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Minutes of the
WHEDA Tax Credit Advisory Committee
2011-12 LIHTC Qualified Allocation Plan

April 16, 2010
Madison, Wisconsin

Chair: Bill Boerigter, Manager, Multifamily Lending and Credit

Advisory Committee Members Present: Rich Arnesen, Don Bernards, Michael Goldberg, Gary Gorman, Kalan Haywood, Ellen Higgins, Louie Lange, Robert Lemke, Bobbi Marsells, Mark Olinger, Dave Porterfield, Menachem Rapoport, Rachel Rhodes, Bryan Schuler, Phil Schultz, Tim Sherry, Teig Whaley-Smith

WHEDA Staff Present: Bill Boerigter, Renata Bunger, Antonio Riley, Tim Radelet, Melissa Cumming

Members Not Present: Mike Olson, Welford Sanders

Presentation/Discussion:
Meeting began with WHEDA staff power point presentation on comparisons information of neighboring states regarding the following:

- LIHTC Actual Costs-New Construction
- Maximum Costs Limits
- Developer Fee Policies
- QAPs and Scoring Incentives

After review, discussion commenced on various options for the 2011-12 QAP:

1. Delete Current 6 points for projects under 24 units

The original intent of this category was to give a nominal point advantage to rural communities.

This advantage may no longer be necessary due to the 10% rural set-aside.

Comments:

There was concern that some tax credit applicants will scale their projects to 24 units, regardless of economic feasibility, in order to receive the point advantage.

It was noted that seven out of 10 projects with the highest per unit development cost were 24 unit developments.

With the program being so competitive, developers are going for every point they can, including this category (24 units or less).

It was suggested that the project as a whole, what goes into, community impact, etc. is what should be considered, not the number of units.

There are many instances where even two or three more units would be more cost effective, but developers drawn the line at 24 units (which often drives up costs) in order to take the points to be competitive.

Question was asked what is WHEDA's policy/mission statement? Is the emphasis smaller (24 units or less) projects but not necessarily rural. How many more projects/units is WHEDA trying to create?

Supporters in favor of maintaining this category highlighted the contributions to quality of life and innovation within a community. Quality of life in that project design complements the existing neighborhood scale. And, innovation in that most limited capacity developers typically build up to only 24 units and more likely to use local resources and labor.

Perhaps increase the number of units on a "small" project from 24 up towards 40. A project with less than 40 units would be considered "small."

Eliminating this category would be a hardship for projects that are single family homes, specifically tribal and urban projects.

Small nonprofits and small developers will not be able to compete with bigger, more financially and more experienced developers. Eliminating this category does not help this group of developers, could be bad for neighborhoods, etc.

Smaller projects will not get done if the removal of this category as there is no incentive.

Need to build right project for right area, not just to get points in this category, will this become a density issue? Perhaps too arbitrary to categorize 24 units is a small project statewide, again depends on area and need.

It was suggested offering incentives for single family units for eventual homeownership.

2. Reduce developer fees on costs beyond a certain limit

WHEDA presented another powerpoint comparing neighboring states. Based on data, WHEDA's current developer fee policy appears to be higher than neighboring states with regard to larger sized developments.

WHEDA may consider adopting a two-tiered fee based on total project units; higher fee applied to the first 60 units and a lower fee applied to the balance, for example.

Comments:

Investors may prefer a less restrictive developer fee policy to help mitigate project development and operating risk.

A lower maximum developer fee may also discourage experienced developers from partnering or training less experienced developers.

Developer fees are never paid in one lump sum, but represent three to four years of pre-development expenses and staff labor to bring a project to completion.

Fees are paid in part for risk, getting paid back for investment in neighborhoods, communities.

Fees cover two to three years of the project, building, rent-up, overhead, feeding the project throughout. The liquidity features to get project running from start to end is huge and risky.

What is the incentive for developers to do a project for less? Perhaps incentivize with points.

2011 will be difficult to attract investors unless deals are very strong, stand out, are unique, and in good markets, etc.

Discussion and disagreement that QCTs are in lower rent areas. Milwaukee and Madison rents are basically the same. Without the QCT boos, very few deals are going to work, specifically in high rent areas.

It was reiterated several times that WHEDA's Board tends to see a link between developers fees and rising costs. This is a big issue for WHEDA's Board.

3. Incent more acquisition/rehab (as compared to new construction)

The 2008 flooding and FEMA disaster designation of many southeast Wisconsin counties resulted in over $40 million in credits annually for years 2008-2010. In 2011, total Credit may be only $11 million and at current usage, may only result in 13 or 14 awards.

In 2009, 43 projects received an award. To ensure market and rental stability, WHEDA may explore more incentives to encourage acquisition/rehab applications from current Section 42 projects reaching their 15 year term, existing market-rate and older housing stock. Ideally these deals would a) not stress the rental market and b) use less financial resources.

WHEDA's current preservation set-aside category might remain as is. Points might be added to insure some successful rehab applications in other set asides.

Comments:

Several concerns were raised on the potential preferential treatment of acquisition/rehab projects.

- A minimum of $35,000 per unit or higher in rehab may be necessary for an investor to consider the project.

- Acquisition/rehab projects requires a different skill set compared to a new construction development. Many investors may not have confidence in a developer that has never successfully completed a rehab project.

- Accessibility and design requirement are complicated/impossible to complete.

- Tenant relocation and displacement issues are disruptive to the existing renters.

- Emphasis on acquisition rehab may artificially inflate the sales price of existing multifamily housing stock.

It was noted there weren't any true acq/rehab deals for 2010 in the City of Madison. There are many projects out there that would fall into this category, yet none were brought forward. It was thought that support in communities who are in need for these types of projects would be strongly supported.

Preservation guidelines are that the project units need to be one for one. Consider reducing the unit numbers to make community space, studio apartments, etc.

Senior/disability housing has very strict code requirements, thereby making acq/rehab for this type of housing very difficult as the units, building needs to be made accessible (stairs, bathrooms, kitchens, hallways, doorways, etc.). This can make it cost prohibitive.

<u>Next Steps</u>

WHEDA staff will take comments/reaction from the meeting and continue to meet with WHEDA's Board members on these issues. Staff is targeting late June formal 2011 QAP presentation to our Directors Loan Committee (subset of full Board).

There is a slight possibility of one more Advisory Committee meeting on June 10. Staff will advise via email.

Meeting adjourned at 1:05 pm