

# STATE HOUSING COUNCIL



## QUALIFIED ALLOCATION PLAN

NOVEMBER 6, 2015

Oregon Housing and Community Services

# Process Recast and Next Steps



- Extensive Stakeholder Engagement:
  - Discussions during 17 NOFA debriefs
  - Roundtable outreach sessions held with stakeholders:
    - Lenders / Investors
    - 9% LIHTC
    - 4% LIHTC
  - State Housing Council discussion Sept 11<sup>th</sup>
  - Final outreach discussion on Sept 18<sup>th</sup>
  - Submitted comments and feedback
  - State comparative analysis by Mark Shelburne of Novagradac

# Process Recast and Next Steps cont'd



- **October 2<sup>nd</sup> State Housing Council**
  - Presented draft Qualified Allocation Plan for final input and recommendations;
  - Follow up on:
    - Developer Fee
    - Social Equity and MWESB contracting requirements

## Next steps

- **November State Housing Council**
  - Present revised QAP for final discussion
  - Ask for approval to submit for public comment for 30 days
- **December State Housing Council**
  - Finalize QAP after reviewing and considering public comment
  - Ask for approval of QAP and authorization to send to Governors office for review and signature

# QAP Conversation Today



- LIHTC Allocations and Regions
- Address Key Themes from Informal Stakeholder Comments
  - Recapitalization Lock Out
  - Market Study Timing
  - State Basis Boost
  - Debt Coverage Ratio
  - Construction Inflation / Escalation Factors
  - Operating; Repair / Maintenance Budget Restrictions
  - Operating; Resident Services and Asset Management
  - Grants vs Loans
- Follow up on State Housing Council Recommendations
  - Developer Fee
  - Social Equity / MWESB Contracting Requirements

# LIHTC Allocations and Regions



- 4% LIHTC – non competitive
- 9% LIHTC – competitive NOFA process
  - 3 regions; allocated based on Need (60% renters & Severe Burdened Renters)
  - 35% Preservation set-aside
  - Balance of State, 50% target for communities with less than 25,000 people
- Example (using 2015 funds)

Programs	Metro	non metro PJ region	Balance of State	Totals
9% LIHTC	\$4,094,000	\$1,513,000	\$3,293,000 (target rural: \$1,646,500)	\$8,900,000
	46%	17%	37%	
35% soft-set-aside	\$1,432,900	\$529,550	\$1,152,550	
Remaining funds	\$2,661,100	\$983,450	\$2,140,450	

# Recapitalization Lockout



Previously: No prohibitions on the ability to submit applications for additional funding.

Input:

- Make clear exceptions for construction defects; don't restrict projects coming in for 4% LIHTC prior to year 20.
- Should not have any restrictions, projects should only apply for funds if truly needed.
- Limited resources available, are used to purchase affordability and that should have long term expectations.
- If projects are funded well (adequate replacement reserves and operating expenses) then it should not be necessary to come back in for additional funding within 20-30 years.

2016 QAP:

- Projects that have been funded with 9% LIHTCs in 2016 or thereafter, are not eligible to apply for additional 4% or 9% LIHTC within 20 years of the Project's Placed-In-Service date. Exceptions may be granted at the sole discretion of OHCS in cases where it determines there is a risk of physical or affordability loss. Previously funded 4% LIHTC Projects will be eligible to apply for 4% LIHTCs after the initial 15 year affordability period has expired.

# Market Study



## Input:

- For cost containment the market study should be done as part of the appraisal.
- The market study should be required within 6 months of closing.

## 2016 QAP:

- Section 42(m)(1)(A)(iii) of the Code, requires that the allocating agency receive a comprehensive market study of the housing needs of low-income individuals in the area to be served by the project before the credit allocation is made, at the developer's expense by a disinterested party who is approved by allocating agency.
- Required for 9% LIHTC 90 days after conditional Reservation and for 4% LIHTC at time of application.

# State Basis Boost



## Input:

- Desire to use State Basis Boost to increase equity in noncompetitive 4% LIHTC projects.

## Response:

- Housing and Economic Recovery Act of 2008 (HERA) only allows State Basis Boost in competitive LIHTC processes, OHCS is not permitted to provide State Basis Boost to non competitive 4% LIHTC projects.

# Debt Coverage Ratio (DCR)



## Input:

- Confusion regarding the calculation DCRs with and without OAHTC.
- Require a minimum of 1.15:1.

## 2016 QAP:

- The minimum Debt Coverage Ratio (DCR) will be 1.15:1 for all amortized debt through the initial 15-year pro forma period. Projects with a DCR that exceeds 1.30:1 may be eligible for less credit than eligible basis would allow.
- Projects are underwritten on an individual basis in concert with the lenders to determine an appropriate project DCR and perform subsidy layering.

# Construction Inflation / Escalation Factors



## Input:

- Allow an inflation contingency in the QAP.

## 2016 QAP:

- This is not a topic that is addressed in the QAP.
- Inflation contingency should be factored into the construction costs included in the application through contractor estimates based on estimated timing.

# Operating Expenses



## Input:

- Allowance for repairs and maintenance is too low.
- Asset Management should be above the line.
- Resident Services should be above the line.

## 2016 QAP:

- Individual expense line items are not addressed in the QAP.
- A more generic Operating Expense language has been added: Operating expenses will be reviewed for reasonableness within the budgets submitted; Applicant may be required to submit documentation (including for example three years of audited financials for rehabilitation Projects) to substantiate that any or all of the Projects revenue or costs are reasonable. OHCS will review against its portfolio and take into consideration input from lenders and investors.

# Loans versus Grants



## Input:

- Retain current process and continue to grant funds.
- Be careful of impacts on other sources and reductions in cash flow.
- Even though it doesn't need to be in the QAP, stakeholder believe this will have an impact and desire for it to be talked about in an open and transparent way.

## 2016 QAP:

- Concept removed from the QAP.
- Based on HUD final Rule, OHCS is implementing loans for the HOME Program in 2016.
- Current policy discussion for OHCS gap resources is the following:
  - 0% interest.
  - Deferred payments until the earlier of maturity or refinance.

# Developer Fee



Previously: up to 15% total project cost less developer fee as determined reasonable by OHCS; large and inconsistent range in developer fees taken.

Why is this an issue?

- Current policy does not clearly articulate reasonability.

Example:

4% LIHTC, rehab projects

- Similar hard costs,
- Large variance in the acquisition

- 9% LIHTC, new projects

- Similar hard costs & units
- Large variance in Developer Fee

4%	Developer Fee	Hard Costs	Acquisition	Other	Total Project Costs
A	\$815,000	\$3,000,000	\$3,570,000	\$2,846,855	\$10,231,855
B	\$1,500,000	\$3,073,292	\$5,739,487	\$1,831,001	\$12,143,780
C	\$2,230,435	\$3,711,885	\$7,900,000	\$3,267,686	\$17,110,006

9%	Developer Fee	Hard Costs	Acquisition	other	Total Project Costs
A	\$750,000	\$5,269,356	\$655,000	\$1,670,368	\$8,344,724
B	\$1,440,000	\$5,958,136	\$6,217,852	\$2,587,233	\$16,203,221
C	\$1,035,000	\$5,983,490	\$422,000	\$1,703,491	\$9,143,981

# Developer Fee



## Input:

- Desire for calculation to cover all aspects of work done on a project.
- Sponsors are looking for clarity and predictability around OHCS policy on how to calculate developer fee.
- Desire to not limit developer fee on 4% LIHTC non competitive projects.
- 15% of total project cost is not a safe haven in determining reasonable developer fee.

## Fiduciary Responsibility:

- The IRS looks to the State Housing Finance Agency to establish a method for determining reasonable developer fee.

## State Comparison:

- Varies significantly; all have limits.
- Limits based on units produced as well as rehab / new construction value.

# Developer Fee



## 2016 QAP Recommendation for Maximum Developer Fee:

- Fifteen percent (15%) maximum of Total Project Costs less acquisition, reserves, and the requested developer fee amount.

PLUS

- Five percent (5%) for acquisition where there is no identity of interest and zero percent (0%) for acquisition where there is an identity of interest; those Projects acquired from an unrelated party within four (4) years of application for the purposes of Preservation are eligible for the additional five percent (5%) for acquisition based on the acquisition cost of the initial third party transaction.

# Social Equity



## Preferences and Thresholds in QAP:

- **Location (place-based)**
  - Areas Vulnerable to Gentrification (pages 13 & 15)
  - Opportunity Areas (pages 13 & 15)
- **Population (people-based)**
  - Affirmative Fair Housing Marketing Plans in Competitive Scoring (pages 13 & 14)
- **Contracting (economic-based) \*new\***
  - All applicants to identify ways / targets for contracting MWESB – threshold (page 24)
  - All applicants to report performance with MWESB contracting at time of 8609 issuance – threshold (page 24)
  - Sponsor capacity measure considering sponsors utilization of MWESB contractors / subcontractors – competitive scoring (page 17)



**THANK YOU**

Oregon Housing and Community Services