

MFA 2020 Qualified Allocation Plan

Training Workshop – December 3, 2019

- 1 Tax Credit Program Overview
- 2 2019 Round Results
- 3 Tax Credit Monitoring & Compliance
- 4 2020 QAP Review
- 5 2020 Application Process
- 6 NM State Tax Credit Program
- 7 Other MFA Sources of Funds
- 8 Weatherization Program

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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

Low-Income Housing Tax Credits

- Internal Revenue Service program created by Tax Reform Act of 1986 to provide alternative funding for low- and moderate-income households
- Program is administered by the US Treasury Department
- Credits are allocated by a designated Housing Credit Agency through a Qualified Allocation Plan (QAP)
- Credit is a dollar for dollar tax reduction for 10 years
- Credit amount is based on the cost of acquiring, constructing or rehabilitating housing developments
- Investors purchase credits to offset federal tax liability
- Equity from the sale of credits reduces debt, resulting in lower rents

Low-Income Housing Tax Credits

- In New Mexico, LIHTC Program is administered by New Mexico Mortgage Finance Agency (MFA)
- Both 9% and 4% credits available
- 4% credits are “as of right” with the use of tax exempt bonds
- 9% credits are competitive
- For 9% LIHTC, states receive a finite allocation of tax credits each year, allocated on a per capita basis (approx. \$5-6M per year in NM)

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Low-Income Housing Tax Credit Process



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Income and Rent Restrictions

Minimum Set-Aside election of:

- 20% of units at 50% of area median income (AMI) (Requires that all restricted units be at 50% AMI or below to be eligible for credits), or
- 40% of units at 60% of AMI, or
- Average Income set-aside - 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%.

Affordability Commitment

30 year Affordability Commitment per Code

- 15-year Compliance Period
- At least 15-year Extended Use Period

Land Use Restriction Agreement (LURA) - extended use agreement

Early termination of 30-year affordability commitment:

- Foreclosure
- Qualified Contract (not an option in NM)

Low-Income Housing Tax Credits Rates

	New Construction	Acquisition/ Rehabilitation
Not "Federally Subsidized" (not using volume-cap bond debt)	9%	3.17%/9%
"Federally Subsidized" volume-cap bond debt	3.17%	3.17%/3.17%

9% credits are set at the floor of 9%, but for 4% acquisition credits, projects can lock in rate at Carryover or Placed-In-Service. (Tax-exempt Bond 4% credits can lock in at either bond issuance or Placed-In-Service)

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Applicable Fraction

- The percentage of the project that is dedicated to low income use
- Lesser of percentage of Low-Income Floor Space or Units
- Exempted employee units are excluded from calculation

	Floor Space		Unit Fraction
Total Residential Floor Space	79,200	Total Residential Units	72
Low-Income Units Floor Space	66,000	Low-Income Units	58
Percent Low-Income	83.33%	Percent Low-Income	80.56%

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	Floor Space		Unit Fraction
Total Residential Floor Space	79,200	Total Residential Units	72
Low-Income Units Floor Space	66,000	Low-Income Units	58
Percent Low-Income	83.33%	Percent Low-Income	80.56%

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Low-Income Housing Tax Credits Basis

Non-eligible basis costs

- Land
- Off-site work
- Interest payable on permanent loans
- Insurance and property tax expenses incurred following construction completion
- Application fees
- Origination/discount points
- Title fees
- Legal fees
- Reserves
- Syndication fees
- Federal grants
- Post-construction working capital

Eligible basis costs

- Construction costs on-site
- Professional fees
- Construction period financing fees
- Developer and consultant fees

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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”.

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Tax-Exempt Bonds and 4% Credits

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

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Tax-Exempt Bonds and 4% Credits

Bond deals are subject to additional rules regarding the tax-exempt status of the bonds:

- Requires allocation of State private activity bond 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

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4% 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 (more later on boost)
- Computing acquisition basis- cost of building including acquisition-related costs
- If not 100% low income, only low income percentage of cost can qualify

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Low-Income Housing Tax Credits Boost

30% increase (“boost”) to eligible basis for new construction and rehabilitation costs only (acquisition costs not eligible).

Not “Federally Subsidized” (not using volume-cap bond debt)	HUD designated QCT, DDA or SADDA <i>OR</i> those that serve a target population and have a need for financial feasibility
“Federally Subsidized” volume-cap bond debt	HUD designated QCT, DDA or SADDA

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Low-Income Housing Tax Credits Example – Acquisition / Rehabilitation

Acquisition Credit by Basis	
Eligible Basis	\$1,000,000
Exclusions*	
Eligible Basis	\$1,000,000
QCT/DDA Boost	100.0000%
Adjusted Basis	\$1,000,000
App Fraction	100%
Qualified Basis	\$1,000,000
Applicable %	3.17%
Annual Credit	\$31,700
x 10 years	\$317,000
Investor Portion	99.99%
	\$316,968
Price per Credit	\$0.90
Credit Proceeds	\$285,271

Rehabilitation Credit by Basis	
Eligible Basis	\$8,000,000
Exclusions*	
Eligible Basis	\$8,000,000
QCT/DDA Boost	130.0000%
Adjusted Basis	\$10,400,000
App Fraction	100%
Qualified Basis	\$10,400,000
Applicable %	9.00%
Annual Credit	\$936,000
x 10 years	\$9,360,000
Investor Portion	99.99%
	\$9,359,064
Price per Credit	\$0.90
Credit Proceeds	\$8,423,158

Combined Annual Credit (Award): \$967,700
Combined Credit Proceeds (Equity): \$8,708,429

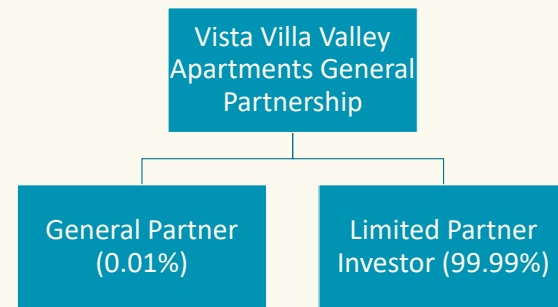
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Limited Partner Structure

General Partner (GP) owns just 0.01% but controls and operates the project;
Passive limited partner (LP) invests equity in return for 99.99% ownership;
Sale to investor LP of most of Credits and tax losses maximizes investor equity;
More investor equity reduces other financing needs.

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Limited Partner Structure



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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 2019-2020 LIHTC Calendar on website: housingnm.org**

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Questions



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2019 Tax Credit Round

Of the 14 Applications submitted:

- \$11,768,678 in credits were requested
 - Ratio of requests to credit ceiling was 2.59:1
 - This ratio increased from 2.31:1 in 2018
- Average TDC per unit for new construction is \$203,607
- Up from \$ 188,151 in 2018 and \$ 183,914 in 2017
- Average project size increased slightly at 75.1 units [average was 71.4 units in 2018].

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2019 Tax Credit Round

Seven awards in 2019, six in 2018

2019 Awarded Project Information:

- Recommended Projects sizes range from 40 to 126 units and award amounts range from \$560,000 to \$1,232,333
- A total of 216 affordable housing units will be rehabilitated and 246 new units will be constructed.
- 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
- No project proposed market-rate units, and no projects received points under tenant ownership or historic significance

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The Most Successful Application
is for the project that you can
deliver and successfully operate
for the entire extended use
period!

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MFA's Asset Management Department is responsible for compliance audits and physical site inspections for more than 300 properties totaling over 19,000 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.

16,003 units 212 properties	3,527 units 44 properties.	2 properties in pipeline	60 units 1 property.	41 units 3 properties				
LIHTC	S-8	542C	HOME	HTF	NSP	538	RTC	811
5,189 units 86 properties	703 units 105 properties.	16 units 1 property	410 units 16 properties.					

Compliance Monitoring

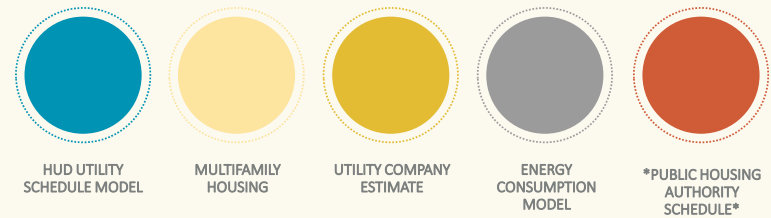
Monitoring Schedule

LIHTC/TCAP	HOME	542(c) Risk Sharing	TCEP/RTC/ USDA 538/NSP
<p>ON SITE: within one year of date of last building placed in service, then once every three years.</p> <p>If non-compliance issues are severe then visits could be every year until non-compliance is corrected.</p>	<p>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.</p> <p>The participating jurisdiction may adopt a more frequent inspection schedule for noncompliant properties.</p>	<p>ON SITE: within one year of the loan closing, then Annually.</p> <p>REAC: frequency of re-inspection based upon score. From every three years to annually.</p>	<p>ON SITE: Annually.</p>

Utility allowance methods

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:



Properties with HOME funds cannot use this method

Compliance Monitoring

On-site compliance review

At least 20 percent of the tenant files will be selected by MFA at random. The tenant file review will cover an evaluation of utility allowance schedules and respective implementation deadlines; comparison of rents charged and allowable set aside maximums; and evaluation of household income and the applicable set aside income limit.

On-site physical inspection

At least 20 percent of the units will be selected by MFA at random. Compliance monitoring regulations published January 14, 2000, require housing credit agencies to conduct physical inspections consistent with standards governed by HUD's Uniform Physical Conditions Standards

Annual reporting requirements

- The project owner shall annually provide MFA by March 31st of every year, a Certification of Continuing Program Compliance
- The project owner must submit annually to MFA, within 120 days of fiscal year end, through MFA's compliance online system, WCMS, annual audited property financial statements
- Electronic data via WCMS: On a monthly basis, the project owner must provide TICs and property vacancy data using the WCMS online system
- Annual vacancy reporting: The project owner must annually submit to MFA by March 31, a vacancy report by month for previous year.

Annual compliance fees

- Compliance fees are due in MFA's office by January 31 of each year. Owners will be notified once, or one time, of past due compliance fees. They will then have 30 days to submit payment. If payment is not submitted, MFA will send a Notice of Noncompliance (IRS Form 8823) to the Internal Revenue Service.
- \$50 per qualifying tax credit unit
 - Service Coordinator must be in addition to the property manager

Compliance Monitoring

Housing Priority Requirements

Housing priorities & enrichment services

- Enforced throughout the affordability period
- Must not allow for more than a 30-day gap in services
- Documentation confirming compliance with the LURA requirements must be maintained throughout the affordability period

Special needs housing priority

- Must have a plan or a policy explaining how units will be marketed
- Documentation that special needs housing units were not rented by the owner/agent for at least 30 days until the required threshold is met
- MOU with any service providers

Enrichment services

- Documentation to confirm compliance with enrichment services of the LURA
- Date, time and location of event
 - Newsletters, flyers or brochures advertising scheduled events
 - Sign in log of attendees
 - Provider information

Service coordination

- Service Coordinator must be in addition to the property manager
- Annual operating budget must be sufficient to cover costs
- Annual survey must be conducted and documented regarding satisfaction or dissatisfaction
- Annual certification must be provided by the owner of
 - Number of hours on site
 - Number of residents served

Additional Functions



Lease up meeting

In conjunction with the Housing Development Department, a representative will be available at the lease up meeting to answer questions and provide information.



Approval of Employee units

After initial application should a need for an employee unit to be added, written requests from owner/agents can be submitted to the Asset Management Department for Review and approval.



Review of Affirmative Fair Housing Marketing Plans (Risk Share, HOME, NHTF, TCEP NSP)

LIHTC projects with additional affordable layers may require an approved marketing plan. Plans can be submitted to the Asset Management Department for review, approval and on-going compliance monitoring.



Reserve for Replacement Requests (Risk Share)

Risk Share projects require a reserve held for capital replacement. Requests for eligible expenditures can be submitted to the Asset Management Department for review and approval. An inspection will follow confirming repair and replacement of items paid by the reserve.

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Qualified Allocation Plan

- 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.

<http://www.housingnm.org/developers/low-income-housing-tax-credits-lihtc>

Don’t forget about the FAQ’s as these are incorporated into the 2020 QAP by reference.

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Threshold Requirements

All Applications must meet each of the following and include all required materials:

- Site Control
- Zoning
- Applicant Eligibility
- Financial Feasibility
- Fees
- Pre-Application Requirements

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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

Transfer Commitment must:

- Provide an initial term lasting until at least July 31, 2020;
- 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.

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Threshold: Fees

All fees owed to MFA for all tax credit projects in which principal(s) participate must be current.

- 2020 Fees
- Application fee \$750 or \$1,500
- Deposit of \$8,500
- Processing fee* of 7.5% (9% Award)
- \$50/unit monitoring fee, due annually
- Income Averaging projects may be subject to increased monitoring fee

*Applicable if a reservation is received

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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.

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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.

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Cost Limits

Based on average per unit and per square footage 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 2019 the per unit average was \$203,607, in 2018 the average was \$188,151, in 2017 the average was \$183,914, and in 2016 the average was \$186,332.

Per project maximum Tax Credit award is \$1,232,333 and any entity (including affiliates) may not receive more than 2 awards.

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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.

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Minimum Project Score

- 9% projects need a minimum score of 78 points;
- 4% (bond) projects need a minimum score of 63 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.

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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

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Scoring Criteria

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

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Scoring Criteria

Criterion 4: Sustaining Affordability (5, 10, or 15 points)

15 points:

Use restrictions are to expire on or before December 31, 2024; or
Future federal rental assistance contract covering at least 75% of all units

10 points:

Projects that have a 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

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Test your knowledge

How many points would a project be eligible for if it had an existing USDA-RD rental subsidy contract, covering 80% of the units?

- a) 5
- b) 10
- c) 15

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Test your knowledge

How many points would a project be eligible for if it had an existing USDA-RD rental subsidy contract, covering 80% of the units?

- a) 5
- b) 10**
- c) 15

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Scoring Criteria

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 Average Income election, points based on average income of units
- Rural projects receive same number of points for fewer units at lower incomes

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Scoring Criteria

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.

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Scoring Criteria

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.

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Scoring Criteria

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

Option A: 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)

Option B: 5% of units reserved for special housing needs households and 5% of units restricted at 30% AMI (no points for additional services, just fulfills the priority population requirement for 4% projects)

- Service Coordination Certification required + proposed budget required
- Up to 8 points available for deeper services

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Scoring Criteria

Criteria 9 & 10: Senior Housing, Households with Children (up to 8 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 Fair Housing Certification required (form found on website).

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Scoring Criteria

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*

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Discussion

What are some point-eligible services for seniors?
For households with children?
For special needs populations?

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Scoring Criteria

Criterion 11: Leveraging Resources (up to 10 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.

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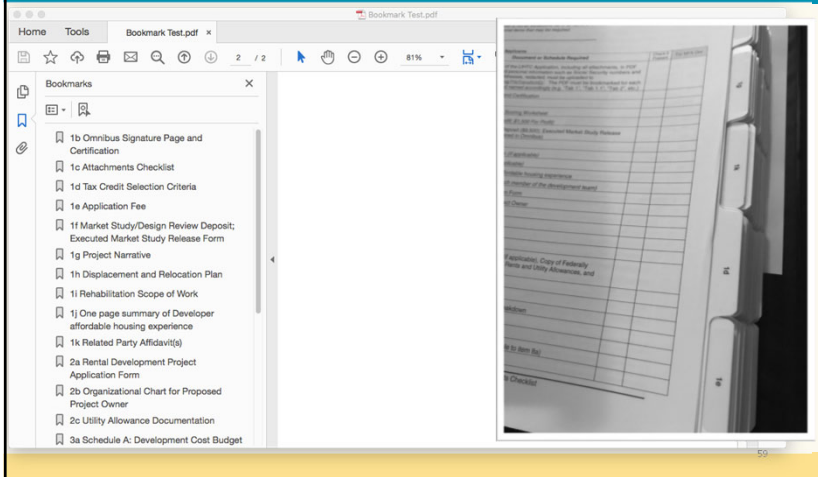
Scoring Criteria

Criterion 12: Complete Application (3 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 digital, fully tabbed, single PDF, uploaded to MFA's file sharing site:
<https://local.housingnm.org/FileTransferHD>
- Brown Classification Folders are no longer required, 3 ring binders will be accepted, but must be fully tabbed.
- All attachments, current MFA forms
- Do not rely solely on Application Checklist (READ THE QAP)

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“Fully Tabbed”



Test your knowledge

Q: True or false, only 2 applications were deemed “complete” last year.

Test your knowledge

Q: True or false, only 2 applications were deemed “complete” last year.

A: FALSE. 7 out of 14 applications received points for completeness.

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Scoring Criteria

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.

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Scoring Criteria

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)

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Scoring Criteria

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

Tier 1 Areas (10 points)

- Dona Ana, Eddy, Lea, Los Alamos, Otero, Sandoval, Santa Fe, Valencia, Village of Ruidoso and all Projects on Native American Trust Lands or Native American-owned lands within the tribe's jurisdictional boundaries. Tier 2 Areas (5 points)
- Bernalillo, Chaves, Grant, Lincoln, McKinley, San Juan, Rio Arriba, San Miguel, Sierra, and Torrance.

Petition process available

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Scoring Criteria

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

- 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.

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Scoring Criteria

New Construction	<\$16,074/unit	AND	<\$16.61/sq.ft.	=15 Points
	<\$17,681/unit	AND	<\$18.22/sq.ft.	=10 Points
Substantial Rehab	<\$16,074/unit	OR	<\$16.61/sq.ft.	=5 Points
	<\$14,065/unit	AND	<\$14.52/sq.ft.	=15 Points
Moderate Rehab	<\$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

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Scoring Criteria

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

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

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Scoring Criteria

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.

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Other Changes to the 2020 QAP

- Overall scoring minimum required were lowered to adjust for lower possible points in the Housing Priorities scoring criteria.
- Last year we did not allow existing LIHTC projects to utilize the Average Income set-aside. Now that we have a better sense of how this set-aside will work with compliance, this will be allowed, however the project must meet both the existing set-aside and the new Average Income set-aside requirements.
- Per IRS guidance, any unit utilized by a manager may have rent collected, or be at any income level, and will still be considered common space in the eligible basis calculation. Language has been clarified to address this change.
- Additionally, the 20 year rule was changed to only apply to 9% projects that are former Tax Credit projects and those projects looking for rehabilitation points.

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Other Changes to the 2020 QAP

- All general contractor bid records and communication regarding the required general contractor cost certification are required to be retained for audit purposes.
- Language was added to allow MFA to request an opinion of counsel if there are concerns regarding the control of the nonprofit by a for-profit.
- A visual diagram of the relationship of any related parties is required.
- Under the Pre-Application Requirements, attendance at the most recent QAP training was added. Previously this requirement was only a part of the Nonprofit scoring criteria. Now it is required for all applicants AND any nonprofit partners if they want to claim points under that scoring item. We also are adding a note for 4% applications to allow them to take alternate "training".

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Other Changes to the 2020 QAP

- Language was added to ensure any changes at carryover are highlighted and described, as well as ensuring that any changes following carryover are communicated with MFA.
- A 12 month age limit for the CNA for rehabilitation and adaptive reuse projects was imposed.
- A requirement was added to meet with MFA (both Asset Management and Housing Development staff) ahead of lease-up to confirm requirements with both development and management staff.
- The 60 day requirement to receive the final cost certification following Placed-in-Service was removed.
- An additional requirement of compliance with VAWA, notification of changes of ownership or management, and documentation of the BIN, first year of credit period, and applicable fraction for each building was added to the Review.

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Discussion

At what point is the meeting between the project's developer/management staff and MFA's Housing Development and Asset Management departments required to occur?

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Dates to Remember

2020 Tax Credit Round:

- Applications due February 14, 2020
- Awards: June 2020
- Carryover Application: November 15, 2020
- Final plan submittal: June 30, 2021
- 10% Test + Evidence of Construction Start: Aug. 31, 2021
- Placed in Service or Final Allocation App: Nov. 15, 2022

2021 Tax Credit Round:

- 2021 QAP Public Comment Period: August/Sept. 2020

See LIHTC calendar for additional dates

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Questions



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Application Review

Universal Application

- HOME
- Risk Share
- Other

Indicate

- Extended Use Period
- Set-Aside Option
- Complete all areas of application

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Application Review

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

Development team

- Identity of interest
- Developer fee amount
- Attach resumes

Identification of local official

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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

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Construction Contingency Example

New Construction

\$6,388,500	Construction Costs before GRT, GR, Overhead & Profit
<u>5%</u>	Minimum Owner Contingency Percentage
\$319,425	Minimum Owner Contingency Dollar
<u>\$350,000</u>	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.

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Builder's Profit, Overhead, General Requirements Example

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

Same formula as above for General Requirements

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

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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.

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Test your knowledge

How is the developer fee reduced when there is an identity of interest between the buyer and seller?

- a) All acquisition costs are deducted from the Total Development Costs before calculating the 14% cap
- b) The total cap is only 12% of Total Development Costs
- c) The sale price that is part of the Total Development Costs is reduced by 10%

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Test your knowledge

How is the developer fee reduced when there is an identity of interest between the buyer and seller?

- a) All acquisition costs are deducted from the Total Development Costs before calculating the 14% cap
- b) The total cap is only 12% of Total Development Costs
- c) The sale price that is part of the Total Development Costs is reduced by 10%

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Developer Fee Calculation

4% Project Developer fees may not exceed:
14% of Total Development Costs

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Developer Fee Calculation

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

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

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Reserves and 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.

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Schedules

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

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Schedules

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

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Schedules

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

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Questions



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NM State Tax Credit Program

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Other MFA Sources of Funds

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Weatherization Program

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Questions



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More Questions?

housingnm.org/developers

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