MSHDA

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

Low-Income Housing Tax Credit Program

2022-2023 Qualified Allocation Plan

www.michigan.gov/mshda

CONTENTS

2022-2023 QUALIFIED ALLOCATION PLAN

STATE OF MICHIGAN LOW-INCOME HOUSING TAX CREDIT PROGRAM

I. INTRODUCTION

The Michigan State Housing Development Authority (MSHDA) allocates the Low-Income Housing Tax Credit (LIHTC) program according to the Qualified Allocation Plan (QAP).

II. TAX-EXEMPT FINANCED PROJECTS NOT SUBJECT TO HOUSING CREDIT CEILING

In accordance with Section 42 of the Internal Revenue Code (IRC), tax-exempt bond financed projects are subject to the QAP other than the LIHTC allocation limits and requirements from which they are expressly excepted (see Tab W – Policy Bulletins).

III. APPROVAL AND MODIFICATION OF THE QUALIFIED ALLOCATION PLAN

A. QAP APPROVAL

Pursuant to federal and state law, the QAP (including the LIHTC Scoring Criteria) shall be prepared by MSHDA, submitted to the legislature, and approved by the Governor after notice to the public and public hearing. The Scoring Criteria, Addendum III, and Green Policy are incorporated herein as though they were a part of the body of this QAP. Notice of the public hearing will be published on MSHDA's website and in newspapers of general circulation throughout the state at least fourteen (14) days prior to the public hearing. MSHDA will hold one informational hearing prior to publication of proposed changes to the QAP. After proposed changes have been published, MSHDA will conduct at least three public hearings, held at such time and place as determined by MSHDA; however, MSHDA shall give priority to locations that provide the greatest opportunity for public comment. Comments received shall be taken into consideration, and a written summary of such comments shall be provided to the Governor together with the request for approval of the QAP. The QAP, once approved, is valid until it is changed by MSHDA.

B. QAP MODIFICATION

MSHDA may modify the QAP to the extent necessary to facilitate the award of LIHTCs that would not otherwise be awarded. This modification process will follow the approval process delineated above unless specifically stated otherwise in this document.

IV. AUTHORITY DISCLAIMER AND ANTI-DISCRIMINATION OBLIGATION

MSHDA shall administer the QAP and the allocation of LIHTC in a manner consistent with both federal housing policy governing non-discrimination and MSHDA's statutory non-discrimination requirements. The allocation of LIHTCs is made at the sole discretion of MSHDA. MSHDA and its board members, directors, employees, and agents shall not be liable for any matters arising out of or in relation to the allocation or administration of LIHTC.

MSHDA may waive any requirements and/or conditions that are not mandated by Section 42 of the IRC on a case-by-case basis, including project-specific deadlines. MSHDA may charge a fee for such waivers. Additionally, MSHDA may make adjustments to standard policies/procedures, if needed, to resolve any administrative errors made in the evaluation of an application following conclusion of a funding round. Potential remedies may include, but are not limited to, making an allocation of LIHTC from a future funding round to a project that would have otherwise received an award of credit. To the extent that anything contained in this QAP does not meet the minimum requirements of federal law or regulation, or state law or regulation, such law or regulation shall take precedence over the QAP.

V. FUNDING ROUND AND PRIORITIES

A. FUNDING ROUNDS

The Authority intends to hold two competitive funding rounds for 2022 LIHTC and two competitive funding rounds for 2023 LIHTC, which will be publicized on the Authority's website (www.michigan.gov/mshda).

Applicants must complete the following prior to each funding round deadline:

(1) Permanent Supportive Housing projects must have their initial meeting with the Continuum of Care (CoC)
(2) Preservation projects must submit documentation to determine if the project is competitive under the MSHDA Gap Financing Program (see Section V.C.1. for further information)
(3) Developments that are proposing a 4%/9% Mixed Transaction will be required to submit documentation.
(4) Any projects requesting a waiver of any QAP provisions.
(5) Permanent Supportive Housing projects that are applying for the first time must meet with the Addendum III Review Team.
(6) Affordable Assisted Living (AAL) projects must submit a review packet to the AAL Steering Committee for review and approval.
(7) Projects that are not required to order a market study directly through MSHDA must indicate to MSHDA where the proposal is located. This notification will include either the address of the site or a legible site map showing its boundaries sufficient to allow MSHDA staff to find the site.

A timeline of applicable deadlines leading up to and including the funding round is included below:

STAGE OF PROCESS	DUE DATE
October 2021 Funding Round - approximately 45% of the 2022 credit	
Initial Meeting with CoC Deadline (PSH Only)	Monday, August 2, 2021
Waiver Request Due Date	Monday, August 2, 2021
Preservation Level 1 Review Due Date	Monday, August 2, 2021
4%/9% Mixed Transaction Level 1 Review Due Date	Monday, August 2, 2021
Addendum III Initial Concept Letter Due Date (PSH Only)	Monday, August 2, 2021
Affordable Assisted Living Steering Committee Review Packet Due Date	Monday, August 2, 2021
Funding Round Due Date	Friday, October 1, 2021
Expected Award Notification Date	December of 2021
April 2022 Funding Round - approximately 45% of the 2022 credit	
Initial Meeting with CoC Deadline (PSH Only)	Tuesday, February 1, 2022
Waiver Request Due Date	Tuesday, February 1, 2022
4%/9% Mixed Transaction Level 1 Review Due Date	Tuesday, February 1, 2022
Addendum III Initial Concept Letter Due Date (PSH Only)	Tuesday, February 1, 2022
Affordable Assisted Living Steering Committee Review Packet Due Date	Tuesday, February 1, 2022
Funding Round Due Date	Friday, April 1, 2022
Expected Award Notification Date	June of 2022
October 2022 Funding Round - approximately 45% of the 2023 credit	
Initial Meeting with CoC Deadline (PSH Only)	Monday, August 1, 2022
Waiver Request Due Date	Monday, August 1, 2022
Preservation Level 1 Review Due Date	Monday, August 1, 2022
4%/9% Mixed Transaction Level 1 Review Due Date	Monday, August 1, 2022
Addendum III Initial Concept Letter Due Date (PSH Only)	Monday, August 1, 2022
Affordable Assisted Living Steering Committee Review Packet Due Date	Monday, August 1, 2022
Funding Round Due Date	Monday, October 3, 2022
Expected Award Notification Date	December of 2022
April 2023 Funding Round - approximately 45% of the 2023 credit	
Initial Meeting with CoC Deadline (PSH Only)	Wednesday, February 1, 2023
Waiver Request Due Date	Wednesday, February 1, 2023
4%/9% Mixed Transaction Level 1 Review Due Date	Wednesday, February 1, 2023
Addendum III Initial Concept Letter Due Date (PSH Only)	Wednesday, February 1, 2023
Affordable Assisted Living Steering Committee Review Packet Due Date	Wednesday, February 1, 2023
Funding Round Due Date	Monday, April 3, 2023
Expected Award Notification Date	June of 2023

At the time of drafting this document, the MSHDA Offices in Lansing and Detroit are not accepting hand-delivered applications. Applicants must submit their application electronically no later than 5:00pm Eastern time on the applicable funding round deadline. MSHDA will create a project folder and provide access and instructions to the person(s) identified. In advance of each funding round, MSHDA staff will publish guidance updating potential applicants on the acceptable method(s) for submitting an application.

Application items received after the due date and time will not be processed. No waiver of the delivery time will be granted.

B. FUNDING PRIORITIES

All applicants will be required to apply in only one Primary Category as listed in the table below. These Primary Categories are described in more detail in Section_V.C. The percentages listed below are based on the LIHTC credit ceiling less any Disaster Credits.

Primary Categories	Percentages
Preservation Category (subject to sufficient demand, a minimum of 40% if this Category must be allocated to USDA RD 515 financed developments)	12%
Permanent Supportive Housing (PSH) Category	25%
Open Category (Urban)	28%
Open Category (Balance of State)	13%

Applicants that apply in one of the Primary Categories above may also apply in one or both of the Optional Categories listed in the table below, subject to eligibility. It is not required that applicants apply in any of the Optional Categories but doing so may increase the applicant's chances of receiving funding. More detail is provided in Section V.D.

Optional Categories	Percentages
Strategic Investment Category	10%
Disaster Credits	$1,187,039 (amt. TBD)

Lastly, MSHDA will hold back a portion of LIHTC as Undesignated Credit. This LIHTC will be used primarily for ensuring that required set-asides are met. Applicants do not specifically apply under the Undesignated Category but may be considered by MSHDA for funding under this Category. More detail is provided in Section V.E.

Undesignated Credit	12%

C. PRIMARY CATEGORIES

1. PRESERVATION CATEGORY

This Category is only available in the October 2021 and October 2022 funding rounds. A minimum of 40% of this Category must be allocated to USDA RD 515 financed developments. MSHDA will allocate the first 40% of the preservation credit ceiling to USDA RD 515 financed developments and/or a Tribal housing project located in a Balance of State municipality that meets the requirements of the Native American Housing point criteria according to highest final score and will utilize the 90% rule as stated in Section V.G.3. Once the 40% minimum has been achieved, the remaining LIHTC in this Category will be awarded to the highest scoring projects. All projects must meet the requirements found in Section VII.B., Exhibit II, and follow the process outlined below:

For a preservation project to be eligible to apply for 9% LIHTC, the applicant must first submit documentation to MSHDA in order to evaluate whether it is likely to be competitive under the MSHDA Gap Financing Program (this requirement does not apply to existing United States Department of Agriculture Rural Development ("USDA RD") financed preservation projects that are composed of 49 units or less). To perform its evaluation, MSHDA will consider the following:

1. The financial viability of a project based on the pro-forma analysis, site, and preliminary market analysis.
2. The overall capacity and experience of the development team.
3. The likelihood that the project will be competitive and be able to proceed with the funds available in the Gap Financing Program. MSHDA will primarily evaluate a project's soft to hard debt ratio.

Following the analysis above, MSHDA will determine whether a project is eligible for the Gap Financing Program or 9% LIHTC round. If, based on MSHDA's determination, a preservation project is unlikely to be competitive in the Gap Financing Program; the project will be eligible to submit for consideration as part of a 9% funding round under the Preservation Category.

An applicant may be evaluated by MSHDA at any time as long as the submission of the required documentation takes place no later than the Preservation Level 1 Review Due Date listed in the table in Section V.A. In order to complete the review outlined above, the applicant must submit the Notice of Intent to Apply package found on MSHDA's Multifamily Direct Lending Program webpage. MSHDA's determination of the project as it relates to this assessment and the project's eligibility for 9% LIHTC will be good for a period of one year provided that there are no changes made to the project that would cause it to be materially different from what was originally reviewed under the determination. After one year or in the case where there are material differences in the application, another assessment would need to be made by MSHDA to determine a project's eligibility for future 9% LIHTC funding rounds. The term "material differences" generally includes, but is not limited to, any differences in land and building costs, site work and hard construction costs, soft costs, income projections, operating expense projections, replacement reserve projections, equity pricing, soft sources, seller financing, and any other funding sources from interim operations or transfers of existing escrows. Programmatic differences between the 9% LIHTC Program and MSHDA Gap Financing Program regarding developer fee calculations, financing fees, and capitalized reserve requirements will generally not be considered differences in these areas to be material differences if they are solely a result of the project taking advantage of differing program requirements.

2. PERMANENT SUPPORTIVE HOUSING (PSH) CATEGORY

Allocated to projects setting aside at least the greater of 10 units (Balance of State) or 15 units (Urban) or 35% of the units in the development for new tenants that are PSH-eligible or that are preserving an existing PSH project for which the project will remain a PSH project; and that also meet the requirements of Addendum III. A project that has more than 75 PSH units is not eligible without a waiver from MSHDA. Projects meeting the definition of a PSH project, according to the Addendum III, must be submitted in this Category.

3. OPEN CATEGORY (URBAN)

Allocated to projects located in "Urban" areas not meeting the requirements for either the Preservation Category or the PSH Category. Please see detailed map located in Tab GG for areas delineated as "Urban".

4. OPEN CATEGORY (BALANCE OF STATE)

Allocated to projects located in "Balance of State" areas not meeting the requirements for either the Preservation Category or the PSH Category. Please see detailed map located in Tab GG for areas delineated as "Balance of State".

D. OPTIONAL CATEGORIES

1. STRATEGIC INVESTMENT CATEGORY

Projects applying in any of the four Primary Categories above can also apply in this Strategic Investment Category by submitting the documentation necessary to satisfy the requirements outlined in Exhibit III attached hereto. Projects funded under this Strategic Investment Category will not be subject to the standard Scoring Criteria and will be evaluated based on Exhibit III and the applicable threshold requirements. If MSHDA determines that not all of the LIHTC under this Strategic Investment Category will be used, the credit will be moved to the "Undesignated Credit" below. Projects that apply under the

Strategic Investment Category and one of the Primary Categories will be first considered for funding from the Primary Category it qualifies under.

2. DISASTER CREDIT CATEGORY

The Consolidated Appropriations Act of 2021 provided Michigan with disaster credits for the five counties of Arenac, Gladwin, Iosco, Midland, and Saginaw. The amount of Disaster Credits allocated is based on the population of the eligible counties multiplied by $3.50 and is anticipated to be equal to $1,187,039. The disaster credits are a one-time increase and are available for Michigan to allocate in either calendar year 2021 or 2022. More federal guidance may be forthcoming regarding the exact population factor to utilize in calculating the disaster credits. The disaster credits may be used in any of the five counties. MSHDA will use its discretion to allocate these funds to the highest scoring project(s) in the five qualifying counties as soon as possible until the LIHTC funds are exhausted.

Projects that are located in one of the five eligible counties and which apply in any of the Primary Categories listed above will automatically be placed in the Disaster Credit Category. Projects eligible to apply in the Disaster Credit Category will be ranked according to total project score (excluding PSH points in Section F of the Scoring Criteria). MSHDA will employ the 90% rule as listed in Section V.G.3 with any remaining LIHTC needed to fully fund a project coming from the Primary Category that it qualifies under. Projects that are eligible under the Disaster Credit Category and one of the Primary Categories will be first considered for funding from the Disaster Credit Category.

E. UNDESIGNATED CREDIT

The Undesignated Credit consists of LIHTCs not awarded in other Categories in the April 2022 and April 2023 funding rounds. MSHDA will make awards in the following order:

a. MSHDA will use its discretion to place projects awarded from the Categories above (including the Strategic Investment Category) into the Statutory Set-Asides below, with the only goal being to fill the Statutory Set-Asides from the projects awarded. A project can only count towards one Statutory Set-Aside even if it qualifies for more than one Set-Aside. If a project qualifies for more than one Statutory Set-Aside, MSHDA will count that project towards the Statutory Set-Aside that best furthers the goal of filling all the Statutory Set-Asides. If any Statutory Set-Asides remain unmet after awards have been made from the Categories above, Undesignated Credit will be used to fill the remaining Statutory Set-Aside(s). If the amount remaining in Undesignated Credit is insufficient to fully fund all the Set-Asides, MSHDA will pull credit forward from future years in order to have enough credit to fully fund the Statutory Set-Asides. Following the conclusion of the funding round, MSHDA will post a list of awards, which will include an indication regarding which Statutory Set-Aside each project was awarded from.
b. The highest scoring applications (excluding points for PSH in Section F. of the Scoring Criteria).

PSH projects awarded from the Undesignated Credit will not be eligible to reduce the number of PSH units or make changes which would reduce the points awarded under the PSH section of the scoring criteria.

F. SET-ASIDES

To the extent any Set-Asides have not been met through awards already made, MSHDA will use Undesignated Credit to fulfill the set-asides in the April 2022 and 2023 funding rounds.

- **Nonprofits, 10%** - Qualified nonprofit organizations as required by Section 42 of the IRC and that meet the requirements outlined in Addendum I.
- **Rural Housing, 10%** - Proposed or existing housing projects that fall into one or more of the following categories: a) financed by a loan guaranteed by Rural Housing Services or a successor agency; b) funded by a federal program for the development of rural housing; or c) is located in an area other than a metropolitan area. A list of Balance of State communities can be found in Tab GG of the Combined Application.
- **Elderly, 10%** - Projects in which 100% of the units serve tenants that conform to the federal agency(s) definition of elderly or the MSHDA definition of elderly under the MSHDA Act.
- **Eligible Distressed Areas, 30%** - Housing projects in eligible distressed areas, which include proposed or existing housing projects in distressed areas pursuant to MCL 125.1411(u). A list of Eligible Distressed Areas can be found on MSHDA's website at Eligible Distressed Areas List
- **Tribal Housing, the lesser of one project or $1.5 million in LIHTC –** Designated for projects that meet the requirements of Section B.4 of the Scoring Criteria. If insufficient demand exists to fill this set-aside, the LIHTC will be moved to Undesignated Credit.

With the exception of the nonprofit set-aside, if the LIHTC allocated falls below the set-aside threshold by October 1 of the year in which that credit amount is authorized, MSHDA may reapportion unallocated LIHTC amounts thereafter.

G. LIHTC ALLOCATION LIMITS

1. Maximum award per project: $1,500,000

2. Maximum award per Principal (annual credit ceiling): $3,000,000

LIHTCs in projects with co-developers will count against the per-Principal limit based upon the percentage of interest in the cash-paid (non-deferred) portion of the development fee, including any costs or other fees that would typically be included in and paid from the developer fee as described in Section X below. For example, if co-developers retain a fifty percent (50%) interest each in the cash-paid (non-deferred) portion of the developer fee, fifty percent (50%) of the tax credits will be counted against each of the developer's per-Principal caps. Parties that have an identity of interest may be treated as a single developer (or Principal) for purposes of the cap if MSHDA concludes, based on the relevant facts and circumstances, that the submission of an application by one or more of the applicants is intended, in whole or in part, as a means of circumventing the annual credit ceiling per-Principal cap. If a Principal has not exceeded its annual cap, and there is enough credit under the per Principal cap limits to fund 80% of the proposed project, then MSHDA, in its discretion, may consider 1) fully funding that project; 2) awarding an amount less than the amount requested, but that still makes the project feasible; or 3) awarding only the remaining 80% if it is enough credit to make the project financially viable.

For this purpose, a Principal is defined as any person or entity receiving a portion of the development fee, which shall also be reflected in the Development Team Information portion of the Low-Income Housing Tax Credit Program Application.

3. If the credit remaining in a Category that is allotted for a specific funding round is sufficient to fund 90% of the credit amount approved for the next highest scoring project in the corresponding Category, MSHDA may 1) consider fully funding that project; or 2) award an amount less than the amount requested, but that still makes the project feasible; or 3) award only the remaining amount of credit to a project if it is shown to be financially viable. Otherwise, MSHDA will either skip the project to fund the next highest scoring project that is financially viable with lesser credit or move the balance of the credit to the Undesignated Credit or the following funding round as applicable, at its sole discretion. In order to fully fund a project, MSHDA may pull LIHTC from the Undesignated Credit or from the amount designated for that specific Category in the April funding round.

H. WAIVER REQUESTS

Applicants seeking a waiver of any QAP provisions (other than alternative underwriting standards) as part of an application for a competitive funding round must submit their request in writing no later than the due date(s) noted in the table in Section V.A. Requests for the use of alternative underwriting standards may be made as part of a funding round submission.

VI. LIHTC FUNDING ROUND TIMING

MSHDA will hold two funding rounds for 2022 and 2023 as outlined below and make awards to the highest scoring applications in each of the Categories regardless of the Statutory Set-Aside(s). Any LIHTC not awarded in any of the Categories from the October Funding Round will be moved to the April Funding Round for each respective year. Percentages below are based on the estimated annual LIHTC ceiling less the amount of Disaster Credits.

A. FUNDING ROUND #1: OCTOBER 2021 & 2022 (APPRX 45% OF ANNUAL CREDIT CEILING)

- Preservation Category - 12%
- Permanent Supportive Housing Category –12.5%
- Open Urban – 14%
- Open Balance of State - 6.5%

B. FUNDING ROUND #2: APRIL 2022 & 2023 (APPRX 45% OF ANNUAL CREDIT CEILING)

- Permanent Supportive Housing Category – 12.5%
- Open Urban – 14%
- Open Balance of State – 6.5%
- Undesignated –12%

C. STRATEGIC INVESTMENT CATEGORY - 10%

The Strategic Investment Category may be used to fund qualifying developments from any competitive funding round at any time at MSHDA's discretion. If MSHDA determines that not all of the credit under this Strategic Investment Category will be used, the credit will be moved to the Undesignated Credit in the April Funding Round of the corresponding year.

VII. ELIGIBILITY REQUIREMENTS

Certain threshold requirements must be met for all projects, unless otherwise stated in any Addenda or Policy Bulletins, or waived. Proposals not meeting threshold requirements will not be processed further.

A. GENERAL THRESHOLD REQUIREMENTS

The following Threshold requirements, described in greater detail in Exhibit I attached hereto, will apply to all projects:

1. Application Completeness
2. Project Narrative
3. Site Control
4. Zoning
5. Utilities
6. Market Study
7. Environmental
8. Title Insurance Commitment
9. Financing
10. Acquisition Transfer
11. Equity Investor Letter
12. Green Policy
13. Development Team Capacity
14. Affirmative Fair Housing Marketing Plan
15. Ownership Formation
16. Waiver of Qualified Contract
17. Vouchers and Public Housing
18. MSHDA Financing Signage
19. Minimum Hard Construction Costs
20. Maximum Total Development Cost Per Unit Limit
21. Trade Payment Breakdown
22. Michigan Products
23. Phased Developments in the Same Building

B. THRESHOLD REQUIREMENTS – PRESERVATION PROJECTS

'Preservation' applies to rental properties, which are currently subject to a low-income use restriction. Adaptive reuse projects, entirely vacant residential buildings, and Permanent Supportive Housing projects will be ineligible to apply under the Preservation category. Only Preservation projects that meet this definition and the threshold requirements outlined in Exhibit II attached hereto, in addition to the General Threshold Requirements may receive points for Preservation and apply under the Preservation Category.

VIII. SELECTION CRITERIA

MSHDA will evaluate applications for LIHTC in accordance with the requirements of federal and state law and the QAP **Scoring Criteria** (including any related Policy Bulletins and Addenda) based on the Scoring Criteria. Under no circumstances will any application scoring process give rise to an entitlement or legal right to an allocation of LIHTCs. The allocation of LIHTCs shall be entirely at the discretion of MSHDA.

A. HOUSING IN AREAS OF OPPORTUNITY & OTHER NOTES

Many of the policies in the QAP are designed with the intent of ensuring that affordable housing is available in areas of high opportunity.

The following are key criteria:

1. Proximity to Transportation
2. Proximity to Amenities
3. Developments near Downtowns/Corridors
4. Education, Health and Well-Being, and Economic Security
5. Community Revitalization Plan Areas
6. Household Overburdened Area

Additionally, on March 7, 2013, the Violence Against Women Reauthorization Act (VAWA) of 2013 was signed into law. The reauthorization contained several updates to the housing provisions including a number of legal obligations for owners and managers of rental properties funded by LIHTC. The Authority is committed to working closely with property owners to ensure onsite compliance and enforcement when necessary.

B. TIEBREAKERS

If two projects have identical scores, MSHDA will select between them in order of: lowest actual amount of credit per 9% LIHTC unit; highest sum total score under Section A. Opportunity Criteria of the Scoring Criteria; lowest average targeted area median income level in the project.

C. RE-EVALUATION PROCESS

Within 7 days of MSHDA posting a list of awards to its website, an applicant may ask MSHDA in writing to re-evaluate a specific portion of an application. For purposes of this re-evaluation, MSHDA will not consider any additional documentation that was not provided with the application but may consider information intended to clarify portions of the application. MSHDA, in its sole discretion, will determine whether or not the re-evaluation warrants a LIHTC award.

IX. UNDERWRITING STANDARDS & APPLICATION OF BASIS BOOST

MSHDA's determination of the LIHTC amount and underwriting does not constitute a representation or warranty as to a project's feasibility or viability. See Exhibit IV attached hereto for further information on underwriting process and standards.

A. APPLICATION OF BASIS BOOST

Properties meeting any of the criteria found in Exhibit V attached hereto are eligible for a basis boost up to the percentages listed therein, although they are still subject to the usual evaluation of minimum credits needed to achieve feasibility.

X. FEE LIMITS

A. DEVELOPMENT FEES

The total amount of any developer fees, developer guaranty fees, and consulting fees (excluding fees to a third party, non-related construction manager included and paid from the construction contract), will be no more than the maximum development fee allowed as outlined below.

1. DEVELOPMENT FEE - TAX-EXEMPT BOND FINANCED PROJECTS

For projects financed with tax-exempt bonds eligible for 4% credit, the maximum development fee shall be calculated as follows:

a. For projects of 49 units or fewer, the development fee will be the sum of the following:

   i. 7.5% of acquisition costs

   ii. 7.5% of project reserves

   iii. 20% of all other development costs, excluding developer fee, developer overhead, and developer consulting fee.

b. For projects of 50 units or more, the development fee will be the sum of the following:

   i. 7.5% of acquisition costs

   ii. 7.5% of project reserves

   iii. 15% of all other development costs, excluding developer fee, developer overhead, and developer consulting fee.

NOTE FOR TAX-EXEMPT BOND FINANCED PROJECTS: for purposes of sizing the amount of gap financing that the project is eligible to receive, the maximum developer fee will be based on the lesser of the applicable calculation outlined above or $2,100,000.

2. DEVELOPMENT FEE – 9% LIHTC PROJECTS

For all 9% LIHTC projects, the maximum development fee shall be the lesser of $1,500,000 or the sum of the following:

a. 7.5% of acquisition costs

b. 7.5% of project reserves

c. 15% of all other development costs, excluding developer fee, developer overhead, and developer consulting fee.

3. DEVELOPMENT FEE – OTHER LIMITATIONS

The following limitations also apply:

a. If either a new building or physical structure is split into two or more phases, or an existing project, building, or physical structure is split into two or more phases, the aggregate 9% LIHTC development fee for all phases shall not exceed the limitations stated above.
b. For projects involving acquisition and rehabilitation, an amount equal to at least 5% of the acquisition cost of the land and building(s) must be allocated to the acquisition (and the acquisition eligible basis, if applicable) for purposes of attribution to the development fee.
c. Up to 50% of the total development fee can be deferred to cover a gap in funding sources. If the application proforma indicates that cash flow is insufficient to repay the deferred development fee within 15 years, the Applicant must provide an explanation in the narrative as to how the deferred development fee will be repaid.

B. CONSTRUCTION CONTRACT ITEMS

- General Requirements - 6% of construction costs, exclusive of builder profit, builder overhead and general requirements.
- Builder Overhead - 2% of construction costs, exclusive of builder profit and builder overhead.
- Builder Profit - 6% of construction costs, exclusive of builder profit.

C. CONSTRUCTION MANAGEMENT

Payments to a construction manager or a consultant serving a similar capacity (as determined by MSHDA) included in the construction contract are subject to the General Requirements, Builder Overhead, and

Builder Profit fee limits. Otherwise, such amounts are part of the development fee. MSHDA will deduct excess fees from total development costs when performing the gap calculation.

D. IDENTITY OF INTEREST FEES

If an identity of interest exists between the Applicant and the General Contractor, any incentive fees are included in the limitations above. A general contractor may be entitled to additional overhead and profit when acting as a subcontractor as long as the amounts are within industry standards (as determined by MSHDA). The general contractor's overhead, profit, and general requirements included as allowable project costs are limited to the percentages noted above.

XI. FIRST EVALUATION AND AWARD OF RESERVATIONS

Applications will only be evaluated if MSHDA determines that the application is in a position to be competitive for an award of credit.

Following a LIHTC award, project owners must move forward with closing on financing sources and commencement of construction in a timely manner. Owners must submit progress reports to MSHDA regularly. Failure to submit accurate progress reports on a timely basis may result in negative points on future applications or a loss of the award.

XII. SECOND EVALUATION

All projects receiving an allocation of 9% LIHTC must provide evidence, acceptable to MSHDA and in accordance with any applicable federal regulations, from a Certified Public Accountant that the taxpayer has incurred 10% of the project's reasonably anticipated basis within 12 months of the allocation date. MSHDA will also conduct a financial review according to the procedures described in Exhibit IV.

In conjunction with meeting the 10% test, owners must submit the items in the 10% Certification Exhibit Checklist. Failure to provide such documentation may result in the allocation being rescinded.

XIII. FINAL EVALUATION

MSHDA will further evaluate the project prior to issuance of IRS Form 8609. Owners must request a LIHTC Regulatory Agreement no later than November 1st of the year a project is placed in service.

Owners also must submit acceptable evidence of the items listed on the LIHTC Placed in Service Exhibit Checklist no later than February 1st of the year after the project is placed in service.

XIV. HOUSING CHOICE VOUCHERS

This QAP awards LIHTC through a competitive process that can also serve as a form of competitive selection for purposes of applications for project-based vouchers and other forms of assistance. MSHDA will continue to make project-based vouchers available on a case-by-case basis to projects that agree to set-aside at least five PSH units.

XV. PROJECT OR DEVELOPMENT TEAM CHANGES

Owners will not be allowed to make changes to a project that would result in a change to any of the specific items for which points were awarded, unless extraordinary and well-documented circumstances would warrant it. Any such changes to a project that require a re-scoring or re-evaluation which causes the project's position to fall below its original position may cause the allocation of LIHTC to be rescinded or an assessment of negative points on future applications.

Additionally, Reservations, and/or Carryover Allocations are non-transferable either to another entity or within the same entity where there is a change in control or general partner interests, except with the express written consent of MSHDA, it being the explicit intention of the QAP to prevent one party from obtaining such a Reservation and/or Carryover Allocation in order to sell or broker its interest in the proposal (except for syndication purposes). Because all representations made with respect to the owner, applicant, developer or related party or entity, or any member of the development team, their experience and previous participation are material to the evaluation made by MSHDA, it is not expected that MSHDA's consent will be granted for such transfers unless a new application is submitted and scores no less than the original application, and the transfer is a benefit for the project.

XVI. EXCHANGE OF CREDIT

MSHDA may allow an owner to return an allocation and may issue a Carryover Allocation without competing. MSHDA will evaluate such requests as a facts and circumstances test. Owners will be charged a fee equal to 10% of the annual LIHTC award.

XVII. FEES

All applications must be accompanied by a check or money order in an amount equal to $45 for each proposed low-income unit, with a $2,500 maximum limit. This fee is non-refundable and must be paid in each funding round in which a project is seeking to be scored and/or evaluated. A fee of $100 will be assessed each time a check is returned to MSHDA for non-sufficient funds.

For any project that receives an award, MSHDA will charge a fee equal to 6.5% of the annual LIHTC dollar amount reserved for a project. Owners will pay a sum equal to 2% of the annual LIHTC dollar amount at the time of Reservation. The remaining 4.5% shall be paid at the time of the 10% Certification.

In addition to the fees listed above, MSHDA may establish such other fees as may be necessary to effectively administer the program. Such fees may include, but are not limited to, charges to process waiver requests, changes in ownership, and site visits. MSHDA shall publish a schedule of such fees 60 days prior to implementation (see Fee Schedule Policy Bulletin).

All units must pay the sum of $475 per low-income unit. Such amount will cover the initial 15-year compliance monitoring period and is payable prior to issuance of Form 8609. Also, a fee of $25 per LIHTC unit will be charged annually during the extended use period.

MSHDA will assess a fee of $100 if an owner fails to have a representative present for a scheduled tenant file audit and/or physical inspection which results in the inability to conduct the file audit and/or physical inspection.

MSHDA will assess a fee of $50 per unit for significant and repeated noncompliance issues.

Failure to submit any compliance or inspection fee is deemed non-compliance.

Compliance monitoring fees are subject to change based on changes in costs associated with administration of the compliance monitoring function by MSHDA and other changes in MSHDA and/or IRS mandated monitoring requirements.

XVIII. COMPLIANCE MONITORING

Owners receiving an allocation of LIHTC shall be required to meet minimum compliance requirements and to follow the requirements outlined in MSHDA's LIHTC Compliance Manual, which is available on MSHDA's website. Please see Exhibit VI attached hereto for further compliance monitoring requirements.

XIX. COMMITMENT TO DIVERSITY, EQUITY, AND INCLUSION

One of MSHDA's guiding principles is the pursuit of equitable housing outcomes for underserved populations. A second guiding principle is to use reliable data to support our mission and goals. With those in mind, there is a commitment to adding data collection and analysis, which may include but is not limited to a racial equity impact assessment, to the ongoing QAP and LIHTC review processes, with the intent of using that data to make future changes to the QAP, Scoring Criteria, and other program documents to best grow equity within the state. This is the critical first step to understanding the issues that exist in this area and to develop targeted and intentional policies that will work to address those issues. As a matter of process, beginning with the October 1, 2021 funding round MSHDA staff will make revisions and additions to the LIHTC Program Application that will allow necessary data to be collected going forward. Additionally, MSHDA staff will utilize the data available in its existing portfolio of developments to inform and assist with the analysis.

XX. COMBINED APPLICATION, POLICY BULLETINS AND ADDENDA

Additional program requirements are set forth in the Policy Bulletins, MSHDA's Combined Application, and the applicable Addenda. MSHDA may modify these at its discretion following notice to the public.

EXHIBIT I – GENERAL THRESHOLD REQUIREMENTS

I. APPLICATION COMPLETENESS

Submission of a complete and consistent application includes, but is not limited to, a fully completed LIHTC Excel Application following application instructions, the required application fee, and all applicable exhibits. MSHDA will reject applications with multiple material errors in documentation, incomplete information, and/or general inconsistencies. Decisions under this threshold requirement are intentionally made on a subjective basis and are entirely under MSHDA's discretion.

II. PROJECT NARRATIVE AND MAP

A narrative description which includes, at a minimum (as applicable), the type of project; location; prior LIHTC status, if any; type of financing; tenants served; bedroom mix; local, any federal or state subsidies; number of jobs created, including an explanation/analysis for how this number was determined; tenant relocation strategy and budget; and any other relevant descriptive information.

A map and site plan detailing the proposed project site.

III. SITE CONTROL

Evidence of site control by the Applicant: an option to purchase, land contract, offer to purchase, purchase agreement, long-term lease, or other appropriate documentation. The control must be in effect for 120 days from the application due date, with the ability to provide additional extensions as necessary to accommodate application processing timelines. If site control is vested in an entity other than the anticipated owner, the control must be unilaterally assignable to the proposed owner. Site control documents must clearly identify the physical location of the property (i.e. property address, full legal description or plat map identifying street names) and be consistent with the rest of the development information provided in the application including the title insurance commitment. If the site control documentation does not clearly identify a detailed breakdown of the components of the purchase price to be paid to the seller, the applicant must provide a written narrative.

IV. ZONING

Evidence from the local governing body of the property's current zoning designation and what, if any, steps are in process to obtain proper zoning for the proposed development, if it is not already properly zoned.

V. UTILITIES

Evidence from the local governing body and/or utility companies regarding the availability of all utilities and confirming they will have the capacity to serve the property – electricity, gas, water, and sewer.

VI. MARKET STUDY

A market study completed in accordance with MSHDA's guidelines (see Tab C of MSHDA's Combined Application) that indicates the housing needs of low-income individuals in the area to be served. A completed market study must be submitted with the application and dated within six months of the application deadline.

VII. ENVIRONMENTAL

Submission of an environmental review in accordance with the current MSHDA Environmental Review Standards (see Tab D of MSHDA's Combined Application) together with a remediation plan, if necessary, with estimated costs outlined in detail and accounted for in the Sources and Uses Statement. Projects may be rejected if the environmental review and/or supporting documentation do not meet MSHDA's standards or if MSHDA determines additional testing or modifications to a remediation plan are necessary. Environmental studies must be dated within six months of the application deadline.

VIII. TITLE INSURANCE COMMITMENT

Submission of a title insurance commitment, dated within six months of the application due date meeting the following requirements:

- the name of the individual(s) or entity that owns the property matches the site control documents,
- the entity to be insured is correct,
- all parcels match the application,
- there is a signature of the authorized title insurance company agent or employee,
- indicates the availability of a title insurance underwriter, and
- is otherwise be complete and without defect.

For projects located on federally recognized American Indian reservations, MSHDA may accept an attorney's opinion letter describing chain of title and land control or a Title Status Report.

For proposed projects that contain multiple sites, Applicants must submit the Property Identification form found in the **LIHTC Application** to accompany the title insurance documentation. The documentation must be organized in the same order as shown on this form.

IX. FINANCING

Applicants should not plan on using solely LIHTC equity financing. MSHDA may determine an application is ineligible due to not appropriately leveraging available sources of financing or require the applicant to secure additional sources.

All applicants must submit evidence of a commitment(s) from mortgage lender(s) stating the amount of the loan, terms, interest rate, and guarantors for all sources of financing. In the case of a USDA RD project, an original letter signed by an authorized official. In the case of Federal Historic tax credit, documentation indicating that Part I of the required application has been made.

MSHDA will accept LIHTC applications that are proposing to apply for funding sources that are only available as part of a funding round held by another entity. If, at the time LIHTC awards are made, MSHDA is unable to determine that there is a strong likelihood of funding availability, it may disregard the funding source, which may result in disqualification. Applications submitted listing other competitive funding should also identify a contingency plan which may include deferring developer fee if the deferral is within the applicable limits.

X. ACQUISITION TRANSFER

For acquisition/rehabilitation involving properties currently regulated by another government body (including HUD, USDA RD, or MSHDA), statement from the Applicant of the requirements for such approval and how the Applicant intends to meet them consistent with the LIHTC timetables.

XI. EQUITY INVESTOR LETTER

A letter from the proposed syndicator or investor that includes all of the following:

- The amount, price, and terms of the investment.
- The planned equity pay-in schedule.
- Investment underwriting and financial forecast pages compiled by investor (sources and uses of funds, development budget, draw schedules, rental income and operating expenses, cash flow analysis, lease-up schedule, tax credit analysis, capital account analysis, etc.).
- Certification that investor has conducted financial review of development team, including identification of which entities and/or individuals will be providing guarantees.
- Clear statement of any conditions for investment that need to be met.

Failure to provide sufficient and thorough documentation from the equity investor as outlined above may result in disqualification of the application.

XII. GREEN POLICY

All projects must incorporate one of the available green standards in the Green Policy (Tab M of the Combined Application).

XIII. DEVELOPMENT TEAM CAPACITY

Each application must include information regarding the entire Development Team including any of the following (without limitation): (i) the Applicant entity, (ii) the proposed owner, (iii) principal(s) of the owner or Applicant, (iv) the developer, (v) the general contractor, (vi) the property management company, (vii) any third party development consultant, (viii) architect, and (ix) any related party(ies) or entity(ies) in the seller of any land or property. For this purpose, a party or entity is related if one party or entity directly or indirectly has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Development Team must demonstrate professional and financial capacity to plan, build, market, and operate the proposed development. MSHDA will measure the quality and quantity of previous development(s); design, construction, and property management efforts; and affirmative fair housing marketing records. Each team member must demonstrate satisfactory prior experience on projects of similar scale and complexity; have satisfactory professional references; and devote sufficient staffing and resources, including financial resources, to complete the proposed development. MSHDA will evaluate the Development Team's capacity based on the following:

- A certification regarding their previous experience in the development and ownership of affordable housing, which includes at a minimum a list of all affordable housing developments the Development Team has participated in during the three (3) years preceding the application, and a statement concerning any felony criminal convictions, indictments, and pending criminal investigations of all Development Team members, and details of each circumstance, unless otherwise prohibited by court order, statute or regulation.
- The Applicant's and contractor's financial statements that meet the requirements of **MSHDA Policy Bulletin #7** and demonstrates adequate professional and financial capacity.

MSHDA may require a written plan outlining how deficiencies in experience and financial capacity will be rectified.

MSHDA will disqualify any member of the Development Team that has failed to pay any fee or expense due to MSHDA, been in default or in major non-compliance with LIHTC or any other MSHDA program, been debarred or suspended from any MSHDA, HUD, or Rural Housing programs, is in foreclosure or been foreclosed, or is under felony investigation, indicted or been convicted of a felony until the event or events are corrected or resolved. MSHDA may contact other local, state, and/or federal housing agencies to solicit feedback related to a specific development team member.

MSHDA has the sole and absolute discretion to determine those parties ineligible for LIHTC due to lack of capacity, non-compliance, or disqualification status.

XIV. AFFIRMATIVE FAIR HOUSING MARKETING PLAN

Submission of an Affirmative Fair Housing Marketing Plan consistent with MSHDA requirements (see Tab P of MSHDA's Combined Application).

XV. OWNERSHIP FORMATION DOCUMENT

Copy of the most recent version of the certificate of limited partnership (or limited liability company) and any amendments on file with the Department of Licensing and Regulatory Affairs, Corporations Division, which accurately reflects the entities involved in the project ownership shown in the application. Out-of-state entities must submit a copy of an endorsed application for certificate of authority to transact business or conduct affairs in Michigan, along with the supporting documentation submitted with the application.

XVI. WAIVER OF QUALIFIED CONTRACT

By submitting an application for LIHTCs, all Applicants waive the right to request a qualified contract under Section 42(h)(6)(E)(i) of the Internal Revenue Code. Thus, MSHDA's required extended use commitment shall not terminate at the end of the compliance period but is instead a minimum of 30 years.

XVII. VOUCHERS AND PUBLIC HOUSING

A written statement signed by the Applicant stating it will:

- give priority to persons whose names are on appropriate Public Housing or Housing Choice Voucher waiting lists maintained by a Public Housing Commission (PHC) or Public Housing Authority (PHA) in the area in which the project is located, and
- make ongoing efforts to request that the PHC and/or the PHA make referrals to the project or place the relevant project information on any listing the PHC or PHA makes available to persons on their waiting lists.

Owners must keep a copy of the written statement and documentation of ongoing efforts as evidenced by a referral agreement or other appropriate memorandum of commitment on file at the development's office and be available for compliance inspection and review at all times.

XVIII. MSHDA FINANCING SIGNAGE

A certification that if the Applicant is awarded LIHTC it shall post signage at the project construction site listing MSHDA as a financing source.

XIX. MINIMUM HARD CONSTRUCTION COSTS

All applications for 9% credit must indicate a need for at least $20,000 per unit in hard rehab or construction costs (including both building and site costs, but excluding allowable amounts for General Requirements, Builder Overhead, Builder Profit, contingencies, etc.) and must include this amount in the construction budget. Projects seeking 4% credit to be used in conjunction with tax-exempt bond financing will only need to meet the minimum requirements found in Section 42 of the Internal Revenue Code.

XX. MAXIMUM TOTAL DEVELOPMENT COST PER UNIT LIMIT

All projects will be subject to a maximum Total Development Cost per unit that cannot be exceeded. The Maximum Total Development Cost per unit limit is determined by multiplying the average of the Construction Cost Index for 2020, published by Engineering News-Record, by a conversion factor of 33. Applicants seeking more information or clarification on this calculation are encouraged to view the Cost Reasonableness with Credit Efficiency section of the Scoring Criteria where projects will be evaluated to determine whether they meet this test based on the information entered in the form.

XXI. TRADE PAYMENT BREAKDOWN

All projects will be required to submit a Trade Payment Breakdown signed by the General Contractor that is listed in the application. Please see Tab AA in the Combined Application.

XXII. MICHIGAN PRODUCTS

All projects must demonstrate the use of products and goods that are manufactured by Michigan-based corporations and incorporate them into the proposed development. (Submit certification from architect, See Addendum I)

XXIII. PHASED PROJECTS IN THE SAME BUILDING

Developments proposing multiple 9% LIHTC phases within the same building must present a plan of financing in the event that only one of the phases is funded. The plan must avoid the situation where 9% LIHTC are allocated to a phase of a building that cannot begin construction until funding is secured on the other phase(s). Otherwise, each phase will only be eligible for 9% LIHTC only if all phases are in a position to be awarded. The plan cannot depend on any phases receiving a 9% LIHTC award in future funding rounds.

EXHIBIT II – PRESERVATION THRESHOLD REQUIREMENTS

I. ELIGIBLE PRESERVATION PROJECTS

Eligible Preservation projects include those with any of the following elements:

a. *Government financing* from HUD (including Section 236, Section 8, and Section 202), USDA Rural Development (including 515), MSHDA, or preservation of federally funded Tribal housing;

b. *Other below-market financing*;

c. *Rehabilitation of existing public housing* provided the project will involve rehabilitation of existing units, and not demolition and construction of new units; or

d. *Post-Year 15 LIHTCs*.

Projects must retain any federal assistance. MSHDA may approve prepayment of a HUD loan and conversion to enhanced vouchers.

II. MSHDA GAP FINANCING PROGRAM SUBMISSION

As outlined in Section V.B.1. of the QAP, an applicant will not be able to submit a preservation project for 9% LIHTC unless MSHDA has determined the project is unlikely to be competitive in the Gap Financing Program.

III. PROJECT MUST BE 'AT RISK'

Projects must either:

a. be within five years of any permitted prepayment or equivalent loss of low-income use restrictions; or

b. involve the repair or replace of components that are:

    i. in immediate need of repair or replacement; or

    ii. either substantially functionally obsolete or being improved to provide modifications or betterments consistent with new building code requirements and MSHDA's Design Requirements.

IV. PROPERTIES INELIGIBLE FOR PRESERVATION

Preservation projects are ineligible if they:

a. Are deteriorated to the point of requiring demolition and the replacement units are not being reconstructed on the same physical site, or

b. Have completed a full debt restructuring under the Mark to Market process within the last five (5) years.

EXHIBIT III – STRATEGIC INVESTMENT CATEGORY REQUIREMENTS

There may be extraordinary circumstances where the evaluation of an application by the standard review process outlined in the QAP does not necessarily take into consideration the contribution that a development would make to the state's overall economic and community development strategy. These situations may include, but are not limited to, applications that demonstrate transformative neighborhood revitalization, and/or unique financial funding and leveraging opportunities, and/or the opportunity to promote significant job growth in proximity to such housing. The Strategic Investment Category has been created to attempt to address these circumstances.

Projects that are a part of an overall development plan with multiple different components that will be transformative to the community or neighborhood in which it is located.

While a single affordable housing development can undoubtedly be a significant benefit to a community, one of the intents of the Strategic Investment Category is to be used for affordable housing developments that are a part of a larger plan that incorporates multiple different strategic components, which in total creates something very transformative for a community.

Projects representing a new and strategic housing initiative that meet a demonstrated need, an initiative which may not currently be contemplated by the QAP.

As housing policy and housing needs are constantly evolving, there are often new initiatives that are brought to the forefront, which the QAP may not yet contemplate and can be complicated to bring together in the form of an affordable housing development. In these cases, choosing a development as a pilot or test case is often a good way to determine whether the development model is successful and for MSHDA to see how it works to determine whether it is something that makes sense to incorporate into the QAP as a specific policy on an ongoing basis.

Projects applying in any of the four Categories outlined in the QAP can also apply in this Strategic Investment Category. MSHDA, in its sole discretion, will make the determination of which, if any, applications shall receive an award from this Category.

EXHIBIT IV – UNDERWRITING STANDARDS

I. PROJECT FEASIBILITY

MSHDA has established minimum standards for operating expenses, vacancy rates, increases in operating costs and expenses, project income, debt service coverage ratio, operating reserves, and replacement reserves. Requests for use of alternative standards other than those established by MSHDA must be supported by written explanation and appropriate documentation. For developments seeking only competitively allocated 9% credits without financing from MSHDA, applicants may request waivers from these standards based on the submission of written documentation indicating that the alternative underwriting standards have been reviewed and approved in advance by both the debt and equity providers for the project. An application will be ineligible if MSHDA determines that the project is not financially feasible.

MSHDA will review a project's feasibility at three different stages: 1) prior to making an award of credit, 2) at 10% Certification/closing, and 3) at Placed in Service. The following is a breakdown of how this provision will apply to each of the underwriting stages in the allocation process and what this provision will mean in practice:

- **Initial Application/Prior to LIHTC Award –** In order to receive an initial award of credit, the project must be financially feasible for the 15-year compliance period utilizing the underwriting standards as applied to the proforma.
- **10% Certification –** MSHDA will review the sources and uses of funds and the total financing planned for the project to ensure that the amount of credit being allocated to the project does not exceed the amount necessary for the project to be financially feasible during the entire initial 15-year compliance period. MSHDA will continue to monitor a project's income and expenses during this phase of the allocation process but will not hold up the issuance of Carryover documentation because of this portion of the review.
- **Placed in Service/Issuance of 8609 –** MSHDA will review the sources and uses of funds and the total financing planned for the project to ensure that the amount of credit being allocated to the project does not exceed the amount necessary for the project to be financially feasible for the 15-year compliance period. MSHDA will continue to monitor a project's income and expenses during this phase of the allocation process but will not hold up the issuance of 8609s to a project because of this portion of the review.

If project-based rental assistance ends due to events outside the owner's control, any rent and income restrictions on the property that the owner agreed to for points as part of a competitive funding round will revert to the 50% or 60% AMI level as selected by the owner subject to the requirements of income averaging, if applicable.

The amount of LIHTC awarded will be the lesser of 1) the equity gap calculation; 2) the pricing identified in the Equity Investor Letter as applied to the statutory maximum; or 3) the amount of LIHTC requested by the Applicant. MSHDA may use an alternative equity pricing that is more indicative of current market conditions.

II. RENT INCREASES

Increases on the tenant-paid portion of rent, for occupied units will be limited to no more than 5% per year for the first three years. This limitation does not apply to occupied units protected by project-based rental assistance or enhanced vouchers.

EXHIBIT V – STATE-DESIGNATED BASIS BOOST CRITERIA

Pursuant to Section IX.A., MSHDA will use the following criteria in awarding the basis boost.

For projects financed with tax-exempt bonds eligible for 4% credit, the following basis boost will be available:

1. Projects located in a QCT or DDA will be eligible for up to a 30% basis boost

For projects eligible for 9% LIHTC, the following basis boost will be available:

Up to 20% Basis Boost:

2. Projects located in a QCT or DDA
3. Permanent Supportive Housing projects
4. Projects restricting 25% of the total units to 30% AMI or less (in order to be eligible for the boost under this criterion, the 30% AMI units must not also have project based rental assistance)
5. Projects that receive points under the Developments near Downtowns or Corridors section of the Scoring Criteria
6. USDA RD 515 Financed Developments
7. Historic Projects – Projects that are completing a certified rehabilitation of an existing certified historic property listed, either individually or as part of a district, on the National or State Historic Register; or that the State Historic Preservation Office expects to be listed on the National or State Historic Register. Project must also incorporate the use of the Historic Credit and apply for Historic points
8. Affordable Assisted Living developments that qualify for the Affordable Assisted Living points in the Scoring Criteria

Up to 30% Basis Boost:

1. Projects that qualify for the 20% basis boost above and agree to restrict all rent levels on units without project-based vouchers to 5% below the stated maximum for the length of the affordability period will be eligible for an additional 10% basis boost. For example, a project would commit to reserving 10% of the units for tenants with incomes at 30% of AMI with rents at 25% of AMI and 90% of the units for tenants with incomes at 60% AMI with rents at 55% AMI. This is only available for projects with less than 50% of the units with PBRA.

Please note that MSHDA reserves the right to modify the State-Designated Basis Boost Policy on an as-needed basis. Should a revision be necessary, MSHDA will post a notice on its website.

EXHIBIT VI – COMPLIANCE MONITORING & NOTIFICATION OF NONCOMPLIANCE

Owners (Applicants) receiving a LIHTC allocation shall be required to follow the requirements outlined in MSHDA's LIHTC Compliance Manual (Compliance Manual or Manual) (available on MSHDA's website).

1. OWNER RESPONSIBILITIES

Within thirty (30) days of completion of Part II of the Form 8609 and filing of the form with the Internal Revenue Service, owners must send MSHDA a completed copy. Failure to do so will count as noncompliance.

The records for the first year of the LIHTC period must be kept for six years after the due date (with extensions) for filing the federal income tax return for the last year of the compliance period (a total of 21 years). Owners must keep subsequent records on file for six years after the due date (with extensions) for filing the federal income tax return for that year. These records must include:

- The total number of residential rental units in the building (including the number of bedrooms and the size in square feet of each unit);
- The percentage of residential rental units in the building that are low-income units;
- The rent charged and utility allowance for each residential rental unit in the building;
- The number of occupants in each low-income unit;
- The low-income unit vacancies in the building and information that shows when and to whom the next available units were rented;
- Income certifications of each low-income tenant and the documentation to support the certification;
- The eligible basis and qualified basis of the building at the end of the first year of the credit period;
- The character and use of the nonresidential portion of any building included in the project's eligible basis; and
- Documentation regarding calculation of utility allowances.

Owners must submit to MSHDA Compliance on an annual basis the following:

- An Owner Certification of Continuing Program Compliance (Owner Certification) Form certifying that for the preceding twelve-month period the project met conditions outlined in Section 42;
- The original local health, safety or building code violation reports or notices that are issued by the state or local government unit. Copies of these reports or notices must also be kept on-site at

the development for review by MSHDA during the physical inspection. These reports may be destroyed following a MSHDA inspection and the owner's notification to MSHDA that the violations have been corrected. Code violation reports must be retained for uncorrected violations.

Owners must submit to MSHDA electronically, on an on-going basis, data stating the number of qualifying units, number of bedrooms in each unit, information on each low-income tenant household (including income, rent amount, utility allowance, number of occupants, AMI % designation, etc.), and any other information as set forth on the MSHDA website and in the Manual. The tenant income and rent information must be provided in the format required by MSHDA, which includes electronic submission via a web-based reporting system.

Owners must submit to MSHDA in writing, responses to the physical inspections and tenant file audits conducted, unless no inspection or file audit noncompliance findings are identified.

Owners must notify MSHDA in writing (Notice of Change in Management form) within five (5) business days of any changes in the management of the project, including changes in the company managing the project or in the address, telephone number or email address of the management agent company and/or contact person.

Owners must notify MSHDA in writing (Notice of Change in Ownership form) within five (5) business days of any changes in the ownership of the project, including a foreclosure, deed in lieu of foreclosure, or any other sale or disposition of the project or any portion of the project and any changes in the ownership entity, including any changes in the name of the entity, address and telephone number of the entity, percent of ownership changes, and changes in the principals comprising the ownership entity.

Owners must notify MSHDA immediately in writing (Notice of Building Casualty Loss or Damage form) of any unit(s) or building(s) in the project that are anticipated to be unavailable for occupancy either permanently or temporarily for a period of time anticipated to exceed 30 calendar days due to casualty loss, damage, or any other reason.

2. MSHDA RESPONSIBILITIES

MSHDA will review the Owner Certification Forms and tenant data and income and rent reporting for compliance with program requirements.

MSHDA, or its authorized agent, will conduct a physical inspection of all buildings, common areas, and at least 20% of the low-income units in a project. MSHDA, or its authorized agent, will conduct tenant file audits consisting of a review of the low-income certification, the documentation the owner has received to support that certification, and the rent record for 20% of the low income units.

Physical inspections and tenant file audits of LIHTC projects will commence no later than the end of the second calendar year following the year the last building in the project is placed in service and will be conducted at least once every 3 years thereafter throughout the initial 15 year compliance period.

MSHDA will continue to conduct physical inspections and file audits throughout the extended use period. MSHDA retains the right to perform an on-site inspection and/or file audit of any low-income building at any time or frequency during the initial compliance period and the remainder of the extended use period.

MSHDA will retain records of noncompliance or failure to certify for a minimum of six years after the filing of a Form 8823. MSHDA will retain all certifications and records for not less than three years from the end of the calendar year in which they are received.

3. NOTIFICATION OF NONCOMPLIANCE

If any of the submissions required in Section I, are not submitted in a timely fashion, or should there be omissions, MSHDA shall request such information from the owner. If the owner fails to provide the required documentation within the specified time period, MSHDA shall notify the Internal Revenue Service of the owner's failure to provide the required information.

Should MSHDA discover, as a result of an inspection or audit, or in any other manner, that the project is not in compliance with Section 42, or that credit has been claimed or will be claimed for units that are ineligible, MSHDA will notify the owner. The owner shall have a minimum of 30 days from the date of notification to cure the noncompliance. In extraordinary circumstances, and only if MSHDA determines that there is good cause, an extension of up to six months to complete a cure for noncompliance may be granted.

MSHDA will notify the Internal Revenue Service, utilizing Form 8823, no later than 45 days after the end of the correction period, and no earlier than the end of the correction period, of the nature of the noncompliance and will indicate to the Service whether or not the owner has made appropriate corrections.

While MSHDA will notify the owner of compliance issues, neither a finding of noncompliance nor a determination that noncompliance has been cured is binding on the Internal Revenue Service. Owners who have received a notification from MSHDA that a project is in compliance may still be subject to an IRS audit and the possibility of loss or recapture of Housing Credits. Refer to the Internal Revenue Code for additional information about federal compliance issues.

The absence of a notice of noncompliance should not be relied upon by any owners or their investors as a warranty or representation by MSHDA that the project is in compliance with application requirements.