April 29, 2016

Ms. Michele Wildman
Chief Housing Investment Officer
Michigan State Housing Development Authority
735 E. Michigan Avenue
Lansing, MI 48909

Dear Ms. Wildman:

On behalf of the Detroit and Michigan offices of the Local Initiatives Support Corporation (LISC) and the National Equity Fund (NEF), please accept this letter in regards to the draft 2017 Qualified Allocation Plan (QAP) released April 21, 2016. We appreciate the opportunity to provide input. We also want to provide our support to comments made by the City of Detroit, Community Development Advocates of Detroit (CDAD), Detroit CDFI Coalition, and the Community Economic Development Association of Michigan (CEDAM).

Development Team Experience

We believe the QAP as presented makes it exceedingly difficult for a nonprofit or lesser experienced for profit developer to score high enough to receive a Low Income Housing Tax Credit (LIHTC) allocation. We are concerned that the requirement for a developer to be a guarantor in able to gain experience points is onerous, and may raise legal issues for tax-exempt entities. We also feel that a project that has been placed in service for a minimum of three years to be counted is too long of a period of time and MSHDA should consider projects recently completed as well. We do applaud MSHDA for including non-LIHTC projects, but request that the number of successfully completed projects needed for scoring well be reduced to six. LISC and NEF are also supportive of the Community Economic Development Association of Michigan's (CEDAM) proposal previously submitted to MSHDA regarding geographic or population based organizations receiving experience points. These organizations are not likely to have a large enough real estate portfolio to meet current requirements. We also agree with the Detroit CDFI Coalition's suggestion to include in the GP/Member's experience board appointed corporate officers of ownership entities, which would allow nonprofits to score better.

Place Based Criteria

We continue to be disappointed with MSHDA's continued use of Walk Score. The site is meant to be used as a marketing tool and is not appropriate for use in making determinations in a high-stakes competition. Walk Score outcomes are inconsistent, can be manipulated, and the company does not verify the amenities listed that enhance a location's score. We certainly believe that the concept of a walkable area that will provide needed amenities and enhance the quality of life of a LIHTC property's residents is important, but suggest that there are more effective ways of measuring walkability. It has been previously suggested by LISC, CEDAM, and many others that the methodology in the Ohio QAP and those of other states should be considered. Additionally, with the extensive feedback provided previously by many entities, it is difficult to comprehend why MSHDA continues to allocate 20 points to the walk score. If the Walk Score methodology is maintained, we strongly encourage MSHDA to reduce the number of points awarded in connection with its results. MSHDA should also consider allowing additional or bonus points for amenities not currently considered. As an example, we refer to the Detroit CDFI Coalition's suggestion on this topic.

Further, we also ask that MSHDA consider a lower threshold for the number of employees to be considered at one location for the "Development near an Employment Center" section. We suggest that MSHDA consider multiple locations or a cohesive campus by one company within the .5 mile radius to be considered as meeting the requirement. Additionally, a cluster of employers, such as a shopping center or light industrial park, that provides the same number of jobs should be considered as meeting the category's qualifications. If this category is a way to enhance projects that don't score well under the current "Site Amenities" section, then the total should be increased from 5 to 10 points.

As an alternative to the suggestions on Walk Score above, MSHDA could award 18 points in "Site Amenities" regardless of Walk Score for projects which both meet the "Neighborhood Investment Activity Areas" criteria, and are located in QCTs. Doing so would fit with the IRC Section 42(m)(1) required preference for projects in QCTs which contribute to a concerted community revitalization plan.

We also encourage MSHDA to take a more inclusive view of revitalization. While likely too late for this cycle, future QAPs should include a clear path to award for projects located in an area targeted by other community development funders/investors beyond the Neighborhood Revitalization Plans currently specified in "Neighborhood Investment Activity Areas." Such criteria would focus on areas with public or private plans and activities that address not just physical development but improve the neighborhood's safety, health, or other important factors to making the neighborhood an attractive place to live.

While LISC supports mixed income communities and works to creatively leverage its CDFI resources to facilitate innovative approaches to create them, NEF has experienced difficulty attracting investment in projects with a significant number of unrestricted units. Therefore, we are concerned that a point preference for these deals will result in a disproportionate share of limited LIHTC resources going to transactions that will face challenges raising private capital. While we encourage MSHDA to pursue policies that create vibrant mixed income communities, absent other programmatic changes and additional operating support to make these projects viable, we are concerned that the preference alone is not an efficient means to achieve affordable housing in a mixed income setting.

We lend our support to CDAD and the Detroit CDFI Coalition's comments on the Central Cities component of the scoring sheet.

<u>Permanent Supportive Housing (PSH)</u>

In the event a permanent supportive housing project loses rental subsidy for its special needs units, and all reasonable efforts have been made to replace the subsidy with an acceptable alternative or find an alternate solution to keep the project viable, we request an owner be allowed change population to the extent necessary to maintain project feasibility. California has adopted this approach (see enclosed letter). Doing so will alleviate the need for large reserves, which is a very inefficient use of capital. While the investment community appreciates that the current MSHDA staff is reasonable, financial institutions have to take a conservative, long-term view.

Generally, we agree with CEDAM's comments regarding PSH project on the preservation set-aside, cost compliance, service reserve funding, the need for submission to CoCs, and the timing for Addendum III to be submitted.

Basis Boost

We understand MSHDA's decision to reduce the number of projects that receive the boost due to higher pricing and the fixed 9% rate. However, we do want to acknowledge that pricing is currently high and could decline during the two years' of the QAP, which could end up harming some projects that MSHDA currently feels don't need a 30% boost. At the very least, the changes should allow for the 30% to be achieved for projects in QCTs and DDAs. As noted above, projects in QCTs which contribute to a concerted community revitalization plan must have a preference. Allowing a full basis boost for such projects should be part of MSHDA's approach both to comply with this requirement and to help revitalization projects with what are often increased costs.

Additional Items

Other items we feel MSHDA needs to consider for changes in the QAP include the following:

- We ask MSHDA to consider using the amount of credits a project is eligible for PRIOR to taking any boost to be utilized in the credit efficiency calculation. If the amount after the boost is used, the positive affect of the boost is negated and points are lost.
- The negative points awarded in the "Increase in Total Development Costs" is too onerous. MSHDA should allow for less points, but also a clear process to determine why costs increased and whether it was in the developer's control. The process should allow for a waiver of the negative points if it's determined the increase was outside the developer's control.
- We also request that a written, transparent policy be established for negative points related to a developer's or property manager's previous experience. The policy should clearly demonstrate how a diligent developers can provide any mitigating information to address the issues and improve future performance. We also request that the negative points align more with the number of potential positive points that can be gained.
- Under the requirement for a preservation deal to undergo a Gap Financing Program review, we request that any preservation project, not just rural ones, would be exempt from the review if less than 49 units.

Lastly, we did want to comment on the QAP revision process. The timing to respond to the draft was extremely tight. To have only a week between the release of the draft and the public comment, with the Building Michigan Communities Conference (BMCC) taking place in the midst of the week between releasing the QAP and the first public comment hearing, was extremely difficult. Please revise this process in the future to allow for the public to be fully prepared to comment on the draft documents prior to being sent to the MSHDA board.

LISC and NEF appreciate the ability to comment on the draft QAP. We would be happy to have a dialogue on any of these topics and welcome the opportunity to do so. Feel free to contact us at 313-265-2829 for Tahirih Ziegler, and 614-706-4280 for Kristen Senff.

Sincerely,

Tahirih Ziegler
Executive Director—Detroit LISC

Kristen Senff
Originations Manager—NEF