Statement of the

Michigan Housing Council[1]

Before the

Michigan State Housing Development Authority

Regarding the Preliminary Implementation Plan for the

American Recovery & Reinvestment Act

<u>April 13, 2009</u>

Good Afternoon. My name is Sheldon P. Winkelman. I am the President of the Michigan Housing Council (MHC). On behalf of the Michigan Housing Council, I want to thank the Michigan State Housing Development Authority (MSHDA) for the opportunity to comment on the Preliminary Implementation Plan (Plan) outlining the program parameters for the allocation of federal stimulus funds under the American Recovery & Reinvestment Act.

We believe the document under consideration today is a solid, broadly-written plan that sets the stage for an informed discussion regarding the allocation of federal stimulus funds in Michigan. It's a difficult task, at best, given the lack of federal guidance. But overall, we believe the Plan is an important first

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[1] The Michigan Housing Council is one of the oldest statewide associations of affordable housing professionals in the United States. We represent for profit and non-profit owners, developers, managers, general contractors and subcontractors, architects, engineers, attorneys, investors, financial groups, insurers, accountants, market analysts, tax credit syndicators, and other consultants, non-profits and businesses involved with Michigan's affordable housing industry. Our members live and work in nearly every part of the state of Michigan and represent every facet of the affordable housing industry.

step toward re-energizing our industry and creating Michigan jobs. To the best of our knowledge, only three states have published such guidance. And we commend MSHDA for its leadership.

The challenge facing you now and in the coming months is enormous. During the next few weeks, the Plan will have to be finalized based on public input and additional federal guidance. Greater detail must be added to allow project sponsors to understand better how the Plan will affect individual projects. In the coming months, sixty (60) competitive tax credit projects from 2007 and 2008 must be re-underwritten. Eighty (80) or more projects received in the May Competitive Funding Round must be scored, ranked, and underwritten. And $400 million in new tax-exempt projects - nearly five (5) times MSHDA's annual production in recent years – are also to be evaluated and financed as part of the Plan.

While we do not know all of the specific requirements attached to federal stimulus funds, we do know that timeframes are tight and that unnecessary delay may cause Michigan to lose valuable federal resources and with those resources, the opportunity to create Michigan jobs.

We are confident that our members and that our industry can and will meet whatever state or federal administrative overlays emerge as part of the final Plan.

We are pleased to give you our initial observations on your preliminary outline. First, we believe that the imposition of MSHDA direct-lending standards into the competitive tax-credit allocation will unnecessarily delay the allocation of federal stimulus funds as well as the benefits of such funds to the Michigan economy. Nor do we believe that MSHDA's direct-lending standards will necessarily result in better projects that will be attractive to national investors. To the contrary, a recent in-depth study by Ernst & Young of competitively awarded, nine percent tax credit projects in Michigan demonstrates that projects in the competitively awarded portfolio are more stable and out-perform similar projects in the MSHDA direct-lending portfolio.

This is not meant to be a criticism of MSHDA, its staff, or its underwriting procedures. It is, however, an acknowledgement that the sheer number of projects in need of federal stimulus funds will overwhelm MSHDA's underwriting process creating unwanted and unnecessary delay. It is also an affirmation of MSHDA's policy long-standing policy to rely on the existing LIHTC delivery system to effectively underwrite projects, deliver quality affordable units into the marketplace, and maintain those units during challenging economic times without the administrative overlay of MSHDA's direct-lending program.

For example, please consider that the Plan anticipates that each project assisted with federal stimulus funds must for the first time meet MSHDA design review standards. But for in-fill projects in Michigan's urban core, no such standards exist. How will these projects be evaluated quickly and efficiently if no review standard exists? In other cases, project plans may have already been finalized as part of MSHDA's competitive award process. A new layer of review, imposing different standards can only create delay and increase project costs.

Further, the Plan suggests that the underwriting for most projects may need to be "refreshed." The unfortunate reality is, however, that the costs associated with Davis Bacon compliance coupled with the costs of MSHDA's new administrative overlay will mean that in nearly every case, each of these projects will need to be re-tooled causing delays.

NSP, TCAP and Exchange Programs are limited resources that must balance short-term and long-term public policy goals. In the short-term, these programs must provide gap financing and create jobs by providing relief to projects that have been unable to secure private equity commitments during the past year and a half. In the long-term, however, these programs must also be the catalyst that induces national investors to return, to stay, and to be active in the Michigan affordable housing marketplace long after the current incentives have expired.

We can achieve the short-term and long-term public policy goals through careful planning and coordinated actions that combine the talents and resources of the public sector with the talents and resources of the existing LIHTC delivery system. But the Plan, as currently drafted, relies too heavily on the public sector to re-tool projects and leads to concerns of unnecessary delay.

Although we understand MSHDA's role and responsibility in administering federal stimulus funds, we also understand that based on MSHDA's administration of the competitive tax credit program during the past twenty years, it is possible to create underwriting standards and hold the existing LIHTC credit delivery system accountable to enforce those standards as part of the application process. It is a process that has worked well as documented by the Ernst & Young report, and we recommend that you adopt the same or similar system of checks and balances to allocate federal stimulus funds quickly and efficiently, and without the imposition of MSHDA direct lending underwriting standards.

Specifically, we recommend that the Plan be amended to:

- Assure program participants that competitively awarded LIHTC projects that do not need federal stimulus funds are not subject to MSHDA's direct-lending standards or the newly created administrative overlays imposed by the Plan;
- Publish specific underwriting criteria and administrative safe harbors, in lieu of MSHDA direct-lending standards, to allocate federal stimulus funds that can be relied on by program participants and that are similar to those already used in the competitive tax credit program;
- Rely on current LIHTC delivery system to underwrite projects and to continue to deliver quality affordable units into the Michigan marketplace; and

- Enforce federal regulatory requirements and manage risk to MSHDA, if any, through loan documents rather than through the imposition of MSHDA direct-lending standards and a new administrative overlay.

We share a common goal which is to allocate federal stimulus funds quickly and efficiently while at the same time creating affordable housing and jobs for Michigan workers. It's a big job. None of us can do it alone. But together, we can bring value to these projects and to our state.

Thank you.