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LANSING

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MEMORANDUM

DATE: MARCH 15, 2017
TO: INTERESTED PARTIES
FROM: CHAD BENSON, LIHTC ALLOCATIONS MANAGER
SUBJECT: LIHTC PROGRAM UPDATES

This memo is intended to provide potential applicants and stakeholders interested in Michigan's Low Income Housing Tax Credit ("LIHTC") program with updates to the Michigan Qualified Allocation Plan and updates to various application materials.

UPDATES TO THE MICHIGAN QUALIFIED ALLOCATION PLAN ("QAP")

Over the course of the last 3 to 4 months, it has become widely recognized throughout the LIHTC industry that the pricing for tax credits has fallen due to uncertainty in future corporate tax rates and the impact it would have on investors' ability to utilize the tax credits. Throughout the course of the equity market adjustment, the Michigan State Housing Development Authority ("MSHDA") has kept a close watch and been in frequent contact with various industry experts to understand the weight of the situation, but has also been careful not to react too quickly in a way that would be inefficient or not useful to program participants.

After many conversations, meetings, and deliberations, including a widely attended focus group, MSHDA has determined that it is necessary to make some program adjustments to account for the changes in the equity market, which were not present when the 2017-2018 QAP was put into effect in July of 2016. At that time, average equity pricing was nearing \$1.00 per tax credit, which allowed the QAP to be conservative on the state-designated basis boost, while also allowing projects to be feasible with the fixed 9% rate and the robust equity pricing. Since that time, MSHDA has polled many projects, including those that received awards from the October 2016 funding round and has determined that the average decrease in equity pricing that projects are experiencing is approximately 10%, or more in certain cases.

The 2017-2018 QAP Staff Report noted, "In the current market, a 10% basis boost is approximately equivalent to a 30% basis boost prior to the 9% credit rate being fixed and, therefore, will be more widely available." Taking into consideration that, on average, projects are experiencing a decrease in equity pricing of approximately 10%, it

would stand to reason that a 20% basis boost which, is an increase of about 10%, would rebalance the QAP and allow some of those projects that were in jeopardy of not being feasible under the 10% boost a chance at making their project work in the current market.

The 2017-2018 QAP was crafted in a way that allows MSHDA to make some administrative changes to the basis boost criteria without undertaking a full QAP amendment, which allows for more timely implementation and allows for the change to be completed before the April 3, 2017 Funding Round. Exhibit V of the 2017-2018 QAP states,

“Please note that MSHDA reserves the right to modify the State-Designated Basis Boost Policy on an as-needed basis, should market conditions dictate the necessity for a revision. Should a revision be necessary, MSHDA will work with stakeholders to come up with potential changes, with the objective of ensuring the criteria allow for feasible transactions in the current market, and will post a notice of the revision on its website in advance of the revision being active. This streamlined approach will allow for a quicker response to market forces and the changes to be effectuated in a timely manner.”

Therefore, MSHDA is taking this opportunity to post a notice of the following changes to Exhibit V of the 2017-2018 QAP, which will be effective only for those projects that submit an application and are subsequently awarded in the upcoming April 3, 2017 funding round (MSHDA will evaluate the need to either keep the boost as-is or make further adjustments as needed going forward):

For projects eligible for 9% LIHTC, the following basis boost will be available:

Up to 20% Basis Boost:

1. Projects located in a QCT or DDA
2. Permanent Supportive Housing Projects
3. Deep income targeting – Projects restricting 10% of the total units to 30% AMI or less (in order to be eligible for the boost under this criteria, the 30% AMI units must not also have project based rental assistance associated with them)
4. Central Cities projects
5. Rural set-aside projects
6. Historic Projects – Projects that are completing a certified rehabilitation of an existing certified historic property listed either individually or as part of a district, on the National or State Historic Register. Project must also incorporate the use of the Historic Credit.
7. Projects with a Walk Score of greater than 90
8. Mixed income housing – Projects with no more than 60% of the total units being LIHTC units

Interested parties should also note that MSHDA realizes that projects which have already received an award of credit and have not yet closed with their financing partners may

also be experiencing difficulties due to the decrease in equity pricing. MSHDA is currently reviewing this issue; however, due to the quickly approaching April 3, 2017 Funding Round, MSHDA did not want to delay the changes highlighted above any longer. It is MSHDA's intention that guidance will be forthcoming, which will outline MSHDA's approach to those projects that have already received an award of credit.

TAX CREDIT APPLICATION UPDATES

Being posted to MSHDA's website concurrently with the issuance of this memo is also an updated version of the LIHTC Program Application, which should be used for application submission in the April 3, 2017 funding round. The update made the following adjustment:

- Various formulas in Tab G Addendum III Funding needed corrections in order to better function. Those corrections have been made in the updated application.

Additionally, please note that comments on how to improve this application to make it more user-friendly are welcomed and will be considered in future application updates.

ADDENDUM III CHECKLIST/APPLICATION UPDATES

The Addendum III Checklist and Addendum III Application has been updated in various sections to provide clarification of the following:

- Applicants submitting Permanent Supportive Housing projects will now be able to apply for points under Section F.3 of the Scoring Summary relating to Targeted Supportive Housing Populations. Additional detail relating to the requirements surrounding these points has been included in the Addendum III Checklist in item 13.2. Additionally, updates for consistency have been made to Section F and Section I of the Addendum III Application. Applicants should contact MSHDA's Chief Housing Solutions Officer Kelly Rose at 517-373-1851 with specific questions pertaining to this item.
- A suggested format of data submission has been included on page 20 of the Addendum III Application in order to assist applicants in providing MSHDA with the Successful PSH Outcomes (Project Level) information needed in a reviewable format.

Applicants with Permanent Supportive Housing projects should also note two items that MSHDA feels are important to specifically provide clarity on. First, all PSH projects are required to show that they have met with the Continuum of Care ("CoC") at least 120-days prior to the LIHTC Application deadline. The purpose of these meetings are to begin discussions about preliminary project concepts in order to serve as notice to the CoC that a project in the area is being pursued and to allow the opportunity for the CoC to provide input. Projects that have not met with the CoC prior to the deadline and have not received a waiver of the requirement will not be eligible to submit in the PSH Category. Secondly, Section F.4 of the 2017-2018 Scoring Criteria allows projects to receive points based on the project county's most recent annual literally homeless (category 1) report. This total should be similar to the area HMIS data, may be included in an annual

report, or may be available through the local Continuum of Care or from the HMIS staff at MSHDA. This is not the Point in Time Count.

SCORING CRITERIA

As outlined in Section G.1. and Section G.2. of the Scoring Criteria, the project data and inflation data used to determine the safe harbors within the Cost Reasonableness and Credit Efficiency sections of the Scoring Criteria has been updated to reflect the rolling total of the previous five years, as new data is now available following completion of the October 2016 funding round.

SECTION 811 PROGRAM

LIHTC Program Applicants who are interested in also utilizing the Section 811 Program through MSHDA should make sure to submit their application for Section 811 Funding no later than March 24, 2017 to ensure that MSHDA staff has an adequate amount of time to process the application prior to the April 3, 2017 Funding Round deadline. For additional questions relating to the Section 811 program, please contact Catherine Calkins at 517-373-1886.

QUESTIONS

If you have any questions regarding any of the above items or general questions related to the April 2017 funding round, please contact LIHTC staff at (517) 373-6007.