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MEMORANDUM

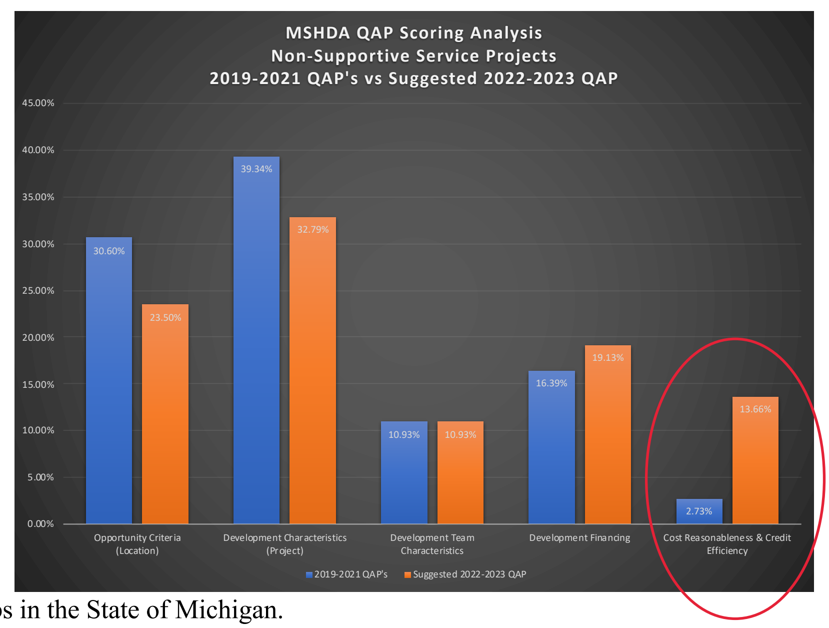
DATE: **December 9, 2020**

TO: **Michigan State Housing Development Authority**
c/o Gary Heidel and Chad Benson

FROM: **Ginosko Development Company**

RE: **2022-2023 Qualified Allocation Plan**

Thank you for the opportunity to present recommended changes to current Qualified Allocation Plan (QAP). The common theme from a wide-variety of stakeholders within the December 9, 2020 QAP Information Hearing Session was that ***demand for Low Income Housing Tax Credits (LIHTC) exceeds LIHTC supply***. The recommendations below stem from the fundamental belief that LIHTC's for economically disadvantaged families have become increasingly scarce and more valuable, and the Michigan State Housing Development Authority (MSHDA) should structure the 2022-2023 QAP to leverage its 9% LIHTC allocation to the greatest extent possible. ***However, according to data acquired from MSHDA, there is solid evidence that the 2019-2021 QAP's incentivizes INEFFICENCT use of the 9% LIHTC.*** Currently, Cost Reasonableness and Credit Efficiency only accounts for 2.73% of the total scoring criteria (1.95% for Supportive Service projects).



To say it another way, as an Applicant submits a project with a higher Self-Score, the 9% LIHTC request per unit also increases. The problem with the current scoring method is that it doesn't incentivize "high scoring" projects to be efficient. If an Applicant has a Project that it believes will score well enough to receive an allocation, the Applicant is incentivized to make the deal less efficient from a LIHTC per unit perspective.

The following comments are consistent with an objective to create the EXACT OPPOSITE of the aforementioned result. The most efficient projects within each category (Preservation, Open, Permanent Supportive Housing, and Strategic) should be more likely to end-up receiving the highest score. This will inevitably:

1. Increase MSHDA's ability to fulfill all of its production goals.
2. Increase the supply of affordable housing in the State of Michigan.
3. Increase the number of full-time and part-time jobs in the State of Michigan.
4. Increase the number (and quality) of existing affordable housing units in the State of Michigan.
5. Force Applicants to be more creative and efficient in structuring their deals.

Cost Reasonableness & Credit Efficiency:

- While already addressed in the 2019-2021 QAP's, the 2022-2023 QAP should place substantially greater emphasis on Cost Reasonableness & Credit Efficiency.
  - Currently, only 5 points account for Credit Efficiency. In a comparison to all scoring criteria, this accounts for:

	2019-2021 QAP's Scoring		
Cost Reasonableness & Credit Efficiency	**Score**	**Total %**	**Non-Supportive Service Deals %**
Credit Efficiency	5	1.95%	2.73%

  - The 2019-2021 QAP scoring currently indicates that Cost Reasonableness and Credit Efficiency, cumulatively, are equal to or less important than:
    - ***Evidence of*** Proper Zoning (all deals must be properly zoned)
    - ***Evidence of*** Site Plan Approval (all deals must have site plan approval)
    - Historic Rehabilitation Projects
    - QAP Green Policy
    - …many others on the list
- Prioritizing Cost Reasonableness and Credit Efficiency in the 2022-2023 QAP will reduce the instances of Applicants in a high-value, strong walk-score areas abusing the 2019-2021 QAP and being less efficient with their LIHTC request.

- **Credit Efficiency:**
  - To achieve MSHDA's objective of *increasing production* of quality affordable housing in the State of Michigan, Credit Efficiency must carry more weight in the scoring criteria for the 2022-2023 QAP.
  - As set forth in the 2019-2021 QAP, we agree that Credit Efficiency should be calculated on a LIHTC per unit basis. We also agree with MSHDA's approach of giving greater weight to 3-bedroom units and less weight to studio units.
  - We have two (2) proposed solutions for the enhancement of Credit Efficiency:
    - ***SOLUTION #1: Keep everything the same, EXCEPT:***
      - (1) Multiply the "Positive Point Factor Per Dollar BELOW Safe Harbor" and the "Negative Point Factor Per Dollar ABOVE Safe Harbor" by a multiple of six (6)

	POINT FACTORS			
	CURRENT	PROPOSED	CURRENT	PROPOSED
	Positive Point Factor per $$ below safe harbor:	Positive Point Factor per $$ below safe harbor:	Negative Point Factor per $$ above safe harbor:	Negative Point Factor per $$ above safe harbor:
New Construction:	0.0012	0.0072	-0.0012	-0.0072
Preservation/Existing Development:	0.0025	0.0150	-0.0025	-0.0150
Vacant Rehab or Adaptive/Reuse:	0.0006	0.0036	-0.0006	-0.0036

      - **AND**
      - (2) Remove the cap (or at least substantially INCREASE the score to 20) on the total points awarded from the deviation from safe harbor Minimums and Maximums.

	POINT FACTORS	
	CURRENT	PROPOSED
	Possible Points for project type	Possible Points for project type
New Construction:	Capped at: +5 points or -5 points	No Cap (floor or ceiling)
Preservation/Existing Development:	Capped at: +5 points or -5 points	No Cap (floor or ceiling)
Vacant Rehab or Adaptive/Reuse:	Capped at: +5 points or -5 points	No Cap (floor or ceiling)

- ***SOLUTION #2: Award Sliding Scale Points on a Total Credit per Effective LIHTC Unit:***
  - Using MSHDA's existing Credit Efficiency calculation, we propose allocating 25 points based on a Total Credit per Effective LIHTC Unit as follows:
    - (i) Projects with Credit Efficiency of $5,000 per unit or less receive 25 points;
    - (ii) Projects with Credit Efficiency of $7,500 per unit or less receive 20 points;
    - (iii) Projects with Credit Efficiency of $10,000 per unit or less receive 15 points;
    - (iv) Projects with Credit Efficiency of $12,500 per unit or less receive 10 points;
    - (v) Projects with Credit Efficiency of $15,000 per unit or less receive 5 points.
    - (vi) Projects with Credit Efficiency of $20,000 per unit or less receive 0 points.
    - (vii) Projects with Credit Efficiency over $21,232 per unit receive -5 points

	2019-2021 QAP's Scoring				2022-2023 Suggested QAP Scoring				
Cost Reasonableness & Credit Efficiency	Score	Total %	Non-Supportive Service Deals %		Suggested Change	Total %	Non-Supportive Service Deals %		Points Difference
Credit Efficiency	5	1.95%	2.73%		0	0.00%	0.00%		(5)
Total Credit Per Effective LIHTC Unit					25	9.77%	13.66%		25
Total	**5**	**1.95%**	**2.73%**		**25**	**9.77%**	**13.66%**		**25**

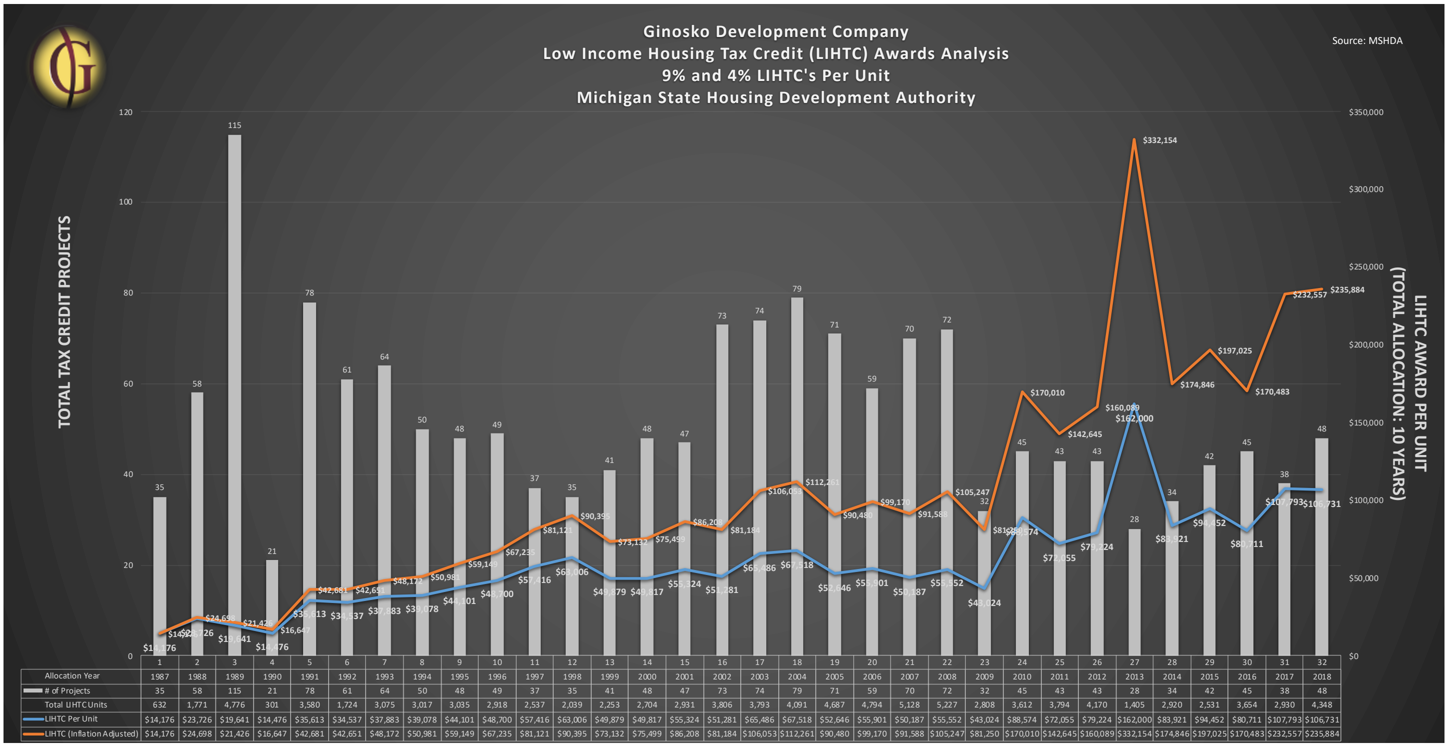
- At the very least, we believe the Cost Reasonableness and Credit Efficiency ratio should be at least 13.66% (25 points) of the overall 2022-2023 QAP score as set forth on the attached **Exhibit A**.
  - This does not have to "cheapen the product" if the 2022-2023 QAP implements certain *loose* design standards on 9% deals, which will only force Applicants to more creatively structure a deal.
  - This also doesn't incentivize larger projects. Previous applications have proven that smaller deals have figured out a way to request less LIHTC per unit than larger deals, but have unfortunately lost out due to scoring.
- MSDHA should also consider using the Strategic/Unreserved category to first fund the deals that have the highest Credit Efficiency on a per unit basis. Once LIHTCs have been allocated to the highest scoring deals within each Category, instead of using the Strategic/Unreserved Category to fund the next highest deal, it should be used to fund the most efficient unallocated deals until the LIHTC allocation is exhausted.

4%-9% Hybrid Deals:

- 4%-9% Hybrid transactions are the single most impactful way to create efficiencies of not only the 9% LIHTC, but the 4% LIHTC as well.
- Currently, the higher self-score an Applicant receives on a deal, the less likely that deal is to be efficient in its 9% LIHTC request.
- Under the 2022-2023 QAP:
  - A maxed out ($1,500,000) 9% only LIHTC that is ***not*** paired with a 4% LIHTC deal should rarely beat out a 4%-9% Hybrid deal, especially if that 9% only LIHTC deal has excess basis.
  - The 9% LIHTC phase of a 4%-9% Hybrid deal should ***never*** request the maximum 9% LIHTC allowable.
    - We believe the eligible LIHTC ceiling for 4%-9% Hybrid deals should be $1 Million, not $1.5 Million.
- Under the 2019-2021 QAP's, it appears as though MSHDA is leaving a substantial amount of money and opportunity "on the table." Meaning, ***MSHDA has the potential to significantly increase its revenue streams by increasing its multi-family loan production (both for taxable bond and tax-exempt bond funded loans), while also producing/preserving more affordable units a year.***
- In a 4%-9% Hybrid structure, MSHDA has the ability to increase the use of its taxable bond loan product, especially if it can capitalize on its ability to close quicker than HUD, or other loan products (which MSHDA can, seeing that you have all the information at the 4% Notice of Intent date).
- In increasing the use of the 4%-9% Hybrid structure, MSHDA will:
  1. Increase its ability to accomplish (or exceed) current production goals.
  2. Increase the efficiency of government resources.
  3. Increase the loan production of MSHDA.
  4. Increase the number of affordable housing units for the State of Michigan
  5. Increase the number of jobs in the State of Michigan
- Giving preferential points to existing Rural Deals in a 4%-9% Hybrid capacity can also help recapitalize existing deals in the MSHDA portfolio.
  - MSHDA should also consider allowing Applicants to pool rural deals together to absorb the debt. This is done in other states and allows rural deals to spread out the deal costs.

Other Miscellaneous Information:

The following graph clearly shows MSHDA's need to increase the scoring importance for Cost Reasonableness and Credit Efficiency since the amount of LIHTC's award per unit continues to increase the number of deals remains fairly stagnate. 2013 was an outlier year that had to do with The Klingman Lofts (Phase I & II) and Creston Plaza (Phase I & II) where a lot of credit was awarded to very few units respectively. This is something the 2022-2023 QAP should vehemently counteract.



	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Allocation Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
# of Projects	35	58	115	21	78	61	64	50	48	49	37	35	41	48	47	73
Total LIHTC Units	632	1,771	4,776	301	3,580	1,724	3,075	3,017	3,035	2,918	2,537	2,039	2,253	2,704	2,931	3,806
LIHTC Per Unit	$14,176	$23,726	$19,641	$14,476	$35,613	$34,537	$37,883	$39,078	$44,101	$48,700	$57,416	$63,006	$49,879	$49,817	$55,324	$51,281
LIHTC (Inflation Adjusted)	$14,176	$24,698	$21,426	$16,647	$42,681	$42,651	$48,172	$50,981	$59,149	$67,235	$81,121	$90,395	$73,132	$75,499	$86,208	$81,184

	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32
Allocation Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
# of Projects	74	79	71	59	70	72	32	45	43	43	28	34	42	45	38	48
Total LIHTC Units	3,793	4,091	4,687	4,794	5,128	5,227	2,808	3,612	3,794	4,170	1,405	2,920	2,531	3,654	2,930	4,348
LIHTC Per Unit	$65,486	$67,518	$52,646	$55,901	$50,187	$55,552	$43,024	$88,574	$72,055	$79,224	$162,000	$83,921	$94,452	$80,711	$107,793	$106,731
LIHTC (Inflation Adjusted)	$106,053	$112,261	$90,480	$99,170	$91,588	$105,247	$81,250	$170,010	$142,645	$160,089	$332,154	$174,846	$197,025	$170,483	$232,557	$235,884

In conclusion, we believe that making efficiency a priority withing the 2022-2023 QAP, unlocks an opportunity to:

1. Effectuate ***more*** of any MSHDA Policy Goals.
2. Increase the efficiency of government resources.
3. Increase the loan production of MSHDA.
4. Increase the number of affordable housing units for the State of Michigan
5. Increase the number of jobs in the State of Michigan

We do not believe that 69.95% of the total QAP points should be focused solely on Opportunity Criteria (Location) and Development Characteristics, when only 2.73% is focused on Cost Reasonableness and Credit Efficiency. The aforementioned recommendations help to not only (1) mitigate any anticipated loss in affordable housing production, but also (2) maximizes the efficiency of the LIHTC.

We would welcome the opportunity to discuss these proposed amendments in person (preferably virtually) should you see fit.

Thank you.

EXHIBIT A

QUICK REFERENCE SHEET	2019-2021 QAP's Scoring			2022-2023 Suggested QAP Scoring			
	Score	Total %	Non-Supportive Service Deals %	Suggested Change	Total %	Non-Supportive Service Deals %	Points Difference
A. Opportunity Criteria							
1. Proximity to Transportation	5	1.95%	2.73%	5	1.95%	2.73%	0
2. Proximity to Amenities	12	4.69%	6.56%	6	2.34%	3.28%	(6)
3. Education, Health and Well-Being, Economic Security, and Jobs, Goods, & Services	4	1.56%	2.19%	4	1.56%	2.19%	0
4. Developments near Downtowns or Corridors	12	4.69%	6.56%	8	3.13%	4.37%	(4)
5. Developments near an Employment Center	5	1.95%	2.73%	5	1.95%	2.73%	0
6. Neighborhood Investment Activity Areas	10	3.91%	5.46%	7	2.73%	3.83%	(3)
7. Affordable/Market Rent Differential	5	1.95%	2.73%	5	1.95%	2.73%	0
8. Developments in Opportunity Zones or Rising Tide Communities	3	1.17%	1.64%	3	1.17%	1.64%	0
	56	21.88%	30.60%	**43**	16.80%	23.50%	**(13)**
B. Development Characteristics							
1. Historic Rehabilitation Projects	5	1.95%	2.73%	5	1.95%	2.73%	0
2. Native American Housing	5	1.95%	2.73%	5	1.95%	2.73%	0
3. Affordable Assisted Living	5	1.95%	2.73%	5	1.95%	2.73%	0
4. Low Income Targeting	20	7.81%	10.93%	20	7.81%	10.93%	0
5. Affordability Commitment	5	1.95%	2.73%	5	1.95%	2.73%	0
6. Tenant Ownership	1	0.39%	0.55%	0	0.00%	0.00%	(1)
7. Mixed Income Development	2	0.78%	1.09%	2	0.78%	1.09%	0
8. Accessible Community Space	3	1.17%	1.64%	3	1.17%	1.64%	0
9. QAP Green Policy Points	10	3.91%	5.46%	5	1.95%	2.73%	(5)
10. Evidence of Proper Zoning	5	1.95%	2.73%	2	0.78%	1.09%	(3)
11. Evidence of Site Plan Approval	5	1.95%	2.73%	2	0.78%	1.09%	(3)
12. Visitable Units	3	1.17%	1.64%	3	1.17%	1.64%	0
13. Barrier-Free/Fully-Adaptable-to-Barrier-Free Units	3	1.17%	1.64%	3	1.17%	1.64%	0
	72	28.13%	39.34%	**60**	23.44%	32.79%	**(12)**
C. Development Team Characteristics							
1. Previous Experience of GP/Member	10	3.91%	5.46%	10	3.91%	5.46%	0
2. Previous Experience of Management Agent	10	3.91%	5.46%	10	3.91%	5.46%	0
3. Temporary Point Reduction	-5	0.00%	-2.73%	-5	0.00%	-2.73%	0
4. Poor Previous Participation of Applicant	-20	0.00%	-10.93%	-20	0.00%	-10.93%	0
5. Poor Previous Participation of Management Agent	-20	0.00%	-10.93%	-20	0.00%	-10.93%	0
tal:	**20**	7.81%	10.93%	**20**	7.81%	10.93%	**0**
D. Development Financing							
1. 4% / 9% Developments	10	3.91%	5.46%	15	5.86%	8.20%	5
2. Replacement/Redevelopment of Public Housing	5	1.95%	2.73%	5	1.95%	2.73%	0
3. RHS Section 515 Property	5	1.95%	2.73%	5	1.95%	2.73%	0
4. Project-Based Tenant Subsidies	5	1.95%	2.73%	5	1.95%	2.73%	0
5. Tax Abatement	5	1.95%	2.73%	5	1.95%	2.73%	0
	30	11.72%	16.39%	**35**	13.67%	19.13%	**5**
E. Permanent Supportive Housing Developments							
1. Supportive Service Coordination	6	2.34%		6	2.34%		0
2. Service Funding Commitments	5	1.95%		5	1.95%		0
3. Targeted Supportive Housing Populations	15	5.86%		15	5.86%		0
4. Developing in a High Need Area	8	3.13%		8	3.13%		0
5. Experienced Supportive Housing Development Team	9	3.52%		9	3.52%		0
6. Successful PSH Outcomes	6	2.34%		6	2.34%		0
7. Medicaid Experience	5	1.95%		5	1.95%		0
8. Specific On-Site Services	4	1.56%		4	1.56%		0
9. Inclusive Tenant Selection Plan	5	1.95%		5	1.95%		0
10. Coordinated Entry System	5	1.95%		5	1.95%		0
11. Recovery Housing Developments	5	1.95%		5	1.95%		0
	73	28.52%		**73**	28.52%		**0**
F. Cost Reasonableness & Credit Efficiency							
1. Credit Efficiency	5	1.95%	2.73%	0	0.00%	0.00%	(5)
2. Total Credit Per Effective LIHTC Unit				25	9.77%	13.66%	25
Total:	**5**	1.95%	2.73%	**25**	9.77%	13.66%	**20**
GRAND TOTAL:	256	100.00%		256	100.00%		0
Non-Supportive Services Grand Total:	183		100.00%	183		100.00%	0