<u>2020 Draft Qualified Allocation Plan & Developer's Guide</u>

Summary of Changes

What follows is a summary of proposed changes to the 2020 Draft Qualified Allocation Plan and Developer's Guide. Noted Developer's Guide changes only include those that are not addressed in the QAP section. This summary is being provided to assist you in your review.

All necessary dates have been changed to reflect the 2020 funding year. Page references at the end of each change denote the location within the Draft QAP Redline Version where the change is located.

Language referencing MO State LIHTC has been added throughout the QAP where appropriate. Language referencing No-State LIHTC has been removed throughout the QAP.

Cover Page

Effective date changed

I. General Information

C. Credit Types and Availability

Added the statement "The State LIHTC was established by the State Act which provides that any development eligible for a Federal LIHTC allocation is eligible for a State LIHTC allocation. State LIHTC up to an amount equal to seventy percent (70%) of the available and authorized Federal LIHTC allocation amount may be authorized under this Plan. The amount of State LIHTC authorized for a development cannot exceed the Federal LIHTC amount authorized. For any given development, MHDC shall determine, in its sole discretion, the amount of State LIHTC (if any) necessary for the financial feasibility of the development and shall make allocations of State LIHTC based on that determination." (Page 2)

Added language allowing for the option of an accelerated redemption of the State LIHTC. "Applicants seeking an award of State LIHTC will elect one of the following credit redemption methods at application which will govern the way the State LIHTC credits will be redeemed during the tax credit period: 1. Accelerated Redemption. State LIHTC will be issued where in the first five (5) years of the tax credit redemption period, the annual State LIHTC amount available for redemption will be equal to the annual issuance amount of the allocated Federal LIHTC. The remainder of State LIHTC will be issued where the remaining balance of State LIHTC will be equally distributed annually over the remaining years of the tax credit redemption period. 2. Standard Redemption. This method of issuance and redemption mirrors the redemption of the Federal LIHTC. The allocation of State LIHTC will have a ten (10) year tax credit redemption period where the State LIHTC allocation will be issued in ten equal amounts to be redeemed annually over the tax credit redemption period." (Page 2)

Noted that the amount of 4% State LIHTC is capped at 3 million per fiscal year. (Page 2)

D. Notice of Funding Availability

Added the statement – "In addition, the NOFA may reflect additional funding that may be made available to, and administered by, MHDC through any other source." Any such additional funding will be detailed in the NOFA." (Page 2)

Changed the date “Rolling Applications” will be accepted to October 1, 2020 – August 31, 2021. (Page 2)

E. Deadline and Application Fee

Changed application due date to October 30, 2020. (Page 3)

II. Standards

B. Development Standards

Added #20. “All approved applications for MHDC funding must establish an Infectious Disease Management Plan to be adopted and followed by the property management agent in response to an outbreak of COVID-19, other infectious disease, or comparable circumstances. The plan should be prepared in accordance with guidance from the Centers for Disease Control (CDC) or other appropriate local health authorities. Details of what the plan must address are detailed in the MHDC Developer’s Guide.” (Page 7)

III. Housing Priorities

HOME CHDO Set-aside

Modified language in this section to state “MHDC will endeavor to set-aside 15% of HOME Funds to be loaned or granted to Community Housing Development Organizations (“CHDO”) as CHDO Set Aside.” (Page 13)

Preservation

#5. Section revised to require that all projects must have a MHDC preservation letter to qualify for the Preservation Priority. I.e. A Rural Development preservation proposal must have a preservation letter from RD and from MHDC to qualify for the Preservation Priority. All requests to MHDC for preservation letter must be made no later than 30 days prior to application submission deadline. (Page 17)

CDBG-DR

#6. Changed the allocation of 2020 CDBG-DR funding locations to only include Van Buren with a zip code of 63965 and Jefferson City with a zip code of 65101. (Page 17)

Reservation Process

2. Threshold Documents

2f. Deleted two items requested for Economic Impact to Missouri in the FIN-100. (Page 21)

1. A description of the economic impact returned to the State of Missouri through tax revenue obligations, or otherwise.
2. A description of the Development Team’s economic presence within the State of Missouri including Missouri employee statistics.

2f. Added 3 items requested for Economic Impact to Missouri in the FIN-100. (Page 21)

1. The number of employees in Missouri, if the developer has existing operations in Missouri.
2. The percent of hard and soft costs expected to be paid to Missouri-based firms, vendors and /or suppliers.

3. The total number of months between initial construction closing and construction completion.

A. Document Review – Phase I

3. Secondary Documentation Review

3f. Clarified that this requirement is in addition to contact verifications included as Threshold Documents. (Page 22)

3n. Revised requirement for utility allowance information to encourage the option to provide HUD Utility Model if requesting HOME funds. (Page 22)

3r. Added a requirement that each applicant must submit a completed MHDC Application Self-Scoring form as an exhibit within the application. (Page 22)

C. General Scoring – Phase III

Changed the number of points applications must earn during Phases II and III to qualify for Underwriting Phase IV review from 75 to 100. (Page 23)

Changed the number of points for each scoring category to reflect point changes within the scoring model. (Page 23)

Income Targeting:

Changed the maximum possible points for Income Targeting from six (6) to ten (10). (Page 23)

Added that proposals selecting the Income Averaging set-aside are not eligible for points in the Income Targeting category. (Page 23)

Added Cape Girardeau to the grouping of "Springfield, Columbia, Joplin, Jefferson City and St. Joseph MSAs." (Page 23)

Added an additional category in each geographic area for proposals setting aside at least 15%, 12.5%, or 10% respectively of units for 30% AMI households. Proposals that achieve these thresholds will earn 10 points. (Page 23)

Services

Changed the maximum possible points from five (5) to ten (10). (Page 24)

Changed how services are scored in this category. The new language reads "Developments that qualify for the Service Enriched Priority and commit to provide services that fall under the Service Parameters as reflected below may receive up to two (2) points per Service Parameter. Applications must include a fully executed letter of intent for each Service Parameter to receive points for that category. In awarding points, MHDC will evaluate the quality of services provided, the correlation between the services or programs to the tenant population, the service delivery plan and the duration of the commitment (minimum of 3 years)." (Page 24)

Special Needs / Vulnerable Population

Added an additional category that awards 5 points for proposals that qualify for the Set-Aside Preference and commit to setting aside 15% or more of the units for special need and/or vulnerable population tenants. (Page 24)

Site Location

Changed the document used to evaluate the percentage of rent burdened households from 2016 CHAS to Missouri county cost burden data as published in the MHDC 5-Year Strategic Plan for Affordable Housing for the State of Missouri - 2020. (Page 24 & 25)

Changed the number of points associated with categories in 1a from one (1), three (3) and five (5) to five (5), seven (7) and ten (10). (Page 24 & 25)

Changed the number of points associated with family proposals that are located in an Opportunity Area from five (5) to seven (7.) (Page 24 & 25)

Added an additional category under this section that pertains only to developments in the Rural Area. Proposals in the Rural Area can score an additional five (5) points if located in a "Rural Underserved County" as defined by MHDC. (Page 24 & 25)

Economic Development

Added an additional category that awards 5 points for contributing to the economic development within the area of the proposed development. To qualify for this category the proposal must include: (Page 25)

1. Detailed description of the specifics of the Supporting Economic Activity and how it supports the need for affordable housing;
2. Detailed description of how the jobs created by the Supporting Economic Activity support the need for the income targeted affordable housing units proposed in the application;
3. List of all resources committed to the Supporting Economic Activity;
4. Description of the impact of the proposed housing development to the overall economic development in the community and;
5. Description of the community, including housing, commercial, infrastructure, amenities and services.

Preservation

Revised this category to award ten (10) points to preservation proposals instead of 3. (Page 25)

Leveraged Funds

Clarified how private loans can qualify as leveraged funds. The language reads, "Loans from private institutions or other entities may be counted as leverage funds if the interest rate is below the 2 year Treasury Rate (as of October 1, 2020) plus 200 basis points for construction loans, and is below the 10 year Treasury Rate (as of October 1, 2020) plus 200 basis points for permanent loans. The below table will be used to score points for permeant loans. Qualified construction loans will receive five (5) points if the amount of the construction loan is greater than or equal to 50% of the total development costs.

Applicant may receive points for both construction loans and permanent loans. Those points will be added together but in no circumstances can that total exceed 10 points." (Page 25 & 26)

HOME CHDO

Added an additional category that awards 10 points to proposals that qualify for the HOME CHDO set-aside if proposal is not requesting Low Income Housing Tax Credits. (Page 26)

Credit Efficiency

Modified the category of Credit Efficiency. "Applications will be awarded points for credit efficiency based on the eligible LIHTC amount per LIHTC bedroom using the criteria below. Applications will be divided into four categories: (1) Family New Construction; (2) Senior New Construction; (3) Family Rehab; and (4) Senior Rehab. A "safe harbor" will be determined for each category. The Average Eligible LIHTC amount per LIHTC bedroom will be determined for each category based on the eligible LIHTC amount per LIHTC bedroom data in the 2019 submitted applications after applying a 2% adjustment for cost increases. The Safe Harbor for each category is 2.5% above and 2.5% below the Average Eligible LIHTC amount per LIHTC bedroom for each respective category." (Page 26 & 27)

D. Underwriting/Selection Criteria – Phase IV

Geographic Region

Split the Out-State Region into two different regions. The first is MSA-Rural Region which includes Cape Girardeau MSA (Cape Girardeau and Bollinger counties), Columbia MSA (Boone, Cooper and Howard counties), Jefferson City MSA (Callaway, Cole Moniteau and Osage counties), Joplin MSA (Jasper and Newton counties) and Springfield MSA (Christian, Dallas, Greene, Polk and Webster counties). The second is Rural Region which includes all counties previously in the Out-State region that are not included in the MSA-Rural Region. MHDC will attempt to allocate 20% of the Low Income Housing Tax Credits to the MSA-Rural Region and 28% of the Low Income Housing Tax Credits to the Rural Region. (Page 28 & 29)

D. Underwriting/Selection Criteria – Phase IV

MBE/WBE

Added the statement, "In an effort to continue to promote this Initiative, MHDC will initiate efforts to develop outreach and/or workshop opportunities for MBE/WBE developers and businesses." (Page 30)

Economic Impact

Changed the requirements under this section. Previously, applicants were required to submit document(s) to MHDC as an exhibit in the application submission package that described various types of economic impact to the state of Missouri. This will no longer be required of applicants. Instead, MHDC will evaluate the Missouri economic impact based on data from within the application. Some basic economic impact information will still be required to be provided by the applicant within the FIN-100. (Page 33)

Notifications

Added that public hearings for applications can now be held remotely. (Page 33)

IV. Allocation Process

B. Carryover Allocation

Added language allowing for an additional carryover document to be issued for developments that qualify for State LIHTC.

V. Compliance Monitoring

Expanded language in the QAP for compliance requirements, as set forth in the Code and Treasury Regulations 1.42-5 provisions to include, Record Keeping and Retention, Annual Certifications, Review and Inspections, Notice of Noncompliance, Correction Period, Notice to Internal Revenue Service, and Liability. The language reads as follows:

Record Keeping and Retention. For each year in the compliance period and extended use period, the owner or its successor in interest shall keep records for each qualified low-income building in the Project, consistent with Treasury Regulation 1.42-5. The owner or its successor in interest shall retain these records for each building in the development for at least six years after the due date (with extensions) for filing the federal income tax return for that year. The records for the initial taxable year shall be retained for at least six years after the due date for filing the federal income tax return for the last year of the compliance period and extended use period of the building.

Annual Certifications. The owner shall make all necessary annual certifications for the preceding 12-month period, as described in Treasury Regulations 1.42-5 and as required by MHDC.

Review and Inspections. MHDC will review the certifications submitted and conduct on-site inspections of the developments pursuant to the required frequency. The number of low-income housing units and certifications to be inspected must be selected according to the minimum requirements as set forth in Treasury Regulations 1.42-5 and in a manner that limits advance notice to owners that their records for a particular year will or will not be inspected. MHDC may give an owner reasonable notice, pursuant to Treasury Regulations 1.42-5, that an inspection will occur so that the owner may assemble records.

Notice of Noncompliance. MHDC will provide written notice to the owner of a development if found to be out of compliance pursuant to Treasury Regulation 1.42.5. The notice will describe the events of noncompliance and advise the owner of the development of the time period to correct the events of noncompliance.

Correction Period. The correction period shall not exceed 90 days from the date the notice of noncompliance is sent to the owner. MHDC may extend the correction period for up to six months, but only if MHDC determines there is good cause for granting the extension. During the 90-day time period, or an extension thereof, the owner shall supply any missing certifications and bring the development into compliance with the provisions of the Code and Treasury Regulation 1.42-5.

Notice to Internal Revenue Service. MHDC will send a written notice to the Internal Revenue Service along with an IRS Form 8823 in the event of a finding of noncompliance by an owner. Copies of the IRS Form 8823 and the Internal Revenue Service notice will be forwarded to the owner.

Liability. Compliance with the requirements of the Code and MHDC requirements is the responsibility of the owner of the development for which the tax credits are allowable. MHDC's obligation to monitor for compliance with the requirements of the Code does not make MHDC liable for an owner's noncompliance.

VI. Other Information

#4. Indicated the minimum construction inspection fee as reflected in the Developer's Guide. (Page 38)

2020 Developer's Guide Changes

Changes noted in the QAP section will not be repeated in the Developer's Guide Changes.

Approved Utility Allowances

Updated the Approved Utility Allowance's requirement to permit not only a public housing authority (PHA) utility allowance, but also a HUD utility Schedule Model (HUSM). (Page 56)

Design/Construction Compliance Guidelines

Amended MHDC Form 1200, Design/Construction Compliance Guidelines. (Page 79)

Management/Maintenance Plan

Added that all approved applications must have a COVID-19 Management Plan that at a minimum addresses the following (Page 82):

a. Plan for addressing an outbreak of infectious disease at the property including but not limited to communication standards for informing stakeholders.

b. Methods of preventing or reducing infection rates including how processes normally involving person-to-person contact will be handled. Such processes include, but are not limited to interactions in the leasing office, use of community space or common amenities, resident events, deliveries, service or maintenance calls, collection of rent, interaction with third party vendors and marketing or showing of property to prospective tenants.

c. Processes or procedures addressing high risk tenants such as elderly, special needs or vulnerable populations.

d. Cleaning and sanitization protocols for all units and common areas.

e. Any COVID-19 related services that will be provided.

Establish Username and Password for MHDC Asset Management Reporting Systems (AMRS)

Clarified that the designated AMRS system administrator is responsible for providing specific user access for properties. (Page 103)

Ownership Change/Transfer of Physical Assets (TPA)

The Transfer of Physical Assets (TPA) process and application has undergone several updates over the past two years, most recently February 24, 2020. The 2020 Developer's Guide edits summarize these changes which include: a permitted transferee exception to MHDC approval (review is still required); limiting TPA fee increases to no more than 10% of the fees established on January 7, 2019; and providing further guidance on planning for a TPA, as well as the types of owner changes requiring MHDC approval. (Page 108)

Management Company Fee Increase (Page 110)

Modified language in this section to reflect current MHDC Management Company Fee policy.

"Beginning the calendar year of 2020, management companies are allowed to collect a maximum management fee up to $40 per occupied unit. Annual management fee increases will be automatic according to the published HUD OCAF percentage for Missouri, and the management fee for the following year will be published by MHDC during the fourth quarter of the current year. Management Fee increases will be calculated as follows – FY 2020 Fee x 2020 Missouri OCAF % equals FY 2021 Fee. The annual increase will be rounded up. MHDC will no longer approve management fee increases for individual properties. The previous method used, which was based on the percentage of collected revenue, has been discontinued. Properties that previously used the percentage of collected revenue method have had their percentage converted to dollar/unit based on HUD's published management fee calculation worksheet (HUD form 9839-A or 9839-B) and their converted management fee will be grandfathered in if their fee after conversion exceeded $40. No additional increase will be allowed for grandfathered properties until the maximum MHDC management fee exceeds the grandfathered fee. Owners and Management companies will always have the ability to negotiate a lower amount. Overpayments will be tested for during the AFS review process. This policy does not apply to properties whose management certification must be approved by HUD."

Rent Increase Guidelines (Page 111)

Modified language in this section to reflect current MHDC Rent Increase Guidelines.

MHDC is required to approve the rents for all properties involved in the MHDC Fund Balance, Low Income Housing Tax Credit, Missouri Affordable Housing Assistance Program (AHAP), HOME, and National Housing Trust Fund (NHTF) programs. All rent increase requests must be submitted on-line through MHDC's Asset Management Reporting System (AMRS) https://amrs.mhdc.com. The rent increase submission window is **October 1st – December 31st.** Properties desiring a January 1st effective date must submit their complete rent increase request by November 15th. Properties desiring a February 1st effective date must submit their request by December 15th. All others are due no later than December 31st. Requests submitted outside this window are not processed. The effective date of approved rent increase requests must be at least one year from the property's last building place-in-service date or one year from the last Schedule II effective date. Existing residents must be given a thirty (30) day notice before implementing any rent increase. The owner/management is required to post for public viewing a signed MHDC Exhibit A-21 Notice to Residents of Management's Intention to Submit a Rent Increase Request to MHDC for Approval prior to submitting the rent increase request to MHDC. The Exhibit A-21 notice provides a thirty (30) day comment period for residents to respond to MHDC. Mid-term lease increases are not allowed, and tenant leases are not to include language that allows rent increases in the middle of the tenant's lease term.

All family designated properties submitting a rent increase have the option to request either an automatic 2% rent increase subject to compliance testing or a budget based rent increase which would allow for a rent increase up to a maximum of 7%. All senior designated properties (i.e., properties for residents age 55 and older) are capped at the lower of the prior year Social Security Cost Of Living Adjustment (COLA) or the allowed 7% maximum. However, in years of 0% COLA adjustments, the owner will be allowed to request a rent increase of a maximum of 2%. Please visit https://www.ssa.gov/OACT/COLA/colaseries.html for previous year COLA adjustments.

For developments electing Average-Income Set-Aside, the income and rent levels will be assigned from the beginning of the project based on the market study submitted at application. MHDC will input the income levels into AMRS so developments can track the range for every potential income and rent level.

All MHDC-approved rent increases are issued on Form Schedule II.

Automatic 2% and Budget Based Rent Increase Submission Requirements:

- Property has submitted their Annual Financial Statement and Budget. Please note Annual Financial Statements and Budgets are tracked through MHDC's AMRS system. Properties cannot request a rent increase until these items are received.
- Current Utility Allowance has been submitted.
- Current Rent Roll has been submitted. Please note a current rent roll must contain each unit, bedroom type, rent amount, rent type, and lease move-in/renewal effective dates for each resident.
- Signed copy of MHDC **Exhibit A-21** Notice to Residents of Management's Intention to Submit a Rent Increase Request to MHDC for Approval must be submitted with the rent increase request. Please note Owner/Management is required to deliver to residents and post for public viewing MHDC Exhibit A-21 prior to submitting the rent increase request to MHDC. This notice may not be substituted with alternative language.

Automatic 2% Rent Increase Compliance Testing:

- The property must be in compliance with all program requirements and MHDC policy and procedures.
- Property's occupancy submission must be current and average occupancy must not be below 90% over a rolling 12 month period.
- Property's most recent inspection must be closed in compliance.
- Property must demonstrate that they are charging the current approved rents based on the most recent approved Schedule II.
- The property's proposed rents do not exceed maximum Section 42 rent limit requirements.
- If applicable, the property's mortgage must be current.

Note: Under the automatic 2% rent increase policy, a Schedule II will be issued as long as the property can demonstrate that they are in compliance with the above list. Rents **MUST NOT** be implemented until the Schedule II is signed by MHDC and returned to the owner with the effective date specified. In the event the owner/management has not complied with the list above, the Schedule II will be placed on hold until the non-compliance is corrected.

Budget Based Rent Increase Compliance Testing:

- Required for any rent increase request greater than 2% and up to a maximum of 7%.
- The annual development budget must demonstrate a need for a rent increase determined by analyzing the following performance indicators:
  - Cash Flow after including development soft debt, deferred development fee, and agreed upon owner distribution
  - Development DCR. MHDC considers a healthy property to maintain a 1.30 DCR

  Note: Any budget that projects a property to exceed a 1.30 DCR may have their rent increase reduced or denied. Higher DCRs may be allowed for properties to achieve their agreed upon owner distribution and re-pay surplus cash notes and remaining deferred developer fees. In any event, MHDC will not approve an increase that is more than 7%

Other Budget Based Rent Increase Compliance Items:

- The property must be in compliance with all program requirements and MHDC policy and procedures.
- The property's AOD reporting must be in compliance.
- Property's occupancy submission must be current and average occupancy must not be below 90% over a rolling 12 month period.
- Property's most recent inspection must be closed in compliance.
- Property must demonstrate that they are charging the current approved rents based on the most recent approved Schedule II.
- The property's proposed rents do not exceed maximum Section 42 rent limit requirements.
- If applicable, the property's mortgage must be current.

Note: Rents **MUST NOT** be implemented until the Schedule II is signed by MHDC and returned to the owner with the effective date specified. In the event the owner/management has not complied with the list above, the Schedule II will be placed on hold until the non-compliance is corrected.

Rent Increase Procedures for Senior Developments:

Rent increase requests for all senior designated properties (i.e., properties for residents age 55 and older) are capped at the lower of the prior year Social Security Cost Of Living Adjustment (COLA) or the allowed 7% maximum. However, in years of 0% COLA adjustments, the owner will be allowed to request a rent increase of a maximum of 2%. Please visit https://www.ssa.gov/OACT/COLA/colaseries.html for previous year COLA adjustments.