



STATE OF MICHIGAN

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GOVERNOR

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
LANSING

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**NOTICE OF ADMINISTRATIVE REVISION—NSP2
DEFINITION OF AFFORDABLE RENTS**

April 29, 2011

To Whom It May Concern:

As the lead grantee for the Michigan Neighborhood Stabilization 2 Consortium, the Michigan State Housing Development Authority is providing notice to interested parties of minor administrative changes being made to the program.

Specifically, the Authority intends to revise the definition of affordable rents previously outlined in the Consortium's application to reflect the definition in Exhibit A. The revised definition is identical to that being used by the Authority for purposes of the NSP3 program. The Authority is also in the process of revising the definition of affordable rents for our NSP1 program.

The updated definition of affordable rents has several distinct advantages:

- It better coordinates with other sources of leveraged funds, particularly Low Income Housing Tax Credits and Tax-Exempt lending, thus reducing the administrative burden on property owners, management companies, and NSP2 consortium members.
- It provides more reasonable rent limits for units targeted to middle income (80%-120% AMI) households. The prior definition would have restricted 120% AMI units to rents that were generally affordable to 60% AMI households, providing an "overly affordable" rent to tenants at the expense of reducing project cash flow and thereby increasing the cost to the NSP2 program.
- For middle income units assisted by NSP, the revised definition, which does not include reference to an utility allowance, will be easier for project owners to administer while still providing affordable housing to a wide range of income-eligible prospective tenants.

Exhibit B contains an analysis of the proposed rent limit for middle income units restricted at 80%-120% AMI. As that discussion shows, the proposed rent limit is as affordable to the range of prospective tenants as the NSP "safe harbor" use of the High-HOME rent is for low and moderate income tenants.

The Authority intends to adopt this definition effective May 15, 2011.

Questions or comments pertaining to this change can be directed to Stephen Lathom in MSHDA's Executive Office at lathoms@michigan.gov.

EXHIBIT A

Definition of Affordable Rents for use by the Michigan NSP2 Consortium Effective May 15, 2011

The Michigan NSP2 Consortium (Consortium) identified the HOME definition of “affordable rents” at 24 CFR 92.252 (a), (c), and (f) in the original application.

MSHDA intends to use the following expanded and revised definition:

Definition: MSHDA will adopt the following definitions of “affordable rents” based on the mix of funding sources within specific transactions:

For NSP assisted housing units that are also subject to the income and rent restrictions of Sections 42 or 142 of the Internal Revenue Code, respectively relating to Low Income Housing Tax Credits and Tax-Exempt Bond financing, MSHDA will adopt as “affordable rents” the rents required by Section 42 and/or Section 142.

For NSP assisted units meeting the Low Income Set Aside that are also subject to the income and rent restrictions of Sections 42 or 142 of the Internal Revenue Code, respectively relating to Low Income Housing Tax Credits and Tax-Exempt Bond financing, MSHDA will adopt as “affordable rents” the rents required by Section 42 and/or Section 142 for 50% AMI units.

(Generically, combined these provisions will result in a gross rent limit equal to either the 60% AMI tax credit rent, or, for units designated within the NSP Low Income Set Aside, the 50% AMI tax credit rent.)

For NSP assisted housing units income restricted at or below 80% of the area median income and not otherwise assisted with Low Income Housing Tax Credits or Tax-Exempt Bond Financing, MSHDA will adopt the HOME definition of “affordable rents” at 24 CFR 92.252 (a)(2), (c), and (f).

For NSP assisted housing unit income restricted at or below 120% of the area median income and not otherwise assisted with Low Income Housing Tax Credits or Tax-Exempt Bond Financing, MSHDA will adopt as “affordable rents” a rent limit, without consideration of tenant paid utilities, calculated to be one-twelfth (1/12th) of 30% of the 100% area median income limit, as determined HUD, with adjustments for the number of bedrooms in unit.

EXHIBIT B

Discussion of Affordable Rents for Middle Income Units

The Authority is revising the definition of affordable rents, among other reasons, to establish a rent limit specific to NSP2 units that are targeted to middle income households between 80% and 100% AMI. The applicable provision is as follows:

For NSP assisted housing unit income restricted at or below 120% of the area median income and not otherwise assisted with Low Income Housing Tax Credits or Tax-Exempt Bond Financing, MSHDA will adopt as "affordable rents" a rent limit, without consideration of tenant paid utilities, calculated to be one-twelfth (1/12th) of 30% of the 100% area median income limit, as determined HUD, with adjustments for the number of bedrooms in unit.

The Authority has concluded that the rents resulting from this calculation remain affordable even without consideration of tenant paid utilities.

For example, assume a 2 bedroom unit income restricted at 120% AMI. In the standard process, the rent limit would be based on 3 person household (1.5 people per bedroom).

In Detroit (Wayne County), that means a rent based on 100% AMI for three person household is \$62,900. 30% of monthly income in this case yields a 100% AMI rent limit at \$1,572. 120% AMI is \$75,480; 30% of monthly income would be \$1,887.

By using a 100% rent limit without consideration of a utility allowance rather than the 120% AMI limit with a utility allowance, this definition essentially builds in the difference between the two--\$315--as an effective utility allowance.

Using the Michigan State Housing development Authority PHA utility chart for Wayne County, in a two bedroom unit even if using the highest cost utilities available (e.g. heating with electric, cooking and hot water with propane, etc) and assume that tenants pay all water/sewer and trash (which is highly unusual), the maximum tenant paid utility allowance is \$313 (also assuming a single family home rather than apartments or townhomes as the physical building type).

More likely, in an apartment building using natural gas for heat and domestic hot water and electric for cooking and assuming development paid water/sewer and trash, the utility allowance would be in the range of \$130. And that's working from the PHA chart which does not reflect the fact that NSP2 requires rigorous standards for energy efficiency in rehabilitation or new construction, suggesting that the actual performance of NSP2 assisted projects will often outperform the "norms" upon which the PHA charts are actually based.

In short, by using a 100% rent limit without a utility allowance, in the worst case, this definition is as affordable as using a 120% AMI rent limit with a utility allowance (an option HUD has otherwise identified within Q&A on the NSP Resource Exchange website as acceptable). The overwhelming likelihood is that this definition actually sets a lower rent limit by using the 100% AMI without a utility allowance, and in both cases more often than not the actual limitations the market places on rents will be the practical limit.

Additionally, a 100% rent limit without utility allowances will be administratively easier for property managers and owners who have not previously managed HUD-regulated developments to understand and consistently enforce.