



# MEMO

**TO:** Public Hearing Attendees

**FROM:** Jeanne Redondo

**DATE:** September 4, 2024

**SUBJECT:** 2025 Qualified Allocation Plan – Summary of Changes

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## **Background:**

The Low Income Housing Tax Credit (“LIHTC”) program was established in 1986 under Section 42 of the Internal Revenue Code (the “Code”). The Code sets the general program parameters including the requirement that each state adopt its own QAP that sets forth specific project selection criteria and other program rules. Housing New Mexico/MFA revises the QAP annually.

While stakeholder feedback is encouraged throughout the year, Housing New Mexico/MFA staff holds a “Developers Forum” focus group prior to beginning draft revisions and then presents a list of proposed changes to the Policy Committee and Finance Committee for discussion. This year, Housing New Mexico/MFA held Developers Forums on June 18 and 19, 2024.

A draft QAP is then composed and posted on Housing New Mexico/MFA’s website and notices are published in at least three newspapers of general circulation. This posting and publication mark the beginning of a 21-day public comment period during which a public hearing is held. After the public comment period concludes, a final QAP is composed and presented to Policy Committee, Finance Committee and the Board of Directors for approval. After Board approval, the QAP is sent to the Governor for final approval.

## **Discussion:**

This year, staff focused on ways to reduce the time it takes for projects to be placed in service. The proposed revisions add fees to incentivize applicants to submit fully compliant applications, so additional reviews that add processing time are not needed. In addition, applicants are encouraged to include permit ready drawings and specifications

with the application, so the time from award to completion is reduced. The following changes to the QAP are proposed:

Throughout the QAP, changes were made to conform to MFA's rebranding to Housing New Mexico/MFA.

**Market Study - Section III.C.4.** *(Begins on page 21 of the redline)*

- The cost of a Housing New Mexico/MFA ordered market study, if necessary, will be invoiced through the deficiency correction process described in Section IV.C.5, rather than be deducted from the fee submitted to cover the cost of design review. Applicants will have a five-day deficiency correction period to remit payment.

**Project Selection Criteria to Implement Housing Priorities – Section III.E** *(Begins on page 24)*

- **Tax-exempt bond financed projects** *(See page 25)*
    - The threshold requirements have been changed to expand eligible locations and prioritize projects so that those ready to proceed receive priority over those that are in the concept stage.
      - Projects within a 15-minute drive of a full-scale supermarket planned as part of an approved master plan will be accepted in lieu of existing facilities where fresh produce is available.
      - The QAP clarified that tax-exempt bond projects must meet all underwriting standards in the 2025 QAP and underwriting supplement
      - If there is insufficient private activity bond volume cap available for all proposed tax-exempt bond financed projects, the projects will be prioritized based on readiness to begin construction. Priority will go to projects that demonstrate that permit-ready construction plans and specifications have been submitted to the local jurisdiction for approval.
1. **Scoring Criterion no. 1 – Nonprofit, NMHA, TDHE or THA Participation** *(See page 27)*
    - The QAP was updated to require the Right of First Refusal Agreement on or before August 31<sup>st</sup> of the year following Carryover – the deadline to begin construction.
  2. **Scoring Criterion no. 4 – Sustaining Affordability** *(See page 30)*
    - Projects with existing federal rental subsidies must document anticipated rents with a Rent Comparability Study submitted with the Initial application. This provides Housing New Mexico/MFA with support for the proposed rents and completes a necessary step that the Developer will need to perform to transfer the project to the new Owner, thereby reducing the development timeline after the award.

3. **Scoring Criterion no. 8 – Households with Special Housing Needs Housing Priority** (See page 36)
  - Adds quarterly on-site or online security awareness training as an option to earn one point. This training will educate residents how they can protect themselves from online and other scams. Adding this option also provides at least one additional path to full points in this scoring criterion.
4. **Scoring Criterion no. 9 – Projects Reserved for Seniors Housing Priority** (See pages 40-41)
  - Expands quarterly computer training to include other technologies such as smart phones, wearable health trackers, tablets and social media. Developers have requested and been granted this option to earn points as a separate “MFA-approved service” for the past two years.
  - Adds semi-annual on-site eligibility screening and/or application assistance for Medicaid and/or Medicare. Developers have requested and been granted this option to earn points as a separate “MFA-approved service” for the past two years.
  - Adds quarterly on-site or online security awareness training as an option to earn one point.
5. **Scoring Criterion no. 10 – Households with Children Housing Priority** (See page 44)
  - Expands quarterly computer training to include other technologies such as smart phones, wearable health trackers, tablets and social media.
  - Adds quarterly on-site or online security awareness training as an option to earn one point.
6. **Scoring Criterion no. 11 – Leveraging Resources** (See page 46)
  - Clarified that government sources are to be “third-party” in the interest of fairness so that government entities that are also developers are not provided more consideration than other applicants.
  - Added federal Housing Trust Funds from Housing New Mexico/MFA to the list of excluded sources so the focus is on bringing in non-Housing New Mexico/MFA resources.
7. **Scoring Criterion no. 22 – Project Readiness** (See page 54)
  - Added a project readiness scoring criterion to incentivize completion of the project as early as possible. Local government development review timelines have increased. If projects take the risk to complete plans and specifications prior to submitting the LIHTC application, they will be ready to begin the development review process earlier, thereby enabling them to bring units online faster. Housing New Mexico/MFA recognizes that there is risk inherent in preparing the plans and specifications earlier, so those that take that risk are rewarded with points the first year they apply and additional points the second year they apply.

### Allocation Round Submission Date(s) – Section IV.A (See page 59)

- **Submission Date(s) – Section IV.A.1** (See page 59). The deadline to submit applications has been moved to January 21<sup>st</sup> of the application year at noon, since January 20, 2025 is a holiday. In 2024 the deadline was extended to January 22<sup>nd</sup> at noon to allow an extra weekend when January 20<sup>th</sup> fell on a Saturday.
- **Form of Submission and Content and Format: Complete applications – Section IV.A.3 and 4** (Beginning on page 59). The language “a fully tabbed PDF files” was clarified as “one fully tabbed and bookmarked PDF file” to emphasize that multiple PDF files are not acceptable and that the file needs to be bookmarked to show the tabs.
- **Communications and Quiet Period – Section IV.A.5** (See page 62). The deadlines to submit questions and to respond to them was updated to correspond with the January 20, 2025 application deadline. Questions are due no later than January 13, 2025 and the answers will be posted by January 16, 2025. This provides four calendar days for applicants to make any revisions to their application before the application deadline.

### MFA Fees and Direct Costs – Section IV.B (Beginning on page 63)

- **Direct Cost Fees** – (See page 64). Since the formerly called Direct Cost Deposit actually served as a base design review fee, it was re-named as a “fee”.
  - If architectural reviews or inspections above those named in Section IV.C.7.a are required, the project will incur a \$1,500 fee per additional review and/or inspection.
  - If Housing New Mexico/MFA needs to order a Market Study during the application phase, the cost will be invoiced to the Applicant along with a deficiency correction letter. In the past, it was taken from the Direct Cost Deposit and then reimbursed at a later date. This change makes the payments easier to track.
- **Additional Review Fees** (See page 64)
  - One underwriting with one opportunity to make corrections is included in the standard application and Processing Fees. Further reviews will incur an additional \$1,500 per review.

### Other project Compliance – Section IV.C.8 (See page 69)

- The compliance affidavit was simplified to only require one per application, unless one of the principals has a different portfolio of properties.

### Feasibility and Financial Considerations – Section IV.D (See page 70)

- All financing sources must be identified, and the terms and conditions of that financing must be specified in a letter of interest. Communicating with lenders and

funders in advance of the application reduces the time needed to close on financing after award and can reduce the number of times the project must be underwritten.

#### **Reserves (escrows) included in Development Costs – Section IV.D.3** *(See page 74)*

- The operating reserve has been removed and a lease-up reserve has been added in its place. This provides a reserve during the initial period before conversion without requiring ongoing operating reserves. Housing New Mexico/MFA requires a 20% cushion for operating expenses in the form of a 1.20:1 debt service coverage ratio (DSCR) for all must-pay debt; this mitigates against losses during operations. This DSCR is more conservative than what is often required by the first mortgage lenders on LIHTC projects.

#### **Limitation on tax credit awards to a single project or Principal – Section IV.E.3** *(See page 77)*

- All 9% LIHTC projects in a given round must be at least ¼ mile straight line distance away from the nearest other project awarded in the same round. This prevents circumvention of limitations on adjacent sites and discourages the concentration of units in one location within a round.

#### **Notification of Approval and Subsequent project Requirements – Section IV.G** *(See page 82)*

- The requirement to be up to date with tax credit program related fees was moved from the description of Carryover requirements at Section IV.G.3.c to the beginning of Section IV.G under Affirmative actions after Reservation.
- Section IV.G.3.c was reorganized with sub-sections to make it easier to follow.

#### **Processing of Tax-Exempt Bond Financed project applications – Section VI** *(Beginning on page 91)*

**Percent of total sources limit – Section VI.1** *(See page 94)* was revised to further constrain available private activity bond volume cap per project from 60% of Total Development Cost to 60% of “aggregate basis”. The requirement to meet the 50% Test is 50% of “aggregate basis” so this tightening to conserve volume cap still provides a cushion if costs increase. In addition, a waiver provision was added if costs increase, and the project needs additional volume cap for financial feasibility.

#### **Annual Certification Review - Section X.D** *(Beginning on page 97)*

- This section was updated to align with the most current annual owner certification.

**Glossary – Section XI** (*Beginning on page 103*)

- Affiliate was added to the glossary after receiving questions regarding whether two entities would be considered affiliates.
- Material Compliance Matter was added to clarify what compliance issues could result in a rejection of the application.
- Net Square Footage was added to the glossary in response to inquiries over the past year.
- Permit Ready Drawings was added to explain what is required in the new areas of the QAP that refer to permit ready drawings.

**Summary:**

The proposed changes to the 2025 QAP continue to improve the allocation process. Staff conducted two Developer’s Forum sessions wherein we gathered input to the QAP. New ideas were raised by attendees at the Forum, which were carefully considered. In addition, staff solicited input from Asset Management Department staff.