Suggestions/Comments 2020 Draft QAP and Developer’s Guide

Services

1. Identifying local service providers and lead referral agencies is helpful as a reference to potential residents. How do I begin to assess or determine the personnel, programming costs and compliance measures increase into the overall operating expenses? Obviously, this increase operating expenses. If that is the case, then the rents will be higher to meet the DCR thresholds set by MHDC. While these are positive resources for the general economy, they do not further the mission we have in providing an affordable place to live for most of the residents of the properties – at the MOST affordable rent possible.

2. The increased weight of services within the scoring guidelines will likely introduce additional operating expenses, therefore forcing either higher rents or skinnier debt coverage. Safe, quality affordable housing can be provided on a more efficient scale without adding on many layers of additional requirements for operators.

3. Identifying local service providers and lead referral agencies is helpful as a reference to potential residents but forcing operators to administer these programs throughout the life of the project puts a huge strain on the project itself. Additional personnel, programming costs, and compliance measures creates more operating expenses and higher rents in order to meet DCR thresholds and passes on the cost to the residents. While these are positive resources in nature, they are disruptive and counterproductive in serving the mission to provide quality housing at the most affordable rate possible.

4. Clarification is needed as to the criteria is MHDC using to evaluate the "quality of services provided". The criteria as stated is both general and subjective, and seems unable to be quantified for scoring and evaluation purposes. Additionally, making Services a more significant criteria raises an issue because these are residential properties staffed by property management professionals, not care facilities where staff have proper training to provide services. Placing an emphasis on providing Services typically involves large operating costs that require higher rents. A poll of residents may likely show they prefer lower rents than having Services provided which may be underutilized.

5. A development would not be able to support providing both the Services and Special Needs requirement. The proposed additional 5 points for Services this year may lead to applicant’s opting to seek Service Providers even if the Special Needs option better fits and serves the development’s tenancy and market demographic needs. Additionally, most Service Providers
involve large operating costs/fees that cause a lot of stress to a deal financially resulting in increasing rents across unit types.

6. Under Services, the draft states that the number of possible points awarded for services doubles from 5 to 10. Accordingly, we would ask staff to be cognizant of the general dearth of service providers in rural areas.

Preservation

1. Preservation of existing properties is important in the State of Missouri as many of the existing properties are needing additional funding to help maintain those units, however, preservation does NOT provide new units. The scoring matrix by giving an additional 10 points towards preservation from the current 3 points would put new construction of affordable housing at a distinct disadvantage to preservation of affordable units. Is this truly fair?

2. While preservation is an important part of housing needs, it unfortunately does not increase the number of units and fulfill the excess demand for more affordable housing units throughout the state. An increase in point value from 3 to 10 seems to put new construction projects providing additional housing units at a much bigger disadvantage.

3. Support for Preservation Transactions. We commend and strongly support MHDC’s proposal to increase the scoring allocation for Preservation Priority projects from 3 to 10 points. The preservation of existing housing is a smart, cost-effective policy -- not only is preserving a unit more economical than replacing one that’s lost, preservation is also more socially and environmentally sustainable, as it reuses existing sites and prevents the displacement of current residents. Furthermore, because the ratio of labor to materials costs is typically much higher for renovations than for new construction projects, each dollar invested in a preservation/rehabilitation project creates more jobs than the same dollar spent on a new construction project.

Economic Development / Impact

1. Two areas of the scoring system are completely subjective and do not provide any data on whether a proposed development is a quality development. The first subjective scoring area is new this year, the Economic Development category. In this category, an application can be awarded up to five points for contributing to the economic development within the area of the proposed development. These points are awarded based on descriptions from the developer, but the scoring system does not include any description of how these factors are weighed or what they are compared to for the awarding of the points. The awarding of points in this type of category needs to be against measurable factors or eliminated.

2. The percent of hard and soft costs expected to be paid to Missouri based firms, vendors and/or suppliers. While it is agreed that utilizing this program may generate the largest economic benefit for the state, these numbers are extremely difficult to estimate with any accuracy. At the time of application any numbers presented are purely speculative and this requirement will likely invite embellishment and produce figures that cannot be backed up with relevant data.

3. Detailed Description of the specifics of the Supporting Economic Activity. Similar to comment above regarding percentage of Missouri suppliers and soft costs. This simply invites embellishment to the point that the information provided may not be useful, and certainly not verifiable at the point of project submission. This issue is particularly dangerous when this
information is used to determine allocation awards, incentivizing applicants to exaggerate this "supporting activity".

4. Are Economic Development points focused on the project itself? If not, are there relevant economic measures outside the general project which must be satisfied?

5. Can you provide some examples of how the points in this new section can be achieved? Is there a definition of “Supporting Economic Activity”? The project itself provides substantial economic activity within each community but it sounds like additional measures are desired outside of the project.

6. Does the project itself qualify for these points or does this category need to be relevant to economic measures outside of the project scope?

**Credit Efficiency**

1. Scoring based on credit efficiency is a detrimental category preventing individual developers from being able to self-score prior to the application. Total Development Cost Limits are already in place to restrict how high the costs attributable to a project can be. I believe MHDC should focus on underwriting these deals and allowing the credit market to dictate pricing. Let the free market be what it is due to competition – especially this year. My fear – to get a deal approved by MHDC, pricing will be arbitrarily low and then the deal may not work. Only to come back for more credits or ask for approval to go back and re-underwrite the deal.

2. This proposed language proposes multiple challenges for the financing packages and is impossible to self-score before application submission. Further, it incentivizes developers to submit aggressive and potentially unrealistic development costs and excessive leverage putting the projects at risk of becoming infeasible, especially with the pandemic and volatile construction costs. As long as TDC limit consideration is included, there is no need to make this a scoring metric. Could this be removed from scoring and shifted into the underwriting review focusing on setting a pricing floor based on a percentage of median credit pricing submitted?

3. This comment is in regards to the Credit Efficiency scoring item and the recommendation that this category be moved to an underwriting/threshold guideline. It will be nearly impossible for Applicants to accurately self-score their developments based on the current language. In order for them to ensure that they remain the most competitive, they will minimize their credit request to a point where the development is barely financially feasible. In doing so, they will strive for ways to minimize construction costs, push rents to their limitations and assume more permanent debt in order to reduce their credits enough to a point where they think they might within the “safe harbor”. The negative economic impact of COVID-19 has caused uncertainty in the equity market, which combined with the predicted race to the bottom approach mentioned above could potentially turn more deals upside down post-award. Other states across the country have tried this route, and this is simply not working. The quality of products have suffered as a result of pushing the limits too far in making developments too stressed - simply hurting the potential residents that this is supposed to serve (i.e, having way too much debt to service therefore rents that become unachievable). By having this a scoring item it is simply a race to the bottom for developers to have a fake set of numbers for application purposes. Missouri historically has had the best quality of affordable housing in the country, and going this route will not be sustainable Credit Efficiency in underwriting/threshold by comparing the credit pricing of applicants by Region would effectively achieve the same optimal utilization of
resources MHDC is trying to achieve, while better representing the current outlook on the equity market.

4. The Credit Efficiency scoring category prevents each developer from accurately being able to self-score prior to application submission. As long as TDC limits are recognized, there should not be additional scrutiny on credit request, especially in a point category. MHDC should focus on underwriting these deals and let the market dictate where the deal falls in the credit request. There are already limitations put in place via the total development cost limits. If this language remains, developers will be pressured to submit unrealistic development budgets, low credit requests, and high rents to support additional financing.

5. A third area in the scoring that is not completely subjective but leads to lower quality developments is the Credit Efficiency category. This category was included in the 2019 QAP and is revised in the 2020 QAP Summary of Changes. Our development team has experience in multiple states and this category is one that leads to lower quality housing and higher leveraged developments which creates developments that are at risk for failure. Rather than having credit efficiency as a scoring category, the credit pricing needs to be part of the Threshold analysis as part of the Financing Commitments. There is enough market data available through NCSHA, neighboring HFA’s and from syndicators for MHDC staff to consider in its review of Federal and State LIHTC letters of intent to evaluate whether the pricing for the credits is reflective of the national and regional markets.

6. We would urge MHDC to clarify that the scoring item for credit efficiency will apply only to 9% LIHTC requests. It is in the state’s interest for sponsors to maximize use of the non-scarce 4% LIHTC, in order to reduce demand for other scarce resources, and not (via this scoring item) discourage its use.

7. We have reviewed the proposed changes to the 2020 MHDC QAP and Developers guide, and we appreciate the opportunity to comment regarding MHDCs “Credit Efficiency” scoring, and would like to suggest an alternative way to approach the issue in a way that will better fulfill the needs of the residents while also promoting an efficient use of MHDC resources without jeopardizing the financial health of LIHTC developments in the long term. While we understand MHDC’s interest and need to efficiently utilize the limited resources available, we feel the emphasis MHDC has placed in using “credit efficiency” as part of its scoring matrix will prioritize applications that provide the bare minimum in terms of materials, design, amenities and site locations. The sacrifices developers will be forced to make in order to submit a competitive application run counter to our efforts to provide quality apartment units that are both durable and affordable to the residents. By making Credit Efficiency a scoring item MHDC has presented developers with a conflict: we are asked to provide more housing units that need to last for extended compliance periods, but we are given fewer resources to do so. Developers that are focused on requesting the lowest amount of credits per unit will be pushed to expand their financing stack with larger permanent loans, resulting in higher debt service payments, while the cheaper materials used will require higher operating budgets and hasten the need for a rehabilitation. From an operating standpoint, the higher rents required to service the increased debt load will make these properties less affordable to residents and less attractive to potential investors. It is our belief that while development costs need to be considered, the issue of “credit efficiency” would be more appropriately addressed as part of Underwriting or Threshold Guidelines rather than scoring. As part of underwriting criteria, MHDC could still prioritize
efficiency by reserving the right to re-underwrite applications during MHDC underwriting to meet a standard – i.e. the greater of the applicants pricing or “90% of median equity pricing for the location”. In doing so MHDC will not only make the applications more efficient from a credit standpoint, but also assure developments are properly sourced from an equity position as well. Given the current situation, we feel it would be a grave mistake to incentivize applicants to “race to the bottom” in their application assumptions in order to be competitive – particularly when there are so many unknowns in the equity markets. In order to best fulfill the LIHTC programs goals, the needs of the residents and the rental affordability of the developments within the market being served, not the cheapest up-front cost, should be the determining factor in making allocation decisions.

8. This new scoring category presents a very difficult issue for developers, who will essentially be induced to present bare-bones applications as applicants try to guess the amount of credits competitors are going request. By making "Credit Efficiency" a scoring item, developers and our contractors will need to be extremely precise in our estimates for construction materials and labor - leaving no room for error despite the fact that materials purchases and construction costs are many months into the future. Additionally, our syndicators are pressed with the challenge of trying to determine where equity markets will be under extremely uncertain financial circumstances. An approach that moves "credit efficiency" to underwriting, rather than project submission, would be more suitable, as this would allow developers to request an amount of credits that are needed based on an analysis of local construction costs, achievable market rents and demand of investors for the tax credits within the area. But, as we know, the ultimate award of credits is frequently different than the amount originally requested, and the ultimately awarded amount may well move the project’s Credit Efficiency from within the safe harbor amount to below the safe harbor amount. The number of credits a development receives should be commensurate with the amount necessary in order to be feasible, rather than motivated by a guess on what it will take to get the deal allocated.

9. We wonder if this benchmark (credit per LIHTC bedroom) might carry perverse incentives such as, for instance, incentivizing 2-bedroom senior units. Might it make more sense to use the LIHTC bedroom benchmark for family developments and square footage for senior developments? Also, how about ratio of credits to all bedrooms vs. credits per LIHTC bedrooms?

**Covid-19 Plan**

1. Instead of asking for customized Management Plans, MHDC should considered issuing a standard set of guidelines to be followed and implemented for all proposed projects. This seems like something that could be standardized so that each developer and management company can follow accordingly. This would make compliance monitoring easier and global changes more efficiently adopted as the situation and needs evolve.

2. It would be more effective for MHDC to establish the COVID Plan in which all applicants can select to Agree to a standardized set of guidelines across the program.

3. There is concern that requiring a Covid-19 Management plan is a slippery slope that could expose ownership, development, management, and investors to liability. I believe it better to avoid anything which may be construed as medical advice/treatment/prevention, but rather focus strictly on proper management, leaving guidelines and any plan to mitigate the risk of the pandemic up to the relevant communities and medical professionals. Further, as these
properties will likely not complete construction until 2022, I feel and hope that any policy put into place will be out of date by the time residents move in.

4. Should the COVID Management Plan be called an Infectious Disease Management Plan so that we aren’t creating new management plans each time we have a new pandemic?

Income Targeting

1. Don’t understand why income targeting points cannot be claimed if income averaging is being utilized? It seems that both 30% units and 80% units are recommend to be utilized but points cannot be claimed for both? As long as average income is below 60%, opening up units to both lower and higher AMI households should better serve the communities.

2. Proposals selecting the Income Averaging set-aside should be eligible for points in the Income Targeting category. If the market permits, the utilization of income averaging with higher AMI residents would allow the development to ability to include to a greater number of lower AMI units, which has seemed to become an initiative for MHDC. Additional 30% AMI 10 point category: The inclusion of 10-15% of 30% AMI will be difficult for most developments to achieve and in doing so will ultimately cause necessary increases to 60% AMI rents in order to remain financially feasible. The Income Targeting scoring section from the 2019 round was effective.

3. Support for ELI Households. There is a desperate need for affordable housing for Missouri’s ELI households – according to NLIHC, Missouri has a shortage of almost 120,000 units affordable to ELI renters, and 70% of ELI renters in the state pay more than half their income for shelter costs. Accordingly, POAH strongly supports MHDC’s proposed increased scoring allocation for Income Targeting from 6 to 10 points. Further, because rental assistance provides deep affordability for ELI households, we would urge MHDC to make a similar increase in scoring allocation for proposals with rental assistance, and/or to allow rental assistance proposals to qualify for Income Targeting points.

4. It seems unclear why we would want to make Income Targeting and Income Averaging points mutually exclusive criteria. Developments work best when applicants are incentivized to provide the best unit mix to address the needs of the market and allow for a mix of income levels. Furthermore, Income Averaging has served as an effective means of not only diversifying the income levels at properties, but also allowing for greater number of lower AMI units, with the rents of the 80% AMI units helping to offset the lower rents at the 30% and 50% AMI levels.

Special Needs

1. The applicant should be eligible for points in this category if they commit to setting aside 10% or more of the units for special need and/or vulnerable population tenants.

2. While I agree that developments need to set-aside units for special needs / vulnerable populations, I believe that adding additional emphasis to increase the number of units for special needs may be unnecessary and inefficient. There are many times when special needs units remain vacant pending the required wait times to be exhausted, before moving in a non-special needs resident who has an immediate need for the unit.

Leveraged Funds
1. MHDC should only include the permanent loan rate information and utilizing that loan amount to compare to the % of Total Development Costs for scoring in the section. The current QAP language does not specify if these funds are to be used for construction or permanent phases. Based on the current % requirements, it would be more beneficial to only make them applicable to permanent only.

2. Perhaps a calculation of the permanent loan amount to the total development costs would be a better barometer of the degree to which the development is utilizing non-LIHTC financing. If this is MHDC's intent, then the language needs to more clearly define that the calculation will involve only permanent loan financing.

3. Under “Leveraged funds,” the draft states, “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.” Given our survey of members, it seems highly unlikely that private firms can compete with these benchmarks. Thus, this language may prevent the state’s many financial institutions from participating in LIHTC developments.

**Development Team**

1. Two areas of the scoring system are completely subjective and do not provide any data on whether a proposed development is a quality development. The second subjective scoring area was introduced in 2019 is the Development Team Prior Performance category. This description of how points are awarded in this category is very broad and does not include any measurable factors. The awarding or deduction of points in this category is based on broad topics such as “significant cost increases, additional funding requests, responsiveness, timeliness, compliance with MHDC Asset’s Management Division and consistency over time”. The category does not include any measurement factors, i.e. were cost increases outside the control of the development team, were additional funding requests driven by a reduction in tax credit pricing due to economic conditions, what is Asset Management’s timeliness threshold, etc. This category needs further defining or needs to be eliminated.

2. Of the 30 points allocated to Development Team in Section C, up to 25 of them are allocated to Prior Performance. One consideration listed here is timeliness. Since LIHTC developments which also utilize the historic rehabilitation tax credit program have no control over the extraordinary DED processing times they experience, that can prevent them from meeting other timing obligations; we have numerous reports of developers being forced to extend construction period bond financing while waiting on DED processing, thereby also incurring additional interest costs. More broadly, the development team characteristics criterion, as defined, is subjective and may be open to personal biases. More definitive thresholds – such as whether or not principals been involved in a property with recapture, foreclosure, or returned credits – may be helpful, as well as clear penalties for violators.

**MBE/WBE**

1. There is no M/WBE points in Priority Scoring – Phase II. This must be changed immediately to include scoring for developments that include M/WBE participation.
2. I am writing to express my extreme opposition and concern related to MHDC’s proposed new QAP changes for 2020, changes which will, in effect, significantly reduce, if not eliminate, the ability of Minority and Women Owned business to participate in the 2020 LIHTC program. Without the requirement that sought to warrant the participation of diverse and emerging businesses, there will be no recognizable level of participation. Jobs and business opportunities for many qualified diverse firms will be lost. Without provisions that clearly define and require the presence of diverse businesses interest and employment opportunities, those markets of opportunities will be lost. Therefore, I am asking that MHDC rescind the proposed language and reinstate the 2019 provisions for diversity. In the face of substantial challenges taking place across this country dealing with race, economic parity, jobs and systemic disparity, it seem anomalous that the leadership of MHDC would consider provisions that would harm diverse communities by turning back the clock. MHDC and MOWHA events are more diverse than ever. Because of MHDC diversity policies, minorities and women have had the opportunity to participate in multiple development related disciplines including up to being the developer and consequently the decision makers. MHDC has enjoyed the reputation of being a entity that has engaged in promoting real diversity. However, I do recognize that inclusion is not a word or practice that sits well with all. This program has not hurt the LIHTC program, it has actually helped the state of Missouri by expanding the base by providing jobs and increasing the economic footprint. If anything, MHDC should be expanding the diversity program, not eliminating it. The facts are that without diversity programming, majority owned contractors and developers will continue to function, win projects and contract work to subcontractors and consultants (but generally not to minority or women owned interest), just like they did before. But until the diversity mandated program came along, there were very few minority and women owned firms who participated or were even encouraged to be a part of this program. In major markets like St. Louis and Kansas City, LIHTC project took place before the State's diversity programs came into existence but there was a distinct absence of minority and women owned firms, except where diversity was mandated like St. Louis City and Kansas City. Those who lived in communities of color rarely saw persons like themselves working on these projects. The sad reality was that the State of Missouri fostered the omission of women and minority being able to participate in programs where their tax dollars were at work. That exclusionary practice changed when MHDC incorporated a diversity/emerging business program. The proposed change offered in the 2020 QAP is damming and harmful. I ask that those changes are rejected in favor of retaining the 2019 QAP diversity regulations.

3. Enhance the role of Diversity, Equity, and Inclusion in QAP policies and processes. We are encouraged to see MHDC affirming its commitment to MBE/WBE initiatives. MHDC should consider adopting further goals and QAP policies to advance diversity, equity, and inclusion.

4. Maintaining the 2019 MWBE Inclusion language and minimum MWBE percentage goal of 32%.

5. Track the goals separately-MBE goal achievement (reflective of federal definition of minority groups (African-American, Asian, Pacific Islander, Hispanic and Native American) WBE goal achievement, a minimum of 51% of company owned by a woman. The State of Missouri office of Administration, tracks its goals separately, MHDC should follow its lead in this area.

6. Increase diversity and inclusion accountability efforts by doubling the staff from 1 to 2 people.

7. Include Workforce Diversity Goals to impact more low income people within communities, the LIHTC program has suffered criticism throughout the years for the appearance of only benefiting
the "wealthy developers", this double down approach to touching more non-represented communities could assist in further justifying this program and create larger communities of impact.

8. Sustain 2019 MWBE Inclusion language and minimum MWBE percentage goal of 32%.

9. Include the achievement of Inclusion/diversity goals into MHDC's point's rubric/matrix. MHDC should at a minimum afford 10% points to this section.

10. Track the goals separately-MBE goal achievement (reflective of federal definition of minority groups (African-American, Asian, Pacific Islander, Hispanic and Native American) WBE goal achievement, a minimum of 51% of company owned by a woman. The State of Missouri office of Administration, tracks its goals separately, MHDC should follow its lead in this area.

11. Include Workforce Diversity Goals to impact more low income people within communities. The LIHTC program has suffered criticism throughout the years for the appearance of only benefiting the "wealthy developers". This double down approach to touching more non-represented communities could assist in further justifying this program and create larger communities of impact.

12. Under Underwriting/Selection Criteria, MBE/WBE, the draft states that “MHDC highly encourages MBE/WBE participation in the rental production/preservation application process.” We appreciate MHDC’s ongoing commitment to inclusion of marginalized groups who have faced historical discrimination, and we would hate for this language to be construed as a retrenching of that commitment, particularly given the national climate right now as well as heightened sensitivities locally. We support the previous language that established a specific target for MBE/WBE participation.

13. In today's day and age it is clear that systematic racism exists and is thriving. I believe MHDC should be a leader in the disbandment of systematic racism. The M/WBE priorities and scoring exclusion do not echo those sentiments and should be changed.

14. The Emerging Business Program is a powerful catalyst for creating better opportunities and communities, and the changes to the Program proposed in the 2020QAP is a move in the wrong direction; and warrants our strongest advocacy in opposition.

15. There needs to be some efforts that convened small business development experts, reform groups, and other community stakeholders who spent months discussing confronting issues and contributed to the program’s initial development. The discussions should include the program’s policies; as well as the challenges, opportunities, and ways to move forward and much more.

16. Identify additional ways to further diversify MHDC internally to include: diversity amongst staff (minorities and women), internal agency's procurement, and supplier diversity spend.

17. MBE/WBE Modified language in this section to state “MHDC has an MBE/WBE Initiative to stimulate the involvement of businesses that are Minority-Owned Business Enterprises and/or Women-Owned Business Enterprises. In an effort to continue to promote this Initiative, MHDC highly encourages MBE/WBE participation in the rental production/preservation application process.” This does not promote M/WBE involvement. Why does it seem like the priority has decreased here?

18. If it is the desire of the Missouri Housing Development Commission ("MHDC") to develop a more inclusive program, in which more persons can participate, I believe that the change to the MBE/WBE provisions of the 2020 Qualified Allocation Agreement (QAP) is a step in the wrong direction. The program established participation standards at, a minimum of, 10% for MBEs and
5% for WBEs for both hard and soft costs. You now propose to replace this participation standard with a participation goal. I opened my practice and worked with several developers. I can unequivocally state that the MBE/WBE program has helped my practice. Since its implementation I have worked with several developers who are committed to the program's objectives and without which I may never have had that opportunity. I am truly grateful to those developers who took a chance and found that we could provide a viable alternative. However, I must say that most developers have continued to utilize the same legal service providers, with whom they have worked before the MBE/WBE program. I do not believe that now is the time to reduce the commitment to inclusion and opportunity. Especially without any evidence that the MBE/WBE program has proven to be ineffective or unnecessary. If you have any questions regarding my experience with the MBE/WBE program or if I can assist you in any way, do not hesitate to contact me.

4% LIHTC

1. Encouraging 4% LIHTC for Preservation. We encourage MHDC to do even more to promote the use of the 4% LIHTC to support preservation/rehabilitation transactions in order to reserve other scarce resources like the 9% LIHTC or soft/gap financing for other priority project types which require more subsidy per unit.

2. We also urge MHDC to encourage proactive use of the 4% LIHTC to renovate affordable communities before their capital needs are so significant that they require the use of other scarce resources. To that end, for 4% LIHTC proposals, we would urge MHDC to not impose additional rehab scope requirements beyond what is required under IRC §42(e)(2) and what is warranted by a project’s physical needs assessment. Similarly, we would ask MHDC to clarify that a Preservation Letter is not required for projects seeking only 4% LIHTC (federal/state).

Rolling Application Cycle

1. In particular, we would urge MHDC not to eliminate the rolling application process for proposals which use only the 4% federal and state LIHTC and do not require 9% LIHTC or other MHDC funds. We recognize the need for periodic funding rounds for allocation of scarce resources, but for the 4% LIHTC, which is not a limited resource, the rolling application process adds efficiency and reduces projects’ carrying costs.

Developer Fee

1. We support MHDC’s carefully designed developer fee formula, which makes fair and appropriate adjustments for different kinds of projects and acquisition scenarios. We would urge MHDC to build on this effective policy to allow 4% LIHTC projects which meet the Housing Priorities identified in the QAP, but which cannot take advantage of the discretionary basis boosts available to priority 9% LIHTC projects, to calculate an additional deferred fee up to a total fee of 15% of acquisitions and costs. This policy is consistent with the maximum fee recommended by the NCSHA Recommended Practices in Housing Credit Allocation and Underwriting and would deliver additional 4% LIHTC equity for preservation projects by providing an increase in eligible basis. The increase in LIHTC equity would in turn reduce the need for state funding sources, at no additional cost to MHDC, or increase the rehab dollars
available to preservation projects. In most cases this increase in deferred fee will not increase overall sponsor compensation, because the additional fee is deferred and paid out of cash flow, which already generally flows to the sponsor. In all cases paid developer’s fee should be restricted to the existing QAP formula.

Market Rate

1. We urge MHDC to reconsider the QAP’s significant (10-point) emphasis on market-rate units. This scoring emphasis does not appear to respond to the state’s affordable housing needs, and may divert resources which should be prioritized for affordable units (in cases where market units can’t support debt proceeds in excess of their development costs).

Green Building – Energy Efficiency

1. Reward projects that commit to meeting green building standards. We recommend MHDC consider three changes to the QAP related to third-party standards: (1) adopt the 2020 update to Enterprise Green Communities, (2) require both new construction and rehabilitation projects to commit to achieving a third-party building standard (this is currently only a requirement for new construction), and (2) encourage owners to reach higher levels through a tiered point system for higher levels of certification or achievement. For example Enterprise Green Communities now offers an Enterprise Green Communities PLUS certification for properties that implement deeper energy savings.

2. Encourage performance-based energy savings in rehabilitation projects that seek an allocation of tax credits. In addition to requiring rehabilitation projects to seek an audit to identify cost-effective energy savings measures, MHDC should consider awarding points to applicants who demonstrate that they will incorporate measures identified in the audit to achieve a certain level of energy savings above a pre-retrofit baseline. This will encourage developers to include measures from the audit in their rehabilitation scope and combine technologies to optimize the performance of the building as a whole.

3. Consider requiring or awarding points for benchmarking the energy and water use of properties. Energy is the highest variable operating cost in affordable housing, materially affecting both owners and residents. What’s more, water and wastewater charges have been increasing at well above the Consumer Price Index (CPI) for many years.1 Benchmarking the energy and water performance of buildings will help owners and MHDC to identify needed efficiency improvements and track efficiency investments to see if measures have realized their expected savings.

4. Include incentives for project-specific utility allowances to incentivize energy and water efficiency investments. We appreciate MHDC’s inclusion of the HUD Utility Schedule Model as a project-specific method of calculating utility allowances. We encourage MHDC to consider allowing a high-quality energy consumption model or actual consumption data. These methods provide more specific data and account for cost savings from energy improvements, which can encourage building owners to make investments that optimize building energy efficiency by allowing building owners to recoup some of the investment made to improve the building’s performance. It is important to note that the IRS has issued guidance that no longer requires actual consumption data when creating an energy consumption model. This clarification makes the energy consumption model more accessible to LIHTC properties.
5. Coordinate with the Missouri utilities. We commend MHDC for awarding points for leveraging energy/utility rebates/incentive program funds. We further encourage MHDC to collaborate with Missouri’s gas and electric utilities to help LIHTC owners and managers learn about and access utility energy efficiency programs and incentives, and help improve how utility programs are designed to better reach MHDC-supported housing.

6. Incorporate WaterSense labeled plumbing products in preservation and rehabilitation properties. Fannie Mae’s recent analysis of utility usage by multifamily housing found that the least efficient properties use over six times as much water per square foot as the most efficient properties (twice the spread of energy consumption across the same data set). Thus the opportunities for water efficiency improvements, and associated savings in water and wastewater charges, are substantial. Whether utilities are paid directly by residents, or as is more common, paid by the building owner, improving water efficiency is a key strategy for preserving housing affordability.

7. We recommend two improvements to MHDC’s approach to water efficiency. First, MHDC should require the installation of WaterSense labeled showerheads, lavatory faucets, and toilets to ensure that unnecessary water consumption and its associated utility costs can be avoided. Plumbing products that meet performance criteria set by the US EPA WaterSense program achieve significant water savings while being no more expensive to purchase and install than less efficient products.

8. MHDC should consider requiring documentation that all clothes washers on the premises (either in-unit or common area laundry rooms) are Energy Star qualified. Clothes washing is responsible for about 20% of all indoor residential water use, and a new Energy Star washer can cut water use in half compared to the most common types of washers in use today. Energy Star criteria apply to both water and energy consumption, so all qualified products will be very water-efficient. They are available in a variety of formats, including ADA compliant units.

9. While this was not specifically mentioned as a changed in the 2020 QAP, a discussion should be had on why there is a cap on what an energy consultant can charge on a project basis, whether it is certified or not. I am an energy consultant based in St. Louis and have been in the industry for almost 9 years. Our services do not change on a project that is certified or “following the standard”; however, we are only able to charge $7,500 if the owner decides not to certify. Furthermore; there is the same price cap on projects that have 30 units in St. Louis vs the ones that have 50 units in Joplin. If there is going to be a cap, then it should be looked at on a number of unit basis, not a project as a whole. If we are expected to sign off on the project at the end of construction stating that the project “followed the green criteria,” then we will be conducting all the same site visits, documentation and diagnostic testing that we would as if the project were to be certified.

Compliance

1. Consider applying new tenant screening guidance to reduce barriers to securing housing faced by certain types of applicants with criminal records. This is an area with racial equity implications that is garnering increased attention from housing finance agencies and where MHDC could issue additional guidance that moves beyond default HUD guidance for HUD-subsidized properties. EEFA 16.
2. As you continue to refine Missouri's Qualified Allocation Plan and Developer's Guide, we encourage MHDC to consider applying new tenant screening guidance to reduce barriers to securing housing faced by applicants with criminal records. This is an area with racial equity implications that is garnering increased attention and where MHDC could issue additional guidance that moves beyond default HUD guidance for HUD-subsidized properties. Our agency provides tenant screening service, MyHomeScreen.org, that is both LIHTC and HUD certified.

General Comments

1. With a point based scoring system, the quality of products from an architectural long term benefit to a project WILL BE reduced if the quality is reduced to merely score better. I lived thru the disaster of HUD’s Cost Containment period in my career. It didn’t work. We need to strive for high quality buildings that will perform well and reduce the resident’s ongoing operational costs.

2. In reviewing the MHDC 2020 Draft QAP Summary of Changes, the MHDC staff is taking another step toward a full point driven system for awarding LIHTC’s instead of a hybrid system in which applications are evaluated for a basic score to determine that a proposed development meets the Commission’s minimum standards and upon passing that threshold are evaluated more in depth with the goal of using the LIHTC as a financial incentive for the creation and maintenance of quality “market-appropriate” affordable housing that strengthens the communities and lives of Missourians. The revised point system will lead to developments that are more at risk for financial failure due to higher leveraging, lower construction quality, and locations that are based on 4 year old pre-Covid 19 data. In the current environment, MHDC should maintain the point threshold at or lower than the 2019 QAP so that staff can evaluate each application for the quality it proposes and that it meets a current need.

3. Inclusion of or revision of any scoring category needs to be done based on careful analysis as it leads to a broad conclusion which may not be appropriate for a specific community, even though that community has a critical need for additional affordable housing. This is why the scoring rubric needs to be kept as a hybrid so that MHDC staff and Commissioners can make informed decisions based on a community’s needs.

4. The section on Reasonable and Competitive Contracts is ambiguous; it applies to both hard and soft costs. MHDC already requires copies of subcontractor bids and most deals require a construction cost certification. Soft costs can vary but it would be helpful if MHDC stipulated a range for things like architect, HERS rater/sustainable design and historic consulting. Other state HFAs do and it could help contain cost. If developers can’t pay an architect more than 6% of hard cost subject to defined scope, they could use that leverage to negotiate fee.

5. Members believe the market should determine pricing. If an application’s pricing is below an acceptable range then the market has rejected that application, and MHDC should not arbitrarily increase the pricing, but instead not award it. Investors should determine the investment potential of a property. A point system could exclude any properties that are below MHDC thresholds. Some of our members would be interested in consideration of a return-based model, which would be simple to calculate and less easily misconstrued by external parties.

6. It is highly unusual for a state HFA to reject a competitively solicited contract price for the purchase of a Section 8 property. This both a) reduces the value of property in Missouri, and b)
makes it unlikely that sub-standard properties are not improved. Can MHDC explain its rationale?

7. The site analysis by the state is highly subjective and may be open to personal biases. A transparent process of presentation, analysis, and judgement may improve the process.

8. Other than ensuring the property has been built according to approved plans, it is unusual for an agency to be so involved in the construction process. MHDC might be able to save money and staff time by reducing its role in this realm. With regard to change orders, these are a common part of developing a property; members wonder why they are treated as highly suspect and require advance agency approval when this is typically an owner/contractor decision.

9. Thank you very much for all of the work you did in helping to restore the Low Income Housing Tax Credit in Missouri. This much needed project will help create housing security for low income Missourians and much needed employment for people in Missouri.

10. Extend the Qualified Allocation Plan (QAP) comment period and improve the stakeholder engagement process. We appreciate MHDC staff’s willingness to meet and engage with stakeholders to discuss QAP feedback. However, we recommend that the comment period for the draft QAP include the public release of the full draft QAP and a comment period of at least 30-60 days, in order to provide a wide array of interested entities and individuals with adequate time to analyze the plan content, ask questions, and respond with comments. The QAP release date and timeline for comments should be announced well in advance. A more accessible stakeholder engagement process will enable more voices to be heard, which is likely to result in a final QAP that more broadly and fully reflects the diversity of entities and individuals with a stake in Missouri’s affordable housing decision-making.

Questions 2020 Draft QAP and Developer’s Guide

General Questions

1. Site Location – The rent burdened household data in the 5-year plan seems to be substantially different than the CHAS data. Will revised scoring thresholds for each point category be offered as well?

2. Under “Credit Types and Availability,” the draft states that “State LIHTC equal to 70% of the available Federal LIHTC allocation amount may be authorized under this Plan.” Will every successful application receive 70 cents of each federal credit dollar per deal, which would seem to be the simplest formula? Or will some applications receive, say, 50% while others get, say, 90%?

3. Under Notice of Funding Availability, the draft states that language referencing 4% applications that do not include a request for other MHDC administered funds has been removed, eliminating the submission of “Rolling Applications.” Does that mean 4% credits will be awarded all at once, annually, going forward? Since there may well be interest in applying for credits with
no additional MHDC resources – why not retain the possibility of accepting applications on a rolling basis?

4. Under “Home CHDO Set-aside,” can MHDC explain the reasoning behind the 50% increase?

5. Under “Preservation,” the draft states that all projects must have a MHDC preservation letter to qualify for the Preservation Priority. Does this mean that only previously MHDC-funded deal may qualify? If a developer already has a preservation letter from HUD letter, is it necessary to also obtain an MHDC letter?

6. Under “CDBG-DR,” the draft states that allocation of 2020 CDBG-DR funding locations will only include Van Buren’s 63965 zip code and Jefferson City’s 65101 zip code. Why were the other areas removed from last year? Given the very short time to prepare a competitive and thorough development, there are concerns this may unjustly render proposed developments in the removed areas suddenly uncompetitive.

7. Under “General Scoring, Phase III, Income Targeting,” the draft states that proposals selecting the Income Averaging set-aside are ineligible for points in the Income Targeting category. Might this have the effect of eliminating the income-averaging set-aside from MO deals? Or is the modification simply a way to clarify that an applicant cannot get points under Income Targeting if the applicant is electing to income-average?

8. Under “Site Location,” the document adds an additional category that pertains only to developments in the Rural Area, offering an additional five (5) points if located in a “Rural Underserved County” as defined by MHDC. To clarify, are “Rural Underserved Counties” those that fall into the rural-non MSA area as defined in the “Geographic Region” section under “D., Underwriting/Selection Criteria”?

9. Can MHDC clarify the best way to calculate projected Medicaid savings for senior developments?