

June 5, 2008



## **MSHDA 2008 Qualified Allocation Plan: Preamble**

### **Using this document**

MSHDA is issuing this Preamble to enable all stakeholders to better understand the draft 2008 Qualified Allocation Plan ("QAP"), in particular the changes from the preceding 2008-2009 QAP. This preamble is intended as a guide to the draft QAP being issued simultaneously herewith, and as such it should be read alongside the QAP. However:

- This Preamble is not the QAP and is qualified in its entirety by reference to the QAP.
- This Preamble has no legal force and in no way modifies, amends, or contradicts the QAP.
- Participants should neither rely upon nor use this Preamble when preparing applications.

The QAP and the accompanying policy bulletins and other guidance supersede all earlier drafts and are the sole authoritative source for the LIHTC allocation process in Michigan.

## **1. Introduction**

### ***1. A. Allocation in a disrupted market***

Michigan's Qualified Allocation Plan for 2008 arrives late in the year amidst a national credit crunch, a slowing national economy, and as a result a disrupted national LIHTC market not seen in twenty years. The QAP is a response to those changed market conditions, and replaces a previous 2008-2009 draft QAP whose important policy goals would not have been achieved in the current financial environment without significant changes in the QAP itself.

MSHDA undertook revision of the previous QAP to address:

- The substantial need for affordable housing statewide.
- The important of elevating permanent supportive housing (PSH) and properties in Detroit-Hamtramck-Highland Park (DHHP) as priorities for LIHTC funding.

- Pressures in the LIHTC marketplace.
- Issues raised in the public notice and comment.

Having been produced in a short time frame, this QAP is an exercise in practicality, balancing refinement against speed. The state could delay credit allocation further in pursuit of a perfect mechanism, but the costs of delay—to Michigan's economy and especially its poorest residents—are far greater than the potential inefficiency of acting now.

For 2008, Michigan will have one allocation round, competitively scored, for all remaining 2008 credits; allocations made in the previous 25% round will be incorporated into the Set-Aside and Target Percentage calculations. The overriding goal is to make sure Michigan's LIHTC is allocated and used efficiently to maximize the state's use of this valuable federal resource.

### ***1. B. Guiding principles***

The QAP and the last allocation round are guided by a few principles:

- **Michigan's policy goals have not changed** from those articulated in the earlier draft QAP. Only the mechanisms for achieving those goals have changed. Among the concerns that motivate the distribution of LIHTC are:
  - Supporting MSHDA's work under its Consolidated Plan to expand the supply of affordable rental housing, improve neighborhoods, aid the homeless, and expand economic opportunity.
  - Providing a common vision and voice for affordable housing through Michigan's 5-Year Affordable Housing Community Action Plan.
  - Maintaining consistency with MSHDA's Public Housing Agency and Administrative Plans.
  - Observing Michigan's Land Use Leadership Council Ten Growth Tenets.
  - Encouraging the development of Michigan's Economy and Vibrant Communities.
  - Supporting Michigan's Campaign to End Homelessness.
  - Ameliorating poverty in Michigan.
  - Preserving affordable housing in Michigan.
  - Fulfilling the requirements of the federal statutes for the LIHTC program.
- The 2008 QAP **creates a process that is easier for participants**—a simpler application that defines roles clearly and leaves classification of projects to MSHDA. Projects prepared in anticipation of the draft QAP should be easy to submit under this QAP, and new projects should be easier to prepare for this QAP than they would have been for the earlier draft.
- **Competitive scoring is the ultimate basis** for allocation. MSHDA will allocate credits to the properties that best meet the stated goals.
- **Detroit-Hamtramck-Highland Park is advantaged** via a priority scoring Target Percentage approach that is analogous to the previous holdbacks, but easier for program participants to apply for and easier for MSHDA to administer. (Within DHHP, the Next Detroit Neighborhoods are also advantaged.) Holdbacks have been eliminated as a mechanism, but the objectives they served should still be achieved through point scoring and the Target Percentages.

- **Permanent Supportive Housing remains a central objective**, both in service-enriched properties for concentrations of needy tenants and scattered throughout other affordable developments.
- **Additional LIHTC's** may be awarded to properties that received prior allocations and now find they face an increased funding gap because LIHTC equity prices have dropped. Additional LIHTCs are capped per property, depend on the property having adequate basis to support the Additional LIHTC, and are solely at MSHDA's discretion.

## **2. Permanent supportive housing is supported two ways**

At the highest levels of government, Michigan has declared its desire to serve one of the neediest populations in the state—those who need supportive services as a permanent part of their housing. LIHTC is a powerful resource that can provide permanent supportive housing (PSH) to aid individuals with different levels of need, as long as the LIHTC resource is coupled with funded service providers in a well-defined set of relationships.

### ***2. A. Two types of PSH: deconcentrated and service-enriched***

Some PSH residents will benefit from integration into a mainstream community via deconcentrated housing interspersed with market apartments. Other PSH residents require a comprehensive service environment and function best in a community that is predominantly service-enriched, which in turn implies a property that has a concentration of such residents to allow common facilities.

Therefore, Michigan has chosen two mechanisms to create permanent supportive housing:

1. Broad-based inclusion of 10% PSH units as a threshold requirement for *every* (non-elderly) LIHTC development, with appropriate roles, responsibilities, and operational safety valves.
2. A set-aside for higher-density PSH developments.

For each, the QAP draws on Michigan's examples of successful PSH development, which has produced over 1,300 units of PSH housing, as well as North Carolina's model for PSH, which has functioned well for several years.

### ***2. B. Roles, responsibilities, and operational safety valves***

**Roles and responsibilities.** Core to making PSH work is a proper allocation of the 'new' roles (to a rental apartment) of the servicer provider and referring agency.

- Owners and managers must hold PSH units available for PSH applicants sent to them by servicer providers. (Details are provided below.)
- All PSH tenants must pay the same rent and abide by the same conditions of occupancy as other tenants. Subsidy, if not attached to the apartment and necessary for the resident to afford the apartment, must accompany the PSH tenant.
- Service provision (and funding for such services) is not the owner or manager's responsibility, it is that of the servicer provider.

These roles require collaboration documented in a Memorandum of Understanding (MOU) among the applicant, management agent and service organization detailing the services that will be provided. Owners and management agents will partner with service organizations skilled in servicing Supportive Housing Tenants. MSHDA will coordinate and assist applicants in identifying quality service organizations and will also facilitate the execution of the MOU.

This threshold requirement is new, which means that property managers and service providers will need to develop new working relationships to deliver services and subsidy resources to tenants within properties that serve a market beyond just supportive housing tenants. Developing those relationships and the ways of doing business will take time, and participants will learn from experience and from each other as they are developed.

MSHDA has the authority to extend the deadlines for MOU between service providers and property owners, if extensions are needed to make the process work.

**Availability, rental, and re-rental.** Allowing PSH units to remain vacant other than for normal turnover is not an acceptable result; hence the PSH threshold requirement is predicated on the service provider and referring agency providing qualified rental applicants. To protect operational viability, the 2008 QAP includes a safety valve for supportive housing units:

- Properties must make PSH units available to PSH tenants supplied by the service provider.
- If a lease-qualified PSH tenant is not available within a normal rental interval, the property may rent the unit to a non-PSH tenant under the property's other applicable use restrictions.
- If at any time the property has fewer PSH tenants than its threshold, the next-available-vacancy must be made available to a PSH tenant.

**Overall impact of the safety valve.** This safety valve works for all participants:

- Properties will receive rent for units, either occupied by PSH tenants or other low-income tenants, and thus will remain financially viable.
- Tenants will have access to PSH units throughout the property's affordability commitment.
- Service providers will have time to assemble resources and deliver services, but also an incentive to do so quickly, as the sooner qualified tenants can be delivered, the sooner PSH tenants can be assisted.

**Rent levels, income targeting, and subsidy.** To enable MSHDA's LIHTC to serve the maximum number of households, PSH units do not have intrinsic separate or lower income ceilings. Rents for PSH units are thus to be set by sponsors in the normal fashion. This is a deliberate choice designed to use complementary resources as they were designed, because:

- The LIHTC subsidy does not efficiently reach deep enough to target below 50% AMI; deeper income targeting requires income assistance such as Section 8.
- Even at very low income ceilings (e.g. 30% of Area Median Income), many PSH applicants cannot afford such rents without income subsidy.
- Tying deep income targeting to the LIHTC subsidy risks confusion about appropriate rent levels when subsidies overlap.

Deep income targeting is not an intrinsic function of the LIHTC award for PSH units, but can be achieved through additional subsidy such as income supplement (e.g. Section 8 or Housing Choice Vouchers), or sinking funds established by additional local sources.

### **3. Achieving directed goals without holdbacks**

#### ***3. A. Eliminating holdbacks streamlines the process***

Removing the holdbacks relieves administrative burdens from all involved to achieve desired outcomes:

- Applicants need not decide which subset in which to compete. Rather, they apply, describe their project, and let MSHDA classify it for scoring purposes. No deserving project should miss out on funding solely because of an erroneous choice of holdback on the application.
- MSHDA need not address time-delays for allocation of credits (under a holdback, credits are reserved for a period of time, then revert to the general pool).
- Credits are awarded through competition, so that the most deserving projects receive awards, consistent with overall policy goals.

#### ***3. B. Set-asides***

There are four statutory set-asides created by state law:

1. Nonprofits
2. Rural housing
3. Eligible distressed areas
4. Elderly housing

By statute, properties can count in only one of the above set-asides. MSHDA will assure that the set-asides are met in the statutory order as listed above. If needed to fulfill a required set-aside, MSHDA will allocate to the next highest scoring application that meets the criteria for the set-aside.

MSHDA has also chosen to create one additional set-aside:

5. Permanent Supportive Housing

Awards in this set-aside may also be counted toward fulfilling the statutory set-asides, because the PSH set-aside is not statutory. Allocations made within it may be counted toward the statutory set-asides and the target percentages. If there are insufficient applications meeting the threshold requirements for the PSH set-aside, remaining credits will be reallocated to the general pool.

#### ***3. C. Target percentages***

Beyond the set-asides, MSHDA will assure that, to the extent possible while meeting statutory requirements, credits will be allocated to achieve the target percentages. Because categories overlap (e.g., a project could be in Detroit, part of Cool Cities, and preservation), projects may be counted more than once in evaluating these percentages.

The target percentages will provide allocations for:

- Underserved populations (Native American and AAL)
- Cool Cities and Next Detroit Neighborhoods
- Poverty Distressed Cities (PDC)
- Detroit, Hamtramck, Highland Park
- Preservation

MSHDA will evaluate the target percentages in the order stated in the QAP and shown above, selecting the highest-scoring projects that fulfill the target percentages. As needed to fulfill the target percentages, MSHDA may need to choose the next-highest scoring project that fulfills a target and exclude a higher-scoring project that does not fulfill a target. Such exceptions are possible but neither required nor desired.

### **3. D. Point scoring**

The point scoring is designed to achieve the goals of the QAP—simply put, projects that fulfill more of the desired objectives get more points. Points are not entirely determinative, but they will play a greater role than in past years' lottery system or the previous draft QAP.

This is deliberate. Competitive scoring encourages program participants to find ways to fulfill the social objectives articulated in the QAP, which results in better social outcomes.

## **4. Preservation is a priority**

In general, the challenges facing Michigan require not more housing units in total, but higher-quality housing and the reinvestment in Michigan's cities. This QAP therefore encourages preservation in the general competition rather than separating it into a particular holdback. The preservation-related changes include:

- No special cap for preservation properties. All properties are now subject to the same \$1,000,000 cap.
- Preservation properties receive points for preservation and compete in the general pool rather than a special preservation holdback.
- A target percentage of 30% replaces the holdback.
- Additional points for projects that renovate or replace public housing or meet immediate preservation needs.

## **5. Green requirements remain**

Although energy conservation and Green initiatives are important priorities for use of public investment capital, the original 2008-09 QAP was their first introduction in Michigan. Program participants may therefore be unused to understanding and complying with them. Indeed, most of the comments MSHDA received on the draft requirements simply rejected them entirely, although a small number of participants did provide substantive, specific comments.

The need for reasonable, energy-efficient development is such that MSHDA cannot abandon green requirements. At the same time, 2008 is an unusual year and this is an urgent time where deploying capital is paramount. Therefore the 2008 QAP includes all green requirements as incentive-scored options.

Program participants who have remaining concerns about these streamlined green requirements are particularly invited to submit specific comments on particular elements, together with recommended alternatives. Such comments will be useful for subsequent rounds of LIHTC allocation.

## **6. Conclusion: further improvements in 2009**

This QAP is an exercise in practicality, balancing refinement against speed. MSHDA invites stakeholders to provide comments in the same spirit, focusing on rapid, full utilization of MSHDA's scarce and valuable resource.

As part of improving the 2008 QAP, MSHDA intends that:

1. ***Allocation will be transparent.*** MSHDA will make all scores and the methodology for making awards public.
2. ***Lessons will be learned in 2008.*** Program participants are invited to submit comments during the public comment process and once allocation is complete. Tell us what could be better.
3. ***Improvements will be made in 2009 and thereafter.*** MSHDA anticipates an ongoing review and revision of the QAP to keep the LIHTC program in step with changing economic conditions and policy priorities. Active participation by stakeholders is essential to that process.