



## ADMINISTRATION

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February 12, 2020

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

Dear Mr. Benson:

Well-documented shortages of housing in all communities in the ten-county region of Northwest Lower Michigan are impacting the ability of residents and potential workers to live, work, or do business in the region. While the region is one of the fastest-growing and most economically competitive regions in the state, its economy and quality of life are threatened by the lack of housing for its workforce and other residents.

Demand for housing exists across the income spectrum but is especially pronounced for lower-income households – many of whom work in, and are critical to, our region's tourism- and service-based economy. High development costs mean that subsidy is necessary for new housing to meet the needs of these residents while remaining financially viable. Yet, it's proven difficult in Northwest Lower Michigan to access the low income housing tax credit program (LIHTC), the nation's largest funding source for affordable housing. Input from stakeholders has consistently pointed towards structural issues in the Qualified Allocation Plan (QAP) that render communities in our region, and other rural areas, largely uncompetitive for funding through the 9% LIHTC program. As MSHDA considers changes and updates to the QAP, Missaukee County respectfully requests consideration of changes that will address development needs in this geographically and economically significant region of Michigan – and beyond. Below are several recommendations developed by Housing North with input from community stakeholders and developers. More detailed recommendations are attached.

- **4%/9% Mixed Transaction Projects.** In order to encourage the use of the 4% tax credit program, a 15-point advantage is currently offered for projects that pair the 4% and 9% tax credit programs. However, using these products together is challenging in northern Michigan because of density and financing realities in small rural communities *except for* public housing rehabilitation projects. Reducing the point advantage by 5-10 points could incentivize the use of both programs without penalizing other projects for which 4%/9% transactions aren't feasible. At the same time, applying alternative MSHDA products to rehabilitation projects can 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. With the increased credit allocation now available to MSHDA, there's an opportunity to create an additional category dedicated to Rural projects without significantly affecting any other category.

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LOW INCOME HOUSING  
TAX CREDIT



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- **Points for rural amenities.** In the current QAP, points are awarded for projects that fall within 1 mile from certain amenities, such as full-service grocery, pharmacies, and medical offices/clinics. Not all of these amenities are available in small cities and towns, which nevertheless offer ample opportunities for a high quality of life. We suggest developing a tier structure that provides more flexibility for points based on amenities typically found in rural communities.
- **Payment In Lieu Of Taxes (PILOT) Process.** A flexible approach for when and how PILOT agreements are reached between local government and developer could provide options for developers in terms of how they approach political and financial risk. The use of a pro forma, memorandum of understanding, or conditional PILOT could act as a sufficient proxy for an agreement until there is certainty about the status of the LIHTC application.
- **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 have identified priority development areas that are the focus of new community investment activities and offer 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. Smaller communities that have targeted certain areas for housing investment should have alternative scoring options to the WalkScore.
- **Experience Points.** A value/points system that awards points based on developer "team" experience in addition to developer experience alone can help build capacity locally, particularly in northern Michigan, where there are limited opportunities to break into the system and start earning "experience."
- **Proximity to Transportation Scoring.** The current QAP awards points based on project proximity to a public transportation stop (i.e. bus stop). We suggest a tiered scoring system for proximity to transportation based on population and distance, especially in smaller cities and communities, where transportation options can be extremely limited.

As a local unit of government engaged in encouraging housing development in Northwest Michigan, we urge you to strongly consider implementation of recommendations provided in this letter and the February 11 correspondence from Housing North.

Sincerely yours,

A handwritten signature in black ink that reads "Precia L. Garland".

Precia L. Garland  
County Administrator

enclosure



February 12, 2020

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

RE: MSHDA's 2020-2021 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 and are pleased to offer comment on MSHDA's 2020-2021 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

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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), 1/4 of a mile (4 pts), and 1/2 a mile respectively (3pts). 2 points could also be awarded for locations that fall outside of 1/2 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

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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.

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 2021-2022 QAP. If you have any questions about the recommendations above, please do not hesitate to contact me at 231-342-1242, or via email at [sarah@housingnorth.org](mailto:sarah@housingnorth.org).

Sincerely,



Sarah Lucas  
Executive Director

Creating pathways and partnerships for housing in Northwest Michigan.

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