



Strength, Dignity, Quality of Life

MISSOURI HOUSING

DEVELOPMENT COMMISSION

Income-Averaging: 2019 Application

Presented by MHDC Staff | August 27, 2019

Housekeeping

- ▶ Attendees will be in “listen-only” mode.
- ▶ If you have questions during the webinar, you may submit them through the questions pane.
- ▶ Questions submitted through question pane will not be addressed during webinar. FAQ will be published after the webinar, some questions may be addressed at the Application Workshop.
- ▶ Slides will be posted at www.MHDC.com.
- ▶ Application Workshop Thursday, August 29 at Stoney Creek Inn in Independence, Missouri.

Agenda

- ▶ What is Income-Averaging?
- ▶ General Policy
- ▶ Application
- ▶ Approved Developments
- ▶ Compliance
- ▶ Next Steps

What is Income-Averaging?

- ▶ Income-averaging is a new, third, minimum set-aside option for the federal Low-Income Housing Tax Credit (LIHTC) developments.
- ▶ Enacted in March 2018 through the Consolidated Appropriations Act of 2018, or the Omnibus bill.
- ▶ Income-Averaging, or the Average Income (AI) minimum set-aside, requires at least 40% of units in a project to be rent restricted and have household income limits that average at or below 60% area median gross income (AMGI).
 - ▶ Income limits are designated in 10% increments from 20% to 80% AMGI.
- ▶ The AI minimum set-aside is applied to the designated income/rent levels of the units, not the tenant households.

General Policy

- ▶ The AI minimum set-aside election will not be allowed for resyndicated developments.
- ▶ Skewing the unit configuration, where unit AMGI designations are not reasonably distributed throughout the development, will not be allowed in the initial unit designations and throughout the affordability period.
- ▶ Income averaging will be allowed to range from 30% to 80% AMGI.

General Policy (cont.)

▶ Bond Developments:

- ▶ Bond-financed developments minimum set-asides have not changed, and remain 40/60 or 20/50.
- ▶ The AI may be used with Tax-Exempt Bond developments if the development meets both the bond and the LIHTC requirements.

▶ Use with other Program Funding:

- ▶ Calculation methods for income/rent limits for LIHTC units may not align with other programs, specifically HOME and the NHTF.
- ▶ MHDC will monitor units for the most restrictive applicable funding source.

Example – Multiple Funding Sources

Bedrooms	LIHTC Rent Limits						<i>HTF Program Rents</i>
	30%	40%	50%	60%	70%	80%	
0	306	408	510	612	714	816	312
1	327	437	546	655	764	874	367
2	393	524	655	786	917	1,048	533
3	454	605	756	908	1,059	1,211	699
4	507	676	854	1,014	1,183	1,352	864
5	559	745	931	1,118	1,304	1,491	1,030

Information from Joplin/Jasper County - 2019

Application

- ▶ Designate in the application what minimum set-aside election will be made on IRS Form 8609.
- ▶ Acknowledge the minimum set-aside election made on the application is irrevocable.
- ▶ Acknowledge that if AI is the minimum set-aside election, the ownership entity must also elect that all buildings in the applicant's development are "part of a multiple building project" on IRS Form 8609.
- ▶ Acknowledge that if a development:
 1. Contains market units; and
 2. Intends to operate the development under the AI set-aside, the development must submit a legal opinion letter before firm commitment that the proposed unit mix is in compliance with the Code.

Application

- ▶ Submit a statement from the proposed management company, acknowledging the intent to operate the development under the AI minimum set-aside.
- ▶ Submit statements from all permanent non-MHDC funding source acknowledging the intent to operate the development under the AI minimum set-aside.

Application

▶ Market Study

- ▶ Must support the operation of the development under the AI minimum set-aside.
- ▶ Must establish LIHTC rents for all proposed unit types and rents at all AI minimum set-aside levels.

▶ Unit AMGIs

- ▶ Designated at application
- ▶ Should have a proportionate percentage of units at the various proposed income levels.
 - ▶ An explanation must be provided in the Exhibit A if it is appropriate to target specific unit sizes to targeted populations.

Approved Developments

- ▶ MHDC Form 3345 – Plan Review Worksheet
 - ▶ All rent bands updated, finalized at firm.
- ▶ AI Minimum Set-Aside Trainings
 - ▶ Certification of additional training must be provided by the management company prior to lease-up of the development and going forward every two years
- ▶ Refer to MHDC Program Training Requirements Notice on MHDC website
http://www.mhdc.com/program_compliance/documents/MHDC%20Program%20Training%20Requirements.pdf

Compliance

Management Policies and Leasing Criteria

- ▶ Development Responsibilities:
 - ▶ Provide a summary of compliance tracking plan and systems as part of their Firm Commitment.
 - ▶ Describe in their lease and tenant selection criteria how units will be leased.
 - ▶ Inform applicants of the set asides that the Development offers.
- ▶ Management Company Responsibilities:
 - ▶ Maintain, and regularly update, a list indicating AI set-aside unit designations.
 - ▶ Keep compliance plan and average income tracking systems and reports available on site at all times, including during compliance inspections.

Compliance

Floating Units

- ▶ Allowed to float:
 - ▶ Unit Designations
 - ▶ AMGI designations (reviewed annually)
 - ▶ Bedroom sizes (reviewed annually)
- ▶ MHDC reserves the right to enforce a remediation plan if MHDC determines that the development has deviated from the approved development plan.

Skewing Example

The diagram illustrates two building footprints, each represented as a house with a green roof. The left building has six units (101-106) with 40% values, while the right building has six units (201-206) with 80% values. The units are arranged in a 3x2 grid within each footprint.

Unit 101 40%	Unit 102 40%
Unit 103 40%	Unit 104 40%
Unit 105 40%	Unit 106 40%

Unit 201 80%	Unit 202 80%
Unit 203 80%	Unit 204 80%
Unit 205 80%	Unit 206 80%

Skewing Example

The diagram shows two buildings, each with a 2x2 grid of units. The left building has units 101, 102, 103, and 104. The right building has units 201, 202, 203, and 204. Percentages are shown in blue for units 101, 102, 103, and 104, and in orange for units 201, 202, 203, and 204. A large red X is drawn over the entire diagram.

Building 1		Building 2	
Unit 101	Unit 102	Unit 201	Unit 202
40%	40%	80%	80%
40%	40%	80%	80%
40%	40%	80%	80%
40%	40%	80%	80%

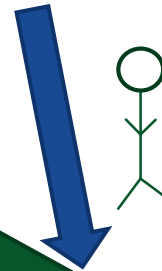
Compliance

Vacancy Tracking

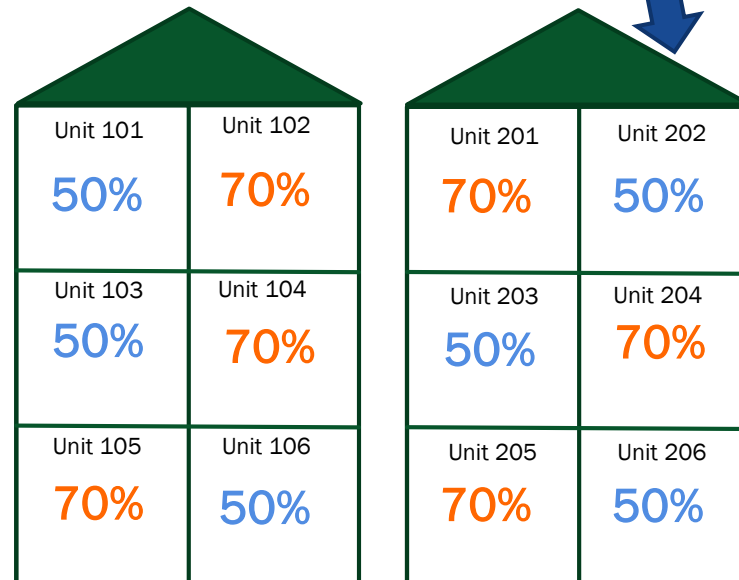
- ▶ Maintaining 60% AMGI by Tracking Unit Vacancies
 - ▶ Developments must maintain separate waiting lists for each of the AMGI designations offered.
 - ▶ Vacancies should be filled from the waiting list corresponding with the previous income/rent AMGI designation of that unit.
 - ▶ If there are no prospective tenants within the correct AMGI designation, the unit may be filled by the next tenant within the 20% deviation of the AMGI unit designation.

Example 1: Waiting Lists

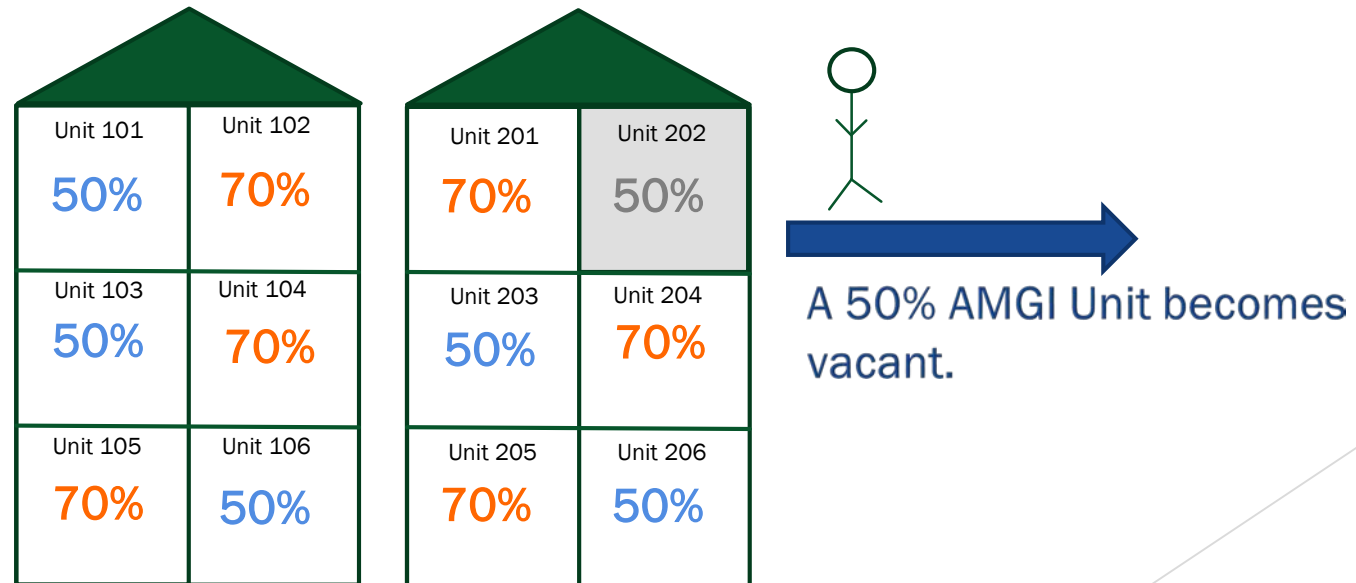
Waiting Lists



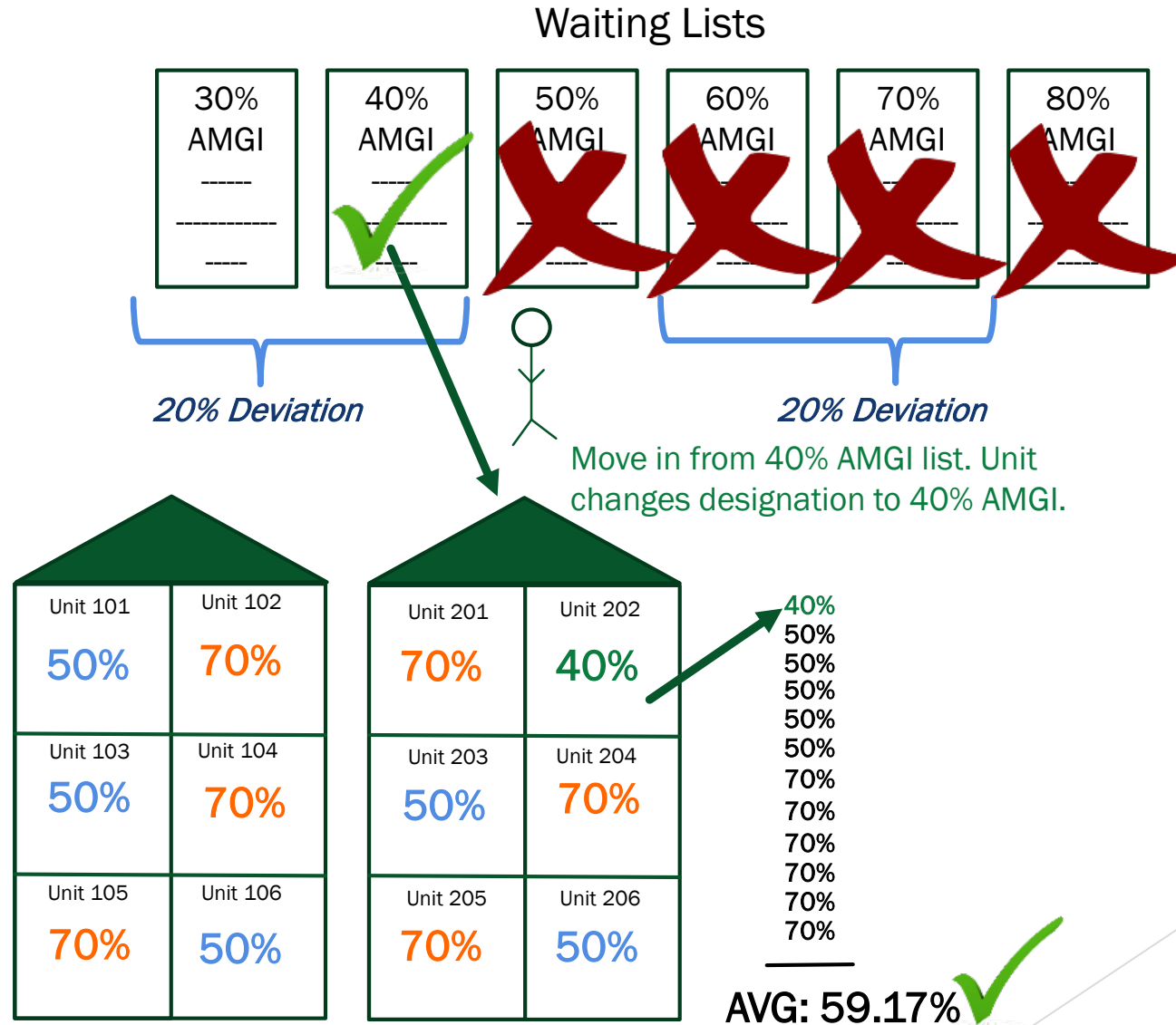
The 50% AMGI Unit is filled by someone off of the 50% AMGI waiting list.



Example 2: Waiting Lists



Example 2: Waiting Lists



Compliance

Next Available Unit Rule

- ▶ This rule is the same and follows Section 42 requirements:
 - ▶ If there is an increase in the income of the occupants of a low-income unit above the income limitation applicable under Section 42(g)(1), as determined by the minimum set aside elected by the Owner, such unit shall continue to be treated as a low-income unit if the income of such occupants initially met such income limitation and such unit continues to be rent restricted.
 - ▶ If the income of tenants of a low-income building in the project increased above 140% of the applicable income limit (or 170% for deep rent skewed projects), the next available unit of comparable or smaller size in the building was or will be rented to tenants having a qualifying income.
- ▶ Leasing to an over-income household does not automatically increase the unit's income percentage designation.
- ▶ MHDC will not allow for the upward redesignation of units after initial income qualification.

Compliance Reporting

- ▶ Developments are required to report on their average income set aside tracking.
 - ▶ Asset Management Reporting System (AMRS) – Monthly Reports are due on the 10th of the following month (the same reporting schedule as occupancy reporting).
 - ▶ Certification Online (COL) – Annual Reports are due based on the designated reporting period of the property.

Compliance

Minimum Set-Aside

- ▶ AI Election Requirements:
 - ▶ Must be met no later than the end of the first year of the credit period.
 - ▶ At all times, the average income and rent of the **occupied units** must not exceed 60%.
 - ▶ Developments that do not meet the 60% AMGI average income set aside at the end of the first year of the credit period, do not meet the minimum set test.
 - ▶ Failure of a minimum set aside test is reportable on a Form 8823.
- ▶ Example: If a 100 unit development only has 80 units occupied, then those 80 units must meet the minimum set aside of 60% AMGI by the end of the first year of the credit period.
 - ▶ Still must meet applicable fraction on a building-by-building basis

Compliance

Household Above Income Limit at Move-In

- ▶ Ensure all units meet their income designations at the time of initial occupancy.
- ▶ If a household is determined to be above income limit upon initial occupancy, that unit is out of compliance (it is not considered a minimum set-aside failure).
 - ▶ Noncompliance is reportable on Form 8823.
 - ▶ Leasing to an over-income household does not automatically increase the unit's income percentage designation.

Example 3: Above Income Limit

EXAMPLE:

2 Buildings; 12 Units

6 Units @ 50% AMGI

6 Units @ 70% AMGI

Average: 60 % AMGI

Affordability Period Unit Designations

Unit 101 50% <i>Unqualified</i>	Unit 102 70%	Unit 201 70%	Unit 202 50%
Unit 103 50%	Unit 104 70%	Unit 203 50%	Unit 204 70%
Unit 105 70%	Unit 106 50%	Unit 205 70%	Unit 206 50%

50%
50%
50%
50%
50%
50%
70%
70%
70%
70%
70%
70%

AVG: 60 %

Unqualified Unit is an 8823 violation !

Example 3: Above Income Limit

Unqualified Unit is an 8823 violation !

EXAMPLE:

2 Buildings; 12 Units

6 Units @ 50% AMGI

6 Units @ 70% AMGI

11	Check the box(es) that apply:	Out of compliance	Noncompliance corrected
a	Household income above income limit upon initial occupancy	<input type="checkbox"/>	<input type="checkbox"/>
b	Owner failed to correctly complete or document tenant's annual income recertification	<input type="checkbox"/>	<input type="checkbox"/>
c	Violation(s) of the UPCS or local inspection standards (see instructions) (attach explanation)	<input type="checkbox"/>	<input type="checkbox"/>
d	Owner failed to provide annual certifications or provided incomplete or inaccurate certifications	<input type="checkbox"/>	<input type="checkbox"/>
e	Changes in Eligible Basis or the Applicable Percentage (see instructions)	<input type="checkbox"/>	<input type="checkbox"/>
f	Project failed to meet minimum set-aside requirement (20/50, 40/60 test) (see instructions)	<input type="checkbox"/>	<input type="checkbox"/>
g	Gross rent(s) exceed tax credit limits	<input type="checkbox"/>	<input type="checkbox"/>
h	Project not available to the general public (see instructions) (attach explanation)	<input type="checkbox"/>	<input type="checkbox"/>
i	Violation(s) of the Available Unit Rule under section 49(c)(9)(D)(ii)	<input type="checkbox"/>	<input type="checkbox"/>

50%	70%	50%	70%	70%
Unit 105	Unit 106	Unit 205	Unit 206	70%
70%	50%	70%	50%	70%
<hr/> AVG: 60 %				

Compliance

Annual Recertification

Which Developments do an Annual Recertification?

- ▶ 100% LIHTC properties with no other MHDC funding and no market rate units.
 - ▶ Data may be submitted on an Exhibit U (LIHTC Annual Resident Certification) after the required first-year annual recertification with approval from Asset Management.
- ▶ 100% LIHTC Properties wishing to adjust rent downward, which may be granted if:
 - ▶ It is in accordance with all applicable lease terms.
 - ▶ The income level of the household changes.
 - ▶ The unit's AMGI designation changes.
 - ▶ 60% AMGI Income Average is maintained.

Compliance

Rent Increases

- ▶ MHDC's Rent Increase Policy:
 - ▶ Will be facilitated pursuant to MHDC's rent increase policy.
 - ▶ Rent levels and rent bands will be established initially in the market study, and confirmed at Firm.
 - ▶ At Firm Commitment, MHDC Form 3345 will determine approved rent levels for future rent increases and unit deviations.
 - ▶ MHDC will input the approved AMGI designations in to AMRS.
 - ▶ Developments can track the range for every potential income and rent level in AMRS.

Rent Bands

1 Bd (A)

AMGI	Base Rents
30%	325
40%	430
50%	540
60%	650
70%	760
80%	870

1 Bd (B)

AMGI	Base Rents
30%	327
40%	437
50%	546
60%	655
70%	764
80%	874

2 Bd (A)

AMGI	Base Rents
30%	390
40%	520
50%	650
60%	780
70%	915
80%	1,025

2 Bd (B)

AMGI	Base Rents
30%	393
40%	524
50%	655
60%	786
70%	917
80%	1,048

Example 4: Rent Increases

2 Bedroom Units

AMGI	Base Rents	% Difference	% Of 60% AMI
30%	390	-50%	50%
40%	520	-33%	67%
50%	650	-17%	83%
60%	780	0%	100%
70%	915	17%	117%
80%	1,025	31%	131%

AMGI	Increase Rents	% Difference
30%	398	-50%
40%	530	-33%
50%	663	-17%
60%	795	0%
70%	933	17%
80%	1045	31%

Next Steps

- ▶ Frequently Asked Questions (FAQ) – On website
- ▶ Application Workshop – August 29, 2019
- ▶ Application Due Date – September 27, 2019

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