

# 2015-2016 QUALIFIED ALLOCATION PLAN

## STAFF REPORT

### INTRODUCTION

In 2012, the 2013-2014 Qualified Allocation Plan (QAP) was adopted and represented the first significant re-write and overhaul of the QAP that had taken place in quite some time. Since that time, as with any policy document, it has become apparent that certain modifications need to be made to reflect shifting policy priorities, changes in market conditions, and lessons learned from the previous QAP. To accomplish these modifications, MSHDA has worked closely with stakeholders in various focus groups, meetings, and conversations. Based on these many discussions, MSHDA has determined that there should be three areas of focus for the redevelopment of the QAP for 2015-2016:

- 1) A strengthened focus on project location and placemaking concepts
- 2) Resource efficiency
- 3) Continued improvement and modification of policy objectives.

To accomplish these items, several changes have been made throughout the QAP, Scoring Criteria, and accompanying program documents. Following is a list of some of the more significant revisions to the 2015-2016 Qualified Allocation Plan, Scoring Criteria, and other related policies. This is not intended to be an all-encompassing list. Therefore, in addition to reviewing this list, stakeholders are encouraged to review all of the documents in their entirety to gain a full understanding of what is contained within them.

### PLACEMAKING

“Placemaking” is centered around the concept that people choose to live in places that offer the amenities, resources, and opportunities to support thriving lifestyles. In an effort to revitalize communities across the state, the various funding programs that are available should take into account the types of places where workers, entrepreneurs, and businesses want to locate, invest and expand. Further, as it relates to affordable housing, these same characteristics of locations are often critical to the success of any housing development.

In the previous QAP, MSHDA took significant steps to incorporate much of the place-based criteria that are involved in strategic placemaking. In the 2015-2016 QAP, further improvements in this area were needed. Some of the more significant modifications are as follows:

### LOCATION-BASED POINTS

Location is one of the primary components of placemaking. Because of this, the 2015-2016 QAP Scoring Criteria has a heavier weight on a project’s location than has been the case in prior QAPs. To assess the

strength of a project's location, the competitive scoring criteria will continue to use a project's walkscore to measure the amount and location of available amenities within close proximity of the site. To address stakeholder concerns about the accuracy of this assessment, MSHDA has agreed to a formal process with Walk Score that will allow applicants to contact Walk Score directly to get their project's walkscore corrected/updated if necessary. Walk Score will respond to applicants within a specified amount of time, which will allow applicants to be able to have an up-to-date score when they submit an application. Placing a greater emphasis on this scoring criterion should give priority to more connected and walkable sites and is a strategy that aligns with place-based development.

## PROXIMITY TO TRANSPORTATION

The previous QAP introduced a provision awarding points to projects that are located within 1/10 of a mile of a public transit stop or for projects that have the ability to make some other form of regularly scheduled transportation available to the tenants. Since this criterion was incorporated into the QAP, it has become apparent that some of the other nonpublic transportation services that come directly to a site may not be able to provide the same level of service that public transit can provide. The 2015-2016 QAP now allows for two different scoring levels in this area. Projects that are located near public transit or that have the ability to provide a similar level of service directly to the site will receive full points, while those that are able to provide a lesser level of service will receive partial points. This assessment will primarily be made based on the accessibility, capacity, and reliability of the transportation being provided.

## PLACE-BASED COMPETITIVE SCORING CRITERIA

To clearly demonstrate the emphasis that has been put on placemaking strategies and concepts, a Placed-Based Criteria section has been created within the 2015-2016 LIHTC Scoring Criteria. Many of the competitive scoring items that are contained within the Place-Based section are similar to what was contained within the previous QAP. However, this realignment places a clearer emphasis on MSHDA's focus on placemaking. Additionally, many of these place-based scoring items were revised to make the requirements clearer and to better align with the development outcomes that the QAP is seeking to achieve.

## RESOURCE EFFICIENCY

One of the primary objectives, as identified by MSHDA and stakeholders, was the need for efficient use of the LIHTC. Given the decline in other available resources used for the development of affordable housing, it is particularly important that this scarce resource be utilized as efficiently as possible to assist with the unmet demand for affordable housing. Below are some of the revisions that were incorporated into the 2015-2016 QAP in an attempt to be more efficient with the limited 9% LIHTC resource:

## PRESERVATION PROCESS AND STRATEGIES

In the past, there have been several preservation projects that have applied for and received an award of 9% LIHTC that could have potentially been completed using an affordable housing program that doesn't provide as much subsidy as the 9% LIHTC program provides. In an attempt to try to better align projects and the available resources, the 2015-2016 QAP includes a revision to the application process requiring any preservation project to first apply for consideration as part of MSHDA's Gap Financing Program before it would be determined to be eligible to submit an application for 9% LIHTC. MSHDA will conduct a preliminary assessment of the project's underwriting, location, market, and development team, and determine if the proposal would be suitable to proceed as a 4% LIHTC project, with a MSHDA tax-exempt loan, and gap financing. If the project does not appear that it could be completed using these sources of financing, the project would be eligible to apply for 9% LIHTC in the Preservation Category.

This modified process is specifically required for preservation transactions since they are traditionally better positioned to be financially viable absent the use of the 9% LIHTC. This revised process allows for the potential for greater resource efficiency because it should allow the 9% credit to go to projects that actually need it, while other projects may be able to be completed using a MSHDA tax-exempt loan, gap financing, and 4% LIHTC.

#### COST CONTAINMENT

A scoring factor to evaluate a project's total development costs was introduced in the prior version of the QAP. While the method that was put into place in the prior QAP (evaluating cost per-square-foot based on three different construction-types) will remain in place, some modification to it was necessary to allow for the metric to be more sensitive to the amount of costs a project has, which should have a greater impact on the score the project will ultimately receive. MSHDA believes this modification is necessary to encourage applicants to put a greater focus on the total overall costs of their projects, which in turn should help to make affordable housing resources as a whole go further.

#### CREDIT EFFICIENCY

In addition to measuring the overall cost of a project, stakeholders expressed an interest in placing a focus on the actual amount of LIHTC being used in a particular project. Accordingly, a scoring metric has been created to measure the credit efficiency of a development, in an effort to make the actual credit go further and to enable the completion of more projects. The credit efficiency metric is based on a credit-per-LIHTC unit approach in which projects of similar construction-type will be measured against each other. This analysis is somewhat similar to the cost containment metric discussed above, however, the credit-per-unit metric is weighted more heavily than that the cost per-square-foot metric. This metric is being added as an additional way to place more emphasis on being resource efficient, and to put additional focus on credit usage, as opposed to simply looking at a project's total costs.

#### DEVELOPER FEE

Several years ago, MSHDA worked closely with stakeholders to modify the developer fee calculation and limit that was in place at the time. The result of those conversations was a more liberal calculation of the amount of developer fee that could be earned per project, as well as an increase in the overall cap on the developer fee. As resources have become scarcer and the need to stretch available funding sources has increased, MSHDA believes the developer fee calculation and cap need to be modified to help ensure the LIHTC resource is being used efficiently.

Accordingly, in the 2015-2016 QAP, the developer fee cap and calculation method have both been modified. In the prior QAP, the developer fee was calculated based on 15% of total development costs, up to a maximum of \$1,800,000 for 9% LIHTC projects. The 2015-2016 QAP now determines the developer fee using a calculation of 7.5% of acquisition costs and reserves, plus 15% of all other project costs, with a maximum fee of \$1,500,000. This modification still allows the allowable fee to be at a competitive level when comparing Michigan to the policies that other, surrounding states have in this specific area. Additionally, the maximum developer fee that is available for projects using tax-exempt bond financing and 4% LIHTC has been reduced to \$2,100,000.

## ACHEIVEMENT OF POLICY OBJECTIVES

The primary purpose of the LIHTC program is to provide appropriate affordable housing for some of our neediest citizens, while also spurring economic development within our communities. In that context, the following modifications to certain policy objectives were incorporated in the QAP and/or its related documents:

### PERMANENT SUPPORTIVE HOUSING (PSH)

The PSH category and scoring have been modified to iterate on the theme of the previous QAP, which was to focus more on the quality and type of supportive housing, as opposed to the quantity being provided. In an attempt to continue to accomplish this, more emphasis has been placed on the previous experience that the development team has in doing PSH developments, and on the coordination of services and service funding, among other things. Additionally, more points have been added to this section of the scoring criteria to place a greater emphasis on the PSH-related components of these projects when determining which PSH projects will ultimately receive an award of LIHTC.

### LOW INCOME TARGETING

The low income targeting portion of the competitive scoring criteria was modified in a few different areas. The first modification will allow for 100% Permanent Supportive Housing (PSH) projects to be able to receive these points, which were previously unavailable to them. Points in this scoring criteria for PSH deals will now be achieved based on the number of PSH units in the project rather than the income level being served, since PSH tenants are typically extremely low income.

Secondly, a modification was made to reduce the total number of points available that a project can achieve for deeper income targeting of some of the units in the development. In the current LIHTC

environment, particularly for developments that do not have rental assistance or are not using any form of gap financing, it has become increasingly more difficult to structure a development that will be financially feasible for at least the 15-year compliance period. This issue has become more prominent recently, and is largely due to the expiration of the fixed 9% credit rate and the fact that projects must now be underwriting using the floating 9% credit rate. Reducing the number of points and the overall weighting of this scoring criterion allows for applicants to incorporate fewer deeply targeted units so that they can have a viable project and also minimizes the negative impact on the project's overall scoring.

Because various proposals have been presented at the Federal level that would extend the rate lock for the 9% credit to allow it to be at a true 9% rate, language has been incorporated into the scoring criteria indicating that the points scoring factors related to low income targeting will be doubled, resulting a maximum point total of 20 points, should legislative changes be made to lock the credit rate at a true 9% in the future. This language is being incorporated to account for the concept that extension of the fixed 9% rate would allow for projects to remain financially viable while being able to do a greater level of deep income targeting.

Finally, the low income targeting scoring criterion was also modified to eliminate the additional points that a project with Project-Based Rental Assistance (PBRA) could receive, which were previously unavailable to other projects without PBRA. To be clear, there are still other points within other areas of the scoring criteria specifically for projects that are using Project Based Tenant Subsidies. In general, projects in all categories – Preservation, Open, and PSH – now have the ability to achieve the same maximum score of 10 points under the low income targeting criteria; they just achieve these points in different ways.

#### TAX ABATEMENT POINTS

MSHDA believes there is a benefit to a project having a Payment in Lieu of Taxes (PILOT), but not such a benefit that a project not be able to receive an award if it does not have one. If a project is able to proceed and be financially viable without the use of a PILOT, it should at least be able to have a competitive chance in the scoring and award process and not be forced to obtain an unnecessary PILOT, which in turn places unnecessary burden on the municipality. Therefore, the number of points that are available for a project having a PILOT have been significantly reduced.

#### NATIVE AMERICAN HOUSING

While a greater emphasis has been placed on a project's location in the 2015-2016 QAP, there are many American Indian Reservations which have a significant unmet need for affordable housing. Recognizing that there is indeed a serious demand in these unique locations, points were added to the scoring criteria for Native American Housing. To achieve these points, the project must be sponsored by a federally recognized tribe and be located within the jurisdiction and/or service area of that tribe or its Tribally Designated Housing Entity (TDHE), must leverage a significant amount of NAHASDA or other

tribal funding, and must show significant need by demonstrating a significant waiting list for tenancy at the proposed housing development.

#### GENERAL PARTNER/OWNER EXPERIENCE POINTS

An area that continuously evolves with the modification of the QAP is how an owner's previous experience is evaluated. As market conditions change, it is often necessary for these criteria to be adjusted to provide for a more accurate analysis. In the 2015-2016 QAP, these points have been modified in a few different ways from the prior QAP. First, the total number of points available and the total number of projects needed to get the maximum points have been reduced. Additionally, only LIHTC projects that have been completed and placed in service within the last fifteen years will count toward an owner's experience points. Lastly, in an effort to make sure a partnership is real and credible in cases where there are co-general partners/members, an entity must be a guarantor for the equity investment and project financing in order for its experience to be counted for points.

#### MICHIGAN-BASED BUSINESS POINTS

For many years, the competitive scoring criteria has contained various point items intended to preference entities that are based in Michigan. While MSHDA believes it is important to support those companies that are based in Michigan, it is also important to have a process that is truly competitive, potentially creating an environment that is more likely to produce new ideas and practices in affordable housing. To continuing with these state-based preferences in place would serve as a barrier-to-entry for out-of-state developers/operators to be competitive. Therefore, the Michigan-based points related to the owner, management company, and development team members have been eliminated.

#### APPLICATION QUALITY

In recent years, there has been a significant decrease in the quality of applications that are being submitted for LIHTC. In response to the continued lack of quality in the applications that have been submitted, a new threshold requirement was created allowing MSHDA to deny an application for LIHTC if the application is materially inaccurate and/or inconsistent throughout. While there has always been a provision in the QAP that would allow MSHDA to deny an application for this reason, including this provision as one of the threshold criteria simply makes this requirement more prominent.

#### MARKET STUDY PROCESS

The timing of the market study process has been revised to require that an applicant has a completed market study at the time they submit an application, where in the past an applicant has simply been required to order the market study with the application. There is no change to the actual process for ordering and having a study completed, just a change in the timing of when the study must be done. This change allows for at least a couple of benefits: 1) quicker processing of applications that are submitted in the funding round, which means the round should be completed sooner; and 2) allows the

developer and MSHDA to have the market data sooner so the applications can be submitted with rents that are supported by a market study.