MOWHA

MISSOURI WORKFORCE HOUSING ASSOCIATION

To: MHDC Leadership
From: Missouri Workforce Housing Association
Contact: Jeff Smith, MOWHA (314) 323-0915 (m)
Date: December 4, 2017
Re: QAP feedback

I. **First and foremost, MOWHA would like to express vehement disagreement with the proposed "federal credits only" Qualified Allocation Plan.** The rhetoric of those backing this proposal has distressed the entire affordable housing community – from developers to advocates and residents. Below are some reasons for the distress:

   A. **A QAP without state credits will reduce the number of units built by at least one-third at a time when the need for affordable housing is more acute than ever.**

   Missouri has long assisted seniors, veterans, low-income families and the disabled secure safe, quality affordable housing to remain productive and independent. For 25 years, we have achieved this policy goal via the state low-income housing tax credit. As baby boomers age (and Missouri's population is aging even faster than the rest of the nation), our veteran community grows, and the disabled face serious challenges, the need for affordable housing will continue to increase.

   Current affordable housing waitlists in St. Louis City, St. Louis County, and Kansas City Housing Authorities waitlists range from 4,000-25,000 people; lists in smaller counties often exceed 1,000. Nearly all of the county waitlists are so full that they are closed to new applicants. Another study counted 16,000 homeless schoolchildren, excluding kids age 0-5.

   B. **Without state credits, most rural deals will not work without substantially higher rents.** This will not only deny thousands of people a safe, decent, affordable home, but **will deepen the state's already stark urban-rural divide.** While urban developers may be able to access additional resources such as municipal government loans, rural developers will be unable to make deals work.

   C. **Contrary to the rhetoric of those proposing to eliminate state credits, LIHTCs are the most efficient way to finance affordable housing development**.

The Governor's Tax Committee proposed using forgivable loans to finance affordable housing. But tax credits are more efficient as they're less taxable. Forgivable loans would cost the state up-front, creating a huge short term fiscal note.

Proponents of "federal credits only" make outdated, misleading statements like "only 42 cents of each dollar goes into housing" and suggest that their magic wands can make federal taxes disappear. First of all, market pricing is currently 56-58 cents. Second, pricing takes into account 1) federal taxes; and 2) decreased value of credits in years 2-10 due to inflation (i.e., time value of money). That the credits sell for 58-59 cents is a sign of efficiency, not waste.

D. Again, contrary to the overblown rhetoric, investors are making reasonable returns.

Investors paying 58 cents for a 10-year stream of credits that don't begin paying out until 3 years after purchase are making a pre-tax 8.6% return on an unsecured loan. Historically, an investor would fare much better with less hassle and worry investing in the S&P 500, or nearly as well with worry-free U.S. Treasuries.

E. LIHTCs minimize risk to state taxpayers; state loans load risk onto taxpayers

If the state substituted forgivable loans for state credits as proponents of the "federal credits only" regime have proposed, taxpayers would incur 100% of the risk. Currently, the state incurs no risk because investors provide up-front money and additional capital if the project becomes distressed. Credits don't flow until units are leased according to stringent guidelines, and are recaptured if projects fail to comply. There would be no way to "recapture" a state loan to a developer whose project fails.

F. **LIHTC developments create unrecognized cost savings elsewhere in the budget.**

Given local governments' cost providing emergency care for feeble seniors and disabled people in dilapidated homes, many expenses are never incurred, and lives are saved, when emergencies are spotted earlier in a large community with on-site support services.

Senior projects are an especially wise use of tax dollars because of Medicaid savings from reduced nursing home use. LIHTCs helped build an average of 800 new senior units annually. Of those, over 40% of residents can avoid nursing homes thanks to special services provided in LIHTC units. Nursing home units costs the state $29,871 per unit annual, while the annual LIHTC allocation per senior unit is $7,773. Multiplying this difference by the number of seniors diverted demonstrates that tax-credit senior housing saves the state $7.4M annually.

Homeless veterans are another key constituency LIHTC supports. LIHTC helps groups like The Salvation Army to build affordable housing with on-site support, sparing government from delivering costly mental health and medical services to veterans struggling with PTSD and substance use issues.

II. AHAP

We are perplexed by the Commission's proposed prohibition on the use of Affordable Housing Assistance Program ("AHAP") tax credits for housing production purposes. AHAP provides donors with $0.55 in Missouri tax credits for every dollar of charitable contribution donors make to eligible tax exempt organizations. The contributions are then used in the financing of affordable housing. This translates into the State receiving $1.82 in affordable housing investment for each tax credit dollar spent, which is a great deal for the State.

And, if the State LIHTC is disallowed under the 2018 QAP, there would be no "layering" of State tax credits when using AHAP credits with Federal LIHTCs. Does MHDC want to give up $1.82 in affordable housing investment for each dollar it spends in tax credits and stop encouraging charitable contributions for affordable housing?

Proponents of the "federal credits only" regime have argued that not enough of each dollar goes into housing construction. It is certainly difficult to square that claim with the new AHAP rule which eliminates arguably the most efficient tool available to leverage private investment.

III. Other specific issues

(QAP language is highlighted in yellow; MOWHA feedback is boldfaced.)

In section II. Standards

– Development Standards

Added a section: "All applications for MHDC funding must establish the development will include sufficient broadband infrastructure in accordance with Narrowing the Digital Divide. Through Installation of Broadband Infrastructure in New Construction and Substantial Rehabilitation of Multifamily Rental Housing, 81 FR 92626 (the "HUD Broadband Rule").

By not limiting the new broadband standard to projects that receive HUD funding, MHDC appears to exceed the scope of the HUD rule.

– Underwriting Standards

Revised the guidelines on maximum consultant fees to read: "If the consultant is not providing development guarantees, whether to any lender or any other partner or member of the ownership entity, then the maximum allowable consultant fee cannot exceed thirty percent (30%) of the total developer fee."

We do not understand the rationale for this. If the proposal doesn't change the total developer fee, what is MHDC's impetus to intervene? In other words, why should MHDC concern itself with the division of the fee between development partners?

That some nonprofits doing LIHTC deals lack the financial wherewithal to either (a) have lenders and investors accept a guaranty from them, or (b) that lenders and investors are accepting guaranties from nonprofits who lack sufficient assets to back them up, is problematic from a safety and soundness perspective. It is unusual to expect a consultant to provide guaranties for its clients or limit its fees to an arbitrary amount. In fact, in some cases nonprofits with very limited capacity rely on the consultant for most (if not all) of the work even as the nonprofit receives most of the fee. If they truly lack the assets to back up a guaranty, then they are taking little risk, because no one will sue them.

Added: "Service Escrow - If the developer proposes an escrow for services, and that escrow is not funded by a grant specific to the development services, the developer must contribute at least 50% of the escrow amount from the developer fee. Developments requesting priority status will be reviewed on a case by case basis and extent of services will be taken into consideration. Developments offering services, but not selecting the priority and not receiving a services grant, will be one hundred percent (100%) developer funded and should be deducted from the Developer's Fee."

If an applicant is not applying under the "service priority" and wants a service escrow, it must be funded entirely from the developer fee. This discourages building a service escrow into the project. If MHDC is concerned that some have proposed overly high service escrows, why not limit the amount allowed without developer fee contribution?

III. Reservation Process

--Housing Priorities

In the Special Needs section,

"Rents should be as affordable as possible to special needs households. Affordability can be accomplished through project-based or tenant-based subsidies. The Lead Referral Agency is responsible for coordinating tenant-based rental assistance with service providers or governmental agencies, whenever necessary and possible. In the absence of project-based or tenant-based assistance, the owner should consider other methods to ensure rents are affordable to special needs households. If proposed rents for special needs units are above 30% AMI rents, the applicant must provide evidence that special needs tenants will qualify at 30% of their income for the special needs unit proposed rents. In no circumstance should special needs tenants pay more than the greater of 30% AMI rents, or 30% of their income towards rents."

The QAP reads: "Affordability can be accomplished through project-based or tenant-based subsidies." However, receiving a project-based subsidy is very rare.

Assuming the tenant-based subsidies are not vouchers, which all LIHTC properties must accept under all circumstances, then are developers expected to fund the tenant-based subsidies out of developer fees? This could be a potential use for NHTF money, but lenders and investors will be skittish about appropriation risk.

In the Service Enriched Section,

Added “Veterans” to the list of targeted populations.
Added a priority: Independence Enabling Housing Units
Added a Veteran’s Housing Priority

This now adds up to 14 Priorities in the QAP:

1. Nonprofit Involvement Set-aside (required by IRS Code)
2. Special Needs (eligible for up to 30% basis boost)
3. Service-Enriched Housing (eligible for up to 30% basis boost)
4. Preservation (eligible for up to 30% basis boost)
5. MBE/WBE
6. Property Disposition
7. Compliance Period and Affordability (agree in advance to waive opt out of LIHTC LURA)
8. 50% AMI (at least 15% of total units at 50% AMI, as revised by 2018 QAP)
9. Workforce Housing (eligible for up to 30% basis boost)—15-25% of total units are at 60-80% AMI, as revised by 2018 QAP
10. Transit Oriented Development (eligible for up to 30% basis boost)
11. Redevelopment Plan
12. Opportunity Areas
13. Independence Enabling Housing Units (eligible for up to 30% basis boost)—NEW for 2018.
14. Veteran’s Housing (eligible for up to 30% basis boost)—NEW for 2018.