HOUSING NORTH

December 1, 2020

Mr. Chad Benson
Michigan State Housing Development Authority
735 E. Michigan Ave.
Lansing, MI 48909

RE: MSHDA's 2021 Qualified Allocation Plan comments

Dear Mr. Benson,

Housing North is a nonprofit working with communities and developers towards housing solutions in the ten-county region of Northwest Lower Michigan. We work to build awareness, influence policy, and build capacity so that communities can create housing solutions that meet their unique needs.

As an organization connected to the needs, challenges, and importance of housing policy in rural northwest Michigan, we are advocates for the interests of government, development, and private stakeholders throughout the region. We have a deep understanding of the housing landscape in northwest Michigan. Earlier this year, Housing North submitted comments on the Qualified Allocation Plan (QAP) based on discussions with housing advocates, agencies, developers, and local governments in our region, with a goal of increasing tax credit opportunities for rural areas, which struggle with unique challenges in development. Housing North would like to emphasize our appreciation for MSHDA's work both to continue the tax credit award process in the face of the pandemic, and to develop an interim QAP that would expand opportunities for affordable housing production in rural areas with the 2021 interim QAP. Now, as MSHDA begins a more comprehensive QAP update process, we would like to encourage your consideration of changes that would further enhance rural opportunities for development, and respectfully submit the following comments on changes for the 2022 QAP.

4%/9% Mixed Transactions

Housing North appreciates MSHDA's attempt in the 2019-2020 QAP to create more demand for the underutilized 4% credit. Unfortunately, for a number of reasons, mixed transactions have not had the intended effect in northern Michigan. In essence, 4%/9% mixed transactions have amounted to a 15-point advantage for rehabilitation projects or projects outside of northern Michigan, which reduces the potential for new development projects in this region to receive funding.

Using the 4% tax credit program can be very challenging for northern Michigan development projects due to a number of factors. Projects that are feasible using 4% credit typically fall into three scenarios. The first is new construction in very high rent markets, the second is unique projects with high levels of gap financing, and the third is rehab/preservation. Of these scenarios, the first two rarely, if ever, work well for rural projects, while the third rarely requires 9% credits to be economically feasible.

Recommendation:

Reduce the point advantage for projects using the 4%/9% mixed transaction. For example, a 5-10-point boost could be enough to incentivize the use of both programs without prohibiting another project from making up points when mixing 4%/9% transactions is not feasible.

Consider structuring or using alternative MSHDA products to support rehabilitation projects in order to reduce the demand for the 9% application or 4%/9% mixed transaction deals.

Rural Category

It is our understanding that no rural project has yet been funded from the Open category in the three rounds under this QAP. Additionally, the Undesignated category has needed to be utilized to even meet the 10% Rural set-aside the last two credit years. This will continue to be the case if actions are not taken to remedy this situation. The recommendations included in this document can begin to bridge the gap to make rural communities more competitive, but another approach in ensuring consistent allocations to rural communities may be the creation of a Rural category.

Recommendation:

MSHDA has seen a substantial increase in their credit ceiling over the last few years. The 2017-2018 QAP only anticipated an annual credit allocation of $23,000,000, while MSHDA now receives over $27,000,000 annually. With this increased credit allocation, MSHDA has an opportunity to create an additional category dedicated to Rural projects without significantly affecting any other category.

Creating a Rural category would provide a number of benefits: it would allow rural projects to compete against other rural projects. A distinct Rural category guarantees that the Undesignated category would not be needed to fulfill the Rural set-aside. It could also include a carveout for the preservation of Rural projects. A Rural category may provide a consistent avenue to funding for much-needed projects that have not been able to compete in recent rounds through the normal allocation process. By having a category instead of simply a set-aside, it also assures that credit is allocated to Rural communities in each funding round.

Points for Rural Amenities

In MSHDA's current QAP, 3 points are awarded for projects that fall within 1 mile from certain amenities such as full-service grocery, pharmacies, medical offices/clinics, parks, schools, and senior centers. There are different realities and expectations in small cities and towns in terms of amenities, and our region believes it would be practical to best reflect those realities in the scoring criteria.

Recommendation:

We suggest developing a tier structure that awards points for greater distances to amenities in smaller communities that are still within a reasonable distance for convenient access. For example:

- For cities between 10,000 - 25,000 inhabitants:
  - 1 mile from amenity type - 3 points
  - 1.5 miles from amenity type - 1.5 points
  - 2 miles from amenity type - 1 point
- For cities under 10,000:
  - 1 mile from amenity type - 3 points
  - 1.5 miles from amenity type - 2 points
  - 2 miles from amenity types - 1.5 points

WalkScore Flexibility and Strategic Locations

The QAP emphasizes "WalkScore" as a means of assessing location. Yet, many smaller communities – despite their inherent walkability and the proximity of amenities to potential development sites – have poor WalkScores community-wide, leaving few options for potential LIHTC projects. Many of these communities in northern Michigan have identified priority development areas that are the focus of new community investment and redevelopment activities. While they might lie outside of downtown corridors and the one-mile radius to location-based amenities that are highly valued by MSHDA, they nevertheless provide strategic opportunities for creating the "potential for enhanced quality of life, proximity to employment, and reduced transportation costs associated with living in walkable areas" called for by the QAP.

A project site that does not sit close to a downtown or urban core can still be a strong target for investment and infrastructure to handle more residents and amenities. This makes sense especially in communities where lower land values lie outside of the main downtown/business district. Currently, there is no ample way for MSHDA to value or give due credit to locations that fit this scenario.

Recommendation:

Communities of a certain size that have targeted certain areas for housing or infrastructure investment should have alternative scoring options to the Walk Score. For instance, an identified development district or priority development area may become eligible for 7-10 points based on certain factors determined by MSHDA. (For reference, an 80+ Walk Score = 12 points.)

- Some examples of readily identifiable districts include Planned Use Developments (PUD), communities that have completed MEDC's Redevelopment Ready Communities program, MEDC's Project Rising Tide, and districts or corridors identified in a community's master plan.

Proximity to Transportation

The current QAP awards 5 points if a project can demonstrate that the project is located within 1/4 of a mile from a public transportation stop (i.e. bus stop) or are creating a public transportation stop within 1/4 of a mile.

Transportation options can be extremely limited and take different shapes in smaller cities and rural communities, and our region, along with many others across the state, believe more nuance for MSHDA's transportation scoring is warranted.

Recommendation: We suggest a tiered scoring system for proximity to transportation which are tiered based on population and distance, especially in smaller cities and communities.

- For example, different point totals awarded for distances from 1/10 of a mile (5 pts), ¼ of a mile (4 pts), and ½ a mile respectively (3pts). 2 points could also be awarded for locations that fall outside of ½ mile from a transportation stop, or communities under a certain population amount, but have regular, consistent access to alternative options, such as dial-a-ride.

Housing North could also support a tiered scoring system that includes tiers based on the number of days a week a transportation system runs where more points would be awarded for transportation systems that run seven days per week, and fewer for six and five days per week, but that still credits a communities efforts to provide regular transportation options.

Payment In Lieu Of Taxes (PILOT) Process

Incentivizing "skin in the game" from local communities seeking projects with LIHTC programs is one method of determining community support. Because securing a PILOT is required before a developer submits the application for the LIHTC, often the details of a particular development are not completed to a level that is acceptable to community elected leaders trying to determine the parameters of a tax break.

Concurrently, we understand that some developers do not want to incur significant design, engineering, and drafting expenses without more time in the application process and greater confidence that a project will come to life.

Recommendation:

We recommend that MSHDA consider a flexible approach for when and how PILOT agreements are reached between local government and developer. The use of a pro forma, memorandum of understanding, or conditional PILOT could be a sufficient proxy for an agreement until there is certainty about the status of the LIHTC application.

In addition, since the points awarded a successful PILOT agreement are enough to make it a necessity for a LIHTC application, removing it from the scoring criteria and making it a requirement of the closing process may also allow timing flexibility for when the agreement is reached in the process.

Experience Points

We understand that MSHDA values working with developers and development teams that have successfully used MSHDA tax credit programs before. The LIHTC program can be very complex and technically demanding, and those who have experience using them are likely to be good partners.

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In northern Michigan, however, for reasons noted throughout this document, LIHTC funding is difficult to access, meaning there are limited opportunities to break into the system and start earning "experience." Furthermore, developer experience may not be as important as the developer "team" – which includes partnership with qualified professionals experienced in the process, like attorneys, accountants, and engineers.

Recommendation:

We recommend that MSHDA develop a value/points system that awards points based on developer "team" experience - that is, through the contractual engagement of qualified, experienced development professionals - in addition to developer experience alone.

We appreciate the opportunity to share our comments and recommendations for the 2022 QAP, and again, we appreciate MSHDA's responsiveness to rural needs in the interim/2021 QAP. If you have any questions about the recommendations above, please do not hesitate to contact me at 231-335-1685, or via email at yarrow@housingnorth.org.

Sincerely,

Yarrow Brown

Yarrow Brown
Executive Director