Draft 2025 Qualified Action Plan (QAP)

Summary of Stakeholder Feedback Received

May 28, 2024

Appraisal Requirements

1) I would strongly recommend that MHDC cease the practice of ordering the appraisal in every case, save for when it will be the first or co-first place lender. I make this recommendation for several reasons. Over the past several years, the senior permanent lender or construction lender have required their own appraisal on the majority of projects. This results in adding the cost of an additional appraisal in a time of increasing cost making it tougher to get deals closed. It can also delay closings and create confusion. On re-syndications, the issue is more problematic. At application, we make an informed decision on the purchase price, usually in consultation with an appraiser. Acquisition basis is a significant portion of the total anticipated qualified basis. We generally try to be conservative in our approach and in every case put sales proceeds back into the new deal. Trying to pinpoint the acquisition number, including land at application is not possible. MHDC should permit the relevant appraised value to set acquisition basis, regardless of the projections used at application. If the goal is to prevent developers from unduly enriching themselves, then language can be added to the QAP that limits "cash out" to the lesser of the appraised value or the amount stated in the option agreement at application.

Changes in Credit Pricing

1) After applications are submitted, MHDC has sometimes unilaterally adjusted the credit amount and/or credit pricing contained in the application. In doing so, there is a chance that some of the factors that went into the pricing may not be considered by MHDC (i.e. economies of scale that made the development an attractive investment at a certain price, market/CRA need, risk profile, appetite for intended investor, prevailing market conditions, etc…). We feel developers should not have to go back to MHDC to request a change in pricing – particularly if there are no other changes relevant to MHDC (i.e. the development count, rents, MHDC loan amounts). If a change in pricing would require a subsequent adjustment to MHDC debt or other component of the development, than MHDC can simply decline to approve those changes. In a quickly changing environment developers and syndicators need to be flexible and feel they have the ability to make adjustments as needed without fear of denials, penalties (including future development team characteristic points), reducing credits or incurring additional costs.

Credit Efficiency

1) We believe the formula should be changed from "eligible basis per tax credit bedroom," which is easily manipulated, to a less easily manipulated calculation, perhaps "federal tax credit request per tax credit bedroom."

Developer Fee

1) We would like for the structure of Missouri developer fees to align more closely with those in comparable states.

2) While all aspects of the construction and LIHTC industry have been subject to intense inflationary pressures over the past several years, the developer fees associated with the LIHTC developments have stayed stubbornly consistent. With increases in cost of living, wages, interest and taxes developers are being forced to accept the same amount of developer fee per unit as they were several years ago, while at the same time being asked to accept increasingly higher % of their fee as deferred. An increase to the developer fee calculation or basing the developer fee on a % of overall development cost as most states have done, would be a more equitable way to approach this issue.

3) Almost every development cost and operating budget line item has escalated substantially over the past several years except for Developer Fee. It is important to understand that these inflationary considerations affect Developers by way of payroll, insurance, rent, interest expense, utilities, real estate taxes, etc. just like they affect the developments. Developer Fee remains fixed while Contractor Fees increase and decrease proportionally with construction costs. We would appreciate a market/inflationary increase to help with our own cost increases, especially when we are capped on development size, assuming risk with deferred fee as a permanent source, and contributing to a developer-funded Rental Assistance escrow.

4) The formula used to compute the Developer Fee has remained static for many years. As construction costs have risen exponentially in recent years, the allowable Developer Fee as a function of actual costs ((6)(a)(iii)(a)) is limited by the static per unit computation in (6)(a)(iii)(b). The per-unit calculation thresholds in (6)(a)(iv) do not recognize the impact inflation has had in the years since the per-unit calculations were last changed. It is requested that MHDC modify the per-unit calculations to more accurately reflect the increase in the cost of conducting business.

Development Team

1) The development team characteristics category is worth 25 points, and is thus one of the most significant components of a LIHTC application. Eight of those points are awarded based on the track record of the team's management organization. We are seeking additional clarity on the other 17 points, the evaluation of which remains relatively opaque.

2) We are seeking additional clarity in the development team characteristics category related to the 8 points related to property management.

Economic Development

1) We have continued concerns about the consistency of evaluation on this criterion, and would like to suggest ways to provide more clarity to applicants. Some ways to provide additional clarity might be to 1) define more clearly what is expected from proposals (ensuring that, say, a rural project isn't held to the same standard as an urban one); 2) distinguish between different types of developments; 3) either broaden the mileage radius for preservation developments, or adjust the criterion so that applicants can either get points for preservation or for economic development but

not both; and 4) end the coordination letter requirement from third-parties such as business owners or municipal officials.

2) MHDC currently awards up to 5 points to applicants that prove an intentional link to a new and planned economic development project. We believe the intent of this scoring criteria is to build affordable housing in locations that are actively producing new jobs for workers. A growing job market with safe housing helps ensure long-term stability for our residents. We understand and agree that a growing job market with safe housing helps ensure long-term stability for our residents. However, we respectfully request MHDC remove the direct coordination letter as a requirement for these points. Currently, an employer must certify that 10% or more of their employees are unable to find affordable housing in the community and must commute 15 or more miles. Last year, we found several employers claimed this request to be unreasonable as they didn't have the data or were unwilling to share due to privacy concerns. If MHDC is unwilling to remove the requirement of the letter, we ask that MHDC consider excluding this specific language as a requirement from the letter, or allowing the letter to come from the local jurisdiction's economic planning department. MHDC also currently sets the distance of a target economic project within 2 miles of the housing development site for SL, KC, and MSA-rural regions and within 5 miles of the housing development set for rural regions. We have found it increasingly difficult to meet this requirement in submarkets that are considered MSA-Rural. For example, while Webster County is a growing market inside the Springfield MSA, requiring developers to build relationships with new companies within a 2-mile radius of their location is a major disadvantage. It significantly limits the location of new housing in a city that desperately needs it. We do have experience with other state agencies who have similar requirements. However, many states allow for larger distances. We respectfully request MHDC to change the milage for MSA-rural regions to match the rural region requirement for new housing to be within 5 miles, or a 15-minute commute of a targeted economic development.

3) We encourage MHDC to further clarify the requirements for Economic Development points (whether in the QAP or in the Developer's Guide). We also request that MHDC revise the requirements to provide that Preservation Projects will be eligible for the maximum points in this section if they provide a letter from the local Economic Development Authority stating that access to affordable housing is a challenge for the local workforce. We would also request that MHDC revise this section to provide that properties serving senior populations will automatically receive maximum points for this item, given that most seniors are no longer in the workforce.

HOME CHDO

1) In regard to the removal of the HOME CHDO points. I would make the argument that MHDC should be assisting HOME CHDOs to do deals. By removing these points you are making it more and more difficult for CHDOs to compete against the for-profit developers that are not from the local areas. I don't see this being replaced or offset with a more general non-profit set aside related to scoring, though I believe it still be included as an allocation priority since there is a Section 42 requirement for 10% of the credits to go to non-profit controlled projects.

Income Targeting

1) [We support] MHDC's proposal to increase the points available for Income Targeting for 30% AMI units.

Leveraged Funds

1) MHDC currently awards up to 10 points for fully executed Letters of Intent (LOIs) for developments that include unaffiliated party grant funds, capital campaign funds, federal funds, rebate/incentive programs and/or municipal funds in their financing. We understand the importance of leveraging soft funds and other incentive programs in our developments. Not only have we seen these funds help ensure our developments are financially stable, working to find leveraged funds also allows MHDC to award more credits across the state. However, we respectfully ask MHDC to consider updating the scoring to reflect different thresholds for MSA-Rural and Rural Regions. As the QAP is currently written, a development must receive 2.5% or more in leveraged funds to achieve the lowest points available. If a development has total development costs of $13,000,000 that means $325,000 would need to be leveraged from other funding sources. To score maximum points in this category, that same development would need to provide leveraging funds equal to greater than 7.5% of total development costs or $975,000. Often times rural communities are very supportive of affordable housing, however they do not have all the resources to allocate to deals to help them achieve these points. Due to this, we respectfully ask MHDC to consider lowering the percentage of leveraged funds for rural developments. We recommend:
    a. .5% of total development costs for 3 points
    b. 2% of total development costs for 5 points
    c. 3.5% of total development costs for 10 points

Preservation

1) Preservation is a priority in the QAP, but preservation projects are not allocated sufficient points in scoring. It is difficult for preservation projects to compete with new construction, even if the proposal generally scores well in most categories. For example, additional points are awarded by MHDC for leverage of other resources, but projects involving rehabilitation of existing units are often not viewed as favorably by local jurisdictions when awarding local funds – they just are not as exciting as new projects. Hundreds of low-income and subsidized housing units are lost each year in Missouri. MHDC needs to make a stronger commitment to this priority.

2) [We strongly support] MHDC's priority designation for preservation projects. Preservation is an urgent need in Missouri: according to the National Housing Preservation Database, Missouri is in danger of losing 8,700 publicly supported rental homes in the next 5 years as their affordability restrictions expire; and many other units are at risk of loss due to physical deterioration if funding is not awarded for their renovation. Preserving existing and at-risk units is far more cost-effective than replacing them once they are lost through new construction. We respectfully suggest that preservation projects are not evaluated in direct competition against new construction projects, since the fundamental differences between these project types make direct comparisons inherently

unfair or meaningless. For example, preservation projects cannot design a unit mix, or select a competitive location, or select a resident population in response to a QAP priority, as new construction projects can. Instead, we encourage MHDC to designate a set-aside of 9% credits for preservation projects – perhaps 25% of the state allocation – and conduct separate competitions for preservation and new construction projects. According to research by the National Housing Trust, 30 state QAPs have a set-aside or pool of 9% LIHTC dedicated to preservation projects, ranging from 42% (MS) to 5% (CA), with the average being 20%. In the same vein, we urge MHDC to allocate more substantial gap financing resources – including the Missouri state LIHTC – to support 4% LIHTC preservation transactions – enabling those efforts to go forward while reducing demand on the 9% LIHTC.

3) To the extent preservation projects remain scored with new construction projects, [we support] MHDC's proposal to provide increased points for preservation projects in rural areas and for RD preservation transactions (which may be disadvantaged in other scoring areas based on their locations).

Priorities

1) I hope you will join me and my colleagues in addressing this need and prioritize this cohort of beginning teachers in Missouri as part of this year's Qualified Allocation Plan.

2) Our goal is for MHDC to include [beginning] teachers as a priority group in the development of the Qualified Action Plan this year.

3) I am writing to request that the MHDC prioritize affordable housing for beginning teachers in Missouri as part of this year's Qualified Allocation Plan.

4) Please consider prioritize beginning teachers in Missouri as part of this year's Qualified Allocation Plan.

Rental Assistance

1) Currently, the points for mixed-income developments can have the perverse effect of discouraging re-syndication of 100% HAP developments and others with a publicly-funded rental assistance contract (which should be preserved). We would like to level the playing field for those developments.

2) It has become routine for Project Based Section 8 properties that go through LIHTC substantial rehabilitations to receive new 20 year HAP contracts, though at the time of LIHTC application they may have less than 3 years left on the existing HAP contract, or less than the 10 years noted for the additional points. It would be recommended that clarifying language be added to the Revised Rental Assistance section awarding the total of 5 points to a property with an existing Project Based Section 8 contract.

3) Developers who already fund a 3-year Rental Assistance escrow now have to more than triple that Developer Fee contribution to a 10-year Rental Assistance to earn the same 5 points.
    a. This is an extreme hardship and infeasible for developers who are already dealing with fee compression and deferred fee risk.
    b. The end result will be a reduction in Developer interest, less competition, and fewer quality projects being proposed.
    c. Developers already take on a lot of risk and spend a lot of time and money working on good quality proposals.
    d. Requiring to use more of their Developer Fee to subsidize rents will negatively affect the long-term sustainability of the program.

4) The revised Rental Assistance language is appreciated, but it does not go far enough. Rental Assistance proposals should be scored on two dimensions: 1) length of rental assistance contract, and 2) percentage of assisted units. Under the HUD Project Based Voucher (PBV) program, we can award assistance contracts up to 20 years for 25% of the units in a family development, or 100% in a special needs or senior development. However, such assistance contracts are given no more points in scoring than a 10-year contract for 15% of the units. The total point range in this category needs to be increased to 10 to give proper weight to projects that are truly mixed income with subsidized, workforce, and market rate units.

5) We support MHDC's revisions to the Rental Assistance scoring item to emphasize long-term rental assistance commitments but would encourage MHDC to go further. Rental Assistance points should only be available to projects with commitments extending through at least the 15-year LIHTC compliance period.

6) Developers who already fund a 3-year Rental Assistance escrow now have to more than triple that Developer Fee contribution to a 10-year Rental Assistance to earn the same 5 points. This is an extreme hardship and infeasible for developers who are already dealing with fee compression and deferred fee risk. The end result will be a reduction in Developer interest, less competition, and fewer quality projects being proposed. Developers already take on a lot of risk and spend a lot of time and money working on good quality proposals. Requiring them to use more of their Developer Fee to subsidize rents will negatively affect the long-term sustainability of the program.

7) The proposed change to Rental Assistance language seems onerous. Development proposals that include committed rental assistance for three years for at least 15% of units had been awarded five points last year. The proposed change in this scoring reduces the award to two points for a three year commitment (a 60% reduction in available points for a three year commitment), and requires a commitment of an additional seven years in order to achieve the maximum points available. The proposed change will impose an extraordinary financial burden to developers striving to achieve the maximum points in this category. Developers may view this burden as an unrealistic impediment, which in turn may result in fewer developers committing to a Rental Assistance program, surely something that runs contrary to MHDC's objectives in this matter.

Scoring Rubric

1) [We appreciate] MHDC's continuing effort to refine the QAP scoring rubric used to prioritize LIHTC awards. MHDC's ongoing efforts in this area are critical both for individual projects and sponsors and for the maintenance of broader confidence in the program. [We have] seen in other states how inconsistency in LIHTC scoring and allocation processes undermines stakeholder confidence and threatens support for the program. As MHDC is aware, project sponsors develop proposals that are responsive to the QAP scoring rubric and make significant predevelopment investments based on their assessment of a project's competitiveness against the rubric. It is therefore critical that the QAP's scoring criteria be as clear as possible, and that awards correspond as closely as possible to the outcomes of the scoring rubric.

Service Enriched and Set-Aside Preferences

1) We applaud those who develop permanent supportive housing and appreciate MHDC prioritizing it, but in order to best serve residents in need and to ensure clarity for applicants, we would like to see a clear and easily understood demarcation line between permanent supportive housing and service-enriched housing. We do not think applicants should be able to pick both permanent supportive housing and service-enriched categories.

Other Comments

1) We would like to see the requirement for original signatures eliminated.

2) I am still experiencing a lot of issues working in the FIN-100's in new applications and on funded projects.
    a. I believe the Macros are the primary issue.
    b. If those could be converted to traditional Excel formulas, the workbooks would perform much more effectively with fewer issues.