MFA 2019 Qualified Allocation Plan and Application Workshop

November 29, 2018

Presentation Overview

Part I: Tax Credit Program Overview
Part II: Staying in Compliance
Part III: 2019 QAP Review
Part IV: Application Process
Part V: 2018 Results and What Makes a Successful Application

*Disclaimer: This QAP training presentation is provided for educational purposes only and does not purport to be an exhaustive presentation or summary of the 2019 QAP. Nothing contained herein amends, replaces or supplements the 2019 QAP. Readers are urged to rely solely on the 2019 QAP, FAQ's and 2019 application documents.

Part I
TAX CREDIT PROGRAM OVERVIEW

Housing Priorities

- Increase the supply of decent, affordable rental housing;
- Expand housing opportunities and access for individuals with special needs;
- Expand the supply of housing and services to assist the homeless; and
- Preserve the state's existing affordable housing stock.

Housing Credit Background

- Low Income Housing Tax Credit (LIHTC) Program was created by the Tax Reform Act of 1986 as an incentive for individuals and corporations to invest in the construction or rehabilitation of low income housing.
- The tax credit provides a dollar-for-dollar reduction in personal or corporate federal income tax liability for a 10-year period.

Internal Revenue Code §42

- IRC §42 sets forth the requirements and process for the Tax Credit program.
- §42(m) states the housing credit agency must make LIHTC allocations pursuant to a Qualified Allocation Plan (QAP), which:
  - Sets forth project selection criteria;
  - Gives preference to those projects serving lowest income tenants for the longest period of time and those projects located in a QCT and the development contributes to a concerted community revitalization plan;
  - Provides a procedure for monitoring compliance.

Housing Credit Background, cont.

- Credit Ceiling: $2.75 per capita allocation + any returned or unused credits + any National Pool credits – forward allocations
- MFA allocated $5.16mm in 2018
- MFA will allocate approx. $5.7mm in 2019
- Tax credits are the deepest federal subsidy that funds up to 70% of total development cost

Minimum Apartment Unit Set-Asides

- **20/50 Election**: 20% of units for tenants earning no more than 50% of area median income (AMI) - Requires that <u>all</u> restricted units be at 50% AMI or below to be eligible for credits

OR

- **40/60 Election** - 40% of units for tenants earning no more than 60% of AMI

OR

Minimum Apartment Unit Set-Asides

NEW for 2019 Allocations!

- ***Income Averaging Election****: Tenants in rent/income restricted units can earn no more than 80% of AMI as long as at least 40% of the total units are rent/income restricted with the* ***average*** *income limits for restricted units at or below 60% (per the Consolidated Appropriations Act of 2018)*

Affordable Use

- Minimum set-aside election is irrevocable.
- Use restriction for minimum 30 years required per Code (income and rent limits).
- Enforced through Land Use Restriction Agreement (LURA).

Applicable Percentage

- Determination of Applicable Percentage: Percentages which will yield over a ten-year period amounts of credit which have a present value equal to:
  1. 70% of the Qualified basis of non-federally subsidized new construction and rehab costs (9% Credit); and
  2. 30% of the Qualified basis of acquisition costs and/or projects that are federally subsidized (4% Credit)
- Applicant may elect to lock Applicable (Tax Credit) Percentage at either Carryover or at Placed in Service.

Applicable Fraction

- The percentage of the project that is dedicated to low income use
- Employee units excluded from calculation

Applicable Fraction Calculation:	***Lesser of*** *Percentage of Low-Income Floor Space and Percentage of Low-Income Units*		
Floor Space Fraction		**Unit Fraction**	
Total Residential Rental Floor Space	79,200	Total Units	72
Low-Income Units Floor Space	66,000	Low-Income Units	58
Percent Low-Income	83.33%	Percent Low-Income	80.56%

Applicable Fraction: 80.56%

Eligible & Qualified Basis

Eligible Basis: Depreciable basis of residential rental housing eligible for tax credits.

- 70% Eligible Basis (9% Tax Credits) for new construction or rehabilitation costs.
- 30% Eligible Basis (4% Tax Credits) for acquisition costs and projects with federal subsidy.
- Exclusions - federal grants, land acquisition cost, commercial costs, syndication costs, reserves, etc.

Qualified Basis: Adjust eligible basis for non-income qualified resident using "Applicable Fraction".

Question 1

Section 42 of the Internal Revenue Code does not allow for income and rent restricted units above 60% of AGMI to be counted as part of the Applicable Fraction.

❑ True

❑ False

Types of Tax Credits (Applicable Percentage)

9% Credits:

- ~70% present value
- Subject to MFA's credit ceiling and competitive tax credit "round"
- Used for new construction and substantial rehab if building is not "federally subsidized" (which means financed by tax-exempt bonds)
- Credit rate is "not less than 9%" per PATH Act of 2015

Types of Tax Credits (Applicable Percentage)

4% Credits:

- ~30% present value
- Applies to acquisition costs of a building
- Used for new construction or rehab projects using tax exempt bond financing
- Subject to award of private activity bond volume cap from NM State Board of Finance
- Credit rate is floating (3.31% for 11/2018)

Tax Exempt Bonds

- Projects financed by volume cap bonds are eligible for 4% credits only (whether new construction or rehab).
- Not subject to MFA's competitive tax credit "round", but still must follow QAP and application requirements.
- Not subject to carryover allocation and 10% test requirements.
- 50% test: bond amount must exceed 50% of depreciable basis plus land.

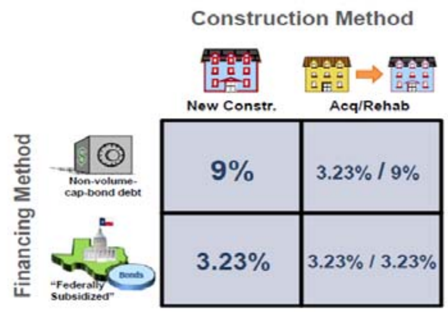
Tax Exempt Bonds, cont.

- Bond deals are subject to additional rules:
  - Requires allocation of State private activity bond (PAB) volume cap
  - Public hearing or "TEFRA" requirement - must conduct a public hearing and provide notice by publishing 14 days prior to the hearing
  - Inducement Resolution and Bond Resolution
  - Costs of issuance limitation
  - Good costs vs. bad costs
  - Income averaging set-aside?

Acquisition Credits

- The 4% acquisition credit is used when an owner purchases an existing building that qualifies as a substantial rehab **and** satisfies the 10-year rule (if applicable)
- "Basis boost" is not available for acquisition credits (see next page)
- Computing acquisition basis - cost of building including acquisition-related costs
- If not 100% low income, only low income percentage of cost can qualify

4% and 9% Credits



Basis Boost

- Basis Boost – **<u>Up to</u>** 30% increase ("boost") to eligible basis for new construction and rehabilitation costs only (acquisition costs not eligible).
- **<u>Up to</u>** 30% increase for projects located in HUD designated QCT, DDA or SADDA (30%).
- **<u>Up to</u>** 30% increase for certain projects designated by the state HFA where there is a need for financial feasibility and:
  1. Not financed with tax exempt bonds; and
  2. Serve a target population.

Question 2

A tax credit property is located in both a DDA and a QCT. By what percentage can the eligible basis be increased?

- ❑ a. Up to 30%
- ❑ b. Up to 60%
- ❑ c. Neither
- ❑ d. 30% if it's a bond deal and 60% if it's a 9% deal

Tax Credit Calculation

Eligible Basis	$2,250,000
x Basis Boost (if applicable)	130%
	$2,925,000
x Applicable Fraction	80.56%
= Qualified Basis	$2,356,380
Qualified Basis	$2,356,380
x Applicable (Tax Credit) %	9%
= **Annual Tax Credit**	**$ 212,074**

Equity Calculation

Annual Tax Credit	$ 212,074
x Years of Credit	x 10
= **Total Credit Amount**	**$2,120,742**
x Price per Credit Dollar	x $ 0.96
= **Equity to Project**	**$2,035,912**

Credit Calculation for Acq/Rehab

Project: Acq/rehab 9% development, one physical building in a DDA, $1mm attributable to acquisition eligible basis and $1mm in rehab eligible basis.

	Acquisition	Rehab
Eligible basis	$ 1mm	$1mm
DDA basis boost	x N/A	x 130%
Eligible basis	$ 1mm	$1,300,000
Applicable Fraction	x 100%	x 100%
Qualified Basis	$ 1mm	$1,300,000
Tax Credit %	x 3.23%	x 9.0%
Annual tax credits	$32,000	$117,000
10 years	x 10	x 10
= Total tax credits	$320,000	$1,170,000
= Total development tax credits	**$1,490,000**	

Question 3

Which of the following single-building properties would generate the highest number of tax credits?

- ❑ a. Building with a $1mm eligible basis and an applicable fraction of 50%
- ❑ b. Building with a $600,000 eligible basis and an applicable fraction of 100%
- ❑ c. Building with a $500,000 eligible basis, an applicable fraction of 80%, and is located in a QCT

Question 3 Answer

	A	B	C
Eligible Basis	$1mm	$600k	650k**
Applicable Fraction	x 50%	100%	80%
Qualified Basis	$500k	$600k	$520k
Tax Credit %	x 9%	9%	9%
Annual Credits	$45k	$54k	$46.8k
Ten years	x 10	10	10
Total Tax Credits	$450k	$540k	$468k

**$500k x 30% "assumed" boost

Partnership Structure

XYZ PROJECT

GENERAL PARTNERSHIP

General Partner .01%	Limited Partner Investor 99.99%

Partnership Structure

- General partner has 0.01% ownership, provides guarantees and operates the project
- General partner retains 0.01% of the tax credits, income and losses
- Limited partner has 99.99% ownership
- Limited partner receives 99.99% of the tax credits, income and losses
- Investor equity reduces the need for other financing which reduces debt service, and enables rents to be affordable

Tax Credit Timeline

1. Apply for credits
2. Receive a tax credit reservation
3. Receive carryover allocation, indicate lock-in election
4. Incur 10% of estimated project basis and start construction by August 31 of the following year
5. Complete project and place in service within two years of carryover
6. Record LURA
7. Apply for 8609's
8. Project Lease-up: Qualify Tenants
9. Begin claiming credits: PIS year or following year
10. Keep tax credit units in compliance

**** See 2018-2019 LIHTC Calendar on website housingnm.org**

Part II
Staying in Compliance

11/28/2018 New Mexico Mortgage Finance Authority 31

Compliance Monitoring

MFA's Asset Management Department is responsible for compliance audits and physical site inspections for more than 300 properties totaling over 17,000 units throughout New Mexico.

The Asset Management Department is committed to working with and providing training to property owners, management agents and property managers, to ensure the successful operation of properties.

11/28/2018 New Mexico Mortgage Finance Authority 32

Programs Monitored

Housing programs monitored includes properties funded through:

- Low Income Housing Tax Credits
- American Recovery and Reinvestment Act's (ARRA)
- Tax Credit Exchange
- ARRA Tax Credit Assistance
- HUD 542(c) Risk Sharing
- HUD HOME
- Housing Trust Fund
- HUD Neighborhood Stabilization Program
- USDA Section 538
- FDIC/Resolution Trust Corporation

Since 2001, MFA has also served as HUD's Performance-Based Section 8 contract administrator, ensuring that Housing Assistance Payment contracts with HUD are secure and accurately administered. Our Section 8 portfolio comprises of 86 properties with a total of 5,189 units.

MFA is a 2013 grantee of Section 811 funding and is currently in the process of signing contracts for three Section 811 projects.

11/28/2018 New Mexico Mortgage Finance Authority 33

Compliance Monitoring

- Occupancy levels
- Health and safety issues and tenant complaints
- Affirmative fair housing practices
- Analyze budgets, capital needs assessments and audited financial statements
- Verify income qualification of households, applicant screening processes, staff quality controls, program documentation and preventative maintenance plans
- REAC inspections
- Review and approve Reserve for Replacement Requests
- Review and approve Utility Allowances
- Process Contract and Rent Renewals

11/28/2018 New Mexico Mortgage Finance Authority 34

Monitoring Schedule

	LIHTC/TCAP	HOME	542(c) Risk Sharing	TCEP/HTF/RTC/USDA 538/NSP
Monitoring	ON SITE: within one year of date of last building placed in service, then once every three years. If non-compliance issues are severe then visits could be every year until non-compliance is corrected.	ON SITE: The on-site inspections must occur within 12 months after project completion and at least once every 3 years thereafter during the period of affordability. The participating jurisdiction may adopt a more frequent inspection schedule for noncompliant properties.	ON SITE: Annually. REAC: frequency of re-inspection based upon score. From every three years to annually.	ON SITE: Annually.

11/28/2018 New Mexico Mortgage Finance Authority 35

Utility Allowances

Properties with tenant paid utilities must evaluate utility allowances schedules annually using an acceptable method chosen by the owner/agent.

Acceptable methods to calculate utility allowances:

- HUD Utility Schedule Model
- Multifamily Housing Utility Analysis
- Utility Company Estimate
- Energy Consumption Model
- Public Housing Authority schedule**

**new HOME projects ineligible

11/28/2018 New Mexico Mortgage Finance Authority 36

Monitoring Review Preparation

Things to know to have a successful audit:
- Know what is in the LURA
- Be sure to have the documentation requested in MFA's notification letter
  - Utility allowances
  - Fully executed 8609's, if applicable
  - Audited financials
- Have well organized files
- Perform a 100% unit inspection before the audit
- Have maintenance do a quick walk around the property the day of inspection
- Have a good working area for the auditors
- Call the Housing Programs Analyst with any questions before the review

Part III 2019 Qualified Allocation Plan Review

Qualified Allocation Plan

What is it?
- The QAP is the State of NM's plan for allocating its tax credits.
- It is prepared annually, consistent with IRC §42(m).
- Approval Process – Pending Approval by Governor.
- Where is it?
  http://www.housingnm.org/developers/low-income-housing-tax-credits-lihtc

Don't forget about the FAQ's as these are incorporated into the 2019 QAP by reference.

Threshold Review

All Applications must meet each of the following and include all required materials:
- Site Control
- Zoning
- Minimum Project Score
- Applicant Eligibility
- Financial Feasibility
- Fees
- Pre-Application Requirements

Threshold: Site Control

- Fully executed purchase contract or option
- Written governmental commitment to transfer property by deed or lease
- Recorded deed or long term lease

Threshold Site Control, cont.

Transfer Commitment must:
- Provide an initial term lasting until at least July 31, 2019;
- Be binding on seller through initial term; and
- Have names, legal description, and acquisition cost that match application.

Initial term must not be conditioned upon any extensions requiring seller consent, additional payments or financing approval.

Threshold: Zoning

- Evidence that multifamily housing is not prohibited by the existing zoning and dated < 6 months before application deadline.
- No pending litigation or unexpired appeal process relating to zoning for project.
- Only exemption, a site that is not zoned or which is zoned agricultural.

Threshold: Fees

- All fees owed to MFA for all tax credit projects in which principal(s) participate must be current.
- 2019 Fees
  - Application fee $500 or $1,000
  - Deposit of $8,500
  - Processing fee* of 7.5% (9% Award) or 3.5% (4% Award)
  - Income Averaging projects may be subject to increased monitoring fee

*Applicable if a reservation is received

Threshold: Applicant Eligibility

All members of the development team of the proposed project must:

- Be in good standing with MFA and all other state and federal affordable housing agencies; and
- Sign an affidavit affirming no related party relationships or relationships are properly disclosed.

Threshold: Financial Feasibility

- Applications must demonstrate, in MFA's reasonable judgment, the project's financial feasibility.
- QAP Section IV.C.2, Section IV.D, and Section IV.E. summarize MFA's financial feasibility considerations.
- Additional Underwriting Details in the *Initial Application Underwriting Supplement.*

Per Unit Costs Limits

- Based on average per unit cost of new construction and adaptive re-use projects submitted in the round.
- Purchase price attributed to land; costs related to commercial space, and reserves are excluded.
- In 2018 the average was $188,151, in 2017 the average was $183,914, in 2016 the average was $186,332 and in 2015 it was $191,211.
- Per project maximum Tax Credit award is $1,232,333 and any entity (including affiliates) may not receive more than 2 awards.

Threshold: Pre-Application

- Tax-exempt bond financed projects required to meet with MFA at least 30 days prior to submission.
- MFA encourages applicants for 9% LIHTC to meet with staff prior to submission.

Minimum Project Score

- 9% projects need a minimum score of 85 points;
- 4% (bond) projects need a minimum score of 70 points;
- Partial points will not be awarded;
- Applicant self-scores application; MFA scores application;
- Scoring criteria and information needed to obtain points in QAP and checklist;
- Deficiency correction used only to address incomplete application or forms, obtain clarifications, or correct certain correctable threshold items – never scoring or allocation set-aside requirements.

Question 4

True or False: Applicants for 9% Low Income Housing Tax Credit allocations must meet with MFA staff 30 days prior to application submission.

❑ True

❑ False

Scoring Criteria

Criterion 1: Nonprofit, New Mexico Housing Authority (NMHA), Tribally Designated Housing Entity (TDHE), or Tribal Housing Authority Participation (THA) participation (5 or 10 points)

- Tier 1 or Tier 2 requirements in application and checklist must be provided for points
- Requirement for points different than requirements for set-aside
- Net worth/net assets must be substantiated by reviewed or audited financial statements
- Document fee split agreement among parties
- Entity required to attend training within 6 months prior to application
- Indicate on checklist if submitting as a qualified nonprofit, NMHA, TDHE or THA

Scoring Criteria, cont.

Criterion 2: Locational Efficiency (up to 4 points)

Projects located in proximity and connected to:

1) services and/or 2) public transportation

Criterion 3: Rehabilitation Projects (up to 5 points)

- To be eligible for points, must meet 20 year requirement (limited exception)
- Scope of work required at Application
- Cost thresholds for moderate/substantial rehab
- Detailed narrative + prelim relocation plan due
- Information on existing debt

Scoring Criteria, cont.

Criterion 4: Sustaining Affordability (5 or 15 points)

- 15 points:
  - Use restrictions are to expire on or before December 31, 2023; or
  - Federal rental assistance contract covering at least 75% of all units
- 5 points:
  - Projects that have/will have a federal rental assistance contract covering at least 20 percent of all units

Scoring Criteria, cont.

Criterion 5: Income Levels of Tenants (up to 16 points)

- Point requirements based on Project election and location (urban or rural)
- For 20/50 or 40/60 election, points based on percentage of units at or below 50% AMI
- For Income Averaging election, points based on average income of units
- Rural projects receive same number of points for fewer units at lower incomes

Scoring Criteria, cont.

Criterion 6: Market Rate Units (4 points)

- Minimum 15% of the total units.
- *Maximum points for Income Levels of Tenants and Market Rate Units combined is 16. Cannot be combined in Income Averaging Set-aside.*

Criterion 7: Extended Use Period (5 points)

- Maximum points for 35-year Extended Use Period.

Scoring Criterion, cont.

- All three priorities, special housing needs, senior housing and households with children are required to:
  - Comply with Fair Housing Act requirements;
  - Services must be provided throughout entire affordability period; and
  - Owners may not allow for more than a 30-day gap in service.

Scoring Criteria, cont.

Criterion 8: Special Housing Needs (up to 15 points)

- Up to 15 Points: 20% of the units reserved for special housing needs households and services provided (to be eligible at least 10% of units restricted at 30% AMI or permanent rental subsidy support)
- Up to 5 Points: 5% of units reserved for special housing needs households and 5% of units restricted at 30% AMI
- Service Coordination Certification required + proposed budget; required to score at least five points
- Additional 10 points available for deeper services

Scoring Criteria, cont.

Criteria 9 & 10: Senior Housing, Households with Children (up to15 points)

- 100% of total units reserved for Senior Housing.
- 25% of the total units reserved for Households with Children.
- Points based on services provided.
- Design requirements – mandatory for points.
- On-site service coordinator – required for service points.
- The proposed project annual operating budget must include at least $2,500 for the provision of social services.
- Senior Housing Certification required (form found on website).

Scoring Criteria, cont.

- Individuals with Children – Unit Mix Calculations

Total Units	68
▪ 3/3+ bedrooms and 1.75 baths	10
▪ 2 bedrooms and 1.75 baths	50
▪ 3 bedroom % of total units	14.7%
▪ 2 bedroom % of total units	73.5%

**See Scoring Criterion 10 for unit requirements*

Scoring Criteria, cont.

Criterion 11: Leveraging Resources (up to10 points)

- Expanded to include GP contributions where there is no hard debt repayment requirement, deferred developer fee provided deferred fee is repaid by year 15, and MFA soft debt.
- Cash flow loans eligible contributions but cannot have hard payments.
- Other exclusions: stale contributions, non-measurable contributions.
- The value of the contribution must be listed as a source on Schedule A-1 and, when not a cash contribution, the corresponding cost must be listed as a cost on Schedule A.

Scoring Criteria, cont.

Criterion 12: Complete Application (5 points)

Applications that do not require any deficiency corrections. *See* Section IV.A.4 in the QAP:

- One omnibus signature page - blue ink signed by all General Partners
- Don't forget the CD, DVD or flash drive and doc's scanned **in color and bookmarked**
- Brown Classification Folder
- All attachments, current MFA forms
- Do not rely solely on Application Checklist

Scoring Criteria, cont.

Criterion 13: Commitment to market units to public housing authority waiting lists (2 points)

Criterion 14: QCT/Concerted Community Revitalization Plan (3 or 5 points)

- Projects that contribute to a Concerted Community Revitalization (CCR) Plan or are located within ½ mile of a NM-designated Main Street eligible for 3 points.
- If the Project meets one of the above criteria and is located in a QCT, it is eligible for 5 points.
- All scattered sites need to be in the CCR/QCT and contribute to the Plan to receive applicable points.

Scoring Criteria, cont.

Criterion 15: Projects with Units Intended for Eventual Tenant Ownership (5 points)

- Cannot be combined with Extended Use Period Points
- Additional requirements for Tenant Conversion Plan

Criterion 16: Historic Significance (5 points)

Criterion 17: Blighted Buildings or Reuse of Brownfield Site (5 points)

Scoring Criteria, cont.

Criterion 18: Projects Located in Areas of Statistically Demonstrated Need (5 or 10 points)

- Tier 1 Areas (10 points)
  - Bernalillo, Cibola, Dona Ana, Eddy, Los Alamos, Luna, McKinley, Otero, Rio Arriba, Sandoval, Santa Fe, Taos and Valencia. All Projects on Native American Trust Lands or Native American-owned lands within the tribe's jurisdictional boundaries.
- Tier 2 Areas (5 points)
  - Chaves, Colfax, Curry, Grant, Lea, Roosevelt, San Miguel, Sierra, and Socorro.
- Petition process available

Scoring Criteria, cont.

Criterion 19: Efficient Use of Credits (5, 10 or 15 pts)

- Scoring criterion includes projects that involve substantial rehabilitation or moderate rehabilitation.
- Scoring criterion includes adaptive reuse which is scored as if it were new construction.
- Scoring thresholds and related points vary depending on type of project (see next slide) and were increased based on inflation.

Scoring Criteria, cont.

New Construction	<$16,074/unit	AND	<$16.61/sq.ft.	=15 Points
	<$17,681/unit	AND	<$18.22/sq.ft.	=10 Points
	<$16,074/unit	OR	<$16.61/sq.ft.	=5 Points
Substantial Rehab	<$14,065/unit	AND	<$14.52/sq.ft.	=15 Points
	<$15,472/unit	AND	<$15.95/sq.ft.	=10 Points
	<$14,065/unit	OR	<$14.52/sq.ft.	=5 Points
Moderate Rehab	<$12,055/unit	AND	<$12.46/sq.ft.	=15 Points
	<$13,261/unit	AND	<$13.66/sq.ft.	=10 Points
	<$12,055/unit	OR	<$12.46/sq.ft.	=5 Points

Scoring Criteria, cont.

Criterion 20: Non-Smoking Properties (4 or 6 pts)

- Both 9% & 4% projects are required to participate in the American Lung Association Smoke Free at Home program to obtain points.
- Platinum certification = 6 points
- Gold certification = 6 points
- Silver certification = 4 points

Scoring Criteria, cont.

Criterion 20: Non-Smoking Properties (4 or 6 points)

PLATINUM
New property that does not allow smoking anywhere on the property.

GOLD
No smoking anywhere on property

SILVER
No smoking in units, common areas, or within 25 feet of any entrance or window.

Scoring Criteria, cont.

Criterion 20: Non-Smoking Properties (4 or 6 points)

Scoring Criteria, cont.

Criterion 20: Non-Smoking Properties (4 or 6 points)

Natalie Pena
Director of Programs
American Lung Association in New Mexico
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Scoring Criterion, cont.

Criterion 21: Adaptive Reuse Projects (5 points)

- In combined new construction and Adaptive Reuse Projects, converted space must account for at least 20 percent of the sum of each Building's Gross Square Feet.

Criterion 22: Other Scoring Points Available (up to 6 points)
Criteria include:

- Additional deep income targeting;
- New construction, 35 units or less, no rehab;
- Located in a town with population <16,000;
- Located in a town with no "active" LIHTC projects;
- Preference for active duty or veterans.

Other Changes to 2019 QAP

- Income Averaging election allowed (not currently accepting Income Averaging projects with market rate units)
- Scattered site projects can be located in different counties
- Minimum score for projects has changed due to evaluation criteria changes
- Capital Needs Assessment (CNA) professionals must meet minimum qualifications (see Design Standards)

Other Changes to 2019 QAP

- Projects must display MFA signs with fraud hotline during construction
- Development team members must sign an affidavit on related party relationships
- Builder fees exceeding initial application amounts are excluded from eligible basis
- Developer fee limits changed for 4% projects
- Maximum 9% tax credit award increased
- Quarterly progress reports required

Almost New to 2019 QAP

- Prior to 8609 issuance, two cost certifications must be submitted:
  - CPA-prepared project cost certification; and
  - General contractor-prepared and executed cost certification.
- Templates found on website.

Dates to Remember…

2019 Tax Credit Round:

- Applications due February 12, 2019
- Awards: June 2019
- Carryover Application: November 15, 2019
- Final plan submittal: June 30, 2020
- 10% Test + Evidence of Construction Start: Aug. 31, 2020
- Placed in Service or Final Allocation App: Nov. 15, 2021

***2020 Tax Credit Round*:**

- 2020 QAP Public Comment Period: Sept./Oct. 2019

See LIHTC calendar for additional dates

Questions?

BREAK!

Part IV APPLICATION PROCESS

Application Review

- **Universal Application**
  - HOME
  - Risk Share
  - Other
- **Indicate**
  - Extended Use Period
  - Set-Aside Option
  - Complete all areas of application

Application Review, cont.

- **Utility Allowance**
  - Rent calculation – Schedule B
  - Attach current documentation
  - Must be approved allowance
- **Contact Information**
  - *Update MFA if this changes after application*
- **Ownership Information**
  - To-be-formed partnerships
  - Non-Profit participants

Application Review, cont.

- **Development team**
  - Identity of interest
  - Developer fee amount
  - Attach resumes
- **Identification of local official**

Schedules

- **Schedule A – Development Cost Budget**
  - Calculations - see MFA's Underwriting Supplement
    - Construction Contingency
    - Builder Fees
    - Developer Fee
    - Operating Reserve
  - Rehabilitation and Adaptive Reuse that also includes New Construction Projects must provide separate Schedule A's for rehabilitation or adaptive reuse component, for new construction component and total project

Construction Contingency Example

New Construction

$ 6,388,500	Construction Costs before GRT, GR, Overhead & Profit
5%	Minimum Owner Contingency Percentage
$ 319,425	Minimum Owner Contingency Dollar
$ 350,000	Application Contingency
$ (30,575)	(Excess)/under minimum

Contingency included in construction contract will be included as a hard construction cost and will not count toward required owner construction contingency.

Builder's Profit, Overhead, General Requirements, Example

$ 6,388,500	Construction Costs before GRT, GR, Overhead & Profit
6%	Allowed percentage for Profit
$ 383,310	Maximum for Profit (if no identity of interest)
$ 383,310	Application Profit
$ 0	(Excess)/under used

Same formula as above for General Requirements

$ 6,388,500	Construction Costs before GRT, GR, Overhead & Profit
2%	Allowed percentage for Overhead
$ 127,770	Maximum for Overhead
$ 127,770	Application Overhead
$ 0	(Excess)/under used

Developer Fee Calculation

9% Project Developer fees* may not exceed:

- Projects with 30 or fewer Units - $22,500 per Low Income Unit
- Projects with 31-60 Units - $21,000 per Low Income Unit
- Projects with 61-100 Units - $19,500 per Low Income Unit not to exceed $1.5 million
- Projects with more than 100 Units $15,000 per Low Income Unit not to exceed $1.8 million.
- Additionally, in no case can the developer's fee exceed 14% of Total Development Costs.

**Further reduction when there is an identity of interest between buyer and seller.*

Developer Fee Calculation

4% Project Developer fees* may not exceed:

- 14% of Total Development Costs

Further reduction when there is an identity of interest between buyer and seller.

Developer Fee Calculation Example

9% Project with 72 Total Units, 60 Low Income Units

#1	$21,000	per Low Income Unit
	60	Low Income Units
	$1,260,000	Potential Developer Fee
#2	$6,388,500	Total Development Costs
	x 14%	Maximum Fee Percentage
	$894,390	Maximum Developer Fee

Reserves & Expenses

- Operating Expenses = Project operating expenses (excluding reserves and resident social services expenses); $3,300 to $4,800/unit;
- Replacement Reserve = $250/unit/year for Senior housing (new construction only) and $300/unit/year for all other project types;
- Operating Reserve = minimum of six months operating expenses (including replacement reserves and social services expenses) and all must-pay debt service.

Schedules, cont.

- **Schedule A-1 – Sources of Funds**
  - Construction and Permanent
  - Deferred Fee
  - Sources = Uses
- **Schedule B – Unit Type & Rent Summary**
  - Distribution of units proportionately
  - Set-aside rents cannot exceed tax credit limits
  - Indicate unit net square feet

Schedules, cont.

- **Schedule C – Operating Expense Budget**
  - Minimum 7% vacancy
  - Maximum 6% management fee (calculated on gross income)
  - Replacement Reserves – we will underwrite to at least MFA minimums
- **Cash Flow Projection**
  - Income, expense, and reserve escalators at minimum stated in underwriting supplement
- **Schedule D – Contractor Cost Breakdown**
  - Tie to Schedule A

Schedules, cont.

- **Schedule G - Affordable Unit Set Aside Election**
  - Irrevocable
- **Schedule H – Applicant's Previous Participation**
  - One Schedule H for each General Partner and Developer
  - Compliance Affidavit from each General Partner and Developer Principal

Question 6

True or False: I can use MFA's 2018 Schedules in my 2019 application so long as my numbers are accurate.

- ❑ a. True
- ❑ b. False

Part V

2018 Round Results

What makes an application successful?

2018 Tax Credit Round

Of the 11 applications submitted:

- $10,028,210 in credits were requested
  - Ratio of requests to credit ceiling was 2.32:1
  - This ratio decreased from 3.86:1 in 2017
- Average TDC per unit for new construction was $188,151
  - Up from $183,914 in 2017, from $186,332 in 2016, and $191,211 in 2015
- Average project size decreased to 71 units from 72 units in 2017

2018 Tax Credit Round Results

- Six awards in 2018, five in 2017.
- 2018 Awarded Project Information:
  - Projects range from 36 to 100 units, and awards range from $472,169 to $1,150,000.
  - All projects have a sponsor or co-sponsor that is a non-profit, governmental or tribal entity.
  - All projects are providing services to housing priority populations.
  - All projects received points for areas of demonstrated need, efficient use of tax credits and leveraging.

2018 Tax Credit Round Results

- 2018 Awarded Project Information:
  - One project proposed market-rate units.
  - No projects received points under tenant ownership, historic significance or adaptive reuse.

The Most Successful Application

. . . is for the project that you can deliver and successfully operate for the entire extended use period!

Questions?

For more information:

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housingnm.org/developers

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