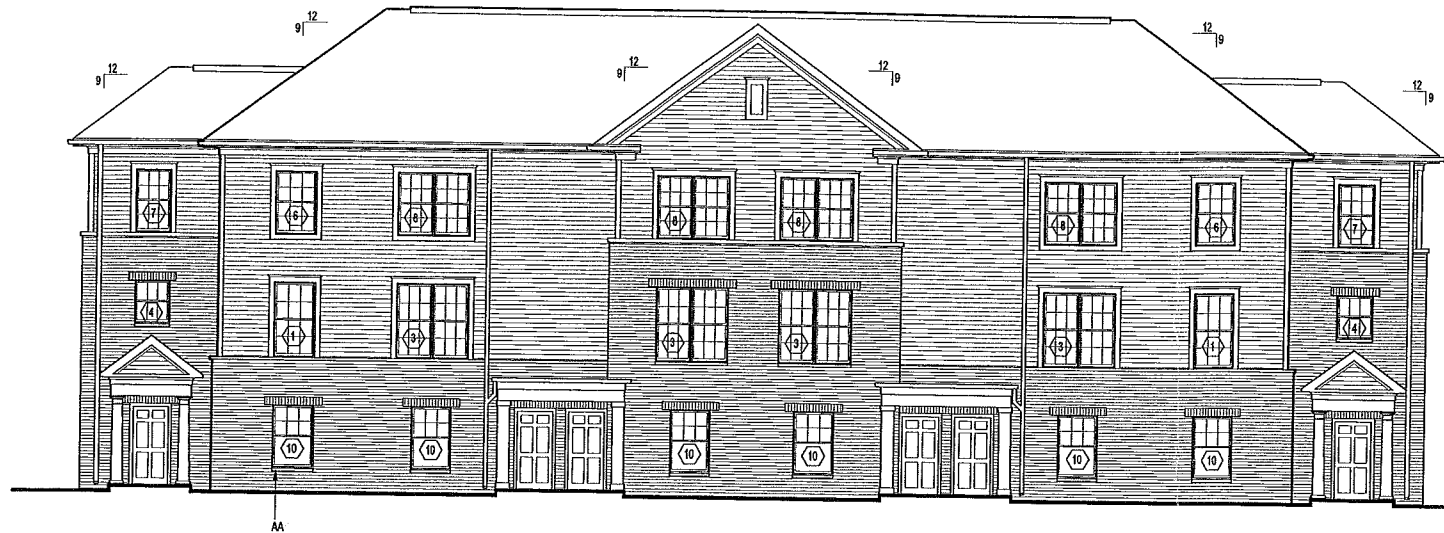
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250 Third Avenue North
Suite 450
Minneapolis, MN 55401

TEL 612/338-2029
FAX 612/338-2088

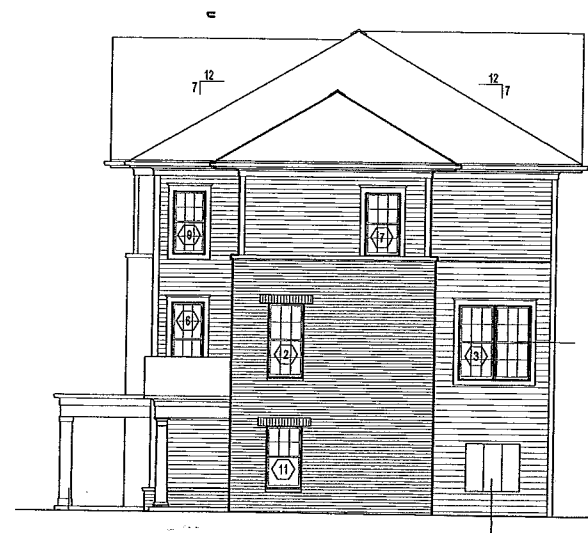
http://www.LHBcorp.com

MINNEAPOLIS • DULUTH



NOTE: SEE 2/A3.00 FOR ELEVATION KEYNOTES

2 FRONT ELEVATION
1/8"=1'-0"



NOTE: SEE 1/A3.00 FOR ELEVATION KEYNOTES

1 SIDE ELEVATION
1/8"=1'-0"



NOTE: SEE 3/A3.00 FOR ELEVATION KEYNOTES

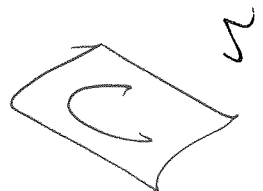
3 BACK ELEVATION
1/8"=1'-0"

ELEVATION KEY

- A. ASPHALT SHINGLES
- B. VINYL SIDING - 4" EXPOSURE
- C. VINYL SIDING - 6" EXPOSURE
- D. 5"x5" 3-PIECE CORNER VINYL CORNER POST
- E. 5" VINYL LINEAL WINDOW TRIM
- F. 5" VINYL LINEAL WINDOW HEAD TRIM & VINYL CROWN MOULD
- G. 3 1/2" RUNNING VINYL LINEAL TRIM
- H. VINYL INSIDE CORNER
- I. PREFIN. METAL FASCIA & SOFFIT
- J. GUTTERS
- K. DOWNSPOUTS W/ SPASHBLOCK
- L. METAL VALLEY FLASHING
- M. RIDGE VENT
- N. LIGHT W/ ADDRESS - SEE X/A7.00
- O. 12" SQ. PREFIN. MTL. COLUMN SURROUND W/ BASE & CAPITAL
- P. SOLDIER COURSE BRICK LINTEL
- Q. O.H. GARAGE DOOR
- R. 18"x48" PAINTED MDO METER & PANEL BD.
- S. 12"x12" LOUVER W/ 5" VINYL LINEAL SURROUND & CROWN MOULD
- T. CONTROL JOINT
- U. STONE BAND
- V. UNIT ENTRY DOOR
- X. GUARD RAIL
- Y. STEP FLASHING
- AA. STONE WINDOW SILL
- BB. PREFIN. METAL FASCIA PANEL
- CC. BRICK
- DD. 12x36 LOUVER W/ 5" VINYL LINEAL SURROUND & CROWN MOULD
- EE. PATIO DOOR
- FF. PREFAB. CLASSICAL 12" DIA. COL. SURROUND W/ BASE & CAPITAL

ATTIC VENTILATION

- UNIT A: 537 SF / 150 = 3.58 SF = 516 SQ. IN. CLEAR VENT AREA.
RIDGE VENT
516 SQ. IN. / 2 = 258 SQ. IN.
258 / 18 SQ. IN./FT = 14'-10" LINEAL FT OF RIDGE VENT
- EAVE VENT
516 SQ. IN. / 2 = 258 SQ. IN.
258 / 15 SQ. IN./FT = 17'-2" LINEAL FT OF EAVE VENT
- UNIT B: AREA 1 (HIGH ROOF)
422 SF / 150 = 2.8133 SF = 405 SQ. IN. CLEAR VENT AREA.
RIDGE VENT
405 SQ. IN. / 2 = 202.5 SQ. IN.
202.5 / 18 SQ. IN./FT = 11'-4" LINEAL FT OF RIDGE VENT
- EAVE VENT
405 SQ. IN. / 2 = 202.5 SQ. IN.
202.5 / 15 SQ. IN./FT = 13'-6" LINEAL FT OF EAVE VENT
- AREA 2 (LOW ROOF)
177 SF / 150 = 1.18 SF = 170 SQ. IN. CLEAR VENT AREA.
RIDGE VENT
170 SQ. IN. / 2 = 85 SQ. IN.
85 / 18 SQ. IN./FT = 4'-8" LINEAL FT OF RIDGE VENT
- EAVE VENT
170 SQ. IN. / 2 = 85 SQ. IN.
85 / 15 SQ. IN./FT = 5'-8" LINEAL FT OF EAVE VENT



CLIENT:
**BrightKEYS
Building &
Development
Corporation**
ADDRESS
ADDRESS

NO DATE REVISION

**PRELIMINARY
NOT FOR CONSTRUCTION
05-24-04**

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PROJECT NAME:
**HERITAGE PARK
2 BR TOWNHOMES**

MINNEAPOLIS, MINNESOTA
DRAWING TITLE:
**BUILDING ELEVATIONS
6 UNIT MODEL**

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DRAWING NO:

A3.02

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CC Work Session**2. 3.****Meeting Date:** 01/10/2012**By:** Aaron Backman, Administrative
Services

Title:

Proposed Lease Agreement for 6745 Hwy 10 by Independent Auto Service

Background:

In October of 2011 the Economic Development/Marketing Manager was notified that Independent Auto Service needed a new business location to meet its needs. The business owner, Allen Berg, indicated that he operates out of a shop next to his home located at 7470 152nd Lane in Ramsey. He has outgrown his current location and would benefit from more customer space and better visibility. Mr. Berg is interested in leasing the City-owned property at 6745 Hwy 10 (also known as the former Midwest Car Care site that was vacated in November). The City's property (see attached site map) encompasses a 17,130 sq. ft. building on a 1.84 acre parcel. The existing building includes 5,930 sq. ft. of retail space/five service bays and 11,200 sq. ft. of cold storage space in the rear that is leased by Sharp & Associates for storing boats, RVs and other vehicles.

Allen and Shannon Berg submitted a letter of intent to lease the front portion of 6745 Hwy 10 to the Economic Development/Marketing Manager on November 3, 2011. They would relocate the business to the new location as soon as possible. Mr. Berg would be responsible for certain leasehold improvements, including: Replacing any carpet, interior painting, electrical improvements in shop/bay areas, replacing 6 overhead doors, and installing 4 commercial hoists. The estimated cost to the Bergs for installing these improvements is \$35,000 (plus significant sweat equity). The City of Ramsey would be responsible for replacing radiant tube heaters in the three larger bays. The estimated cost for installing these overhead heaters is \$2,500 each. (The overhead heaters in the smaller bays are in good shape.)

The Bergs initially proposed a five-year lease with free rent for the first six months, \$1,087 per month the next six months, and \$1,730 per month the second year. The business would be responsible for all utilities and the City would pay the real estate taxes. After further negotiations between Mr. Berg and the Economic Development/Marketing Manager, the proposed lease has been changed to a six-year lease with a lease rate of \$494 per month (or \$1.00 per sq. ft.) for the first six months, \$1,483 per month (\$3.00 psf) for the next six months, \$1,977 per month (\$4.00 psf) for the second year, \$2,224 per month (\$4.50 psf) for the third year, \$2,471 per month (\$5.00 psf) for the fourth year, \$2,619 per month (\$5.30 psf) for the fifth year, and \$2,693 per month (\$5.45 psf) for the sixth year.

The estimated property taxes for the entire building for pay 2012 are \$31,000. The Sharp & Associates lease for its portion of the property is \$1.97 psf or a total of \$21,788 for the year. The proposed Independent Auto Service lease would generate \$11,856 in year one and \$23,724 in year two. In addition to paying the taxes, the City is likely to have ongoing maintenance costs pertaining to 6745 Hwy 10. Repairs by the City would be paid for out of the RALF Fund-Maintenance Account for the building.

Recommendation:

City staff recommends that the City Council consider approving the proposed six-year lease with Independent Auto Service. The business would like to move ahead with the new location as soon as is practicable.

Funding Source:

City repair costs are paid out of the RALF Fund-Maintenance Account for 6745 Hwy 10. The tenant would be responsible for leasehold improvements as outlined in the case.

Council Action:

Direct staff to bring proposed six-year lease of the front portion of 6745 Hwy 10 to Independent Auto Service before the next regular City Council meeting on January 24, 2012.

Attachments

6745 Hwy 10 Site Map

Proposed IAS Lease

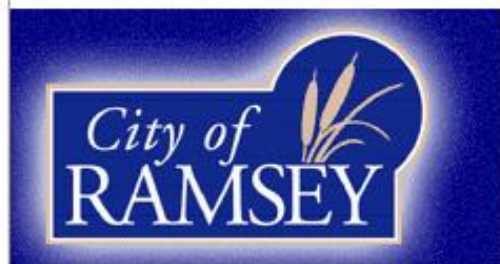
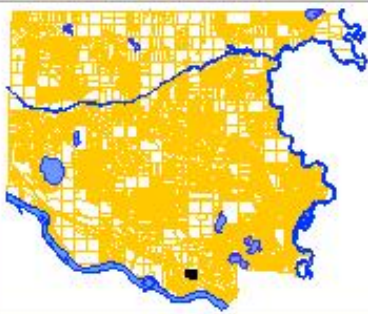
Form Review

Inbox	Reviewed By	Date
Kurt Ulrich	Kurt Ulrich	01/05/2012 09:25 AM
Form Started By: Aaron Backman		Started On: 01/03/2012 05:00 PM
	Final Approval Date: 01/05/2012	

City-Owned Building at 6745 Hwy 10



Map created with ArcGIS - Copyright (C) LOGS GIS 2005



LEASE AGREEMENT

THIS LEASE AGREEMENT, dated this _____ day of January, 2012, (this "Lease") by and between the CITY OF RAMSEY, 7550 Sunwood Drive NW, Ramsey, MN 55303, a Minnesota municipal corporation ("Landlord") and INDEPENDENT AUTO SERVICE, INC., a Minnesota corporation, 18140 Zane Street NW, Elk River, Minnesota 55330, a Minnesota Limited Liability Company (hereinafter referred to as "Tenant").

DEFINITIONS:

PROPERTY. The leased property is 5,930 s.f. of a building located on that real property legally described as Lot 2, Block 2, DEAL INDUSTRIAL PARK, Anoka County, Minnesota, and is commonly known as 6745 Highway 10 NW, Ramsey, Minnesota (the "Site"). The Property consists generally of 1,000 s.f. of office space, 1,030 s.f. of small service bays and 3,900 s.f. of three large bays and mechanical area (the "Property") and the common parking as shown on attached Exhibit B and 25 parking spaces within the fenced in area of the Site. The Property DOES NOT include the RV/Cold Storage portion of the building in which it is located.

RECITALS:

1. TERM:

a. **Lease Term.** For and in consideration of the rents, additional rents, terms, provisions and covenants herein contained, Landlord hereby lets, leases and demises to Tenant the Property for the term of seventy two (72) months commencing on the first day of February, 2012, or thirty days after Landlord tenders possession to Tenant, whichever is later (sometimes called "the Commencement Date") and expiring on the 31st day of January, 2018 (sometimes called "Expiration Date"), unless sooner terminated as hereinafter provided

b. **Option to Renew.** Tenant shall notify Landlord, in writing, at least sixty (60) days before the Expiration Date of Tenant's intent to renew the Lease Term for an additional thirty-six (36) months ("Option Period"). Monthly rent in the Option Period shall be equal to the monthly rent in the last year of the initial lease term.

c. **Landlord's Notice to Quit.** Notwithstanding the Lease Term or the Option to Renew, in the event Landlord determines, in its sole discretion, that the Property or any part thereof is required for the improvement of U.S. Highway 10, upon giving one year's prior written notification to Tenant, the Landlord may terminate this Lease. Landlord is not obligated to provide this one year notice to quit in the event of any default by Tenant of the terms of this Lease.

2. BASE RENT:

Tenant shall pay Landlord, a total rent payment in advance without offset, deduction or demand, in equal monthly installments commencing on the Commencement Date and continuing on the first day of each and every month thereafter for the next succeeding 72 months, during the balance of the term based on the following schedule:

	<u>Period</u>	<u>Rent per month</u>
Year One	February 1, 2012 – March 31, 2012	\$494/mo
	April 1, 2012 – January 31, 2013	\$1,483/mo
Year Two	February 1, 2013 – March 31, 2014	\$1,977.00
Year Three	February 1, 2014 – March 31, 2015	\$2,224.00
Year Four	February 1, 2015 – March 31, 2016	\$2,471.00
Year Five	February 1, 2016 – March 31, 2017	\$2,619.00
Year Six	February 1, 2017 – March 31, 2018	\$2,693.00

If the Commencement Date is later than February 1, 2012, the schedule shall adjust accordingly.

3. **ADDITIONAL RENT:**

a. **Real Estate Taxes.** Tenant shall not be responsible for the payment of any real estate taxes. Real estate taxes shall be the sole responsibility of Landlord.

b. **Property Operating Expenses.** Tenant shall pay its Proportionate Share of the annual aggregate Operating Expense incurred by Landlord in the operation, maintenance and repair of the Building and Property. The term “Operating Expenses” shall include but not be limited to maintenance, repair, operation of utilities and lighting, mechanical rooms, and roof, parking and landscaped areas, signs, snow removal, non-structural repair and maintenance of the exterior of the Building, insurance premiums, wages and fringe benefits of personnel employed for such work, costs of equipment purchased and used for such purposes.

The payment of the sums set forth in this paragraph 3. shall be in addition to the Base Rent payable pursuant to paragraph 2. of this Lease. All sums due hereunder shall be due and payable within thirty (30) days of delivery of written certification by Landlord setting forth the computation of the amount due from tenant. In the event the lease term shall begin or expire at any time during the calendar year, Tenant shall be responsible for its pro-rata share of Additional Rent under subdivisions a. and b. during the Lease and/or occupancy time.

Prior to commencement of this Lease, and prior to the commencement of each calendar year thereafter commencing during the term of this Lease or any renewal or extension thereof, Landlord may estimate for each calendar year (i) the Operating Expenses for such calendar year; and (ii) the computation of the annual and monthly rental payable during such calendar year as a result of increases or decreases of Operating Expenses. Said estimate will be in writing and will be delivered or mailed to Tenant.

The amount of Operating Expenses for each calendar year, so estimated, shall be payable as Additional Rent by Tenant, without offset, deduction or demand, in equal monthly installments, in advance, on the first day of each month during such calendar year at the option of Landlord. In the event that such estimate is delivered to Tenant before the first day of January of such calendar year, said amount, so estimated, shall be payable as additional rent in equal monthly installments, in advance, on the first day of each month during such calendar year. In the event

that such estimate is delivered to Tenant after the first day of January of such calendar year, said amount, so estimated, shall be payable as additional rent in equal monthly installments, in advance, on the first day of each month over the balance of such calendar year, with the number of installments being equal to the number of full calendar months remaining in such calendar year.

Upon completion of each calendar year during the term of this Lease or any renewal or extensions thereof, Landlord shall cause its accountants to determine the actual amount of the Operating Expenses payable in such calendar year and deliver a written certification of the amounts thereof to Tenant. If Tenant has underpaid the Operating Expenses for such calendar year, Tenant shall pay the balance of same within thirty (30) days after receipt of such statement. If Tenant has overpaid the Operating Expenses for such calendar year, Landlord shall either (i) refund such excess, or (ii) credit such excess against the most current monthly installment or installments due Landlord for its estimate of Tenant's share of Operating Expenses for the next following calendar year. A pro-rata adjustment shall be made for a fractional calendar year occurring during the term of the Lease or any renewal or extension thereof based upon the number of days of the term of the Lease during said calendar year as compared to three hundred sixty-five (365) days and all additional sums payable by Tenant or credits due Tenant as a result of the provision of this paragraph 3 shall be adjusted accordingly.

3. COVENANTS TO PAY RENT:

The covenants of Tenant to pay the Base Rent and the Additional Rent are each independent of any other covenant, condition, provision or agreement contained in this Lease. All rents are payable to Landlord at Ramsey Municipal Center, 7550 Sunwood Drive NW, Ramsey, Minnesota, or such other place as Landlord may designate.

4. UTILITIES:

Landlord shall provide mains and conduits to supply water, gas, electricity and sanitary sewage to the Property. Tenant shall pay, when due, all charges for sewer usage or rental, garbage disposal, refuse removal, water, electricity, heating fuel, gas, telephone and/or other utility services or energy source furnished to the Property during the term of this Lease, or any renewal or extension thereof. If Landlord elects to furnish any of the foregoing utility services or other services furnished or caused to be furnished to Tenant, then the rate charged by Landlord shall not exceed the rate Tenant would be required to pay to a utility company or service company furnishing any of the foregoing utilities or services. The charges thereof shall be deemed additional rent in accordance with paragraph 3. Landlord shall not be liable for, and Tenant shall not be entitled to any abatement or reduction of Base Rent or Minimum Rent by reason of Landlord's failure to furnish any of the foregoing utilities, when such failure is caused by accident, breakage, repairs (including replacements), strikes, lockouts or other labor disturbances or labor disputes of any character, or for any other causes.

5. CARE AND REPAIR OF PROPERTY:

Tenant shall, at all times throughout the term of this Lease, including renewals and extension, and at its sole expense, keep and maintain the Property in a clean, safe and sanitary condition

and in compliance with all applicable laws, codes, ordinances, rules and regulations. Tenant's obligations hereunder shall include but not be limited to the maintenance, and repair, if necessary, of heating, air conditioning fixtures, equipment, and systems, all lighting and plumbing fixtures and equipment, fixtures, motors and machinery, all interior walls, partitions, doors and windows, including the regular painting thereof, all exterior entrances, windows, doors and docks and the replacement of all broken glass. When used in this provision, the term "repairs" shall include replacements or renewals when necessary and all such repairs made by Tenant shall be equal in quality and class to the original work. The Tenant shall keep and maintain all portions of the Property and the sidewalk and areas adjoining the same in a clean and orderly condition, free of accumulation of dirt, rubbish, snow and ice. The Tenant shall be responsible for all outside maintenance of the Property, including grounds and parking areas.

If Tenant fails, refuses or neglects to maintain or repair the Property as required in this Lease after notice shall have been given Tenant, in accordance with paragraph 33 of this Lease, Landlord may make such repairs without liability to Tenant for any loss or damage that may accrue to Tenant's merchandise, fixtures or other property or to Tenant's business by reason thereof, and upon completion thereof, Tenant shall pay to Landlord all costs plus fifteen percent (15%) of overhead incurred by Landlord in making such repairs upon presentation to Tenant of bill therefore.

Landlord shall, at its expense, repair/replace the overhead heaters in the bays as necessary. Landlord is under no obligation to make any structural or other alterations, decorating, additions or improvement in or to the Property/Building except as herein provided. Except as herein provided, Tenant is taking the Property "AS IS" except as set forth in this Agreement, Landlord shall not be obligated to do any work on or in the Property. Landlord warrants that at the Commencement Date, the Property is in compliance with all applicable laws, codes, ordinances, rules and regulations. Landlord shall be responsible for all structural repairs or replacement of the roof, exterior walls, floor and parking area, including sidewalks and curbing and all mechanical systems. Landlord in its sole discretion shall make the decision on any repairs or replacement of the roof, exterior walls, floor and parking area including sidewalks and curbing and all mechanical systems. In the event Landlord elects not to make a repair necessary for the continued quiet enjoyment of the Property by Tenant, Tenant may terminate this Agreement.

6. SIGNS:

Any sign, lettering, picture, notice or advertisement installed on or in any part of the Property and visible from the exterior of the Building, or visible from the exterior of the Property, must be approved in advance by Landlord, which approval shall not be unreasonably withheld, and installed at Tenant's expense. In the event of a violation of the foregoing by Tenant, Landlord may remove the same without any liability and may charge the expense incurred by such removal to Tenant.

7. PERSONAL PROPERTY.

Tenant shall have the use of that personal property described on attached Exhibit C (the "Personal Property"). The Personal Property consists primarily of office/showroom counter and oil change equipment. Tenant shall not remove the Personal Property from the Property, shall be

solely responsible for repair and maintenance and shall return the Personal Property to Landlord upon expiration of the Lease in good condition, reasonable wear and tear excepted. Landlord shall not be responsible to replace any of the Personal Property in the event it is beyond repair and or becomes obsolete during the Lease Term. If, in the opinion of Tenant, upon written approval by Landlord, the Personal Property is beyond repair or obsolete, Tenant, in their sole discretion, can remove and/or dispose of that Personal Property.

8. ALTERATIONS, INSTALLATION, FIXTURES:

a. Except as hereinafter provided, Tenant shall not make any alternation, additions, or improvements in or to the Property or add, disturb or in any way change any plumbing or wiring therein without the prior written consent of Landlord, which consent will not be unreasonably withheld. In the event alterations are required by any governmental agency by reason of the use and occupancy of the Property by Tenant, Tenant shall make such alterations at its own cost and expense after first obtaining Landlord's approval of plans and specifications therefore and furnishing such indemnification as Landlord may reasonably require against liens, costs, damages and expenses arising out of such alterations. Alterations or additions by Tenant must be built in compliance with all laws, ordinances and governmental regulations affecting the Property and Tenant shall warrant to Landlord that all such alterations, additions, or improvements shall be in strict compliance with all relevant laws, ordinances, governmental regulations, and insurance requirements. Construction of such alterations or additions shall commence only upon Tenant obtaining and exhibiting to Landlord the requisite approvals, licenses and permits and indemnification against liens. All alterations, installations, physical additions or improvements to the Property made by Tenant shall at the option of Landlord become the property of Landlord and shall be either removed by Tenant at Tenant's sole cost or surrendered to Landlord upon the termination of this Lease; provided, however, this clause shall not apply to movable equipment or furniture owned by Tenant which may be removed by Tenant at the end of the term if this Lease of Tenant is not then in default.

b. Landlord agrees that Tenant may make the following leasehold improvements to the Leased Premises:

- Replace carpet as necessary.
- Interior painting as necessary.
- Steel covers for the two pits,
- Electrical improvements in shop/bay areas including replacing of six overhead doors and installation of four commercial hoists.

The estimated cost for installing these improvements is \$35,000.00.

c. Landlord agrees to replace the following on the Leased Premises on or before the Commencement Date:

- The radiant tube heaters in the three larger bays at an estimated cost of \$7,500.00.
- Repair the roof near the main vent by the smaller service bays in the event there is future roof leaking in this area.

9. POSSESSION:

Except as hereinafter provided Landlord shall deliver possession of the Property to Tenant in the condition required by this Lease on or before the Commencement Date, but delivery of possession prior to or later than such Commencement Date shall not affect the expiration date of this Lease. The rentals herein reserved shall commence on the date that is thirty days after possession of the Property is delivered by Landlord to Tenant. Any occupancy by Tenant prior to the beginning of the term shall in all respects be the same as that of Tenant under this Lease. Landlord shall have no responsibility or liability for loss or damage to fixtures, facilities or equipment installed or left on the Property. If for any reason, Landlord cannot deliver possession of the Property to Tenant by the Commencement Date, in no event shall landlord be subject to any liability for a delay in delivery and such failure shall not affect the validity of this Lease or the obligations of Tenant under, and Tenant's remedies for such delay shall be limited to termination of this Lease in the event that Landlord fails to deliver the Property to Tenant within 30 days of the Commencement Date.

10. SECURITY AND DAMAGE DEPOSIT:

Tenant contemporaneously with the execution of this Lease, has deposited with Landlord the sum of One Thousand and 00/100 Dollars (\$1,000.00), receipt of which is acknowledged by Landlord, which deposit is to be held by Landlord, as a security and damage deposit for the faithful performance by Tenant during the term hereof or any extension hereof. Prior to the time when Tenant shall be entitled to the return of this security deposit, Landlord may commingle such deposit with Landlord's own funds and to use such security deposit for such purpose as Landlord may determine. In the event of the failure of Tenant to keep and perform any of the terms, covenants and conditions of this Lease to be kept and performed by Tenant during the term hereof or any extension hereof, then Landlord, either with or without terminating this Lease may (but shall not be required to) apply such portion of said deposit as may be necessary to compensate or repay Landlord for all losses or damages sustained or to be sustained by Landlord due to such breach on the part of Tenant, including, but not limited to overdue and unpaid rent, any other sum payable by Tenant to Landlord pursuant to the provisions of this Lease, damages or deficiencies in the reletting of the Property, and reasonable attorney's fees incurred by Landlord. Should the entire deposit or any portion thereof, be appropriated and applied by Landlord, in accordance with the provisions of this paragraph, Tenant, upon written demand by landlord, shall remit forthwith to Landlord a sufficient amount of cash to restore said security deposit to the original sum deposited, and Tenant's failure to do so within thirty (30) days after receipt of such demand shall constitute a breach of this Lease. Said security deposit together with any interest thereon as required by law, shall be returned to Tenant, less any depletion thereof as the result of the provisions of this paragraph, at the term of this Lease or any renewal thereof, or upon the earlier termination of this Lease. Tenant shall have no right to anticipate return of said deposit by withholding any amount required to be paid pursuant to the provision of this Lease or otherwise.

In the event Landlord shall sell the Property, or shall otherwise convey or dispose of its interest in this Lease, Landlord may assign the security deposit or any balance thereof to Landlord's assignee, whereupon Landlord shall be released from all liability for the return or repayment of

such security deposit and Tenant shall look solely to the said assignee for the return and repayment of said security deposit. Said security deposit shall not be assigned or encumbered by Tenant without such consent of Landlord, and any assignment or encumbrance without such consent shall not bind Landlord. In the event of any rightful and permitted assignment of this Lease by Tenant, said security deposit shall be deemed to be held by Landlord as a deposit made by the assignee, and Landlord shall have no further liability with respect to the return of said security deposit to Tenant.

11. USE:

The Property shall be used and occupied by Tenant solely for the purposes of vehicle repair and maintenance, auto detailing and cleaning/washing. Vehicle sales on the Property shall NOT be permitted. The permitted uses by Tenant shall at all times be in full compliance with all applicable laws, ordinances and governmental regulations affecting the Building and Property. The Property shall not be used in such manner that, in accordance with any requirement of law or of any public authority, Landlord shall be obligated on account of the purpose or manner of said use to make any addition or alteration to or in the Property. The Property shall not be used in any manner which will increase the rates required to be paid for public liability or for fire and extended coverage insurance covering the Property. Tenant shall occupy the Property, conduct its business and control its agents, employees, invitees and visitors in such a way as is lawful, and reputable and will not permit or create any nuisance, noise, odor, or otherwise interfere with, annoy or disturb any other Tenant in the Building in its normal business operations or Landlord in its management of the Building. Tenant's use of the Property shall conform to all landlord's rules and regulations relating to the use of the Property as listed on Exhibit A attached hereto. Tenant shall park no vehicles on the Property older than 1985 vintage and no vehicles requiring body work shall be parked on the Property.

12. ACCESS TO PROPERTY:

The Tenant agrees to permit Landlord and the authorized representatives of Landlord to enter the Property at all times during usual business hours for the purpose of inspecting the same and making any necessary repairs to the Property and performing any work therein that may be necessary to comply with any laws, ordinances, rules, regulations or requirements of any public authority or of the Board of Fire Underwriters or any similar body or that Landlord may deem necessary to prevent waste or deterioration in connection with the Property. Nothing herein shall imply any duty upon the part of Landlord to do any such work which, under any provision of this Lease, Tenant may be required to perform and the performance thereof by Landlord shall not constitute a waiver of Tenant's default in failing to perform the same. The Landlord may, during the progress of any work in the Property, keep and store upon the Property all necessary materials, tools and equipment. The Landlord shall not in any event be liable for inconvenience, annoyance, disturbance, loss of business, or other damage of Tenant by reason of making repairs or the performance on any work in the Property, or on account of bringing materials, supplies and equipment into or through the Property during the course thereof and the obligations of Tenant under this Lease shall not thereby be affected in any manner whatsoever.

Landlord reserves the right to enter upon the Property at any time in the event of an emergency and at reasonable hours to exhibit the Property to prospective purchasers or others; and to exhibit

the Property to prospective Tenants and to display "For Lease" or similar signs on windows or doors in the Property during the last one hundred eighty (180) days of the term of this Lease, all without hindrance or molestation by Tenant.

13. EMINENT DOMAIN:

In the event of any eminent domain or condemnation proceeding or private sale in lieu thereof in respect to the Property during the term thereof, the following provisions shall apply:

a. **Property Acquired** If the whole of the Property shall be acquired or condemned by eminent domain for any public or quasi-public use or purpose, then the term of this Lease shall cease and terminate as of the later of the end of the notice period pursuant to paragraph 1B or the date possession shall be taken in such proceeding and all rentals shall be paid up to that date.

b. **Part of Property Acquired.** If any part constituting less than the whole of the Property shall be acquired or condemned as aforesaid, and in the event that such partial taking or condemnation shall materially affect the Property so as to render the Property unsuitable for the business of Tenant, in the reasonable opinion of Landlord or Tenant, then the term of this Lease shall cease and terminate as of the date possession shall be taken by the condemning authority and rent shall be paid to the date of such termination.

In the event of a partial taking or condemnation of the Property which shall not materially affect the Property so as to render the Property unsuitable for the business of Tenant, in the reasonable opinion of Landlord or Tenant, this Lease shall continue in full force and effect but with a proportionate abatement of the Base Rent and Additional Rent based on the portion if any, of the Property taken. Landlord reserves the right, at its option, to restore the Property to substantially the same condition as they were prior to such condemnation. In such event, Landlord shall give written notice to Tenant, within 30 days following the date possession shall be taken by the condemning authority, of Landlord's intention to restore. Upon Landlord's notice of election to restore, Landlord shall commence restoration and shall restore the Property with reasonable promptness, subject to delays beyond Landlord's control and delays in the making of condemnation or sale proceeds adjustment by Landlord; and Tenant shall have no right to terminate this Lease except as herein provided. Upon completion of such restoration, the rent shall be adjusted based upon the portion, if any, of the Property restored.

a. **Tenant Waiver.** In the event of any condemnation or taking as aforesaid, whether whole or partial, Tenant shall not be entitled to any part of the award paid for such condemnation and Landlord is to receive the full amount of such award, Tenant hereby expressly waives any right to claim to any part thereof.

b. **Tenant Damages.** Although all damages in the event of any condemnation shall belong to Landlord whether such damages are awarded as compensation for diminution in value of the leasehold or to the fee of the Property, Tenant shall have the right to claim and recover from the condemning authority, but not from Landlord, such compensation as may be separately awarded or recoverable by Tenant in Tenant's own right on account of any and all damage to Tenant's business by reason of the condemnation and of or on account of any cost or loss to

which Tenant might be put in removing Tenant's merchandise, furniture, fixtures, leasehold improvements and equipment. However, Tenant shall have no claim against Landlord or make any claim with the condemning authority of the loss of its leasehold estate, any unexpired term of loss of any possible renewal or extension of said lease or loss of any possible value of said lease, any unexpired term, renewal or extension of said Lease.

14. DAMAGE OR DESTRUCTION:

In the event of any damage or destruction to the Property by fire or other cause during the term hereof, the following provisions shall apply:

a. **Significant Damages.** If the Property is damaged by fire or any other cause to such extent that the cost of restoration, as reasonably estimated by Landlord, will equal or exceed ten percent (10%) of the replacement value of the Property (exclusive of foundations) just prior to the occurrence of the damage, then Landlord or Tenant may, no later than the sixtieth (60th) day following the damage, give the other party written notice of their election to terminate this Lease.

a. **Date of Termination.** If the event Landlord or Tenant elects to terminate this Lease, it shall be deemed to terminate on the date of the receipt of the notice of election and all rentals shall be paid up to that date. Tenant shall have no claim against landlord for the value of any unexpired term of this Lease.

Notwithstanding anything contained in this paragraph 15 to the contrary, Landlord shall only be obligated to restore the Property to the extent of the insurance proceeds actually received, but if the insurance proceeds actually received do not permit Landlord to restore the Property, Landlord shall so notify Tenant and either Landlord or Tenant may terminate this Lease by written notice given within 60 days after Landlord's notice. If Landlord restores the Property in accordance with the provisions of this Section, then Tenant shall not have any right to terminate this Lease because of such damage pursuant to (i) any common law rights, (ii) Minnesota Statutes §504.131 as now in effect or as it may be hereafter amended or supplemented, or (iii) any comparable right established b a similar statute.

15. CASUALTY INSURANCE:

a. **Landlord to Maintain.** Landlord shall at all times during the term of this Lease, at its expense, maintain a policy or policies of insurance with premiums paid in advance issued by an insurance company licensed to do business in the State of Minnesota insuring the Property against loss or damage by fire, explosion or other insurable hazards and contingencies for the full insurance value, provided that Landlord shall not be obligated to insure any furniture, equipment, machinery, goods or supplies not covered by this Lease which Tenant may bring upon the Property or any additional improvements which Tenant may construct or install on the Property.

b. **Tenant to Maintain.** Tenant shall at all times during the term of this Lease, at its expense, maintain a policy or policies of insurance with premiums paid in advance issued by an insurance company licensed to do business in the State of Minnesota insuring the Property against loss or damage by fire, expulsion or other insurable hazards and contingencies for the full insurable value of Tenant's improvements to the Property and Tenant's personal property.

c. **Tenant Restriction.** Tenant shall not carry any stock of goods or do anything in or about the Property which will in any way impair or invalidate the obligation of the insurer under any policy of insurance required by this Lease.

d. **Waiver of Liability.** Landlord hereby waives and releases all claims, liabilities and causes of action against Tenant and its agents, servants and employees for loss or damage to, or destruction of, the Property or any portion thereof, including the buildings and other improvements situated thereon, resulting from fire, explosion and other perils included in standard extended coverage insurance, whether caused by the negligence of any of said persons or otherwise. Likewise, Tenant hereby waives and releases all claims, liabilities and causes of action against Landlord and its agents, servants and employees for loss or damage to, or destruction of, any of the improvements, fixtures, equipment, supplies, merchandise and other property, whether that of Tenant or of others, upon or about the Property resulting from fire, explosion or the other perils included in standard extended coverage insurance, whether caused by the negligence of any of said persons or otherwise. The waiver shall remain in force whether or not Tenant's insurer shall consent thereto.

d **Tenant Payment.** In the event that the use of the Property by Tenant increases the premium rate for insurance carried by Landlord, Tenant shall pay Landlord, upon demand, the amount of such premium increase. If tenant installs any electrical equipment that overloads the power lines to the building or its wiring, Tenant shall, at its own expense, make whatever changes are necessary to comply with the requirements of the insurance underwriter, insurance rating bureau and governmental authorities having jurisdiction.

16. PUBLIC LIABILITY INSURANCE:

Tenant shall during the term hereof keep in full force and effect at its expense a policy or policies of public liability insurance with respect to the Property and the business of Tenant, on terms with companies approved in writing by Landlord, in Landlord. Landlord shall be named as additional insured under all policies. Limits of liability shall not be less than a combined policy limit of at least \$2,000,000.00 applying to Bodily Injury, Property Damage and Personal Injury. Such policy(ies) shall: (i) provide that such policies are primary and landlord's policy(ies) are noncontributing; (ii) include a cross-liability endorsement, and (iii) require that at least 30 days prior written notice must be given to Landlord prior to cancellation, expiration or material adverse changes to such policy(ies). Tenant shall furnish evidence satisfactory to Landlord at the time this Lease is executed that such coverage is in full force and effect.

17. DEFAULT OF TENANT:

a. **Failure to Pay Rent.** In the event of any failure of Tenant to pay any rental due hereunder within ten (10) days after the same shall be due, or any failure to perform any other of the terms, conditions or covenants of this Lease to be observed or performed by Tenant for more than 20 days after written notice of such failure shall have been given to Tenant, or if Tenant or an agent of Tenant shall falsify any report required to be furnished to Landlord pursuant to the terms of this Lease, or if Tenant or any guarantor of this Lease shall become bankrupt or insolvent, or file any debtor proceedings or any person shall take or have against Tenant or any guarantor of this Lease in any court pursuant to any statute either of the United States or of any

state a petition of bankruptcy or insolvency or for reorganization or for the appointment of a receiver or trustee of all or a portion of Tenant's or any such guarantor's property, or if Tenant or any such guarantor makes an assignment for the benefit of creditors, or petitions for or enters into an arrangement, or if Tenant shall abandon the Property or suffer this Lease to be taken under any writ of execution, then in any such event Tenant shall be in default hereunder, and Landlord, in addition to other rights of remedies it may have, shall have the immediate right of re-entry and may remove all personal property from the Property and such property may be removed and stored in a public warehouse or elsewhere at the cost of, and for the account of Tenant, all without service of notice or resort to legal process and without being guilty of trespass, or becoming liable for any loss or damage which may be occasioned thereby.

b. **Landlord's Rights.** Should Landlord elect to re-enter the Property, as herein provided, or should it take possession of the Property pursuant to legal proceedings or pursuant to any notice provided for by law, it may either terminate this Lease or it may from time to time, without terminating this Lease, make such alterations and repairs as may be necessary in order to relet the Property, and relet the Property or any part thereof upon such term or terms (which may be for a term extending beyond the term of this Lease) and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable. Upon each such subletting all rentals received by Landlord from such reletting shall be applied first to the payment of any indebtedness other than rent due hereunder from Tenant to Landlord; second, to the payment of any costs and expenses of such reletting, including brokerage fees and attorney's fees and costs of such alterations and repairs; third, to the payment of the rent due and unpaid payment of future rent as the same may become due and payable hereunder. If such rentals received from such reletting during any month be less than that to be paid during that month by Tenant hereunder, possession of the Property by Landlord shall be construed as an election on its part to terminate this Lease unless a written notice of such intention be given to Tenant or unless the termination thereof be decreed by a court of competent jurisdiction. Notwithstanding any such reletting without termination, Landlord may at any time after such re-entry and reletting elect to terminate this Lease for any such breach, in addition to any other remedies it may have, it may recover from Tenant all damages it may incur by reason of such breach, including the cost of recovering the Property, reasonable attorney's fees, and including the worth at the time of such termination of the excess, if any, of the amount of rent and charges equivalent to rent reserved in this Lease for the remainder of the stated term, minus the amount of rental loss which Tenant proves could have been reasonably avoided, all of which amounts shall be immediately due and payable from Tenant to Landlord. Landlord shall also be entitled to any other amounts necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to comply with the requirements of this Lease.

c. **Landlord May Cure Default.** Landlord may, at its option, instead of exercising any other rights or remedies available to it in this Lease or otherwise by law, statute or equity spend such money as is reasonably necessary to cure any default of Tenant herein and the amount so spent, and costs incurred, including attorney's fees incurring such default, shall be paid by Tenant, and additional rent, upon demand.

d. **Tenant Payment.** In the event suit shall be brought for recovery of possession of the Property, for the recovery of rent of any other amount due under the provisions of this Lease, or because of the breach of any other covenant herein contained on the part of Tenant to be kept

or performed, and a breach shall be established, Tenant shall pay to Landlord all expenses incurred therefore, including a reasonable attorney's fee, together with interest on all such expenses at the rate of ten percent (10%) per annum from the date of such breach of the covenants of this Lease.

e. **Waiver of Rights of Redemption.** Tenant also waives any demand for possession of the Property, and any demand for payment of rent and any notice of intent to re-enter the Property, or of intent to terminate this Lease, other than the notices above provided in this paragraph, and waives any and every other notice or demand prescribed by any applicable statutes or laws.

f. **No Exclusive Remedy.** No remedy herein or elsewhere in this Lease or otherwise by law, statute or equity, conferred upon or reserved to Landlord or Tenant shall be exclusive of any other remedy, but shall be cumulative, and may be exercised from time to time and as often as the occasion may arise.

18. INDEMNITY & HOLD HARMLESS:

Except to the extent that liability for damages or loss is caused by the intentional acts or gross negligence of Landlord, its agents or employees, Tenant shall indemnify, protect, defend (at Landlord's request and with counsel approved by Landlord) and hold Landlord and each of its respective officers and employees harmless from and against every demand, claim, cause of action, judgment and expense, including, but not limited to, reasonable attorney's fees and disbursements of counsel, whether suit is initiated or not, and all loss and damage arising from: (a) any injury, loss or damage to the person or property of Tenant, or to any other person rightfully in the Property, , (i) occurring in or about the Property, or (ii) caused by the negligence or misconduct of Tenant, or Tenant's affiliates or any of their respective employees, representatives, agents or contractors, or (iii) resulting from the violation of any legal requirements or the provisions of this Lease by Tenant, or Tenant's affiliates or any of their respective employees, representatives, agents or contractors; (b) any loss or damage, however caused, to books, records, computer or other electronic equipment or data or media, files, artwork, money, securities, negotiable instruments or papers in the Property; (or (c) any loss or damage resulting from interference with or obstruction of deliveries to or from the Property caused by Tenant or Tenant's affiliates or any of their respective employees, representatives, agents or contractors. All property kept, maintained or stored on the Property shall be so kept, maintained or stored at the sole risk of Tenant. If any mechanic's lien is filed against any part of the Property for work claimed to have been done for, or materials claimed to have been furnished to Tenant, such mechanic's lien shall be discharged by Tenant within ten (10) days thereafter, at Tenant's sole cost and expense, by the payment thereof or by making any deposit required by law or by posting a bond with such surety, in such amount and in such form as landlord deems proper. Tenant shall immediately notify Landlord of any mechanic's lien or other lien filed against the Property or any part thereof by a contractor or subcontractor of Tenant or otherwise by reason of work claimed to have been done for or materials claimed to have been furnished to Tenant. If Tenant fails to remove such lien or post such bond within the ten (10) day period following the filing thereof, Landlord may, at its sole discretion and without waiving its right and remedies based on such breach by Tenant and without releasing Tenant from any of its obligations, cause such lien to be released by any means it shall deem proper, including payment

in satisfaction of the claim giving rise to such lien. Tenant shall, in such event, pay to Landlord at once, upon notice by Landlord, any sum paid by Landlord to remove such lien, together with interest at the rate of twelve percent (12%) from the date of such payment by Landlord. Landlord shall have the right at all times to post and keep posted on the Property any notices permitted or required by applicable law, or that Landlord shall deem proper for the protection of Landlord, the Property, the Property and any other party having an interest therein, from liens. All material suppliers, contractors, artisans, mechanics, laborers and other parties contracting with Tenant for the furnishing of any labor, services, materials, supplies or equipment with respect to any portion of the Property are hereby charged with notice that they must look solely to Tenant for payment of the same and Tenant's purchase orders, contracts and subcontracts in connection therewith must clearly state this requirement.

19. NON-LIABILITY:

Subject to the terms and conditions of paragraphs 6 and 15 hereof, Landlord shall not be liable for damage to any property of Tenant or of others located on the Property, or for the loss of or damage to any property of Tenant or of others by theft or otherwise. Landlord shall not be liable for any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water, rain or snow or leaks from any part of the Property or from the pipes, appliances, or plumbing works or from the roof, street or subsurface or from any other place or by dampness or by any other cause of whatsoever nature. Landlord shall not be liable for any such damage caused by Tenants or persons in the Property, occupants of adjacent property, of the buildings, or the public or caused by operations in connection of any private, public or quasi-public work. Landlord shall not be liable for any latent defect in the Property. All property of Tenant kept or stored on the Property shall be so kept or stored at the risk of Tenant only and Tenant shall hold Landlord harmless from any claims arising out of damage to the same, including subrogation claims by Tenant's insurance carrier.

20. ASSIGNMENT OR SUBLETTING:

Tenant agrees to use and occupy the Property throughout the entire term hereof for the purpose or purposes herein specified and for no other purposes, in the manner and to substantially the extent now intended, and not to assign, sublet, license, concession or otherwise transfer this Lease or Tenant's rights in the Property, or any part thereof, whether by voluntary act, operation of law, or otherwise, without obtaining the prior written consent of Landlord in each instance. Tenant shall seek such consent of Landlord by a written request therefore, setting forth such information as Landlord may deem necessary. Landlord agrees not to withhold consent unreasonably. Consent by Landlord to any assignment of this Lease or to any subletting of the Property shall not be a waiver of Landlord's rights under this paragraph as to any subsequent assignment or subletting. Landlord's rights to assign this Lease are and shall remain unqualified. No such assignment or subleasing shall relieve Tenant from any of Tenant's obligations in this Lease contained, nor shall any assignment or sublease or other transfer of this Lease be effective unless the assignees, subtenant or transferee shall at the time of such assignment, sublease or transfer, assume in writing for the benefit of Landlord, its successors or assigns, all of the terms, covenants and conditions of this Lease thereafter to be performed by Tenant and shall agree in writing to be bound thereby. Should Tenant sublease in accordance with the terms of this Lease, fifty percent (50%) of any increase in rental received by Tenant over the per square foot rental

rate which is being paid by Tenant shall be forwarded to and retained by Landlord, which increase shall be in addition to the Base Rent and Additional Rent due landlord under this Lease.

21. ATTORNMENT:

In the event of any sale, transfer or assignment of Landlord's interest in the Property, or this Lease, or if the Property comes into custody or possession of a mortgagee or any other party whether because of a mortgage foreclosure, or otherwise, Tenant shall attorn to such assignee or other party and recognize such party as Landlord hereunder; provided, however, Tenant's peaceable possession will not be disturbed so long as Tenant faithfully performs its obligations under this Lease. Tenant shall execute, on demand, any attornment agreement required by any such party to be executed, containing such provisions and such other provisions as such party may require.

22. NOVATION IN THE EVENT OF SALE:

In the event of the sale of the Property, Landlord shall be and hereby is relieved of all of the covenants and obligations created hereby accruing from and after the date of sale, and such sale shall result automatically in the purchaser assuming and agreeing to carry out all the covenants and obligations of Landlord herein. Notwithstanding the foregoing provisions of this paragraph, Landlord, in the event of a sale of the Property, shall cause to be included in the agreement of sale and purchase a covenant whereby the purchaser of the Property assumes and agrees to carry out all of the covenants and obligations of Landlord herein.

The Tenant agrees at any time and from time to time upon not less than ten (10) days prior written request by Landlord to execute, acknowledge and deliver to Landlord a statement in writing certifying that this Lease is unmodified and in full force and effect as modified and stating the modifications, and the dates to which the basic rent and other charges have been paid in advance, if any, it being intended that any such statement delivered pursuant to this paragraph may be relied upon by any prospective purchaser of the fee or mortgagee or assignee of any mortgage upon the fee of the Property. In the event that Tenant fails to execute and return the estoppel certificate within such ten (10) day period, the holder of such encumbrance shall be entitled to rely, as against the Tenant, that: (i) this Lease is in full force and effect, without amendment except as specified by the Landlord, (ii) Tenant has no offsets against rent nor any defenses to Tenant's performance under this Lease, (iii) Tenant has no right to any offset or defenses to the payment of rent, and (iv) Tenant has not paid any rental under this Lease more than one month in advance.

23. SUCCESSORS AND ASSIGNS:

The terms, covenants and conditions hereof shall be binding upon and inure to the successors and assigns of the parties hereto.

24. REMOVAL OF FIXTURES:

Notwithstanding anything contained in paragraph 8, paragraph 29 or elsewhere in this Lease, if Landlord requests then Tenant will promptly remove at the sole cost and expense of Tenant all fixtures, equipment and alterations made by Tenant simultaneously with vacating the Property

and Tenant will promptly restore the Property to the condition that existed immediately prior to said fixtures, equipment and alterations having been made all at the sole cost and expense of Tenant.

25. QUIET ENJOYMENT:

Landlord warrants that it has full right to execute and to perform this Lease and to grant the estate demised, and that Tenant, upon payment of the rents and other amounts due and the performance of all the terms, conditions, covenants and agreements on Tenant's part to be observed and performed under this Lease, may peaceably and quietly enjoy the Property for the business uses permitted hereunder, subject, nevertheless, to the terms and conditions of this Lease.

26. RECORDING:

Tenant shall not record this Lease without the written consent of Landlord. However, upon the request of either party hereto, the other party shall join in the execution of the Memorandum lease for the purposes of recordation. Said Memorandum lease shall describe the parties, the Property and the term of the Lease and shall incorporate this Lease by reference.

27. OVERDUE PAYMENTS:

All monies due under this Lease from Tenant to Landlord shall be due on demand, unless otherwise specified and if not paid when due, shall result in the imposition of a service charge for such late payment in the amount of five percent (5%) of the amount due.

28. SURRENDER:

On the Expiration Date or upon the termination hereof upon a day other than the Expiration Date, Tenant shall peaceably surrender the Property broom-clean in good order, condition and repair, reasonable wear and tear only excepted unless the Lease has been terminated pursuant to paragraphs 1.b, 14 or 15. On or before the Expiration Date or upon termination of this Lease on a day other than the Expiration Date, Tenant shall, at its expense, remove all trade fixtures, personal property and equipment and signs from the Property and any property not removed shall be deemed to have been abandoned. Any damage caused in removal of such items shall be repaired by Tenant and at its expense. All alterations, additions, improvements and fixtures (other than trade fixtures) which shall have been made or installed by Landlord or Tenant upon the Property and all floor covering so installed shall at the option of Landlord remain upon and be surrendered with the Property as a part thereof, without disturbance, molestation or injury, and without charge, at the expiration or termination of this Lease. If the Property is not surrendered on the Expiration Date or the date of termination, Tenant shall indemnify Landlord against loss or liability, claims, without limitation, made by any succeeding Tenant founded on such delay. Tenant shall promptly surrender all keys for the Property to Landlord at the place then fixed for payment of rent and shall inform Landlord of combinations of any locks and safes on the Property.

29. HOLDING OVER:

In the event of a holding over by Tenant after expiration or termination of this Lease without the consent in writing of Landlord, Tenant shall be deemed a Tenant at sufferance and shall pay rent for such occupancy at the rate of twice the lease-current aggregate Base and Additional Rent, prorated for the entire holdover period, plus all attorney's fees and expenses incurred by Landlord in enforcing its rights hereunder, plus any other damages occasioned by such holding over. Except as otherwise agreed, any holding over with the written consent of Landlord shall constitute Tenant as a month-to-month Tenant.

30. ABANDONMENT:

In the event Tenant shall remove its fixtures, equipment or machinery or shall vacate the Property or any part thereof prior to the Expiration Date of this Lease, or shall discontinue or suspend the operation of its business conducted on the Property for a period of more than thirty (30) consecutive days (except during any time when the Property may be rendered untenable by reason of fire or other casualty), then in any such event Tenant shall be deemed to have abandoned the Property and Tenant shall be in default under the terms of this Lease.

31. CONSENTS BY LANDLORD:

Whenever provision is made under this Lease for Tenant securing the consent or approval by Landlord, such consent or approval shall only be in writing.

32. NOTICES:

Any notice required or permitted under this Lease shall be deemed sufficiently given or secured if sent by registered or certified return receipt mail to Tenant at 6745 Highway 10 NW, Ramsey, Minnesota 55303, and to Landlord at the address then fixed for the payment of rent as provided in paragraph 4 of this Lease, and either party may by like written notice at any time designate a different address to which notices shall subsequently be sent or rent to be paid.

33. RULES AND REGULATIONS:

Tenant shall observe and comply with the rules and regulations as Landlord may prescribe and as listed on Exhibit A attached hereto, on written notice to Tenant for the safety, care and cleanliness of the Property.

34. INTENT OF PARTIES:

Except as otherwise provided herein, Tenant covenants and agrees that if it shall any time fail to pay any such cost or expenses, or fail to take out, pay for, maintain or deliver any of the insurance policies above required, or fail to make any other payment or perform any other act on its part to be made or performed as in this Lease provided, then Landlord may, but shall not be obligated so to do, and without notice to or demand upon Tenant and without waiving or releasing Tenant from any obligations of Tenant in this Lease contained, pay any such cost or expense, effect any such insurance coverage and pay premiums therefore, and may make any

other payment or perform any other act on the part of Tenant to be made and performed as in this Lease provided, in such manner and to such extent as Landlord may deem desirable, and in exercising any such right, to also pay all necessary and incidental costs and expenses, employ counsel and incur and pay reasonable attorney's fees. All sums so paid by Landlord and all necessary and incidental costs and expenses in connection with the performance of any such act by Landlord, together with interest thereon at the rate of twelve percent (12%) per annum from the date of making of such expenditure, by Landlord, shall be deemed Additional Rent hereunder, and shall be payable to Landlord on demand. Tenant covenants to pay any such sum or sums with interest as aforesaid and Landlord shall have the same rights and remedies in the event of the non-payment thereof by Tenant as in the case of default by Tenant in the payment of the Base Rent payable under this Lease.

35. GENERAL:

a. **Landlord Tenant Relationship.** This Lease does not create the relationship of principal and agent or of corporation or of joint venture or of any association between Landlord and Tenant, the sole relationship between the parties hereto being that of Landlord and Tenant.

b. **Effect of Waivers.** No waiver of any default of Tenant hereunder shall be implied from any omission by Landlord to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default specified in the express waiver and that only for the time and to the extent therein stated. One or more waivers by Landlord shall not then be construed as a waiver of a subsequent breach of the same covenant, term or condition. The consent to or approval by Landlord of any act by Tenant requiring Landlord's consent or approval shall not waive or render necessary Landlord's consent to or approval of any subsequent similar act by Tenant. No action required or permitted to be taken by or on behalf of Landlord under the terms or provisions of this Lease shall be deemed to constitute an eviction or disturbance of Tenant's possession of the Property. All preliminary negotiations are merged into and incorporated in this Lease. The laws of the State of Minnesota shall govern the validity, performance and enforcement of this Lease.

c. **Entire Agreement.** This Lease and the exhibits, if any, attached hereto and forming a part hereof, constitute the entire agreement between Landlord and Tenant affecting the Property and there are no other agreements, either oral or written, between them other than are herein set forth. No subsequent alteration, amendment, change or addition to this Lease shall be binding upon Landlord or Tenant unless reduced to writing and executed in the same form and manner in which this Lease is executed.

d. **Enforceability of Provisions.** If any agreement, covenant or condition of this Lease or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such agreement, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each agreement, covenant or condition of this Lease shall be valid and be enforced to the fullest extent permitted by law.

e. **No Personal Obligations.** The obligations of Landlord under this Lease do not constitute the personal obligations of the individual officers or employees of Landlord. If

Landlord shall fail to perform any covenant, term or condition of this Lease required of landlord, Tenant shall be required to deliver to Landlord written notice of the same. If, as a consequence of such default, Tenant shall recover a money judgment against Landlord, such judgment shall be satisfied only out of the proceeds of sale received upon execution of such judgment and levied thereon against the right, title and interest of Landlord in the Property and out of rent or other income from the Property receivable by Landlord, or out of consideration received by Landlord from the sale or other disposition of all or any part of Landlord's right, title or interest in the Property, and no action for any deficiency may be sought or obtained by Tenant.

f. **No Relocation Benefits.** The Tenant waives its right to relocation benefits under any state or federal law in the event Landlord elects to terminate this Lease prior to the expiration of the Lease Term or any subsequent term thereafter.

36. NO WASTE OR NUISANCE AND COMPLIANCE WITH LAWS:

a. **Property Use.** The Property shall be used by and/or at the sufferance of Tenant only for the purpose set forth in paragraph 11 above and for no other purposes. Tenant shall not use or permit the use of the Property in any manner that will tend to create waste or a nuisance. Tenant, its employees and all persons visiting or doing business with Tenant in the Property shall be bound by and shall observe the reasonable rules and regulations as listed on Exhibit A attached hereto, made by Landlord relating to the Property, of which notice in writing shall be given to Tenant, and all such rules and regulations shall be deemed to be incorporated into and form a part of this Lease.

b. **Obey Laws.** Tenant covenants throughout the Lease Term, at Tenant's sole cost and expense subject to Landlord's warranty in paragraph 6, promptly to comply with all laws and ordinances and the orders, rules and regulations and requirements of all federal, state and municipal governments and appropriate departments, commissions, boards, and officers thereof, and the orders, rules and regulations of the Board of Fire Underwriters where the Property are situated, or any other body now or hereafter created with jurisdiction over the Property, and whether or not the same require structural repairs or alterations, which may be applicable to the Property, or the use or manner of use of the Property. Tenant will likewise observe and comply with the requirements of all policies of public liability, fire and all other policies of insurance at any time in force with respect to the buildings and improvements on the Property and the equipment thereof.

37. HAZARDOUS MATERIAL:

In the event any Hazardous material (hereinafter defined) is brought or caused to be brought into or onto the Property by Tenant, Tenant shall handle any such material in compliance with all applicable federal, state and/or local regulations. For purposes of this paragraph, "Hazardous Material" means and includes any hazardous, toxic or dangerous waste, substance or material defined as such in (or for purposes of) the Comprehensive Environmental Response, Compensation, and Liability Act, and so-called "Superfund" or "Super lien" law, or any federal, state or local statute, law, ordinance, code, rule, regulation, order decree regulation, relating to, or imposing liability or standards of conduct concerning, any hazardous, toxic or dangerous waste, substance or material, as now or at any time hereafter in effect. Tenant shall submit to

Landlord on an annual basis copies of its approved hazardous materials communication plan, OSHA monitoring plan, and permits required by the Resource Recovery and Conservation Act of 1976, if Tenant is required to prepare, file or obtain any such plans or permits. Tenant will indemnify and hold harmless Landlord from any losses, liabilities, damages, costs or expenses (including reasonable attorney's fees) which Landlord may suffer or incur as a result of Tenant's introduction into or onto the Property, of any Hazardous Material. This paragraph shall survive the expiration or sooner termination of this Lease.

38. CAPTIONS:

The captions are inserted only as a matter of convenience and for reference, and in no way define, limit or describe the scope of this Lease nor the intent or any provision thereof.

39. ATTACHMENTS:

See also Exhibit A, which Exhibit is attached hereto and made a part hereof.

<u>Exhibit</u>	<u>Description</u>
Exhibit A	Property Rules and Regulations
Exhibit B	Graphic Depiction of Property
Exhibit C	Personal Property List

40. SUBMISSION:

Submission of this instrument to Tenant or proposed Tenant or its agents or attorneys for examination, review, consideration or signature does not constitute or imply an offer to lease, reservation of space, or option to lease, and this instrument shall have no binding legal effect until execution hereof by both Landlord/Owner and Tenant or its agents.

IN WITNESS WHEREOF, landlord and Tenant have caused these presents to be executed in form and manner sufficient to bind them at law, as of the day and year first above written.

LANDLORD:

TENANT:

**CITY OF RAMSEY, a
Minnesota Municipal Corporation**

**INDEPENDENT AUTO SERVICE, INC.
Minnesota Corporation**

By: _____
Bob Ramsey, Mayor

By: _____
Allen Berg, Chief Executive Manager

By: _____
Kurt G. Ulrich, City Administrator

EXHIBIT A
TO LEASE AGREEMENT
DATED February 1, 2012

BUILDING RULES AND REGULATIONS

1. Any sign, lettering, picture, notice or advertisement installed on or in any part of the Property and visible from the exterior of the Property, shall be installed at Tenant's sole cost and expense, and in such manner, character and style as Landlord may approve in writing. Anything herein to the contrary notwithstanding, approval as to signs shall be subject to Landlord's approval which may not be unreasonably withheld. In the event of a violation of the foregoing by Tenant, landlord may remove the same without any liability and may charge the expense incurred by such removal to Tenant.

2. Tenant assumes full responsibility for protecting its space from theft, robbery and pilferage, which includes keeping doors locked and other means of entry to the Property closed and secured after normal business hours.

3. Tenant shall comply with all applicable federal, state and municipal laws, ordinances and regulations, and building rules and shall not directly or indirectly make any use of the Property which may be prohibited by any of the foregoing or which may be dangerous to persons or property or may increase the cost of insurance or require additional insurance coverage.

4. The Property shall not be used for cooking (as opposed to heating of food), lodging, sleeping or for any immoral or illegal purpose.

5. Unless expressly permitted by Landlord, no additional locks or similar devices shall be attached to any door or window and no keys other than those provided by Landlord shall be made for any door. If more than two keys for one lock are desired by Tenant, Landlord may provide the same upon payment by Tenant. Upon termination of this Lease or of Tenant's possession, Tenant shall surrender all keys of the Property and shall explain to Landlord all combination locks on safes, cabinets and vaults.

6. The restrooms, drinking fountains and other plumbing fixtures shall not be used for any purpose other than for which they are constructed, and no sweepings, rubbish, rags, coffee grounds or other substances shall be thrown therein. All damages resulting from any misuse of the fixtures shall be borne by Tenant who, or whose employees, agents, visitors or licensees have caused same. No person shall waste water by interfering or tampering with the faucets or otherwise.

7. Tenant shall be responsible for any damage to the building or the property of its employees or others and injuries sustained by any person whomsoever resulting from the use or moving of such articles in or out of the Property, and shall make all repairs and improvements required by Landlord or governmental authorities in connection with the use or moving of such articles.

8. Wherever in these Building Rules and Regulations the word "Tenant" occurs, it is understood and agreed that it shall mean Tenant's associates, employees, agents, clerks, invitees, and visitors. Wherever the word "Landlord" occurs, it is understood and agreed that it shall mean Landlord's assigns, agents, clerks, and visitors.

9. Landlord shall have the right to enter upon the Property at all reasonable hours for the purpose of inspecting the same.

10. Landlord shall have the right to enter the Property at hours convenient to Tenant for the purpose of exhibiting the same to prospective tenants.

11. Tenant shall be responsible for all repair and maintenance of mechanical systems and devices associated with Tenant's Property, including, but not limited to, heating and air conditioning equipment, water heaters, exhaust fans, plumbing and electrical. Landlord must be advised of any such repair, etc. and must approve of any such repair. Landlord warrants that the equipment is in proper working order on the Commencement Date.

12. Alterations of any nature to the Property by Tenant shall require written approval of Landlord. Such approval shall not be unreasonably withheld. In the event of a violation of the foregoing by Tenant, Landlord may remove the same without any liability and may charge the expense incurred by such removal to Tenant.

13. Tenant and Tenant's employees, agents, visitors and licensees shall observe faithfully and comply strictly with the foregoing rules and regulations and such other and further appropriate rules and regulations as Landlord or Landlord's agent may from time to time adopt. Reasonable notice of any additional rules and regulations shall be given in such manner as Landlord may reasonably elect in its reasonable discretion.

14. Landlord reserves the right at any time to rescind, alter or waive, in whole or in part, any of these Rules and Regulations when deemed necessary, desirable, or proper, in Landlord's judgment, for its best interest or for the best interest of the tenants of the Complex. Tenant reserves the right to refuse compliance with any subsequent additional rules and regulations added to those agreed to at the time of signing the Lease.

15. To the extent these rules are in conflict with the terms of the Lease, the terms of the Lease shall rule and govern.

Exhibit B
Graphic Depiction of Property

Exhibit C
Personal Property List

CC Work Session

2. 4.

Meeting Date: 01/10/2012

By: Jo Thieling, Administrative Services

Title:

Review Council Organizational Resolution

Background:

Each year, Councilmembers are appointed to serve on different committees such as Personnel, Finance, Public Works, etc. Mayor Ramsey has recommended appointments for 2012 for Council review. The appointments do not include offices such as chair and vice-chair, etc. at this time. That action will be completed by each committee. The draft resolution is attached for Council review and discussion.

The organizational resolution has been placed on the regular Council Agenda for adoption this evening under the Case titled 2012 Council Organization. If any changes in appointments are recommended following discussion at this work session, those changes shall be pointed out during the discussion of the case, prior to adoption of the resolution.

Funding Source:

N/A

Council Action:

Review recommendations for Council Committee appointments and recommend the City Council adopt the Organizational Resolution on the January 10, 2012 Council Agenda.

Attachments

Organizational Resolution

Form Review

Inbox	Reviewed By	Date
Kurt Ulrich	Kurt Ulrich	01/04/2012 05:00 PM
Form Started By: Jo Thieling		Started On: 01/04/2012 02:40 PM
		Final Approval Date: 01/04/2012

Councilmember introduced the following resolution and moved for its adoption:

RESOLUTION #12-01-XXX

RESOLUTION FOR 2012 COUNCIL ORGANIZATION

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF RAMSEY, ANOKA COUNTY, STATE OF MINNESOTA, as follows:

- 1) That the City of Ramsey's official newspaper is as follows:
 - a) Anoka County Union - official newspaper of the City in which all legal notices, vacancies, advertisements, etc. will be published.
- 2) That the Acting Mayor, Council standing committees, Public Safety Board, Economic Development Authority, Health Authority, recording secretary and legal services designations are as follows:

		<u>2011 Appt.</u>	<u>2012 Appt.</u>
a)	Acting Mayor	Jeff Wise	Jeff Wise
b)	Personnel Committee Vice Chair (new 08)	Chair Colin McGlone Sarah Strommen Jason Tossey Bob Ramsey (Alt)	Colin McGlone Sarah Strommen Jason Tossey Bob Ramsey (Alt)
c)	Finance Committee Vice Chair	Chair David Elvig Randy Backous Jeff Wise Bob Ramsey (Alt)	David Elvig Bob Ramsey Jeff Wise Randy Backous (Alt)
d)	Public Works Committee Vice Chair (new 08)	Chair David Elvig Colin McGlone Randy Backous Bob Ramsey (Alt)	David Elvig Colin McGlone Jeff Wise Bob Ramsey (Alt)
e)	Ramsey/Nowthen Joint Powers Board <i>(Previously known as Fire Board)</i>	Colin McGlone Sarah Strommen Bob Ramsey (Alt)	Colin McGlone Sarah Strommen Jason Tossey (Alt)

	<u>2011 Appt.</u>	<u>2012 Appt.</u>
g) Ramsey Housing & Redev Auth	David Elvig (Chair) Bob Ramsey (Vice) Randy Backous Colin McGlone Sarah Strommen Jason Tossey Jeff Wise	David Elvig Bob Ramsey Randy Backous Colin McGlone Sarah Strommen Jason Tossey Jeff Wise
h) Economic Development Auth	Colin McGlone Jeff Wise Randy Backous (Alt)	Colin McGlone Jeff Wise Randy Backous (Alt)
i) Northstar Corridor Dev Auth	Bob Ramsey David Elvig (Alt)	David Elvig Bob Ramsey (Alt)
j) County Housing and Redevelopment Auth Liaison	Heidi Nelson	Heidi Nelson
k) Health Authority	Dr. James Long	Dr. James Long
l) Legal Services:		
General Legal and Prosecution	Randall, Goodrich	Randall, Goodrich
Bond Counsel/TIF	Kennedy & Graven Briggs & Morgan	Kennedy & Graven Briggs & Morgan
Personnel	Kennedy & Graven Barna, Guzy & Steffen	Kennedy & Graven Barna, Guzy & Steffen
Intergovernmental Relations	Kennedy & Graven Flaherty & Hood	Kennedy & Graven Flaherty & Hood
m) Recording Secretarial Services: TimeSaver Off Site Recording Secretary Service (TOSS)		TOSS
3) That delegate appointments are as follows:	<u>2011 Appt.</u>	<u>2012 Appt.</u>
a) Joint Law Enforcement Council	Jason Tossey James Way Sarah Strommen (Alt)	Jason Tossey James Way Sarah Strommen (Alt)
b) Anoka County Solid Waste Abatement Task Force	Chris Anderson	Chris Anderson
c) Anoka County Regional Railroad Authority	Brian Olson	Brian Olson

		<u>2011 Appt.</u>	<u>2012 Appt.</u>
d)	An. Co. Brdband Governance Grp	Randy Backous (alt?)	Randy Backous Alternate??
e)	Lower Rum River Water Management Organization (LRRWMO)	Bob Ramsey Randy Backous (Alt) <i>(Backous Regular in Dec 2011)</i>	Randy Backous Bob Ramsey (Alt)
f)	Lower Rum River WMO TAC	Tim Himmer	Tim Himmer
g)	North Metro Mayors Association: Operating Committee Management Committee	Kurt Ulrich Bob Ramsey	Kurt Ulrich Bob Ramsey
h)	Quad Cities Cable Communications Commission	Colin McGlone <i>(as of Dec)</i> Heidi A. Nelson	Colin McGlone Heidi A. Nelson
i)	Environmental Policy Board	Randy Backous	Randy Backous
j)	Happy Days Committee	Jeff Wise David Elvig Colin McGlone	Jeff Wise David Elvig Colin McGlone

The motion for the adoption of the foregoing resolution was duly seconded by Councilmember and upon vote being taken thereon, the following voted in favor thereof:

and the following voted against the same:

and the following abstained:

and the following were absent:

Whereupon said resolution was declared duly passed and adopted by the Ramsey City Council this the 10th day of January, 2012.

Mayor

ATTEST:

City Clerk

CC Work Session

2. 5.

Meeting Date: 01/10/2012

By: Tim Gladhill, Community Development

Title:

Review Building Code Options for Fire Suppression

Background:

At the December 6, 2011 City Council Work Session, the City Council discussed the provisions of the Minnesota State Building Code as it relates to fire suppression/sprinklers. The City Council discussed the optional provisions of the Building Code, including Chapter 1306 entitled Special Fire Protection Systems. The City Council directed staff to prepare a cost analysis of construction costs associated with and without requirements of Chapter 1306. If the City Council decides to repeal Chapter 1306, Chapter 9 of the International Building Code would still include fire suppression provisions.

At the same Work Session, the City Council directed Staff to review the legality of issuance of Interim Use Permits (IUP), a zoning tool afforded to cities in Minnesota by Minnesota Statute Chapter 462.

Notification:

No notification required.

Observations:

The State of Minnesota has adopted the International Building Code as part of the State Building Code. The State of Minnesota requires that the City adopt the State Building Code, which requires certain required and optional chapters. Within the state building code, buildings meeting certain limitations must incorporate fire suppression systems. This threshold is different for types of uses, occupant loads, building construction types or building heights above or below grade. Architects may at times have an option to build fire walls in-lieu-of fire suppression. This option is not always available due to tenant space needs or other specific code requirements.

As noted before, Chapter 1306 of the Building Code is an optional chapter of the Building Code. However, the required sections of Building Code the City must adopt do include provisions for fire suppression even without the adoption of Chapter 1306. Chapter 1306 reduces the thresholds where fire suppression is required within buildings or tenant spaces. All 'A' type spaces and almost all other occupancy types have 2,000 square feet or more are required to have suppression under Chapter 1306.

Chapter 9 does include requirements for existing buildings, with certain increases in occupant load triggering the need for existing structures to install fire suppression. As an example, Hope Fellowship would need to have fire suppression due to the fact it is an 'A-3' type assembly under Chapter 1306. If Chapter 1306 was not adopted, the tenant space would still be evaluated during plan review. In this case, fire suppression would still be required per the Building Code due to occupant load. Chapter 9 sets thresholds where fire suppression is automatically required. Spaces classified as Class 'A-3' need fire suppression if any of the following applies:

1. The fire area square footage is over 12,000 square feet
2. The occupant load is over 300 occupants
3. The structure is more than one story in height.

Hope Fellowship's occupant load is over 700. This is a case where the tenant needs would not allow for fire walls in lieu of fire suppression. The worship space would need to be cut by approximately 50% with a fire wall to make it meet Building Code requirements and not require fire suppression.

To address the City Council's desire to review the difference in cost between fire suppression or other methods of

fire protection, Staff has prepared an alternative scenario for the same space currently occupied by Hope Fellowship, but evaluated a different occupant type. Staff evaluated the space as a bowling center instead of a church. A bowling center is still an 'A-3', but could be rated for an occupant load of 350 people. Under 1306 it would need fire suppression due to the fact it's an 'A-3' occupant type. Without 1306, the building code would require suppression for occupant load or a fire wall could be added. With the occupant load fewer than 300 on both sides of the rated wall, fire suppression would not be needed.

The Building Official discussed the bowling center scenario with a contractor. The contractor's thoughts were that the upfront cost difference between fire suppression and a fire wall would be roughly one quarter to one third less with a fire rated wall when compared to fire suppression. The contractor also commented that his company always directs owners to look into cost savings over time due to insurance reductions. In other words, savings on insurance premiums due to installation of a fire suppression system may help off-set the costs of installing a fire suppression. Staff has not researched actual costs savings on insurance premiums at this time. In addition, there may be impacts to the City's ISO rating based on the inclusion of Chapter 1306.

In terms of the question of legality of IUPs, Minnesota Statute Section 462.3597 does provide the City with the authority to allow interim uses that allow a temporary use of a property until a particular date, until the occurrence of a particular event, or until the zoning no longer allows it. It should be noted that an IUP is a tool related to zoning and permitted use of a property.

Recommendation:

Based on discussion.

Funding Source:

Review of the Building Code provisions related to fire protection systems is being handled as part of regular staff duties.

Council Action:

Based on discussion. Provide direction on Chapter 1306 of the Building Code.

Attachments

IUP-Minnesota Statute 462.3597

Form Review

Inbox	Reviewed By	Date
Heidi Nelson	Heidi Nelson	01/05/2012 01:19 PM
Kurt Ulrich	Kurt Ulrich	01/05/2012 02:03 PM
Form Started By: Tim Gladhill		Started On: 12/29/2011 03:07 PM
		Final Approval Date: 01/05/2012

462.3597 INTERIM USES.

Subdivision 1. **Definition.** An "interim use" is a temporary use of property until a particular date, until the occurrence of a particular event, or until zoning regulations no longer permit it.

Subd. 2. **Authority.** Zoning regulations may permit the governing body to allow interim uses. The regulations may set conditions on interim uses. The governing body may grant permission for an interim use of property if:

- (1) the use conforms to the zoning regulations;
- (2) the date or event that will terminate the use can be identified with certainty;
- (3) permission of the use will not impose additional costs on the public if it is necessary for the public to take the property in the future; and
- (4) the user agrees to any conditions that the governing body deems appropriate for permission of the use.

Any interim use may be terminated by a change in zoning regulations.

Subd. 3. **Public hearings.** Public hearings on the granting of interim use permits shall be held in the manner provided in section 462.357, subdivision 3.

History: 1989 c 200 s 2

CC Work Session

2. 6.

Meeting Date: 01/10/2012

By: Jo Thieling, Administrative Services

Title:

Discuss Mayor's Recommendations of Desirable Changes and Improvements Pursuant to City Charter 2.6.2

Background:

The City's Charter, Chapter 2, Section 2.6.2 states the following: *"Consistent with the responsibility to accept considerable leadership over the general conduct of city affairs, the mayor shall study the operations of the city government and recommend desirable changes and improvements to the council."* Pursuant to the Charter, Mayor Ramsey will be bringing the following recommendations forward:

Eliminate the Deputy City Administrator Position.

Terminate the contract with the current City Administrator or accept his resignation.

Appoint the current Deputy City Administrator as City Administrator with a six month probationary period.

Funding Source:

N/A

Council Action:

Based upon discussion.

Form Review

Inbox	Reviewed By	Date
Kurt Ulrich	Kurt Ulrich	01/05/2012 01:59 PM
Form Started By: Jo Thieling		Started On: 01/05/2012 01:41 PM
	Final Approval Date: 01/05/2012	

CC Work Session

3. 1.

Meeting Date: 01/10/2012

By: Jo Thieling, Administrative Services

Title:

Review Future Topics/Calendar

Background:

Attached is a list of future topics for work session discussion.

Funding Source:

N/A

Council Action:

For Council review - no formal action necessary.

Attachments

Future Topics/Calendar

Form Review

Inbox	Reviewed By	Date
Kurt Ulrich	Kurt Ulrich	01/05/2012 12:16 PM
Form Started By: Jo Thieling		Started On: 01/05/2012 11:12 AM
	Final Approval Date: 01/05/2012	

**Work Session Calendar
2011**

Month	Date	Topics for Discussion
January	17	<ul style="list-style-type: none"> • City Owned Land Inventory (PB)
January	24	<ul style="list-style-type: none"> • Federal Government Relations Services – Kurt • Proposal for Federal Funding Activities – Kurt
February	28	<ul style="list-style-type: none"> • Update on Redistricting (TG/JT)
Others on List – including 2011 Strategic Planning Items		<ul style="list-style-type: none"> • Discuss Leash Law (JW) • Discuss City’s Topsoil Ordinance (TH) • 167th & 47 Water Services Extension/Master Planning • Look at pilot programs (e.g. volunteer programs – low maintenance options) • Proactively recruit residential development and seek builders input • Build on outdoors/sportsmen’s market (e.g. stock pond/lake) • Coordinate COR marketing and City marketing • Develop community center/indoor sports complex • Old Town Hall relocation • Strategic Action Plan Update • Seek grant funding for transportation projects and service delivery • Complete US 10/ County Road 83 interchange design – pursue funding • Establish position on TH #47 South of Bunker to Highway #10 <p><u>Public Works</u></p> <ul style="list-style-type: none"> • Review plan for US Highway #10 pedestrian overpass and connection with Municipal Center ramp • Consider opportunities for four-wheeler & golf cart use • Review Project Management Issues (e.g. 151st & 167th Projects)
March 5, 2012		<ul style="list-style-type: none"> • Interviews for Boards and Commissions