MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

DEPARTMENT OF TREASURY

MICHIGAN STRATEGIC FUND

SUMMARY OF PUBLIC HEARINGS

I, Christopher L. LaGrand, Chief Housing Investment Officer of the Michigan State Housing Development Authority (the "Authority"), certify that public hearings were held on the State of Michigan's 2015 Qualified Allocation Plan (QAP) for the Low Income Housing Tax Credit (LIHTC) program at Lansing, Michigan on April 23, 2014, at Detroit, Michigan on April 23, 2014, and at Grand Rapids, Michigan on April 25, 2014. The public hearings were held in compliance with the requirements of Section 22(b)(4) of P.A. 346 of 1966, as amended.

Further, official notice of these hearings was published in the Petoskey News Review, the Alpena News, Marquette's Mining Journal, the Traverse City Record-Eagle, the Lansing State Journal, the Grand Rapids Press, the Detroit News, and the Detroit Free Press. Copies of the official notices are on file at the Authority's offices in Lansing, Michigan.

I certify that 34 members of the general public attended the hearings. Oral comments were heard from 12 individuals in total, and 18 written comments were received during the public comment period. The following summarizes both verbal and written comments and MSHDA's response to those comments.

MSHDA's proposed reduction of the 9 percent maximum developer fee from $1.8 million to $1.4 million represents a dramatic cut of 22.2 percent. Further, the proposed MSHDA limit is below the national average of $1.5 million per development in the 12 QAPs where a maximum fee is imposed. However, in 34 QAPs, the developer fee is unlimited. Therefore, MSHDA should continue with its previous decision of a $1.8 million maximum developer fee.

MSHDA staff analysis of the developer fee level was based on a review of 18 QAPs from various state housing agencies and using actual project data from projects that have applied in the previous three years in Michigan. The project-specific data was used to look at project costs, eligible basis, number of units, etc. to determine how much developer fee projects that have actually been submitted in Michigan could actually earn had they been completed in other states.

MSHDA's goal in adjusting the developer fee cap was to reduce the cap to a level that would 1) bring Michigan's average developer fee in range with other states; 2) have an impact on making LIHTC resources go further; and 3) continue to have a developer fee that remains competitive when compared to other states. The end result of all of this analysis was the $1.4 million developer fee limit for 9 percent LIHTC projects ($2 million for 4 percent LIHTC projects) that has been proposed, which MSHDA believes to be fair and adequate.

Commenter's developer fee analysis appears to be incorrect and flawed in many areas. For example, the commenter calculates an average developer fee that can be earned for states that do have a cap of approximately $1,558,333. The commenter arrives at this calculation by excluding certain outlier states that the commenter has determined has low developer fee caps (the commenter cites South Carolina as an example). However, the commenter includes in its analysis those states that are the upper end outliers (Maryland and Washington D.C., both of which have $2.5 million caps). This would seem to be a flawed analysis and one that would certainly skew the outcome. If the analysis conducted were to also remove these upper-end outliers, the average developer fee cap in states with hard dollar limits, using the figures the commenter presented, would actually be $1,370,000 – $30,000 less than the cap MSHDA has proposed. Additionally, even if you assume that the commenter's presentation of facts and analysis is correct, the commenter comes up with an average cap for other states of approximately $1,500,000, yet recommends a developer fee cap for Michigan of $1,800,000.

The commenter's approach to reviewing the developer fee caps of other states is overly simplistic. The commenter goes through various QAPs and lists which states have hard caps on developer fees and which do not; and what some of the various percentages for acquisition, rehabilitation, and new construction developer fees are in other states. However, the commenter ends its analysis there, which does not give a full picture or a complete comparison of allowable developer fees across each state. Reviewing the commenter's analysis of those states that do not have a developer fee cap in place, for example, could lead one to believe that a developer could earn more developer fee in one of those states than in Michigan. However, that is not necessarily the case due to the varying calculation methodologies that exist across all of the states (e.g. percentage of total development costs, per-unit calculation, percentage of basis, etc.). For example, Massachusetts is listed as a state with no hard cap on developer fees. However, because of the method in which Massachusetts calculates the developer fee, projects in Michigan would actually earn a higher developer fee on average than they would in Massachusetts, even though Michigan has a hard dollar cap in place.

In addition to having a flawed analysis, the developer fee information presented by the commenter seems to have incorrect information throughout. For example, the commenter references that South Carolina has an overall developer fee cap of $150,000, which makes it an outlier. However, a quick review of South Carolina's QAP clearly indicates that the $150,000 is only for the acquisition portion of the developer fee, not the overall total fee.

The commenter indicates that the reduction in the developer fee from $1.8 million to $1.4 million represents a 22.2 percent decrease, which commenter indicates is a dramatic cut. However, commenter fails to recognize the fact that the developer fee was increased by 80 percent in 2011 to arrive at the cap of $1.8 million. Even with the proposed reduction in the developer fee cap to $1.4 million, the net growth in Michigan's developer fee cap over the last few years has still outpaced income growth for other industries and occupations across the state.

In 2011, when MSHDA and stakeholders engaged in discussions related to increasing the developer fee cap to the $1.8 million limit, it was agreed that this significant increase would be in place for a limited period of time in order to ameliorate the negative market conditions that existed at the time and to support the ability of stakeholders to sustain their properties. Over the four years of allocations that have been made since the increase was put into place, the market for LIHTC has drastically improved and the availability of affordable housing producing resources has steadily declined. The combination of these factors has led the resulting decrease in the developer fee cap.

MSHDA's proposed calculation for acquisition fees (7.5 percent) is far below 68 percent of the States that have an unlimited fee and 31.8 percent lower than the national average. The MHC believes the current fee structure has been a significant contributor to the return of equity investors to Michigan markets. Furthermore the investors have supported strong fees as noted in MSHDA's March 13, 2014 Investor QAP Focus Group. It is the MHC's position and historical evidence clearly supports that MSHDA's current fee structures work, and should not be changed.

The developer fee that is allowed for acquisition is available to essentially compensate a developer for work that is done to acquire a property so that it can be rehabilitated. The acquisition fee is generally allowed for projects that are either preservation of existing affordable housing developments in need of rehabilitation or for adaptive-reuse type projects (e.g. conversion of a warehouse into apartments). Of course, acquiring the property is part of the overall transaction and some value should be given to it, but not at the level of the rest of the transaction.

It is MSHDA's position that paying a fee for acquiring the property at a rate that is equal to the rate paid for the actual rehabilitation work being done makes little sense. In fact, it is an industry best practice to use a lower rate on the acquisition of the property than on the rehabilitation of the property.

In many instances, the preservation developments that are submitted for LIHTC are projects that are already owned by the developer that the developer is bringing back through the process for more credit because the property is eligible for another award of credits and in need of additional rehabilitation work. There would seem to be even less rationale for a higher rate on the acquisition costs for this type of transaction, where the work involved with acquiring the property is less. While the tax code allows for these types of transactions to receive a developer fee, it makes little sense to expend significant amounts of a limited LIHTC resource on a fee for simply transferring ownership between two entities; both controlled by same the developer.

If the fee were larger on the acquisition of the property, this would do little to encourage developers to negotiate the best acquisition price they can for the property and, in fact, may actually encourage them to do the opposite. Therefore, MSHDA arrived at calculation rate of 7.5 percent of the acquisition costs, which, when combined with the rate allowed for rehabilitation costs in Michigan, results in an average fee that could be earned on a project that would be competitive with other states.

MSHDA does not disagree with the commenter that LIHTC investors like to see a larger developer fee as opposed to a smaller developer fee. In any LIHTC transaction, there will typically only be one entity that is interested in keeping the amount of developer fee paid in check; the Housing Finance Agency, which in this case is MSHDA. All other parties to the transaction have an interest in the developer getting paid as much as possible so that it can help to mitigate some of the risk in the transaction. However, while the agency wants to see the project completed successfully, the agency has an interest that the other parties do not, which is efficient use of the resources, a goal that is accomplished by a lower developer fee.

We wish to comment on the 2015 QAP's proposed reduction in the developer fee related to the acquisition cost of the real estate. The latest draft proposes reducing the percentage from 15 percent of acquisition costs to 7.5 percent. We do not believe that conditions merit a reduction in *the percentage. If the stated goal is to align Michigan more closely with other states, then this reduction is excessive. As stated in MHC's position paper, the national average for acquisition fee is 11.11 percent. Historically, Michigan had an acquisition fee of 10 percent until this was changed in the 2011 QAP. To my knowledge, this percentage had been used for a very long time. Although we do not believe, any change in the fee is warranted, we would recommend changing the fee back to the 10 percent figure that worked well for MSHDA and the development community for a long time.*

Please see the immediately preceding response.

MSHDA's proposed reduction of the 4 percent maximum developer fee from $2.5 million to $2.0 million represents a dramatic cut of 20 percent. Maintaining the current level of $2.5 million is not only favorable to reducing a community's risk in the eyes of the investment community, it also results in MSHDA's 4 percent lending product to be much more attractive. In the current and foreseeable future, the bond cap limits will not be reached (this is not a limited resource); therefore, MSHDA should continue with its previous decision of a $2.5 million maximum developers fee.

The reduction to the maximum developer fee that can be earned on a 4 percent transaction represents an amount that is proportionate and consistent with the reduction in the amount of developer fee that can be earned on a 9 percent transaction. If fees for 9 percent transactions are excessive and can be reduced and still be competitive on a national/regional level, as described above, then 4 percent fees should also be reduced to a level that remains competitive on a national/regional level. MSHDA believes the $2 million cap for 4 percent transactions is a competitive figure.

The commenter suggests that the 4 percent developer fee should be allowed at a higher amount because we are not in a tax-exempt bond cap constrained environment. While this may be true at some level, this is not the full extent of what must be taken into consideration when evaluating these projects or the allowable developer fee. Generally, 4 percent projects require some level of gap financing to be financially viable and to be able to pay a developer fee. In the current environment, gap funding resources are extremely limited, which further supports the reduction in the maximum allowable developer fee. Generally, a developer fee that is paid on a 4 percent transaction is made up of some portion of gap financing resources, which would further support limiting the amount that can be earned to a reasonable level. Additionally, because many of these projects need some level of gap financing, it may not necessarily be the amount of developer fee that a developer can earn that makes MSHDA tax-exempt lending attractive, but rather the fact that there is gap financing available.

The draft QAP requires all deals planning to apply under the Preservation Category for 9 percent LIHTC in the spring to first apply for MSHDA's Gap Financing program in the fall and be rejected for Gap Financing to be eligible to apply for 9 percent LIHTC in the spring. This pre-review requirement isn't needed. MSHDA has always received more applications for the Gap Financing program than what they can support with available soft funds. The pre-review would place an unnecessary burden on developers. The requirement would cause additional costs to be incurred (updating third party reports, additional earnest money deposits to hold a purchase agreement, etc.) and the added time frame and uncertainty will be problematic with sellers. The pre-review would cause wasted time and expense for smaller preservation deals (including most rural projects and many "placemaking" projects) because they aren't good candidates for tax exempt bond financing. 4 percent projects are simply different deals than 9 percent projects.

MSHDA believes the pre-review requirement allows for a maximization in the production of preservation deals across the various multi-family programs by ensuring that the deals feasible on a 4 percent transactional basis are financed via that financing mechanism. The review process helps to ensure that the 9 percent credit goes to the projects that actually need it to be financially viable and also ensures that MSHDA best utilizes the gap funding resources to maximize the production of possible direct-lended 4 percent loans. Since 9 percent credits provide a significantly higher level of subsidy to affordable housing projects, deals not requiring this higher level of subsidy for feasibility purposes should be accomplished through a more resource efficient financing approach.

The determination to utilize this pre-review process is based on an analysis MSHDA conducted of recent preservation projects that were submitted as 9 percent applications. This analysis showed that there were deals that had received a 9 percent LIHTC award that could have actually been completed using the 4 percent credit and financing from MSHDA. Had MSHDA's analysis gone back even further, it likely that there would have even more projects that could have been completed as 4 percent transactions with MSHDA financing and gap financing. Based on the analysis, it is clear that there are deals that could be done as 4 percent transactions as opposed to 9 percent transactions, which is a better use of the overall resources available for affordable housing in the state. In the revised process, if the project will not work as a 4 percent transaction or is unlikely to be competitive as a 4 percent transaction, then it will be able to apply as a competitive 9 percent transaction. The only time a project needs to be completed as a 4 percent transaction is if the numbers show that it could actually work using that financing program.

The pre-review requirement can be implemented in such a way so as to limit delays and added expense related to the pre-review. The level of data required for the pre-review is limited and should not require significant additional work for developers or cause significant delays in deal processing timelines, since applicants will only need to submit the few required items that are a part of MSHDA's Preliminary Assessment phase. The items required will allow MSHDA to review the financial viability of the project, the preliminary market analysis, and the overall capacity of the development team. In any event, the required items are items that the sponsor would typically have to have ready as part of a submission/application for 9 percent credit, so there isn't much in the way of additional work required to submit the development proposal for pre-review. MSHDA is simply requiring these items to be submitted at least 45 days in advance of the funding round for its review. If an applicant is unable to meet that timeframe for these minimal items, they probably shouldn't be submitting a 9 percent application in any event.

The commenter makes reference to the pre-review process being done at only one point during the year, which was in an earlier draft and is no longer accurate. Sponsors of preservation projects will still be able to compete in two funding rounds per year for 9 percent credit, but simply must submit their preliminary project information for MSHDA to review it first to ensure that the project is eligible to submit for 9 percent credit based on the project's financial proforma.

While we appreciate MSHDA's commitment to allocate credits as efficiently as possible, we do not agree with the requirement to apply for the 4 percent NOFA prior to applying for the 9 percent credits. We have a strong concern that small and rural housing developments will not qualify for the 4 percent NOFA and due to this, submission for the NOFA round will create extra work while not necessarily achieving a policy goal. We also have concerns that with different underwriting goals and criteria between a 4 percent NOFA transaction and a 9 percent LIHTC transaction, the language in the QAP that bars a preservation transaction in the 9 percent round *unfairly penalizes developers from submitting preservation proposals that are worthy of consideration as a 9 percent transaction that might not work as a 4 percent NOFA transaction.*

Please see the immediately preceding response.

The Walk Score® on-line community asset scoring tool has inherent flaws in methodology as well as intent when compared with the goals of the QAP. While these flaws have been acknowledged by MSHDA staff members, the Walk Score® tool is proposed to be used to award Site Amenities points - one of the largest point categories under the proposed QAP. The Walk Score® metrics often encourage development in urban or downtown areas where land and development costs are likely to be higher. The incentive to develop in the higher cost areas is directly in conflict with the QAP scoring for Cost Containment. The MHC strongly encourages MSHDA to reduce the maximum number of possible points under the Site Amenities category. The MHC also recommends the MSHDA staff give serious consideration to alternative scoring tools. The MHC requests MSHDA to consider Ohio and Florida's walkability scoring systems as better examples. The MHC strongly request that the walkability-scoring category not be used as the tie-breaker. The flaws in the scoring system are too pronounced to use this as a final determinant. Lastly, if Walk Score® remains as one of the largest influences in the QAP process, in part or in whole, the MHC requests that MSHDA arrange Walk Score® educational training sessions for its members and the development community.

MSHDA believes that the Walk Score methodology is a useful and applicable tool for selecting better real estate sites and improved development locations by ensuring that development sites receiving credits are better and higher quality real estate locations. While MSHDA agrees that the Walk Score system is not perfect and does not always include all of the location amenities associated with a particular development site, MSHDA believes that the Walk Score system is largely accurate and a good indicator of a proposed development site's quality when compared to other sites also under consideration for a credit award. However, to address some of the inaccuracies that may exist, MSHDA intends to contract with Walk Score to expedite consideration of site amenity corrections provided by LIHTC applicants to Walk Score staff. MSHDA believes many of these issues can be resolved through discussion between development teams and Walk Score Staff.

MSHDA believes that the Walk Score methodology/system is the best available method for evaluating the relative quality of potential LIHTC development sites. Various other options were explored, but those options all resulted in a system where each applicant ends up scoring the same in this area or a system that essentially recreates what Walk Score already has in place. Therefore, it made sense to continue to work with Walk Score to see how the process can be improved, which MSHDA believes should be addressed since applicants will have the ability to contact Walk Score to correct any issues.

MSHDA will explore opportunities to provide applicable training to potential applicants relative to the Walk Score system/methodology.

CEDAM believes that Walk Score does not always accurately reflect a community's amenities or quality of life. Walk Score often reflects out-of-date information and may include amenities not actually present. It is in everyone's best interest to utilize a scoring protocol with a high degree of reliability, which we do not believe is currently reflected through Walk Score. We ask that MSHDA consider utilizing the mechanism in Ohio's QAP to help determine walkability. Similarly, Walk Score does not reflect the services related access that should be a part of a PSH project *and is reflected in addendum III review. We believe that the 20 point assignment is excessive, and combining it with Central Cities points is merely double counting.*

Please see the immediately preceding response.

Use of the Walk Score tool will make it challenging for existing affordable developments to be able to score well. These projects are located where they are located and cannot improve their location or Site Amenities score.

All existing development sites are equally impacted by the use of the Walk Score methodology. Since most of the credits are awarded within specific development categories (Preservation/PSH/Open) and many developments within these categories have similar characteristics – all deals should be impacted in a similar fashion by the enhanced use of the Walk Score in the deal selection process.

MSHDA believes that differences in Walk Score are a relevant metric to base a selection on because in general higher Walk Scores mean better sites and better sites should win awards of credits over sites that are not as strong from a real estate fundamentals perspective. Even in situations where there is an existing development and existing developments are competing against each other, it is MSHDA's desire to award the limited 9 percent credit to a project that is in a stronger location, which in some cases might be the only significant difference between two projects.

The Cost Containment measure has twice the penalty as the bonus and is inconsistent with Credit Efficiency where the penalty and bonus calculation is equal. MSHDA should make the penalty and bonus equal in both measurements. MSHDA needs to evaluate the safe harbor limits for adaptive re-use, especially if they want to encourage re-use of buildings in areas that are prime 'placemaking' opportunities and/or for projects that provide benefits to the state/regions that far outweigh the benefit from funding one more deal. It may want to provide for moving "high cost" developments solely into the Strategic Investment category. MSHDA needs to evaluate the balance between credit usage and cost containment for smaller deals that end up using more credit per unit in order to avoid negative cost containment points due to the fixed costs of a smaller project driving up the PSF costs of the project. Smaller projects inherently cost more per square foot and consume more tax credit dollars per unit because certain fixed costs, both soft and hard, are spread over less square footage and fewer units. MSHDA seems to be incentivizing larger deals that are cheaper to build which is, counter to the practical implementation of such programs in 'placemaking' opportunities, which capitalize on infill opportunities. The proposed metrics will result in developers pushing costs downward toward the $20,000 per unit preservation threshold, which in turn may reduce quality or compromise the level of rehab required.

MSHDA believes it is appropriate to increase the negative points awarded for higher cost projects on a sliding scale since the higher cost deals utilize more resources on a sliding scale as expenses increase. Once a project's costs exceed the safe harbor limits, we believe that the higher the costs go the more negative points should be associated with those costs. It makes little sense to cap the maximum negative points at a level since there would then be no incentive to limit costs above that cap once the cap is reached. The cost containment and credit efficiency point categories were created to incentivize developers' efforts to contain costs and utilize the lowest level of subsidy required to produce a feasible/economically viable development proposal.

While it is axiomatic that certain forms of development cost more than others to develop – it makes little sense to exempt any type of class of deals from cost containment provisions on the basis that higher costs are acceptable for certain classifications of deals. We do not believe that cost containment provisions will unduly harm placemaking opportunities or cause developments to proceed with inadequate construction or rehab standards – there are other methods available for reducing costs in financings besides eliminating placemaking principals or sound construction and rehab standards from consideration in development proposals.

We have a significant concern that the full guaranty for the length of the compliance period will make it difficult for non-profits to both gain experience and fully participate in transactions. Important partner guaranties typically relate to the construction period, lease-up and operating stabilization and issuance of IRS Form 8609. We believe that the proposed policy of focusing on the long-term guaranties fails to advance a fully-vetted policy goal and may penalize nonprofits that may not have the depth of financial capacity for an elongated guarantee period not otherwise required by their equity partner and/or lender.

MSHDA believes that its policies with regard to any partnership between developers designed to produce a better development proposal must actually produce a quality development proposal over the full life of that proposal – not just create a viable deal for the design/construction phase of the proposal. Both non-profit and for-profit developers that lack experience with LIHTC developments should be incentivized to find partners that are willing to partner with them in real/meaningful ways that extend over the entire development time horizon.

MSHDA believes that the proposed changes in financial guaranty requirements related to partnerships/joint ventures between experienced and inexperienced developers will enhance the operational efficiency and capability of development proposals in a useful and meaningful way. Additionally, these changes help to ensure that there is a real and meaningful partnership in place where entities are partnering on a transaction for points or other reasons.

We are very disappointed with the proposed elimination of the nonprofit participation points. We believe this change will eliminate the incentive for an experienced developer to partner with nonprofits, as well as eliminate the nonprofits' ability to gain experience and financial capacity. The proposed change also favors large nonprofits (which may be the only nonprofits with the experience to receive experience points). We fear that this could have the unintended consequence of encouraging large national nonprofits, not based in Michigan, to develop in Michigan, potentially squeezing out Michigan-based nonprofits — especially if the proposed Michigan-based business preference is also eliminated. As we believe that the intent of this policy is to inhibit for-profit developers from "chasing points," a better solution would be to merely enforce the 51 percent nonprofit interest/developer fee requirement.

MSHDA believes that awarding points solely because an entity is a non-profit entity and for no other reason makes little sense and achieves no meaningful policy goal. The goal of the QAP should be to select the best development proposals and best development partners for the award of credits and the development of low-to-moderate income housing to serve the citizens of the state of Michigan regardless of whether or not the proposed developments is developed by a for-profit or not-for-profit entity. That said, MSHDA believes that strong non-profit developers will continue to receive awards of credit and will continue to develop projects related to those awards.

We request that MSHDA consider all non-tax credit affordable housing experience that is similar to LIHTC developments, including MSHDA-financed projects without LIHTC, Section 202 or 811

<u>projects, etc., as actual experience. These types of developments take similar paths to develop and manage, as well as bear striking similarity to LIHTC only developments.</u>

MSHDA believes that there are many forms of development and development experience that may be relevant to the successful development of LIHTC developments. However, experience with other programs is often times not equivalent to LIHTC experience or adequate for the development LIHTC developments, and generally doesn't translate to an applicant getting optimal terms of investment in LIHTC transactions. Since specific LIHTC experience is relevant to the likelihood of successfully developing additional LIHTC housing, MSHDA believes it appropriate to evaluate LIHTC experience as a separate and relevant item in the scoring and selection process.

<u>We have strong concerns that the preservation of PSH units is treated the same as the construction of new units. We fear that this could favor preservation in a way that results in the construction of fewer new PSH units —which we believe is counter to the State of Michigan's intent to create 500 new PSH units in the next five (5) years. In order to address this discrepancy, we recommend that MSHDA either create a sub-set-aside for PSH preservation in the PSH category and allocate additional LIHTC to that sub-category-, or that MSHDA increase the amount of credit available in the PSH set aside to address the need to preserve PSH projects coming off their 15 year compliance period. We also believe that PSH developments are disadvantaged by the cost containment formula. As part of the PSH requirements, MSHDA strongly- encourages community space and supportive service space for PSH residents by awarding points as part of the PSH scoring criteria. This additional space adds to the overall constriction costs. Currently, preservation and historic developments have different cost containment formulas. We ask that MSHDA consider the same for PSH deals. CEDAM members are willing to review MSHDA cost data in order to assist with this determination. We ask that when PSH credits are returned to MSHDA, that they are returned to the PSH set aside pool, as opposed to the general pool where they are currently awarded, to assure that developers construct as many PSH units as possible. We believe MSHDA should refocus its use of tenant targeting for PSH transactions. Having other state agencies assess whether homeless individuals are people with disabilities actually require PSH units, relying more on local HARAs/shelters for referrals and integrating national CSH best practice tools (such as the SPDAT), will improve our ability to produce PSH units that house those who are most in need. Awarding PSH experience points can also promote this goal.</u>

MSHDA understands the issue raised with regards to the need to preserve previously developed PSH units. However, given current resource constraints and the fact that PSH development already receives 25 percent of the credits available in any allocation year, MSHDA does not believe that resources are available to increase the allocation to PSH developments.

The proposed scoring criteria assesses cost containment and credit efficiency points based on three different construction types – new construction, acquisition and rehabilitation of existing apartments, and adaptive reuse or historic rehabilitation. This approach attempts to recognize the inherent differences that exist across the different construction types, while also trying to keep the analysis as simple as possible and not get too granular. Adding additional layers to these scoring criteria makes the analysis more complex and could actually end up adding more confusion to the process. For example, if a PSH category were added to the cost containment analysis, which cost category would a new construction, project score itself under? Additionally, the proposed metrics for both the cost containment data and credit efficiency data, including the average costs and safe harbors for each construction type, are based on the most recent five years of project data for 9 percent LIHTC projects. This means that previous PSH projects would be factored into the data set and should aid in helping to determine a more accurate cost score for PSH projects. Because of these reasons and because it is MSHDA's position that construction-type is the primary difference that needs to be accounted for when assessing cost containment points, MSHDA has decided not add a PSH category is the cost containment scoring analysis.

MSHDA declines to adjust the award process for returned credits. Were we to make the proposed change, we would also need to eliminate PSH deals from potential awards of general pool credits since it would be unfair to other category deals who would be feeding the pool that PSH deals could potentially receive credits from. MSHDA intends to utilize the SPDAT tool in the allocation process.

We ask that the total number of negative points be reduced to ten, which will match the number of potential positive points. We also ask that MSHDA create a written and transparent standard for assigning negative points, which includes a time schedule of how long negative points will remain in effect for a developer or property management company. Without standards and transparency, the public has no way of knowing the nature of the evaluation process being utilized by MSHDA, and whether it is fair and consistently administered.

The assessment of negative points is intended to be punitive, which is why the number of negative points needs to be significant. Minimizing the number of negative points would reduce the impact and effectiveness of the tool negative points represents.

As outlined in the scoring criteria, the process allows for an applicant to contact MSHDA in advance of a funding round to determine if negative points will be assessed.

The criteria that are outlined indicate that negative points will be assessed for a period of three years following the instance or poor performance.

Currently, Affordable Assisted Living developments are included in the general pool, as opposed to receiving additional points with a separate set-aside. As Michigan has a growing population requiring assisted living, we ask that MSHDA consider adding points for affordable assisted living developments.

MSHDA believes that Affordable Assisted Living developments can adequately compete for credits within the general pool and that a separate set-aside for such deals is not warranted.

Natural Resources Defense Council (NRDC) recommends MSHDA incorporate the following into the QAP: To qualify for an allocation, any rehabilitation project must include an energy audit and a description of how the results will inform the selection of measures. Reward rehabilitation projects where it is demonstrated that substantial increases in energy efficiency will be obtained by awarding additional points in the QAP process. Reward all projects that commit to benchmark the energy use of the property for the life of the applicable tax credits by awarding additional points in the QAP process.

MSHDA did not engage in significant discussion of its present Tab M – Green Policy during this QAP review cycle. MSHDA did not receive a significant amount of commentary reflecting a need to adjust Green Policy. MSHDA therefore declines to make any adjustments Tab M – Green Policy during this amendment cycle.

Detroit Future City strongly encourages MSHDA to increase the importance of the site location criteria in the overall scoring. We also encourage MSHDA to consider the DFC Strategic Framework as one of the Community Revitalization Plans, as described in 8 .2, even though the framework has not been formally adopted by the City of Detroit. The City is currently working toward integration of the DFC Strategic Framework into City policies and regulations, including in the Master Plan of Policies, the Zoning Ordinance, and the City's investment strategy. In addition, local foundations have committed to making investments following the DFC Strategic Framework.

MSHDA agrees and has increased the weighting and amount of points that are available in the Site Amenities section of the scoring, which assesses a development's location.

The revised criteria that are outlined for a development to receive points for being part of a Neighborhood Revitalization Plan/Investment Activity Area should be able to account for any area or neighborhood that either has a real plan in place or a significant amount of investment activity. These changes that were made could potentially allow for a development to receive points if the development is a part of the policies outlined in this comment.

We are concerned that DFC's suggestion to use location based 'threshold' criteria for investment in preservation projects may have unintended negative consequences. As you know, many existing LIHTC projects in the City of Detroit are outside of DFC's proposed 'Eligible Areas.' Many of these projects will need to be recapitalized during their extended use periods. Making a blanket decision to preclude these properties from accessing LIHTC would, in our opinion, jeopardize MSHDA's existing investments in Detroit and reduce the supply of quality affordable housing in the City.

The criteria contained in the 2015-2016 QAP does not specifically make location-based criteria a threshold item, but does weight it heavily. The basic site assessment does remain a part of the overall market analysis threshold.

We encourage MSHDA to either reinstate Native American Housing as a Funding Priority or create a funding priority category for the Upper Peninsula. The Native American Housing priority was previously included in the Underserved Population category with a target percentage of 5 percent and was eliminated in the 2013-2014 QAP.

The funding category that existed for Native American Housing in prior QAPs was underused. Developments should compete for credit based on the merits of the project and the application, which leads to stronger overall projects. Further dividing the available credit into smaller categories, with more specific carve-outs, does not necessarily accomplish this goal.

Certain points have been incorporated into the scoring criteria to account for those Native American Housing projects that can demonstrate the need and financial support for the project.

While tax credit experience may be a worthwhile measure, development team capacity should also consider use of other programs and funding sources such as Native American Housing and Self Determination Act (NAHASDA) and other low-income programs. For example, unlike most LIHTC and non-LIHTC developers many Tribally Designated Housing Entities (TDHEs) have more than 40 years of experience managing and developing affordable housing through other federal programs. We believe this significant experience should not be ignored.

It has been MSHDA's experience over the many years where points have been awarded in this category for any previous affordable housing experience, that any affordable housing experience doesn't necessarily translate to the experience that is needed complete a LIHTC project successfully and with better investment terms.

We agree that 40 years is a substantial amount of experience for any development entity to have. While it may not necessarily translate into points in the competitive process, the experience should still prove to be beneficial to an applicant when providing oversight to a property.

We ask that MSHDA explicitly include Native American Housing Assistance and Self-Determination Act (NAHASDA) funds in the list of eligible Government Financing for purposes of qualifying as a preservation project.

Under the current guidelines, NAHASDA funding would already allow a development to qualify as a preservation project as long as all other preservation requirements are satisfied. NAHASDA funding is a government funding source provided by HUD and HUD financing is specifically identified as an eligible funding source for preservation.

It is difficult for many areas located in the Upper Peninsula to score well under Walk Score criteria due to the remote nature of most if not all of the Upper Peninsula. Even when competing in the rural set-aside, projects located in the Upper Peninsula will likely have a competitive disadvantage as Walkscore amenities are far less likely to exist. In order to avoid unfairly penalizing the Upper Peninsula, we recommend that MSHDA award full points in this category to projects located in the Upper Peninsula.

MSHDA believes that differences in Walk Score are a relevant metric to base a selection on because in general higher Walk Scores mean better sites and better sites should win awards of credits over sites that are not as strong from a real estate fundamentals perspective.

Simply awarding the same number of points to all projects in a certain geographic area does not accomplish the goal of prioritizing stronger sites, and it make the competitive process non-competitive if all projects score the same.

We recommend MSHDA add an additional scoring category within the Municipal Support scoring category that awards points to projects with reduced land acquisition costs and/or includes donated property. Projects with lower land acquisition costs are able to keep development costs down which in turn assists with the long-term affordability of the project. Higher land costs translate to higher development costs, which translate into increased project debt which in turn gets passed along to residents in the form of higher rent.

The scoring criteria contain points for both cost containment and credit efficiency. If a project has low land costs or the property is donated, that would allow the project to score better within these scoring criteria. Therefore, the scoring criteria as presented should allow for additional benefit for projects that are able to acquire land with little or no cost.

The scoring criteria should specify that projects within close proximity of an existing community space would also be eligible for all points, so long as the dedicated community space meets the goals outlined in the scoring criteria. This is particularly relevant to projects that are developed at sites intended to take advantage of existing community amenities in the area, and overall reduces development costs.

There is no requirement that the project must create or build new community space in order to receive these points. Existing community space can be used to receive the points as long as it is available specifically for low income individuals, available for the residents of the proposed property, and has adequate space available for any residents of any development phase that will use the facility.

We strongly encourage MSHDA to eliminate preferential scoring for employing Michigan-based companies. For some niche sectors of the affordable housing industry (i.e. affordable housing developed by Native American Tribes or Tribally Designated Housing Entities), there simply are not qualified development team members to enable those groups to have a fair chance of claiming these points. Identifying an experienced tax credit accountant, attorney, consultant or management consultant well-versed not only in tax credit requirements but also NAHASDA, tribal land use issues, tribal law, sovereignty and a host of other topics specific only to this niche sector can be extremely challenging if that search is limited to a particular geographic area (such as the State of Michigan).

MSHDA agrees and has removed the scoring preferences for Michigan-based businesses.

NAHASDA funds should be added to list of eligible sources related to service delivery. Across the country, NAHASDA funds enable projects developed by Tribally Designated Housing Entities to provide a range of supportive services beneficial to low income members of the community and to those with special needs.

NAHASDA funds could be considered as an eligible source for service delivery. The sources that are listed are just some of the examples of sources that an applicant could use which could be counted. If NAHASDA funding were structured and used in a similar fashion as some of those that are listed, it could likely be considered in the same way.

The QAP should provide a limitation providing that a LIHTC project will not be selected within 2000ft of an existing LIHTC project to avoid any negative effects of an over-concentration, or the appearance of an over-concentration of Government subsidized housing.

Each development has to pass a market analysis threshold which accounts for supply and demand (among other things) in the market in which the project will be located. An over-concentration or over-supply of affordable housing in a specific area would result in a project potentially not being approved for a new award of LIHTC.

MSHDA should limit LIHTC to projects located in historic neighborhoods to only those projects that have 40 percent affordable units and 60 percent market rate units. Additionally, MSHDA should encourage mixed income development in general.

MSHDA agrees that having a mix of market rate and affordable units can be a good thing in the right situations. However, in many cases trying to structure the sources to complete the project with a significant number of market rate units is not possible due to the fact that the LIHTC program does not provide credit on market rate units and there are a limited number of other resources available to allow the project to be feasible. The competitive scoring criteria currently contain a provision to encourage mixed income development. An applicant can earn points for having at least 20 percent of the total units in the development available for market rate tenants.

First, we would again like to commend MSHDA for continuing to target resources to provide housing to our most vulnerable citizens. In particular, the 25 percent set aside for supportive housing acknowledges the need to house people who would otherwise be segregated from inclusion in our communities, in jails, hospitals or on the streets. At this time it is our recommendation to retain the supportive housing set aside in its current configuration. It is functioning well, as evidenced by the last funding round; it's clearly attracting additional developers who are offering a wide range of supportive housing projects that meet the communities unique needs. By not incentivizing the concentration of units, communities are able to develop housing consistent with their unique local character and plans. In addition, providing developers the opportunity to create projects that do not concentrate supportive housing units enables Michigan to be in compliance with the Olmstead ruling and also creates Tax Credit projects consistent with HUD preferences for 25 percent maximum per project of supportive housing units thereby enabling layering of other Federal funding.

MSHDA continues to believe that there is merit in encouraging the development of additional PSH units in Michigan. MSHDA continues to believe that both the distributed and concentrated models for the development of PSH have merit depending on the circumstances and development plan associated with a particular development. MSHDA believes that its policies in this regard are fully consistent with applicable federal and state law.

We do not support scoring criteria and procedures that will strongly favor projects with a higher concentration of the units going towards supportive housing, creating congregate settings. While there certainly is a need for more supportive housing units, we believe that creating concentrations of people with disabilities and other vulnerable citizens is a disservice for persons with disabilities and the whole community. Projects need to promote social and economic inclusion and diversity, as opposed to concentrations of poor and disenfranchised individuals and families.

As noted above, MSHDA continues to believe in the need to support the development of both types of PSH and believes that both models can be successfully developed and can meet resident's needs. MSHDA will continue to support the development of service-enriched PSH in the state of Michigan.

The Michigan based points category should be eliminated. This point category is not good public policy, stifles competition and creativity, and keeps potential new capital sources out of the state. The belief that an owner must establish its headquarters in the state of Michigan as a means to assure successful development seems contrary to recent strategic initiatives emanating from the Governor's office. Out of state developers can introduce new relationships with lenders, syndicators, and other funding sources that result in efficient deal structures and new sources of capital flowing into the state. We have done exactly that over the past several years. During the financial crisis, we convinced lenders and investors to begin or resume doing business in Michigan. We know that many of these lenders and investors have continued to lend and invest in non-Woda Michigan developments. The experience that out of state developers bring from other states and QAP's can inspire innovative design and construction practices that strengthen the housing portfolio in Michigan.

MSHDA agrees and has removed the scoring preferences for Michigan-based businesses.

The points awarded for PILOT's should be reduced. Local officials and citizens against low to moderate income housing are beginning to realize the significant impact a PILOT approval can have on the funding application. As a result, some communities are denying PILOT's as a *means to mollify NIMBY resistance to properly zoned sites with site plan approvals. While tax abatements can be an important component to a LIHTC proforma, there may be other methods of lowering project operating costs, thereby neutralizing the impact of taxes. By lowering the number of points in this category, projects with strong proformas (but no PILOT) will have a greater chance of winning in communities where PILOT's are never granted. This will reduce the impact of NIMBY opposition and will also provide some measure of insulation against disparate impact arguments.*

MSHDA agrees that the points available for a project that can obtain a Payment in Lieu of Taxes from the municipality should be reduced from the level available in the prior QAP. The points have been reduced from a maximum of 15 points to the potential for 5 points. MSHDA believes there is a benefit to a project having a Payment in Lieu of Taxes (PILOT), but not such a benefit that a project not be able to receive an award if it does not have one. If a project is able to proceed and be financially viable without the use of a PILOT, it should at least be able to have a competitive chance in the scoring and award process and not be forced to obtain an unnecessary PILOT, which in turn places unnecessary burden on the municipality.

Developers should not be allowed to self-syndicate their own deals. In a time when the tax credit program is under scrutiny, developers should not be able to profit from selling tax credits to a related entity. Utilizing this method to make additional money on a deal may violate state housing agency regulations. We strongly encourage you to include this area in required identity of interest disclosures from developers, and to reduce the amount of development fee that can be earned by the amount of any profit realized from self-syndication.

MSHDA presently reviews equity commitment documents to ensure that the developer and equity provider have negotiated an equity price that appears to be consistent with the current state of the LIHTC equity market for the particular transaction. MSHDA expressly reserves the right to reject a project’s application if the pricing or structure of the equity participation in the deal appears to be excessively low or structured in such a way so as to circumvent other limitations provided for in the QAP. Given the above provisions and the reviews associated with them, MSHDA believes a specific provision regarding self-syndication is unnecessary.

Developments should receive the maximum score if they are located within 1/4 mile from a public transportation stop instead of the 1/10 miles as currently required by the QAP. A designated stop within one-quarter mile of a tenant's residence is easily walkable and therefore should receive full scoring.

The intent behind the proximity transportation points is that the site be extremely walkable for the residents of the property. Some specific distance had to be chosen as the standard on which to award points, whether that is 1/10 mile or 1/4 mile. If the distance to a public transportation stop is too great, then every project will end up meeting the standard and qualifying for the points. MSHDA believed the 1/10 mile standard to be most appropriate given our residents needs and the nature of the typical sites presently submitted for consideration for award under the QAP.

We also wish to comment on MSHDA's policy of awarding management experience points specifically for properties in Michigan. TCB has decades of experience managing affordable housing, with a current management portfolio of more than one hundred properties comprising nearly 10,000 units in 14 states and the District of Columbia. Our portfolio includes 21 properties and over 1,900 units in Ohio, Illinois and Indiana, areas in close proximity to Michigan with similar operational conditions. We believe that MSHDA's policy may create an undue barrier to *entry for experienced affordable housing developers and managers, with a potentially detrimental effect on the introduction of innovative methods for the production and management of affordable housing in the state.*

MSHDA agrees and has removed any preferences that previously existed for Michigan-based entities.

Regarding cost containment, ensuring efficient use of limited affordable housing resources is critical, but we believe that efforts to ensure efficiency should accommodate the fact that costs necessarily vary by location and building type. In particular, projects in central cities that respect the character of the surrounding neighborhood are likely to be relatively expensive. This is especially relevant in light of MSHDA's desire to incorporate LIHTC in urban placemaking initiatives. As such, we suggest that MSHDA consider calculating a matrix of Safe Harbor Min and Max limits that incorporate location and building type, to ensure "apples to apples" comparisons.

The data set that exists, which was the basis for the determination of the cost containment scoring metrics and the safe harbor, was based on five years' worth of data from projects that received an award of funding. This data set is made up of projects from all locations around the state so the various types of locations where a project could be submitted should theoretically be addressed. The data set was analyzed to ensure that all project-types in all locations could receive an award if they had appropriate costs. Because the location points carry a heavier weight than the cost points, MSHDA believes projects located in urban areas should still be able to compete for an award of credit even though they are likely to be more expensive.

We recognize the current QAP is the result of compromise, and, although the group is still concerned about congregate settings, the compromise is working to support economic diversity and integration, housing choice, inclusion and accessibility for people with disabilities. By continuing the current scoring, we acknowledge MHSDA's efforts in decreasing the concentration of poverty and segregation of people with disabilities.

MSHDA agrees with the comment and believes its policies support appropriate housing development goals.

Although it appears that developers have incorporated barrier free design we believe it would still be of benefit to allow for additional points for those projects that plan for Universal Design. Universal Design goes beyond what the bare minimum of ADA and Fair Housing Code requires and creates an accessibly friendly environment.

MSHDA agrees that Universal Design principals can provide for improved designs and living environments for persons served by the LIHTC program. MSHDA believes that the proposed QAP allows for the inclusion of Universal Design elements when and where a developer chooses to incorporate them in their development proposal. However, given the increased costs associated with incorporating Universal Design principals in a particular project design and the trade-off necessary in determining where to balance the cost vs. design decision, MSHDA declines to provide incentives for the inclusion of Universal Design principals in development designs submitted under the QAP.

Market studies should not be required for small communities where demographics have not substantially changed, and historic occupancy has been stable. And with the proposed new *requirement of submitting market studies at the time of application, the market study fees are not recoverable if we withdraw our application.*

MSHDA believes that market study and market analysis is a critical component of any review of a potential LIHTC development proposal. In fact, provisions of Section 42 of the Internal Revenue Code require that any QAP include provisions considering project location, housing need characteristics, and project characteristics. Market study and market analysis is directly responsive to these issues/requirements. Additionally, MSHDA would note that the market study and market analysis requirements implemented as part of the QAP are necessary in order to determine the rent levels to be associated with various sizes and types of units to be offered for rent if the development is built and placed into the market. Finally, MSHDA believes that equity providers and lenders (as applicable) will require market study and market analysis as part of their consideration of a development proposal for equity investment or loan making purposes. Given the above, MSHDA declines to adjust its market study and market analysis requirements based on the comment.

From the perspective of an organization that strives to break down the barriers and the stigma faced by individuals with disabilities in our current housing market, we are concerned with the treatment of PSH units and allocation of points for low-income targeting in the proposed draft of the 2015-2016 QAP. In its current format, the scoring system incentivizes the production of housing developments with 50 percent or more PSH units by awarding them the full 20 points for low-income targeting. We fear that rewarding this type of concentration in supportive housing is problematic for holistic community development. The revised QAP should do more to reward mixed-income developments by awarding points at lower thresholds for the low-income targeting and supportive housing targeting categories.

MSHDA specifically sought to adjust the deep income targeting provisions of the QAP as they related to the development of PSH units in order to equalize the applicability of these provisions to distributed and concentrated model PSH developments. While it was believed that the 2013-2014 QAP would achieve an appropriate balance between the two models of PSH development, our experience over the last two years of allocations demonstrates that the concentrated model deals are at a significant disadvantage to distributed model deals given the fact that all but one of the allocations over the two-year period of the existing QAP were made to distributed model deals. MSHDA asked representatives of development teams known for developing distributed model PSH and representatives of development teams know for developing concentrated model PSH to convene a discussion to determine how the deep income targeting provisions could be modified to re-balance the allocations process so that both models had a legitimate opportunity to receive an allocation of credits. The result is a low income targeting scoring method that doesn’t necessarily preference one type of development of another, but that allows each type of development to score the maximum points available in different ways. MSHDA believes that the revised provisions will provide a balance of opportunity for both models of PSH deal to apply for and receive an award of credits.

We propose three primary changes to the proposed QAP: Change the low-income targeting formula by lowering the threshold to receive maximum points to 40 percent; reduce the number of points allocated for low-income targeting; Increase the number of points allocated for economic integration and expand the parameters for awarding points for mixed income developments.

For the reasons noted immediately above, MSHDA declines to make the above proposed changes in QAP policy since those provisions would bias the QAP towards the award of distributed model/style of PSH development.

MSHDA should reinstate the requirement that all family projects receiving a LIHTC award provide 10 percent of their units for PSH tenants.

MSHDA's QAP at one point in time required all family deals to provide that 10 percent of their units would be initially available for rental to PSH tenants. This style of PSH development through the 10 percent mandate differed in significant respects from the type of PSH development accomplished through the PSH category contained in the QAP. The differences mainly related to the level of service, type of tenant community served, quality of the PSH development plans and execution, and quality of the overall commitment to the development of PSH units. MSHDA eliminated the 10 percent requirement 2 years ago based on development and investor community opposition to the mandate, and the belief that the mandate units were of a significantly inferior quality and quantity to the PSH category units. At the same time that MSHDA eliminated the 10 percent requirement, MSHDA made adjustments to the PSH category requirements and policies to ensure that distributed model PSH would remain a viable development option. MSHDA believes that the PSH category approach is superior to the prior 10 percent mandate and therefore declines to reinstitute the 10 percent mandate in the proposed QAP.

MSHDA should only allocate PSH set aside credits for PSH units. Non-PSH units in integrated model PSH developments should be allocated from other categories/pools of credits.

MSHDA believes that this proposal would create a significant administrative issue for the Authority staff as we would essentially be required to track credit allocations on a unit basis with two different categories of unit – namely PSH and non-PSH. This requirement would require a complete redesign of our allocations and compliance process and require us to track allocations in a way that is presently not required. Additionally, MSHDA staff would estimate that as much as 70 percent of the credits allocated in any year could be related to PSH developments under this model. MSHDA believes that the proposed change would effectively result in a defacto, back door mandate requiring nearly all developments seeking an award of credits under the QAP to include PSH units in their development proposal.

We are disappointed that the site amenities category has been more heavily weighted and tied even more directly to a project's Walk Score. This category has always been problematic for tribes and the proposed revisions will put tribes at an even more pronounced disadvantage. For example, in the previous funding round the STHA St. Ignace Elder Complex Walk Score of 11 earned the project 2 out of 10 points in this category. Under the proposed structure, the same project would now earn 0 out of 20 points. In this draft, the site amenities category is weighted more heavily than any other category aside from low income targeting, which also has a maximum score of 20 points. That means the site amenities score is given preference even over developer experience and management company experience, which any investor will tell you are far more critical to the success of a project than location-based criteria.

MSHDA believes that the above comment represents a fundamental misunderstanding of real estate development principals. Location is and always has been a critical component in determining the market value and market desirability of any proposed real estate development. To propose that location essentially doesn't matter when considering the development of LIHTC supported affordable rental housing seems to us to be an incorrect and problematic proposal.

MSHDA would suggest that location is such a critical factor in determining the merit and viability of a proposed development that no level of prior development and management experience can overcome a poor location choice. Given the above, MSHDA acknowledges that it has significantly increased the relative weight of location and fundamental real estate quality in the award and allocation process. MSHDA believes this weighting is appropriate in that it ensures better sites and better quality real estate will be developed under the LIHTC program. MSHDA believes that this change will ultimately provide significant benefit to both the tenants served by MSHDA and to MSHDA itself as better development sites will lead to a better overall quality within the MSHDA LIHTC portfolio.

We are pleased to see a scoring preference given for Native American Housing. Unfortunately, five points will do little to offset the loss of points most tribes will face in the transportation, site amenities and experience categories as proposed in this draft. We estimate that the proposed scoring criteria will translate to a disadvantage of approximately 32 points across these categories. Five points will do little to offset the competitive disadvantage inherent in the proposed scoring criteria. We recommend increasing points available in this category or revising other categories as discussed in this memo in order to reduce the amount of points tribes are unable to earn.

MSHDA understands that Native American tribes have unmet housing needs on tribal lands and for tribal members. MSHDA also acknowledges that given typical tribal land locations, those locations will be at a disadvantage under the new and enhanced location-based scoring criterion. MSHDA proposed the point preference for certain Native American tribal supported housing development proposals in order to give those proposals some incentive to seek and ability to seek an award of credits. However, MSHDA acknowledges that if a proposed development site is of low quality and therefore achieves no or few points based on project location, real estate site quality, and amenities available to tenants in the vicinity of the development, then those project proposals can likely not overcome those disadvantages even with the proposed targeted points.

It is essential that the PSH set aside be used to spur the creation of new supportive housing units. Our analysis of the historical number of supportive housing units shows that: The total number of supportive housing units created by the LIHTC program has decreased, by far, to its lowest level of the last six years; the number of supportive housing units created by credits awarded via the supportive housing set aside, under the current QAP (128 units in 2013 compared to 282 in 2012), is less than half the number produced by previous QAPs; the absence of supportive housing units created by credits awarded via the general pool categories, on either a mandatory or incentivized basis, has significantly contributed to the overall decline of supportive housing units but in particular those in scattered site or de-concentrated settings.

MSHDA believes that under the 2011 and 2012 QAPs, which included both the PSH Set-aside amounting to 25 percent of the credits and the 10 percent mandate for family deals awarded credits, a total of 498 PSH units were created as follows:

100 percent PSH deals created 349 units, 35 percent PSH deals created 47 units and mandatory 10 percent units created 102 units.

While outcome data is still preliminary, based on a telephone survey of all of the 10 percent deals the following information has been gathered:

Not all PSH units required by the 10 percent mandate have been placed in service. Some of the project-based waiting lists have few names on them and some HAP's may need to be reduced since the units are not being utilized. Several of the 10 percent mandate projects stated that they need more funding for more services, and the safety valve allows those developers without HAP contracts to rent to non-PSH tenants after 45 days so the true amount of PSH units fluctuates based on referrals.

The current 2013-2014 QAP, which includes a modified PSH set aside amounting to 25 percent of the credits and no 10 percent mandate, created 352 units as follows:

There was only one 100 percent PSH deal that was able to score well enough to receive an award causing a large reduction in productivity and the inability to create projects such as Silver Star or the Bell Building. Less-concentrated models of 25 percent PSH were the primary funded projects, which created 316 PSH units.

Given the above, the approximate decrease in PSH units from the 2011 and 2012 QAPs to the 2013-2014 QAP is 146 units (498-352= 146).

In addition to the LIHTC program, MSHDA believes that the Moving Up Pilot will create approximately 250 units additional PSH units in 2014, bringing the grand total of PSH units to 602 PSH units (352+250 = 602).

The Moving Up Pilot is an HCV program preference to allow tenants in Federal funded PSH units that no longer need intensive services to receive a tenant based HCV. During 2014 it is projected that 250 units of PSH will be available for homeless and disabled populations needing case management. Current targeted communities are as follows: Detroit (100 units); Washtenaw (30 units); Genessee (50 units); Oakland (50 units; and Grand Traverse (20 units).

MSHDA has plans to expand the PILOT to Kalamazoo, Grand Rapids and Lansing creating an additional 150 PSH units and it is anticipated that this new preference in the HCV program can continue to allocate 100-150 units to allow the flow of PSH units in the communities throughout the State. The program further provides the following advantages: services are available and leveraged through the CoC programs and Department of Community Health. This provides better efficiencies in funding services and targeting the most in need.

The proposed QAP for 2015-2016 balances the scoring between concentrated and de-concentrated models. This means more units will be created through the ability for some 100 percent PSH deals to receive awards and proceed to development. Additionally, points have increased in the Addendum III to provide better quality deals with service enrichment. The proposed QAP also requires the PSH deals to use the standardized screening tools (SPDAT) to improve tenant selection and consistency throughout the State.

It is especially difficult to meet the visitable scoring criteria when rehabbing family RD 515 projects. Due to construction techniques utilized in the 70's, 80's and early 90's many of these properties have design characteristics that preclude converting all first floor units (as visitable) in a cost efficient manner. As a result, most developers will not attempt to convert any units to visitable. We suggest MSHDA award scoring based on the pro-rata share of first floor units that meet the visitable requirements. A change in scoring as suggested is bound to stimulate an increase of visitable units in MSHDA/RD preservation portfolio.

MSHDA agrees that the points that are available for incorporating visitable units and/or barrier free units into a development can be extremely difficult and cost prohibitive to incorporate into developments that were constructed many years ago. While these points are available for every project to potentially achieve, the expectation is not that it will be easy or even possible for every proposal to be able to receive these points due to the reasons the commenter outlines. Therefore, MHSDA believes it is appropriate to simply award the full points to projects that commit to undertaking these significant efforts for all of the appropriate units in the development, as opposed to a fewer number of points for just a few units.

More and more municipalities and neighborhood associations are recommending the inclusion of market-rate units in LIHTC developments. Sometimes the municipality requires this as a prerequisite to receiving site plan approval or other necessary leadership support. The current scoring threshold of 20 percent market-rate units is very difficult to achieve given the financial challenges encountered when market-rate units are developed as opposed to equity-rich LIHTC units. We believe that a lower scoring threshold (e.g. 10 percent; 2 points; 15 percent; 3 points, etc.) will assure additional market-rate units in the MSHDA portfolio while simultaneously help developers satisfy the requests of community stakeholders.

MSHDA agrees that the points that are available for incorporating market rate units into the development can very difficult to achieve due to the economics of the transaction and the loss of the LIHTC on those units. Typically, if a developer is to undertake a development with at least 20 percent of the units being market rate, it will require the use of some additional funding source(s) that would not have otherwise been necessary to make the project feasible as a 100 percent LIHTC transaction; which can often be quite difficult to accomplish. Alternatively, while a project that has fewer market rate units will also have a reduction in the amount of credit available; the amount of the reduction will be less, which may mean that the project could still be viable. Because of this significant difference in structuring the project financing and the complexity that accompanies it, MSHDA believes it appropriate to have a more significant reward in the way of points. Awarding partial points to a project that reserves a fewer number of market rate units could potentially diminish the value of this benefit.

We suggest the selection criteria be adjusted to more clearly focus the development of workforce housing in municipalities/regions that are already designated as SmartZones, Empowerment, EB-5 or Foreign Trade Zones. These federal or state designated zones already have pre-established incentives to attract out of state or foreign firms to relocate/establish jobs in these areas. In many cases safe and affordable workforce housing is in "short-supply" in these regions. The QAP selection criteria should be amended to fuel the strategic placement of housing in these predetermined geographical regions. MSHDA could positively impact the probability of job creation in these areas by amending the strategic investment category award criteria to encourage housing starts in zones such as the Blue Water Strategic corridor, Grand Rapids medical mile, targeted EB-5 areas etc.

While the QAP does not specifically outline the areas referenced in the comment, the Scoring Criteria will allow for these areas to receive preference within the overall scoring to the extent they otherwise meet the Neighborhood Revitalization Plan/Investment Activity Area requirements. The Neighborhood Revitalization Plan/Investment Activity Area scoring item is specifically for areas that have a targeted plan in place, which includes the proposed project, and/or which have had or will have significant amounts of investment and economic activity taking place. The types of areas being referenced in the comment would seem to align, in concept, with the types of areas that would generally qualify for these points. Therefore, MSHDA believes the criteria it has in place should be able to allow the types of zones referenced in the comment to receive a priority through the points already available.

We strongly support MSHDA's efforts to encourage preservation by setting aside 25 percent of Michigan's competitive tax credits for preservation and rehabilitation proposals. Michigan's past preservation efforts have been highly successful. From 2003 – 2009, at least 260 properties with 20,100 apartments were preserved in Michigan with 9 percent and 4 percent Low Income Housing Tax Credits. Michigan is a leader in the region in prioritizing preservation. We urge MSHDA to maintain its 25 percent set-aside for proposals involving the preservation and rehabilitation of existing multifamily rental housing in the final 2015 QAP.

MSHDA agrees and has maintained the 25 percent Preservation Category.

Providing affordable rental housing in areas with access to public transportation is an important strategy for encouraging community vitality, promoting diverse neighborhoods, and ensuring that low-income families have good access to jobs and services. Because transportation and housing are the two largest expenses for households across the country, it also helps ensure that low-income families are able to fit both of these necessities into their budgets. Rehabilitating existing housing near public transportation and maintaining its affordability prevents low- income families from being forced to move to the suburban fringe and reduces the need for sprawling development, which is likely to offer fewer affordable transportation options. We enthusiastically support the transit-oriented development incentives included in MSHDA's scoring criteria.

MSHDA agrees with the comment and has maintained the scoring preference that exists for projects that are able to incorporate transportation into the overall amenities available to the site. Additionally, MSHDA recognizes that there are different degrees of transportation that can be provided depending on the location of the site and the availability of transportation services in the area. Therefore, the 2015-2016 Scoring Criteria now has two different point options for the proximity of transportation to a development site. Developments located within 1/10 mile of a public transit stop, and those that are providing a site-specific service that provides a similar level of service to that of public transportation, will receive 5 points; while developments that are providing site-specific transit services, but at a lesser availability will be able to receive 3 points.

We enthusiastically support the green building incentives included in MSHDA's scoring criteria, and commend MSHDA for including consideration for green building practices, healthy building materials and energy efficient design features in Michigan's QAP.

MSHDA agrees that green building incentives and energy efficient design are important factors to incorporate into a project's overall design and into the selection criteria for awarding LIHTC.

The LEED for Homes criteria will be updated effective July 1, 2015, which will take place in the middle of the timeframe for which this QAP covers. MSHDA should account for this in the QAP and should make people aware of the change that is coming.

MSHDA believes the Green Policy as written should account for the update referenced in the comment. The Green Policy criteria that are outlined and made a part of the overall Scoring Criteria are intentionally set up so that they can evolve over time as the industry advances. In fact, one of the primary reasons MSHDA chose to use nationally-recognized sustainable development practices such as USGBC's LEED platform and Enterprise Community Partner's Green Communities Criteria when they were introduced into the QAP a few years ago was for the very reason the commenter mentions - because they continuously adapt on their own to the latest standards. This approach ensures that the QAP will always be up to date with the latest standards being used by these nationally recognized practices.