

TO: Board of Commissioners, Missouri Housing Development Commission

FROM: Margaret D. Lineberry, Executive Director

RE: Prepared Remarks / Program and Agency Changes

DATE: December 17, 2010

Mr. Chairman, I expect you will recall our meeting with Governor Nixon in October, when he said that our first priority at MHDC is to get the most “bang for the buck” from the Low Income Housing Tax Credit program.

This directive was echoed by the Report issued by the Tax Credit Review Commission in November, in which that Commission urged MHDC to “exercise additional due diligence in the evaluation of low income housing projects including maximizing developer [financial] participation, minimizing state subsidy, and assuring per unit cost reasonableness.”

I have taken this directive seriously, and over the past four months as Executive Director of MHDC, I have searched out ways to operate our programs more cost effectively and allow us to get more “bang for the buck” for the taxpayer, in both a short-term sense and from the long-term view. I am grateful for today’s opportunity to share my thoughts with the Board.

First, MHDC is looking closely at costs incurred in the construction of affordable housing developments. You cannot control what you do not measure. In the past, MHDC has not required construction cost substantiation from developers on tax credit projects. In other words, we knew what we paid for a project but we did not know what it cost. That bears repeating: we knew what we paid for a project but we did not know what it cost. That will change. Going forward, MHDC will require that developers provide documentation of all construction costs incurred on all projects, as well as substantiation that those costs were actually paid. In that regard, we are working with our IT Department to develop a cost database that will allow us to capture information on the costs incurred on all MHDC developments, and thus to evaluate the reasonableness of costs on a going-forward basis.

In addition, we also intend to impose some new requirements and restrictions on the characteristics of the developments, including items such as allowable square footage, number of bathrooms, number of garages, and interior finishes. That does not mean we are going to cheapen the quality of the affordable housing developments that are built in Missouri. It also does not mean that tax credit housing will be housing of last resort instead of housing of choice. What it does mean is that we are going to take the taxpayer’s interests into consideration as we evaluate the design of proposed tax credit projects. We only have a limited amount of money that can be spent on affordable housing, and we want to get the most “bang for the buck” as we spend that money.

Imposing such design limits, as well as allowing only reasonable construction costs on tax credit projects, is key to saving the taxpayer's money, because the contractor's profit and the developer's fee are calculated as a percentage of construction costs. Thus, as the construction costs of a project increase, so do the contractor's profit and the developer's fee. Certainly I am not suggesting that contractors and developers are not entitled to fair compensation for their efforts. They absolutely are. But the taxpayer's interest is also entitled to consideration. And by getting more bang for the taxpayer's buck, we can afford to provide more affordable housing for more of Missouri's citizens.

To that end, MHDC is also considering the requirement that a certain number of units in tax credit developments be made available and affordable for those citizens whose incomes are as low as 30% or less of area median income.

MHDC also will become more vigilant in requiring that rents charged for affordable units be appreciably lower than those charged for market-rate units.

We are also looking at requiring developments to continue to provide affordable housing for 30 years. Currently, developments financed with tax credits are allowed to opt out of the program after 15 years and convert to market rate. The result is that the taxpayer receives only 15 years of benefit from a development financed with tax credits, and is thereafter expected to fund the construction of an entirely new development to replace the one that has gone to market-rate rents. We do not believe that approach is fiscally prudent.

These are just a few of the changes we are considering at MHDC that we believe will result in more "bang for the buck" for the taxpayer in the construction of affordable housing. I characterize these ideas as short-term ways of saving money for the taxpayer. I also think there is a long-term view of getting more "bang for the buck," and that comes from requiring affordable housing developments to provide not just shelter for their residents but also some real opportunities to change and improve their lives.

To achieve that result, we intend to require the inclusion of a service-enrichment aspect to our affordable housing developments. The kinds of service-enrichment we are looking at includes Head Start programs, GED programs, workforce training programs, health programs, homeownership education programs, and the list goes on and on. The money we save in the construction of affordable housing developments needs to be spent on these programs, because investing in the health, education, and welfare of all of our citizens is always money well spent. By bringing the educational and training programs directly to the developments, through mandated service-enrichment programs, we can break the cycle of poverty, which is something I believe all of us would like to see happen in our State.

So, in a nutshell, MHDC is focused on short-term "bang for the buck" ideas: get more value for less cost in the design and construction of affordable housing developments. MHDC is also

focused on long-term “bang for the buck” ideas: include service-enrichment programs in affordable housing developments to provide a better quality of life and more opportunities for the residents of these developments.

To help us achieve these goals, we are doing some internal restructuring at MHDC. First, we have created the Policy Development / Government Relations Department, headed up by Deputy Director Jennifer Tidwell. This is our visionary group. These are the people who will determine the best service-enrichment programs to be provided at our affordable housing developments. Their ideas will be instrumental in the development of next year’s QAP, as they will identify the programs and requirements that will determine which proposed developments will be funded by MHDC. This Department is charged with the responsibility of getting the long-term “bang for the buck” for the taxpayer.

Second, we are making internal changes associated with getting the short-term “bang for the buck.” Specifically, we have separated out the Construction Administration activities from the Underwriting Department. We have done this for two reasons. The first is an internal control consideration. I do not think it is prudent for the same part of an organization to make funding awards and also to issue disbursements under those awards. I might note we are making a similar change in the disbursement process under our Trust Fund program.

The second reason we have separated Construction Administration from Underwriting is to allow a sufficient amount of attention to be paid to both of these areas because both are critically important. Bill Ulm will continue to oversee Underwriting, which is more than a full-time job, and Tina Beer will undertake the responsibility of supervising Construction Administration. Reporting to Tina will be Kirk Lett, our in-house architect, who will be responsible for design development and cost estimating, and Lorenzo Rice, who oversees construction disbursements. Kirk will be ensuring that construction costs on tax credit projects are in line, and Lorenzo will be requiring submission of cost documentation before authorizing disbursements of funds. Also reporting to Tina will be Sandy Middleton, who will be in charge of our minority contractor program. MHDC intends to place a greater emphasis on requiring the involvement of MBEs, WBEs, DBEs, and Section 3 contractors in the construction of affordable housing developments, and Sandy will be working with our developers as they partner with minority contractors on our projects. Finally, we will also be bringing the construction inspection function in-house, instead of contracting it out, and Tina will supervise that activity as well.

In summary, we believe that our new Construction Administration Department will help us get more short-term “bang for the buck” for the taxpayer, while the long-term “bang for the buck” will be provided by the members of our new Policy Development/Government Relations Department.

As I have provided this brief description of our internal restructuring, I have mentioned a few MHDC staff members by name. These people are very deserving of recognition but I want to emphasize that all of the MHDC employees I have met are deserving of recognition. I have been consistently impressed by the depth and breadth of the subject-matter knowledge of MHDC staff, as well as their deep commitment to serving the taxpayers of the State of Missouri and the residents of our affordable housing developments.

In closing, I would like to thank the Commissioners for their time and attention this morning. I will also look forward to the MHDC spring planning session with the Commissioners, at which time I hope we will be able to bring these ideas to fruition. Thank you.