CITY OF DETROIT
HOUSING AND REVITALIZATION DEPARTMENT

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Mr. Kevin Elsenheimer
Executive Director
Michigan State Housing Development Authority
735 E. Michigan Avenue
Lansing, MI 48912

RE: City of Detroit Comments on the 2016-2017 State of Michigan Qualified Allocation Plan

Dear Mr. Elsenheimer:

Through the Qualified Allocation Plan (QAP) the Michigan State Housing Development Authority (MSHDA) administers the distribution of funds critical for affordable housing development. The scoring criteria of the QAP allows MSHDA to advance policies and priorities related to affordable housing development across the state.

We agree with many of MSHDA's policy priorities. We strongly agree with MSHDA that affordable housing development should contribute to placemaking, that the preservation of existing housing is key and that Permanent Supportive Housing (PSH) should be developed with a focus on quality over quantity.

In November 2015, Mayor Michael Duggan, Planning Director Maurice Cox, and Housing & Revitalization Director Arthur Jemison presented the City's policy to develop affordable housing in key neighborhoods through transformative developments, preservation of existing affordable housing, and development of permanent supportive housing. At that conference we also presented the 2016 edition of the map of Targeted Multifamily Housing Areas in order to advance these priorities.

As we heard from developers at the conference, the current QAP scoring criteria hampers the ability of developers in Detroit to help us meet our goals. We believe the scoring creates a struggle between locational attributes, overall project quality, and the cost of developing near commercial corridors in an urbanized built environment.

To encourage development that helps to transform Detroit's Targeted Multifamily Housing Areas, we recommend that the QAP scoring criteria be amended to facilitate the rehabilitation of buildings and the construction of new buildings that are of a high design and service quality.

To support such development, the City of Detroit recommends the changes outlined in this memo.

Issue: Facilitate the Revitalization of Urban Cores
Economically sustainable urban neighborhoods are often centered around a commercial main street. The best main streets are walkable areas that include a mix of building uses and are surrounded or include a mix of housing options. The building types found in these neighborhoods are often designed to improve a

neighborhood's form and function. Fortunately these commercial corridors already exist in Detroit. Built decades ago, these areas are poised for revitalization through planning and targeted investment.

Invest in City of Detroit Priorities

The City of Detroit is targeting several areas for multifamily development. We have communicated the target area map and our development priorities to potential developers consistently and often. The City of Detroit has invested $127 Million to protect these target areas by stemming the advance of blight. Growing these areas is critical to revitalizing our neighborhoods.

Proposed Action #1: The City of Detroit asks MSHDA to accept the 2016 Targeted Multifamily Housing Areas Map for the Neighborhood Revitalization Plan/Investment Activity Areas points in the QAP scoring criteria.

Invest in Transformation

Affordable housing can be part of plans to transform neighborhoods if they are designed to be assets beyond simple capacity to house people. Aesthetically pleasing multifamily affordable housing developments, whether rehabs or new construction, must be part of the mix of developments in order to ensure adequate housing for people of all income levels in a growing neighborhood. These types of development are likely to be costly and not score well in the QAP as is due to cost containment requirements. We will be supporting these developments with the limited housing development funds that we administer for when it is appropriate and we need MSHDA to help in ensuring that affordable housing is present in our target areas.

Proposed Action #2: The City asks that MSHDA regularly support projects the City identifies as transformational projects in Detroit using the Strategic Investment Category set-aside when such projects have the full support of the City.

Invest in Public Housing

Large public housing commissions in Michigan are the anchor of our affordable housing portfolio. Any unit of public housing that is constructed or renovated today is a replacement unit since the number of units a housing authority can own, operate, or assist is capped by law. We request that MSHDA prioritize proposals that involve the construction of new public housing or preservation of public housing in Michigan's large cities by considering investments in public housing to be preservation projects. Public housing rental assistance is a major permanent affordable housing resource that can only be preserved by maintaining the public housing properties.

Proposed Action #3: Prioritize public housing investments in the QAP by including them in the definition of preservation.

Clarify Central Cities Point Calculation

We agree that MSHDA should incentivize development of affordable housing in central cities and active commercial corridors. Such areas are costly to build in and often need additional affordable housing options. However, the methodology used to award these points is vague.

Proposed Action #4: The City asks that MSHDA better define the geographic criteria that qualifies an area for central city points and use a more widely accepted measure than the employee-to-resident ratio. The current method of awarding these points lacks transparency.

Issue: Modify Cost Containment Scoring Criteria

We respect the need to prudently allocate tax credits to projects across the state. The current policy is divided into two sections cost containment and credit efficiency. We recommend that MSHDA should move to a policy based primarily on credit efficiency so that competing priorities that are likely to harm cost containment scores are balanced with a cost measure that results in the pragmatic allocation of resources.

Development Priorities and Cost Containment

There is a great need to rehabilitate vacant buildings throughout our City. The rehabilitation of vacant buildings near commercial corridors will help to create place in Michigan's older cities. These vacant buildings are likely to be more than 50 years old, have masonry structures, contain lead and asbestos, and have outdated mechanical systems. Rehabilitating these structures is costly and the QAP inadequately allows for the needs of vacant buildings in the scoring criteria.

In the current QAP, only five points are available for rehabilitations of structures that are listed on the National Register of Historic Places. This criteria does not fit with the majority of vacant structures on the list and awards far too few points for the costly rehab. We recommend MSHDA modify the points and criteria associated with the rehabilitation of buildings in the following way:

Scoring Criteria Category: Rehabilitation Projects
(Currently known as Historic Rehabilitation Projects)

Building on National Register of Historic Places*	5 points (unchanged)
and/or	
Building vacant more than 10 years	10 points
Building vacant 5-9 years	5 points
Building vacant 2-4 years	2 points

**buildings on National Register of Historic Places should be eligible to receive points based on the number of years vacant in addition to the historic points.*

We recognize that the QAP cost containment criteria does have a different safe harbor zone for historic rehabilitations or adaptive reuse. While we acknowledge the QAP attempts to incorporate the higher cost of rehabilitating a building, we find the wider safe harbor to be inadequate for facilitate the rehabilitation of a building in an urbanized local area. The current cost containment and credit efficiency criteria makes it difficult to achieve this balance because many of the policy priorities increase the total cost of development.

We ask that MSHDA balance its efforts to achieve greater balance among placemaking, preservation, supportive housing construction, and financially responsible allocation of tax credits we believe the QAP should emphasize credit efficiency over cost containment. Doing so would allow MSHDA to leverage tax credit dollars when proposed developments have financial support from local governments and philanthropic organizations. This would help MSHDA to achieve its policy goals and cement the long term relationships between developers and locally based agencies.

If MSHDA continues to use Total Development Costs (TDC) as a criteria for allocating credits, we agree with others in the Michigan development community, MSHDA should add elements to the cost containment scoring to better achieve its policy priorities. We concur with the recommendation of the Dwelling Place, and recommend that a maximum per unit cost limit be established for several development categories and factor adjustments be added to the criteria to balance priorities.

<u>Proposed Action #5</u>: We specifically recommend the following:

- *Creation of a maximum per unit limit for the following project categories*
    - *Rehabilitation*
        - *Currently vacant structure*
            - *Non-PSH*
            - *PSH*
        - *Currently occupied structure*
            - *Non-PSH*
            - *PSH*
    - *New construction*
        - *Non-PSH*
        - *PSH*
- *Addition of factor adjustments to the maximum per unit limit for projects with the following characteristics*
    - *Mixed-use projects*
    - *Brownfield projects*
    - *Projects with assumed debt*
    - *Prevailing wage projects*

Comparison Across Markets

The cost containment and credit efficiency criteria used establishes the safe harbor based on the average development costs for similar buildings across the state. We are concerned that by using the average development costs across the state does not give the necessary weight to regional differences in development costs. Combined with the lack of a method to balance other development priorities, the criteria used to determine that credits are distributed in a financially responsible way, does not create an equitable playing field in places with higher development costs.

Proposed Action #6: If MSHDA continues to use TDC in its selection criteria, we recommend that MSHDA modify the 5-year Total Development Cost (TDC) comparison criteria so that it takes account of regional differences in construction costs by comparing a proposal to the average 10-year TDC of the relevant county and considering the trends of the relevant cost data. Using this measure would account for differences in the cost of development across the state and allow for a relevant sample size.

Encourage Development of Housing to End Homelessness

The City of Detroit shares MSHDA's priority of bringing high quality supportive housing to fruition. However, we believe that there are some changes to the QAP scoring which would help to ensure the quality of supportive housing projects.

Modify Supportive Services Coordination Scoring

The expectations related to supportive service coordination need to be reviewed. Much as developers get experience points, it should not be assumed that all service providers can give the same quality of service to supportive housing tenants. Supportive housing service capability requires a different skills set for example, than office-based mental health services. Service providers must have knowledge of landlord tenant law, be willing to offer services in the tenant's home, and have skill in avoiding eviction and working with property managers.

Proposed Action #7: Service commitments from organizations with prior experience providing services in supportive housing should score higher than organizations without this demonstrated experience.

Increase the Continuum of Care Support and Engagement Requirements

MSHDA should increase the expectation of developers of supportive housing to coordinate with the Continuum of Care (CoC) beyond the required letter of support and presentation meeting. If the CoC was involved in projects earlier and with more frequency they could use HMIS to establish target populations based on local data to ensure that supportive housing reaches those that need it most.

Proposed Action #8: Proposers that target high-need local homeless populations based on HMIS data should receive more points than those without explicit targets.

Additional Supportive Housing Recommendations

In order to truly obtain maximum impact from supportive housing to meet Michigan's goals outlined in the updated 10 Year Plan to End Homelessness, MSHDA should undertake the items under *Proposed Action #9:*

- *Require all referrals to supportive housing to come from the coordinated assessment entity or HARA to ensure that those placed in supportive housing need an expensive, limited resource to successfully avoid homelessness.*
- *Standardize recruitment criteria for supportive housing projects through the coordinated assessment entities or HARAs to ensure that the most vulnerable households are being "screened in" to supportive housing units.*
- *Increase points awarded for supportive housing projects in area of high need from two to five. This will help to incentivize supportive housing in high need areas so that we can reduce overall homelessness statewide.*

We recognize that the successful partnership with MSHDA will require reform and change at the City of Detroit and we embrace that challenge. We believe our current efforts to achieve greater geographic focus and emphasize developer experience in the proposals we support in the funding round are only the beginning of our commitment. We look forward to future in-person discussions of the items requested in this letter.

Sincerely,

Arthur Jemison
Director

CC: Mayor Michael E. Duggan
Michele Wildman
Andrew Martin
Thomas Lewand
Jed Howbert