

Housing Tax Credit Allocation and Compliance Briefing



Overview

- o Compliance
- o 2010 Funding Round Activity
- o Navigating the Housing Tax Credit
- o 2011 Draft Qualified Allocation Plan

MSHDA Compliance Monitoring

www.michigan.gov/mshda

Select "Property Managers", then "Compliance for Rental Housing".

• Elimination of Recertifications

- LIHTC requires the eligibility of all tenants to be certified via third party verification of all household income and assets.
- This option eliminates the need to recertify the income of every tenant on an annual basis.
- Initial move-in certification and first anniversary recertification are still required. Self-certification of income thereafter.
- Available only to LIHTC projects with 100% applicable fractions.
- Not available to projects:
 - Less than 100% applicable fraction;
 - MSHDA bond-financed projects;
 - Placed in service for less than one year; or
 - Uncorrected noncompliance.
- Must be pre-approved by MSHDA compliance monitoring before eliminating recertifications.

2010 Credit Ceiling Breakdown


- o \$21M credit ceiling composed of:
 - o \$8.4M (40% Anticipated Exchanged)
 - o \$5.25M (2009 Nov. Rolling Round)
 - o \$7.35M available for 3/1 Round

November 2, 2009 Rolling Round

- o Opened November 2, 2009
- o Closed February 26, 2010
- o 10 projects applied
- o Approx. \$7M credits requested
- o 5 projects awarded thus far
- o Approx. \$2.8M awarded thus far
- o All 5 projects are Pres. Projects


March 1, 2010 Funding Round

- o Approx. \$7.35M available credit
- o 39 projects applied on or before 3/1/2010
- o Withdrawal Opportunity/Fee Refund
- o 8 projects withdrew from Round
- o 31 projects currently in the Round




March 1, 2010 Funding Round

- o Of those 31 projects
 - 26 are in the General Round
 - 5 are in the Permanent Supp Hsg Set-Aside
 - 17 are preservation projects
 - 2,197 total units
 - Approx. \$280M of Total Development Costs
 - Approx. \$24M of total credit requested
 - Self Scores Ranging from 355 to 200 in General
 - Self Scores Ranging from 227 to 127 in PSH



March 1, 2010 Funding Round

- o 23 projects applied with Hard Equity
 - 8 Rural Projects
 - 8 Projects in Detroit
 - 7 Projects with nonprofit sponsors



Hard Equity in 2010 Rounds

- o 100 points in General Round
- o Min. Threshold for Rolling Round
- o Requirements:
 - Binding Commitment
 - o Identifying Syndicator/Investor
 - 6% Nonrefundable Fee
 - Must close on Equity within 60-days of Reservation issuance (see QAP for requirements)

March 1, 2010 Funding Round


- o 24 projects requested 9% Equity Support Funding (17 hard equity)
- o Total requested Equity Support = \$40.4M
- o Beginning to invite applications soon for certain projects

March 1, 2010 Funding Round

- o Timeline
 - o March 1, 2010
 - o Application due date
 - o Review of Applications, Market Studies, Environmental Studies
 - o Early May 2010
 - o Begin Inviting Applications for 9% Equity Support for certain projects
 - o Mid-Late May 2010
 - o Award Determinations


Navigating the Housing Tax Credit Allocation Process






Applying for LIHTC

- o Qualified Allocation Plan
 - o Required under IRC Section 42(m)
 - o Must set forth criteria to determine housing priorities
 - o Must preference
 - o Projects serving the lowest income tenants
 - o Projects serving qualified tenants for the longest period of time
 - o Projects located in a Qualified Census Tract and the development of which contributes to a concerted revitalization plan



Applying for LIHTC

- o 9% competitive process
 - o Complete application and all exhibits must be submitted on or before the application due date.
- o 4% tax exempt process
 - o Applications are accepted year round and must be accompanied by Addendum I and the MSHDA Staff Report.



Applying for LIHTC

- o Demonstrate satisfaction of all **threshold and point** criteria
 - o Review the QAP to ensure threshold criteria are properly addressed
 - o Review the Scoring Summary to ensure point criteria are properly addressed
 - o Submit up-to-date forms as required
 - o Underwriting standards
 - o Consistency between exhibits and application

What Happens After an Award of LIHTC is Made

- Reservation
 - ✦ Hard equity deadline must be satisfied
- Commitment
 - ✦ 120 days from the date of Reservation
- 10% Carryover
 - ✦ One year from the date of Reservation
- **Regulatory Agreement**
- **8609s**

The Final Stages: Regulatory Agreement

Record and return the LIHTC Regulatory Agreement to MSHDA. This may be done independent of a request for Form 8609

- ✦ Must submit request by November 1st in order to allow for recording by December 31st of the calendar year
- ✦ Documents required for issuance: updated application pages, a legal description of the property, evidence of land control, and documentation evidencing formation of the ownership entity
- ✦ Staff will review the project for feasibility and consistency among the documents
- ✦ Changes to site control as the development evolves should be documented. Staff will verify that an environmental review has been completed for the new site.

The Final Stages: Form 8609

- In conjunction with or following issuance of the Regulatory Agreement a request to issue Form 8609 may be submitted to MSHDA
- Staff will begin the review once the *complete* exhibit package is submitted
- All sources of financing must be evidenced in the application and be accompanied by supporting documentation
 - ✦ A copy of the recorded mortgage and corresponding note
 - ✦ Grant agreements
 - ✦ Subsidy agreements (IRP, Interest Credit Subsidy, PBRA)
 - ✦ Equity from credit sources other than LIHTC

The Final Stages: Form 8609

- Submit a copy of the executed limited partnership agreement along with all amendments and attachments
- The owner's and contractor's cost certification must be completed according to audit standards
 - Staff will review contractor's cost certification to verify that it reconciles with the owner's cost certification
 - Owner's cost certification should identify all permanent sources of financing and non-LIHTC equity sources
 - Application pages should be updated to reflect the figures identified in the owner's cost certification
- Verify that the Determining Qualified Basis Worksheet included in Addendum I is completely and properly filled out
- All fees must be received by MSHDA
- Underwriting and feasibility
- Review the exhibit checklist to ensure that all other required documents are submitted in the manner required

Resources to Get Started

www.michigan.gov/mshda

- ↳ Developers and Contractors
- ↳ Low Income Housing Tax Credits

Take the opportunity to ...

- Read the most recent Qualified Allocation Plan
- Review the allocation process and required forms
- Check for updates to the LIHTC program

... and improve your application and expedite processing time.

2011 Qualified Allocation Plan

A quick look at some of the proposed changes

Current Status & Timeline

- Draft published first week of May
- Public Hearings to be held May 18th
 - ✦ Lansing, Detroit, & Grand Rapids
- Approval at June Board Meeting
- Rolling Round beginning 10/1/10
- Competitive Round 3/1/11

Hard Equity Commitment Requirements

- Increased the amount of time a project has to close on its partnership agreement to 75 days
- More extensive minimum requirements have been set to document Hard Equity
- Increased points available from 100 points to 125 points

Equity Letter of Interest Threshold

- Investment community feedback:
 - ✦ adds little value to the application process or project
 - ✦ creates more work
 - ✦ takes more time
- Removed as threshold item

Title Insurance Threshold

- Now required prior to issuance of Reservation for most projects
- Minimizes upfront costs of submitting an application
- What this means - other than scattered site projects, only projects receiving an award of credit will need to incur this cost

Developer Fee Calculation & Amount

- Maximum allowable developer fee increased:
 - \$1,250,000 for 9% LIHTC projects
 - \$2,250,000 for 4%, tax-exempt bond financed project
- Calculation now based on Aggregate Basis (eligible basis + land)

New "Milestones" to the Allocation Process

1. Voluntary return of credit/Fee Refund - 75 days
 - Goal: For owners to realistically assess the likelihood of their project being able to move forward
 - If unable to move forward, award can be returned and Reservation fee refunded
2. Equity closing deadline for non-hard equity projects - 180 days
 - If the deal cannot move forward, credit can be used on another project

Available Credit for Rolling Round and Threshold Score


- Amount of annual credit available for Rolling Round has increased to 30% of total credit ceiling
- Balances need for increase in rolling round with need to accomplish other policy objectives (set-asides, for example)
- Provision added giving flexibility to add to rolling round later if necessary
- Rolling Round score increased from 170 to 175

Low Income Targeting Points

- Low income targeting refocused on sustainability
- Cross-subsidy from higher-rent units to deep-targeted units is inherently unstable
- The revised scoring system:
 1. encourages project-based rental assistance, which is far more sustainable than cross-subsidy, and
 2. encourages more realistic underwriting by developers that should be more appealing to investors


General Partner & Management Experience Points

- Those who are typically able to sell credit in the current equity market are those with the most experience
- Both of these point items are being increased to a possible 30 points
- Project of 6 units or greater will qualify




Ability to Proceed

- True indicators of a project's readiness to proceed are its ability to secure debt and equity
- Points formerly available for Readiness to Proceed are now included as part of the Hard Equity Commitment points
- Projects not having a Hard Equity Commitment will still be able to get some points for their ability to proceed (e.g. local approval items)




Combined Scoring Criteria

- PSH projects will now compete in the same pool with all of the other, non-PSH project applications
- Addresses the "Which line do I get in?" problem for developers.
- PSH projects still have the same 25% set-aside, and will still have additional points available to them



Computer System/Application Update


- Currently working through process of moving to new software system
- Applicants should expect to be able to submit applications and exhibits electronically beginning with 2011 funding rounds



Comments on 2011 QAP

- o 2011 QAP still in draft form
- o Watch MSHDA LIHTC Website

- o Written comments can be sent to:
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Questions & Answers
