

DATE: May 13, 2019

TO: President Hobbs and Members of the Duluth City Council

FROM: Keith A. Hamre, Director, Planning and Economic Development

RE: Resolution 19-0331R – Authorization to Enter into a Joint Powers Agreement

Each year, low-income housing tax credits are allocated by the Internal Revenue Service (IRS) to the states, the amount of which is based on their population. Using a published Qualified Allocation Plan to set priorities for awarding of tax credits, states accept applications from housing developers and select affordable housing projects to receive these credits. In turn, the developers sell the credits to corporations to raise capital. Corporations can use the credits they purchase to reduce the amount of taxes owed to the federal government. In return, the affordable housing projects are limited in the amount of rent that can be charged, and tenants must meet income eligibility requirements.

Minnesota has designated certain counties and cities as “suballocators” of housing tax credits, one of which is the City of Duluth. Between the time Congress authorized the program in 1986 and up until 1998, the city independently administered the credits allocated to Duluth. During that time, the IRS issued numerous regulations, clarifications and rulings that significantly complicated the program. In 1999, Minnesota Housing Finance Agency and interested suballocator jurisdictions negotiated the first joint powers agreement. Because the State of Minnesota has the major responsibility to ensure compliance with IRS standards and smaller suballocators were having difficulty meeting all the requirements, the State assumed most of the administrative burden through the use of a Joint Powers Agreement. Each year since 1999, the City has approved an Agreement that transfers the City’s credits to the State, which has significantly reduced the amount of staff time and resources the city would have to expend on the tax credit program.

The above referenced resolution is to approve entering into a Joint Powers Agreement again for the coming year. By doing so, the City accepts the State’s Qualified Allocation Plan for the selection of projects. However, the State requires applications for potential housing projects within Duluth to have the support of the City Council and the City Administration. In May, staff anticipates having resolution(s) before the Council for projects seeking the support from the City for their tax credit application(s).