

# 2019-2020 QUALIFIED ALLOCATION PLAN

## STAFF REPORT

### INTRODUCTION

As is the case with any policy document, certain modifications need to be made to further refine policies and to address changes in legislative and market conditions. To accomplish these modifications in the 2019-2020 Qualified Allocation Plan (“QAP”), MSHDA has worked closely with stakeholders in various focus groups, meetings, and conversations. Based on these many discussions, MSHDA has determined that there should be three general areas of focus for the redevelopment of the QAP for 2019-2020:

- 1) Enhance and iterate on the tools utilized to ensure that developments are being located in areas of opportunity.
- 2) Further focus the Permanent Supportive Housing Category to create more units targeted at critical needs of various populations.
- 3) Re-focus and expand other policies areas to enhance the effectiveness of the QAP in meeting its mission.

To accomplish these objectives, several changes have been made throughout the QAP, Scoring Criteria, and accompanying program documents. Following is a list of some of the more significant revisions to the 2019-2020 Qualified Allocation Plan, Scoring Criteria, and other related policies. This is not intended to be an all-encompassing list. Therefore, in addition to reviewing this list, stakeholders are encouraged to review all of the program documents in their entirety to gain a full understanding of the policies and program requirements contained within them.

### IMPROVEMENTS TO AREAS OF OPPORTUNITY

The key policy areas in the 2017-2018 QAP were a reflection of the priorities for affordable housing in the State of Michigan. The over-arching priorities that were key areas of focus at that time remain the key areas of focus in the 2019-2020 QAP. However, changes have been made to iterate on and enhance the effectiveness of those policies. The key policy areas within the 2019-2020 QAP and some of the more significant adjustments that have been made since the previous QAP are listed below.

### AREAS OF OPPORTUNITY

Areas of Opportunity are those areas that give residents access to locational characteristics that will help them and their families thrive. There are many factors that contribute to determining the level of opportunity that an area provides for its residents. In the past, the QAP focused heavily on proximity to the various amenities that are described by a location’s Walk Score. While Walk Score is a valuable tool for describing the general walkability of an area and its proximity to certain amenities, the 2019-2020 QAP

takes a modified approach that utilizes a grouping of amenities that are very important to residents and which are not necessarily included in a project's Walk Score. In doing this, the location-based criteria is expanded to more fully assess the amenities in an area that will enhance the quality of life for residents. More discussion on this is described below.

### Location-Based Points

As mentioned above, in the 2017-2018 QAP the opportunities that existed in a particular location were measured by the Walk Score. While Walk Score is very indicative of the general walkability and strength of a location, the 2019-2020 QAP recognizes the need to identify other amenities that are also extremely important to residents. For this reason, the 2019-2020 QAP has added two new location-based components that together help to determine the strength of a location. The first component awards points to developments that are located proximate to important amenities such as a full-service grocery store, pharmacy, doctor's office or clinic, public school, park, and senior center. The second component utilizes a mapping tool called Opportunity 360, which measures the strength of a location based on education, health and well-being, economic stability, and accessibility to jobs, goods, and services. These two components assist with allowing the 2019-2020 QAP to be more fully indicative of the strength of a particular location.

### Developments near Downtowns and Corridors

In the 2017-2018 QAP, developments that were located close to Central Cities were prioritized because of the many benefits of being located in a walkable area that has a sense of place. In an effort to promote not just a particular built environment, but to better focus on those specific areas that exude the benefits of walkable areas, the 2019-2020 QAP utilizes the Walk Score tool to identify areas that have a minimum level of walkability that is representative of a downtown or corridor and it then encourages developments to be located within close proximity to those areas. This change focuses the QAP more towards the amenities that make a central city vibrant, which can occur in many forms, rather than focusing on a specific built environment.

### Affordable/Market Rent Differential & Neighborhood Investment Activity Areas

The 2019-2020 QAP continues to recognize that the availability of affordable rental units provides a significant benefit in housing markets where the actual cost to rent market-rate units far exceeds the ability lower-income tenants have to pay those market rents. To continue to enhance this criteria, the 2019-2020 QAP modifies the existing criteria in order to more intentionally and accurately focus on those areas where the market rate rents are significantly higher than the affordable rents and where housing in those areas is not affordable to residents with lower incomes, causing significant overburden to tenants.

Additionally, the 2019-2020 QAP better defines the criteria that developments will need to meet in order to achieve the points for Neighborhood Investment Activity Area by defining minimum levels of investment that developments will need to demonstrate to achieve the points. It is the intention that this

additional transparency and guidance will assist applicants with understanding the criteria and whether or not their particular development will qualify for these points.

## Opportunity Zones

The Consolidated Appropriations Act, 2018 created the ability for states to designate certain census tracts as Opportunity Zones. Although the Opportunity Zone guidance is still largely being established at the federal level, it is anticipated that there could be some significant benefits that would attract investment to the particular areas within communities that are designated as Opportunity Zones. Just as the QAP has sought to connect to and leverage other investments that are taking place within a community through the Neighborhood Investment Activity Area criteria, the 2019-2020 QAP seeks to connect developments to Opportunity Zones and therefore gives some priority to those developments that are located within these zones.

### PERMANENT SUPPORTIVE HOUSING

Permanent Supportive Housing has and continues to be a high priority for MSHDA as an agency and specifically within the QAP. Permanent Supportive Housing requires a tremendous amount of successful coordination and collaboration between agencies, companies, and resources for it to be successful. With that in mind, the Addendum III review process for Permanent Supportive Housing projects has been moved from taking place during the funding round to now take place in advance of the funding round. This new timeline will allow Permanent Supportive Housing projects to get a more focused review and usable feedback on some of the more critical aspects of the project (contained within Addendum III). This will allow clarification and corrections to be made to ensure that the most deserving projects are being funded from this category.

Additionally, other enhancements have been made throughout the Permanent Supportive Housing criteria to better focus resources based on need and to provide a greater number of PSH units.

### RE-FOCUS AND EXPAND OTHER POLICY AREAS

#### COST REASONABLENESS THROUGH CREDIT EFFICIENCY

Cost Reasonableness and Credit Efficiency has been a significant policy goal for years in order to ensure that the program is operating efficiently and that applicants are being diligent with the resources that are available to them. With that in mind, prior QAPs sought to accomplish that in two ways, through incentivizing applicants to reduce their total project costs and also to incentivize developers to use less credit to develop more units. In an effort to promote the quality of developments and also in an effort to recognize that applicants that choose to use their own resources or other available resources to create enhancements within developments should not be penalized for creating better living spaces for residents, the cost reasonableness and credit efficiency policy has been revised to focus on achieving cost reasonableness by promoting credit efficiency. In a resource constrained environment, providing

incentives to utilize less credits will push applicants to find other resources or will push developers to adopt cost saving measures in order to reduce the total amount of resources the development will need to be completed. It is the intention that this will continue to keep applicants conscious of what they spend to develop affordable housing, while also allowing the cost reasonableness and credit efficiency policy to not overshadow other important policy goals within the State of Michigan.

#### 4%/9% MIXED TRANSACTIONS

In an effort to promote new resource-efficient concepts for financing affordable housing development, the 2019-2020 QAP has incorporated point incentives for a unique financing structure utilizing both 4% LIHTC and 9% LIHTC. This concept has the potentially significant benefit of reducing the burden that is placed on the already highly competitive 9% LIHTC program by leveraging the currently undersubscribed 4% LIHTC and Tax-Exempt Bond resources to assist with the financing. Further development of this concept has the potential to create more units through leveraging the various affordable housing resources that are available in the state of Michigan.

#### PREVIOUS EXPERIENCE OF GP/MEMBER

As with prior QAPs, previous experience continues to be a significant factor in determining with whom the State and investors should invest resources. With that in mind, the 2019-2020 QAP continues to place a strong focus on ensuring that the state's most competitive and valuable affordable housing resource is allocated to experienced owners who will put it to use in an efficient and expeditious manner.

This is an area of the QAP that has historically been frequently iterated on and has been an area of interest for many stakeholders, and the 2019-2020 QAP is no different. After significant discussion, the 2019-2020 QAP has further expanded the Previous Experience of GP/Member criteria to take into account projects that have been successfully completed but which do not have operating history, applicants who have been actively working in the community which the property will be located, and applicants who have completed a development that is of a similar construction type to the development being proposed. These are aspects of previous experience that prior QAPs did not take into account and will help create a more well-rounded criteria for evaluating prior experience of GP/Members.