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September 28, 2007

Ms. Mary P. Levine, Acting General Counsel/Director of Legal Affairs
Michigan State Housing Development Authority
P.O. Box 30044
Lansing, MI 48909

RE: 2008-2009 Draft Qualified Allocation Plan

Dear Ms. Levine:

My name is Jeff Gates. I am an owner in Watermark Construction, LLC; T J Development LLC; and Watermark Management LLC. My business is the preservation, rehabilitation, and management of USDA Section 515 low income housing developments in rural Michigan.

I would like to welcome you to Gaylord. Many people refer to this area of the state as God's country. I am a property owner here. This year, utilizing the tax credit preservation set-aside we have acquired and are renovating Gaslight Square Apartments, a 36 unit affordable housing development that was built under the USDA's Section 515 program. We are spending about $25,000 per unit to update this housing stock and preserve it as affordable housing. The property is located at 1231 Village Parkway if you care to take a look.

Preservation of existing affordable housing is a priority for the City of Gaylord. While rural in nature, Gaylord is considered a difficult development area due to the more recent focus on retirement and vacation housing. It is a popular Northern Michigan destination. In fact, preservation and affordable housing is so important to the City of Gaylord that when we approached the City about the acquisition we learned that they already had a PILOT ordinance in place. It took very little time to have our resolution for a PILOT put before the council and approved. In fact, the whole process was positively reported in the local paper.

We will finish the re-hab of Gaslight Square by the end of this year. When we are done, we will have a property that has been totally rebuilt, inside and out. The buildings will have new roofs, new windows, new doors, and new siding. The units will have new cabinets and countertops, new appliances including the addition of dishwashers, new doors, new carpet and vinyl flooring, new lighting fixtures and plumbing fixtures, new higher efficiency furnaces, added air conditioning, and new higher efficiency water heaters. The site will have new sidewalks and a reconstructed parking lot. The development will be fully ADA compliant and we will have exceeded the minimum requirements for ADA units. We are also able to add an office so our

property manager no longer has to work out of their apartment. When we are finished, this development will be like new at a fraction of the cost of new development and it will serve as good, safe, decent affordable housing for many years to come.

We are proud of the fact that when we are done our rents will have only increased an average of $30 per unit from pre-acquisition levels. Under the preservation set-aside, 10% of our units are at or below 30% of county median income and another 10% of our units are at or below 40%. The one bedroom unit at the 30%level will rent for $259 and a three bedroom town home will rent for $324. More astonishing is the fact that our 60% rents will range from $365 for a one bedroom unit to $421 for a three bedroom town home. Our 60% rents actually fall below 40% rent limits for Otsego County. Now that's affordable housing and we can thank the preservation set-aside for this scenario.

I am concerned that under the draft QAP we will no longer be able to execute our mission to improve the affordable housing stock in rural Michigan. The preservation set-aside has been eliminated and I am not able to ascertain the amount of tax credits that will be set-aside for rural housing in spite of the specific request that I made at the Flint information hearings for a matrix of how the tax credit dollars would flow to all of the set-asides and hold backs.

As I mentioned, we along with a number of other for-profit and non-profit developers, have focused on the mission revitalizing the Section 515 multi-family housing program. This is a portfolio of over 600 properties serving over 300 Michigan rural communities. I can only ascertain that this QAP will not support our mission.

The Gaslight Square development is a good example of why there should be no prevailing wage requirement. I shouldn't even have to address this issue because it is so common sense that prevailing wage is a detriment to affordable housing. Just ask any general contractor who is involved in residential construction or read the letters posted on MSHDA's website from Rohde Construction and Con Pro. Did anyone ever think to consult with the construction companies that work on tax credit deals?

At the Flint information hearing I asked the question as to why prevailing wage was being re-introduced after it had been abandoned by MSHDA on it's projects in the mid-90's. The answer from MSHDA's Chief of Staff was that it will help eliminate poverty. Well the prevailing wage for a carpenter in Otsego County, in which my Gaslight Village property is located and where this hearing is being held is $6.68 per hour. That equals an annual income of $13,894 per year. We also are re-habing properties in Grand Traverse County. The prevailing wage there for carpenters is $9.17 per hour, or $19,073 per year. Next month we will start a project in Clare County. The prevailing wage there for carpenters is $5.15 per hour, or $10,712 per year. These wages will hardly bring someone out of poverty. In fact, free market wages for carpenters are significantly higher although they do not approach the $32.00 wage rate that is mandated by

prevailing wage in Detroit and the rest of Wayne County, along with Oakland, Monroe, Macomb, and Livingston Counties.

From 1998 thru 2005 my career was spent as an owner of a construction company that built tax credit projects in the City of Detroit. During this period we built 13 projects totaling over 600 units. All but two projects were partly funded with City of Detroit HOME Funds which invoked prevailing wage requirements under the Davis-Bacon Act. Without a doubt, prevailing wage significantly increased the cost of construction without any improvement in quality or social benefit to the community.

The cost effect of Davis-Bacon and prevailing wage is two-pronged. First, is the difference in cost between free market labor rates and prevailing wage. This is very apparent in Detroit and the rest of Southeastern Michigan. I saw it firsthand in building Townhomes that cost over $130,000 per unit. That translated to a total development cost of over $180,000 per unit. I learned of an acquisition/re-hab project called Riverside Apartments that cost $150,000 per unit to re-hab. TDC was $212,000 per unit. By comparison my Gaslight re-hab costs are $25,000 per unit and I can assure you the trades that work on my projects don't make Burger King wages and the materials that go into my properties are every bit as good if not better.

The second effect of Davis-Bacon is the associated paper work and bureaucracy. Prevailing wage requires the reporting of weekly wages and consequently will have to be monitored by MSHDA. There is added cost to the contractor for preparing this paperwork and added cost to MSHDA for monitoring the program. Not only is there cost, sometimes there is lack of ability as many subcontractors are "mom and pop" operations and they just can't handle it or don't want to hassle with it.

Prevailing wage also limits entry of unskilled workers into the workforce. A carpenter gets paid $32.00 per hour whether they have one day of experience or 10 years of experience. There are no reduced wages for trainees or apprentices unless the worker joins the union and participates in an apprenticeship program. Much easier said then done. Furthermore, combined with the high unemployment rate and the number of experienced tradesman on the bench, who is going to get hired first: an experienced worker or an inexperienced worker?

Prevailing wage also limits the number of subcontractors that are qualified to be awarded work. Every subcontractor will say they have the capability to pay prevailing wage and comply with all of the requirements, but reality yields a different result. Many 'mom and pop" shops can't handle the increased payroll cost and the administrative burden associated with prevailing wage. Hence general contractors will have a tendency to gravitate to using stronger and more seasoned subcontractors.

Most people also don't understand that at any time a worker on site can file a claim that he or she is not being paid prevailing wage. In fact, the claim can be filed well after construction is

complete. Disproving the claim can be difficult and a claim by workers can result in the award of financial restitution for which the Owner could ultimately be held accountable. The award amounts can be substantial. Combine this with MSHDA's proposal to delay issuance of 8609's for non-compliance and the Owner faces a double jeopardy.

Prevailing wage is really about politics, not poverty. This proposed requirement is simply kowtowing to the Building Trade Council and construction unions that have a strong presence in Detroit and Southeast Michigan. There is no benefit from prevailing wage.

I also want to briefly address the issue of special needs and the homeless. I have numerous projects with residents who have special needs and they are living side-by-side with those that don't. I haven't seen the need to compete in the special needs set-aside nor do we have any formal relationships with special needs providers. Furthermore I am opposed to a mandate to set-aside new tax credit units for individuals with special needs. I fail to see the benefit of additional units without the rent payment assistance to go with it.

I am receptive to working with special needs providers on our existing portfolio because I have vacant units. In fact, we should look at the entire affordable housing portfolio, and the vacancies within it, as a source for housing our homeless and those with special needs. Let's focus on units that are already available, and finding the funding sources to sustain these individuals, not a paltry amount of new units that will come on line under a 10% set-aside.

I have read many letters posted on the MSHDA website. I have listened at the Flint informational session and the hearing in Detroit. I also attended two of the listening sessions held earlier this year.

While I laud all who have attended the hearings and have expressed their views, it also important to state that many who have expressed an opinion know little about the tax credit program or the full content of the draft QAP and it's ramifications. In fact many endorsed the QAP as if they were voting a straight party ticket.

I further laud the Michigan Housing Council and the countless others who have spent their time over the last few months, and years for that matter, for the betterment of the tax credit program. I could write and say so much more about this draft QAP but I will close with saying that I fully support the position of the Michigan Housing Council. I join with them in saying that this draft QAP should not be approved; that a funding round should be held as soon as possible under the existing plan; and that we all work together to craft a sensible QAP that can be enacted in 2008.

The draft QAP is a divisive document that has created an adversarial environment and pitted passionate advocates of affordable housing against one another. MSHDA has done little good with this QAP. It is not an original document. It is riddled with elements of the Maine QAP. But this isn't Maine and I am not a Mainiac. This is Michigan. I am a Michigander. And I want a QAP that is Pure Michigan.

Sincerely,
WATERMARK CONSTRUCTION, LLC

Jeffrey E. Gates,
Member