

April 24, 2008

Michigan State Housing Development Authority  
735 E. Michigan Ave  
Lansing, Michigan

Mr. Keith Molin, Interim Executive Director  
Members of the MSHDA Board of Directors:

Over the last week, an ad hoc coalition of the undersigned organizations met to discuss the future of affordable housing in Michigan and the absolute imperative of working together to advance housing policy that will not only meet the needs of our state's residents and communities, but will respond favorably to market conditions beyond our control. We discussed the challenges that all of our members face in meeting these goals and how the Low Income Housing Tax Credit (LIHTC) resource can be best positioned—and fast—in order to move us there. This letter lays out our ideas for achieving this.

We believe it is absolutely critical that MSHDA move forward quickly, together with us, to develop a Qualified Allocation Plan (QAP) for the state's LIHTCs that 1) ensures that all credits are allocated this year and not returned to the national pool; 2) meets the needs of the state's low-income and special needs residents; and 3) is attractive to national investors and creates economic development for the state. We believe that this is possible, and that Recap Advisors' *Michigan LIHTC Qualified Allocation Plan Strategic Recommendations* provides a solid framework from which to begin. We appreciate the opportunity to provide feedback on Recap Advisors' report, as follows:

### **Areas of Agreement with Recap's Recommendations**

1. *Issue the QAP for 2008 only with a single funding round.*  
We agree that one round this year is not only advisable, it is essential. There is pent up demand for this resource and little time or rationale for splitting the pot at this point.
2. *Reduce the 90-year affordability requirement.*  
We agree with Recap's observation that this policy is an unnecessary disincentive to investment in Michigan affordable housing developments due to the potential of tax issues related to soft debt, a mismatch of terms for subsidy and affordability, and possibly excluding MSHDA properties from future federal resources. The inclusion of such a requirement would put Michigan at a competitive disadvantage in the national marketplace.
3. *Require only one equity syndication bid.*  
We agree that multiple bids are unnecessary and irrelevant to the success of any particular project. Although it is advisable for developers to seek out multiple proposals once they have secured a reservation, we urge MSHDA to require an equity syndication "letter of

interest” (rather than a bid or commitment letter) to meet threshold for submitting a tax credit application.

4. *Be prepared for an increased funding gap resulting from falling LIHTC equity prices and tighter underwriting by lenders and have resources available to deal with it.*

We echo this concern and believe it is incumbent upon MSHDA to work with the affordable housing industry to identify means through which these potential gaps might be alleviated including but not limited to the use of internal existing MSHDA resources, changes in administrative policies at MSHDA and the potential for outside resources that might help to address this problem.

### **Areas of General Agreement, with Additional Suggestions**

1. *Reduce the obstacles to preservation.*

We agree that preservation should be one of the key priorities of the QAP and support preservation property points to count in the aggregate total. Additionally we:

- a. Support the elimination of the lower per-property cap for preservation projects and **recommend raising the per-property cap on ALL projects to \$1,000,000 since:**

- (i) many preservation projects are often larger and can only be restructured with a higher cap; and,
- (ii) larger scale projects, in general, allow for developments with greater efficiencies, enhanced proforma flexibility, and better underwriting performance. Allowing the higher level of credits will help mitigate some of the reduction in pricing seen in the marketplace.

- b. Recommend that MSHDA **review and expand the definition of “preservation”** to ensure that initiatives such as Hope VI are also included in these definitions in spite of the fact that demolition and replacement of units is often a feature of Hope VI type projects. Another example discussed by the signatories is acquisition and rehab of properties that do not have any existing state or federal debt or subsidy.

2. *Elimination of the holdbacks while achieving the same allocation results via points.*

We agree that the policy goals of “holdbacks” that are not required by statute are generally best addressed by an effective point system, but suggest the following:

- a. It is the experience of members of this industry that offering points for supportive housing units results in points “chasing” that—while it may result in more units in a given round-- also results in poorer quality projects and poorer service to residents. **We recommend a 20% holdback for supportive housing projects** that is operated as a separate, rolling program within MSHDA’s Homeless Division, allowing subsidies to be provided directly to LIHTC properties and experienced supportive housing developers to focus on creating the best projects. In addition we recommend:

- (i) Points for leveraged resources, already a feature of QAP scoring, are provided after certification from MSHDA indicating a commitment of support service dollars; and,
  - (ii) Applicants should be encouraged/incentivized to include Special Needs Housing in their development (not under the holdback); and, applicants choosing to do so should be awarded points provided the applicant receives certification from MSHDA's Supportive Housing Division indicating the presence of a competent Special Needs Housing plan (Addendum III) and a commitment of resources in support of that plan. This process and subsequent enforcement, however, shall be designed and managed by MSHDA's Supportive Housing Division.
- b. We urge **careful development of the point system**—in collaboration with members of this industry—in order to ensure that all projects in all communities are able to fairly compete with one another, and that “double counting” of points or elevation of certain priorities (such as preservation, above) does not result in unintended inequities across communities.
- c. Strongly recommend that **urban revitalization projects be offered priority points at least equal to preservation priority points when their significance to the overall development of a neighborhood or community can be documented as part of an overall urban revitalization plan.** We believe a carefully developed point system can accomplish this goal. **We must emphasize that our support of a point based system in lieu of holdbacks is expressly incumbent on the incorporation of this specific concept into the QAP.**

#### Area of Divergence from Recap's Recommendations

1. *Keep the Permanent Supportive Housing requirement.*  
See above. We disagree and believe the goals of supportive housing are best achieved through a holdback effectively managed as a separate program and linked with MSHDA's support service dollars. (Please see our comments regarding supportive housing above)

On behalf of the hundreds of organization and individual members and the thousands of Michigan residents that we serve, we thank the MSHDA Board of Directors for the opportunity to provide these recommendations. We urge you to act quickly so that Michigan's LIHTC allocation can go to work for our state. We recognize that significant additional work will be needed to implement the plan. We pledge to work together, with you, and with MSHDA staff, to implement a QAP that meets the housing needs of the state, attracts investment, and keeps Michigan's LIHTC in Michigan.

Sincerely,

Community Development Advocates of Detroit (CDAD)  
Community Economic Development Association of Michigan (CEDAM)  
Corporation for Supportive Housing (CSH)  
Detroit Local Initiatives Support Corporation (LISC)  
Great Lakes Capital Fund  
HomeAid Michigan  
Michigan Association of Home Builders  
Michigan Coalition Against Homelessness  
Michigan Housing Council  
Michigan Interfaith Trust Fund  
Michigan Local Initiatives Support Corporation (LISC)

Cc: Governor Jennifer Granholm