



M E M O R A N D U M

TO: Interested Parties

FROM: Andrew Martin, Director of Development
Chad Benson, LIHTC Allocations Manager

DATE: April 21, 2017

RE: Proposed Strategies to Address Equity Market Uncertainty

On March 15, 2017, MSHDA issued a memorandum regarding LIHTC Program updates in advance of the April 2017 Funding Round, some of which were made due to the uncertainty that currently exists in the LIHTC equity markets and the challenges created for LIHTC developments. In that memorandum, MSHDA outlined some temporary policy changes to the QAP for applications submitted in the April 2017 Funding Round, but also indicated that guidance would be forthcoming to outline strategies to assist those projects that have already received an award of credit. The purpose of this memo is to provide guidance on potential solutions MSHDA will consider to address those developments already having received an award credit, to allow them to proceed, and for development activity to continue in Michigan.

In order to assist those projects which currently have a LIHTC award, but have not locked in on an equity price or closed, MSHDA has identified four potential solutions that could be used either individually or in conjunction with one another to assist with equity pricing reductions and to allow projects to move forward. Those four potential solutions, which are a result of not only significant analysis of the affected developments by MSHDA, but also many meetings and conversations with the development community (including a widely attended focus group), are outlined below. The potential solutions are listed in the order that they will be considered when reviewing a project that needs additional assistance as a result of the uncertainty in the equity market.

- 1. TIME:** MSHDA will review and offer extensions of project deadlines, including potential exchanges of credit, in order to allow more time for those projects that are believed to have an equity provider committed to the project, but need more time to close as a result of any delays that have occurred because of the equity market uncertainty. In certain situations, extension fees may be reduced for projects that have a committed equity provider in order to help ease the impact on the project caused by the fluctuating equity markets.

- 2. 130% BASIS BOOST:** Projects awarded credit in the October 2016 Funding Round were only allowed to receive up to a 110% or 120% basis boost. The IRS allows states to give up to a 130% basis boost. MSHDA will consider awarding up to the higher 130% basis boost to the projects from the October 2016 round without allocating additional credit, which would allow for the opportunity for owners that are able to find a way to reasonably reduce their project costs to still be able to receive the same credit as they previously received and help close the funding gap. This option is a potential solution for those projects in the October 2016 Funding Round and will only be implemented in situations where it is believed that the proposed cost reduction measures will not negatively impact the quality and viability of the construction. Projects that can utilize this option should contact MSHDA as soon as possible to begin the review process for approval of the 130% basis boost.

- 3. ADDITIONAL CREDIT:** The 2017-2018 QAP does not currently allow for the availability of additional credit to be allocated to projects. MSHDA staff are proposing a narrowly-focused modification to the QAP to allow certain projects that would have initially been underwritten differently due to the higher equity pricing the one-time opportunity to apply for and receive additional credit towards filling their funding gap. Modification of the QAP requires formal public hearings, MSHDA Board approval, and approval by the Governor. MSHDA staff will draft a formal amendment to the 2017-2018 QAP with the intention of bringing the amendment to the MSHDA Board for consideration at the May 2017 MSHDA Board meeting. While more discussion needs to take place, below is an initial, preliminary outline of the guidelines pertaining to the award of additional credit:

 - MSHDA would intend to hold one funding round for additional credit (with a tentative due date in July of 2017).
 - The credit used to provide the additional credit will impact future funding rounds and will not negatively impact the amount of credit made available for applications received in the April 2017 funding round.
 - Only projects that were originally awarded credit from the April 2016 Funding Round or the October 2016 Funding Round will be eligible to apply for additional credit.
 - It is MSHDA's intent that all parties would share in the financial solution for moving a development forward with additional credit. Therefore, in order to qualify for additional credit, eligible projects will first need to demonstrate that 50% of the total developer fee is being deferred, or that there is a contribution coming into the project in a like amount from the developer.
 - Additional credit will only be available to cover funding shortfalls that are a result of the equity market fluctuations. Construction cost increases or other common causes of cost overruns will not be considered in the award of additional credit.
 - For projects awarded in the October 2016 funding round, MSHDA may consider increasing the basis boost up to 130% and increasing the credit as one potential tool to assist projects with feasibility issues.
 - Projects applying for additional credit must be able to demonstrate that they have the necessary commitments from funding providers, including the LIHTC equity provider, to expeditiously move to a closing with the additional credit.
 - If, between the time when the project is initially reviewed for additional credit and when the project closes with an equity provider, the equity price increases, the project will be required to return that portion of the credit that is no longer needed as a result of the equity price increase, so it can be used for other projects.

- All other QAP requirements including total credit calculations/maximums and fee calculations/maximums in determining the amount of credit that a project qualifies for will continue to be in effect as required in the 2017-2018 QAP.

4. PROJECT MODIFICATIONS: Certain projects have characteristics that could be modified to allow the project to work better with reduced equity pricing and use fewer additional resources from MSHDA or other entities that already have constraints on available funding. Such modifications could potentially impact the competitive score a project received when the LIHTC award was made and reduce the effectiveness of the project in achieving the various mission-oriented objectives of the QAP. However, MSHDA would consider these changes for projects that have these characteristics to try to get the development completed. MSHDA would expect projects needing to use this approach to get completed to also have a developer fee deferral or contribution from the developer in amount similar to that outlined above, as a way of contributing toward the solution. Projects that cannot utilize additional credit and would like to propose project modifications to help correct project feasibility issues should contact MSHDA as soon as possible to begin the review process for approval of the project modifications.

In conjunction with the QAP modification to allow for the opportunity to provide additional credit, as outlined above, MSHDA staff are preparing to post a notice as required by the 2017-2018 QAP to hold one informational hearing and three public hearings throughout the state in order to solicit public feedback on the amendment. After the informational hearing and public hearings, MSHDA staff will present the amendment to the MSHDA Board. If the MSHDA Board approves the amendment to the 2017-2018 QAP, it would be presented to the Governor for signature, which would put the amendment into effect. Below is an estimated timeline for the process of amending the QAP:

- First Week of May 2017 – Informational Hearing held at the MSHDA Lansing Office.
- First Week of May 2017 – Draft Amendment to the QAP published.
- Second Week of May 2017 – MSHDA holds three public hearings
- May 24, 2017 – QAP Amendment presented to MSHDA Board.

Even after taking into account all of the above strategies, it is possible there will be projects that still not be able to proceed. Developers are encouraged to realistically assess the likelihood of their project being able to move forward and are encouraged to consider returning their allocation of LIHTC to MSHDA if it looks like they will be unable to use it. A return of credit can be done without penalties from MSHDA being assessed, and doing so allows for potential resources to be freed up to help with resolving some of the issues outlined above.

Further details will be provided as MSHDA staff moves forward with drafting the amendment for public review, MSHDA Board consideration, and Governor's signature. If you have any questions or suggestions concerning the items highlighted in this memorandum, please feel free to contact Chad Benson at (517) 373-3433 or bensonc@michigan.gov; or Andy Martin at (517) 241-0599 or martina4@michigan.gov.