Proposed 2018 QAP

Guide to Highlights

2 Revise definition of Applicable QAP to apply fees amounts existing at time of Award to same Project through 8609

5 Hard costs change shown needs to be removed, should be referred to in hard to soft cost ratio.

7, 28 Revise Small Rural Project definition to remove limit on number of units and increase Project cost cap from 10% to 12.5 % of ceiling

Homeword

Comment: this is a helpful change to help address the housing needs in rural communities. New construction of larger than 20 units could occur if it were part of a larger service oriented project or mixed finance project. More likely, this will benefit acq/rehab needs of several projects in rural communities that are larger than 20 units. There are several projects around the state, for example HUD and/or RD financed (many with rental assistance), that are larger than 20 units and in rural communities that are in need of preservation and rehab. The Meadows in Lewistown would have benefited from this set aside had it been available as The Meadows is 35 units so the unit limitation didn't allow it to compete for this rural set aside. Additionally, increasing the percentage available for this rural set aside helps reach meet a greater range of project sizes

8 Soft costs change shown needs to be removed, should be referred to in hard to soft cost ratio.

"Soft-Cost-to-Hard-Cost Ratio" or "Soft Cost Ratio" means total Soft Costs minus the Letter of Intent fee, Application Fee, Reservation Fee, 10% Cost Certification Fee and Final Allocation (8609) fee, as required in the Applicable QAP. divided by the sum of total Hard Costs (as calculated in the UniApp) and land value (as shown by a comparative market analysis or appraisal). Land value is added regardless of whether land is donated, leased, purchased or otherwise acquired.

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Homeword

Comment: We appreciate that the MBOH has a mandate to be self-funded and fees are a way to cover staffing costs. We also appreciate that those fees are being taken out of the soft cost calculation as those increases would make it difficult to meet the limits for large and small projects.

14 Increase limit on Total Project Cost Per Unit from $230,000 to $235,000

p.14 – Travois Development Cost Limitations –Total Cost Per Unit
We are pleased that MBOH increased the Total Project Cost per Unit to $235,000, however we again urge MBOH to instead implement a cost per square foot *eligible basis* cap as a means to control costs and ensure an efficient use of credit.

Setting a threshold on total project costs of $235,000 benefits projects with smaller square footages and smaller bedroom types (1BR/2BR unit projects) and will prevent projects with larger proposed bedroom types (3BR/4BR+) from even being able to apply for Housing Credits.

In evaluating the 2017 credit round, yes, all developers were able to have a Total Project Cost per Unit amount below $235,000, but the majority of these projects consisted of 1BR and 2BR units. Blackfeet 6, which consists of only 3BR and 4BR units, had a Total Project Cost per Unit value of $229,162 per unit, and this is because the Blackfeet community is in greater need of larger units to accommodate demand (an area where 59% of renter households consist of 5+ person households) **not** because of excessive construction costs or improper use of the Housing Credit. In fact, the numbers indicate Blackfeet's project was one of the **more efficient** projects proposed given that its hard cost per square foot amount was only $145/sf as compared to some projects allocated in the 2017 round with hard cost per square foot amounts exceeding $160, $170 and $190/sf (see the charts below).

Homeword
Comment: It is helpful to see an increase on this limit as it's been the same $230,000 for several years. The increase to $235,000 is a 2% increase. The MBOH underwriting assumes increased expenses at 3% annually so it's arguable this Total Development Cost (TDC) is not a reasonable increase as it's not keeping up with MBOH assumed underwriting for inflation and cost increases. That said, it's better than not increasing it at all given the reality of inflation and construction costs have increased since the $230,000 limit was imposed. We encourage the MBOH to take the time in the coming months in preparation for the 2019 QAP to review options such as: Total Project Costs per geography type (urban/rural/high cost market/etc) and/or unit size. Also a waiver process should be established whereby the burden of justification is placed on the developer but the MBOH staff has a mechanism to approve increases in TDC when it's warranted. We would volunteer to help assist by researching what other states have implemented and are quite certain a working group would volunteer from the development and investor community.

US Bank

This is a tricky area. How was this limit established and is it enough to achieve all of the goals that affordable housing usually needs to address (design review, sustainability, durability standards). Urban areas can have more complications, as can adaptive/reuse projects, some acq/rehab projects if they are in desirable areas or come with rental subsidy. Likewise you might be encouraging less expensive markets to be overbuilt. I have seen states which have total project cost limits, but which break them out by geography (urban/rural/high cost market/etc) AND include a waiver process such that if costs exceed the limit, housing staff have the ability to approve a waiver. Reasons can include high opportunity neighborhood, adaptive reuse of a historic building, innovative green project, or whatever the developer may propose. I'd encourage you to look around at some other states and see how they handle these limits.

15 **Staff** Limitation on Soft Costs . Projects must meet this limit at Letter of Intent, Application, 10% Cost Certification and Final Cost Certification. If this limit is exceeded at Final Cost Certification, negative points will be assessed with respect to future Applications as provided in Section 9, Item 9, Developer Knowledge and Responsiveness.

16 Provide for decrease in Credit amount if Debt Coverage Ratio is outside specified range at Application.

Provide for Negative Point assignment if DCR changes significantly after Application.

RCAC Please remove Soft Costs as part of the analysis of debt coverage ratio. Soft Costs are part of the onetime development budget and don't play into the operating calculations that relate to debt coverage and availability of Net Operating Income to pay debt. Please change as follows:
DCR's outside these ranges must be justified in the Application narrative to the satisfaction of MBOH, in its sole discretion. In determining whether the Applicant's justification is acceptable, MBOH will consider the reasonableness of the Project's proposed rent levels, Operating Expenses, reserve payments, projected Vacancy Rates, debt service obligations, Soft Costs and amount of Credits requested. If the DCR, as underwritten by MBOH at Application, falls outside the ranges specified above without justification acceptable to MBOH, MBOH will reduce the amount of Credits requested by the Applicant to an amount determined by MBOH to be necessary for the financial feasibility of the development and its viability as a qualified low income housing Project throughout the Compliance Period.

17 Increase reserves trending from 0% to the amount proposed in application, not to exceed 3%, for MBOH underwriting purposes

US Bank These are similar to the base underwriting assumptions we use at US Bank. I would note though, that there are some slow growth markets, particularly rural areas which may have declining populations, and the 2% growth may not be appropriate. We use Novogradac's Rent and Income calculator to look at the county level and look at the last 5, 10 and 15 year periods to see if we think 2% going forward is underwritable. Perhaps a waiver process here could be useful.

US Bank I have concerns whenever I see expense perscriptions in QAPs. We have some projects in our portfolio that have expenses in excess of $6,000 PUPA, which are totally necessary due to services provided, whether or not utilities are paid by the owner and the age of the buildings. I would encourage you to consider taking this opex guidance out and allow the developer, lender and investor to determine the correct level of expenses.

US Bank This seems prescriptive and cumbersome to review and monitor. Can MBOH rely on local building codes for accessibility? It also presents a challenge to investors to review these requirements and add them into our compliance requirements.

18 Underwriting Assumptions

US Bank These are similar to the base underwriting assumptions we use at US Bank. I would note though, that there are some slow growth markets, particularly rural areas which may have declining populations, and the 2% growth may not be appropriate. We use Novogradac's Rent and Income calculator to look at the county level and look at the last 5, 10 and 15 year periods to see if we think 2% going forward is underwritable. Perhaps a waiver process here could be useful.

18 Clarify applicability of certain accessibility items and change required height of switches, thermostats, etc.

US Bank Why does MBOH care about this?

Homeword
Comment: We appreciate the need to expand accessibility and visitability. However, we also believe code covers what developers should meet. If MBOH incentivizes additional accessibility, those units would need to meet code. We contend that meeting code is the best way to ensure marketability and full accessibility. The most obvious example where good intentions went wrong is #4 when it was required that controls be no more than 36" from the floor. The proposed range could make sense then, because it's not required controls be 36". However, if it's a goal for MBOH to increase visitability standards, as opposed to just meeting code, there are several nationally recognized standards available such as:
http://www.concretechange.org/construction/construction-guidelines/
http://idea.ap.buffalo.edu//Visitability/Booklet/VisBk%20Ver3-7-03.pdf
https://www.huduser.gov/Publications/pdf/strategies.pdf
http://www.udeworld.com/documents/visitability/pdfs/IncreasingHomeAccess.pdf
https://www.amazon.com/Inclusive-Housing-Pattern-Diversity-Equality/dp/0393733165

21 Tighten criteria for discretionary basis boost

23 Clarify application process for combined 9%/4% Projects and scattered site Projects

RCAC Page 23.
Competitive 9% Applications. This section should repeat, for clarity, the requirement for a separate sub-application and UniApp for each credit request as found on page 25 for consistency.

23 Establish schedule of dates and deadlines for First Award Round
Staff recommend removing application workshop from Section 4 award schedule

p. 23 – Travois First Award Round Dates:
We are content with the proposed date changes. We are glad that the applications will be due in September and that the awards will be determined in the same calendar as the application submission. We feel there is adequate time between the June 2017 letter of intent submission and the September 2017 application

US Bank

Typical real estate contract options are 90 days. Can the time between the invitation to apply and the application submission be shortened up to around 75 days, or even more? Developers probably have input here, but carrying costs could be better managed with three 90 day options (90 for invite to application / 90 from application to award / 90 from award to closing).

Homeword
Comment: Having a reasonable timeframe from Letter of Intent to Award is essential in keeping pre-development costs reasonable for developers. We recognize the staff and board need adequate time to underwrite and make decisions on potential projects. The timeframe in the 2018 QAP is a result of developers and MBOH staff agreeing on a reasonable timeframe from the QAP feedback session. At that feedback session, the original schedule proposed LOI's to be submitted in early June and a decision by MBOH Board in February. That is an 8 month time period that exceeds reasonable Purchase Options, Market Studies, Appraisals, LIHTC Investor terms, and Financing terms. The newly proposed timeframe is a 5 month timeframe and is much more workable in terms of holding costs, keeping reports pertinent and allowing a longer construction period after allocation decisions are made. An example from 2017 QAP cycle we'd like to share is, from LOI to allocation award was a six (6) month timeframe. The seller of the former Livingston hospital was not willing to sign two, 90 day Options without earnest money going hard. We understand development is a risk, but we are trying to build affordable housing, often in communities where the margin is painfully thin but the need is great. Reducing risks will help increase housing units across all of Montana. The timeframe proposed above makes it possible for an allocation decision to occur before the holidays which reduces stress on everyone. Additionally, it allows allocated projects the ability to close on the tax credit partnership earlier in the calendar year and thus construction can start in the spring rather than summer, giving projects the ability to get buildings dried in and eliminates construction risk. We're working under aggressive timelines for LIHTC and investor requirements so having more of the calendar year to build and lease up properties is essential in making these deals more seamless.

24 Revise provision for number of Projects invited to submit full Applications

p. 24 – Travois Board Consideration and Determination Process
We support the amendment in the 2018 QAP that limits the total to eight projects that may be invited forward from the letter of intent phase.

25 Establish fee for issuance of 42M letter and require Letter of Intent submission for 4% credit projects

25 Clarify application process for combined 9%/4% Projects

26 Increase Letter of Intent Fee and Reservation Fee

26 Increase Application and Reservation fee for additional credits after credit award

28, 8 Revise Small Rural Project definition to remove limit on number of units and increase Project cost cap from 10% to 12.5 % of ceiling

29 Provide for Application Workshop prior to Application submission – staff suggests not putting in QAP until done at least once.

RCAC Page 30. For letter of Intent, add the requirements from page 29 so it reads:
Letters of Intent must:
1. Include the applicable fee;
2. Be received by the applicable deadline; and

3. Be substantially complete and in the format prescribed in the MBOH Letter of Intent Form.
4. Include a market study or mini-market study
5. Include the completed market study summary Form posted on the MBOH website

31 Revise requirements for threshold utility documentation

p. 32 – Travois Threshold Requirement #13 – Appraisal/CMA
We request that new construction projects on tribal land be except from the appraisal requirement. An appraisal of land values land as if it were private fee land, so an appraisal cannot accurately value tribal trust land given. There is little benefit in determining a value that has no basis on the actual land status; it is only an increased cost to the applicant.

RCAC Page 33, item 28. Please change to "Identify the name of the entity that will have with Legal ownership of Project (LP, LLP, etc.).

33 removed 5 working days after due date on public notice

3-36 Limit partial funding of Applications

RCAC Page 36 – In order to have the option of NOT awarding credits if evaluation does not prove the projects feasible, please change will to may. In the event available Credits are not awarded in any round, invited but unawarded Applications will be allowed 30 days to re-submit Applications resized to the amount of Credits remaining available and, after staff underwriting and evaluation, the Board will may award the remaining Credits.

p. 36 – Travois Full Funding of Applications
We support the proposed additional section that addresses full funding of applications. We did not believe
that it was fair to ask a developer on the spot if they would accept less credits. We support MBOH allowing
the project to reduce the scope of the project and re-submit with a decreased credit request within 30 days.

Homeword
Comment: We are supportive of this approach. It allows the MBOH to allocate the full pool of available tax credits and allows the staff the authority to award the balance of credits based on their underwriting and the board's prioritization.

38 Community Input – change number of points earned to 20 per (i) to (iv) from 10 each

p. 38 – Travois Local Community Input
We ask that MBOH do not decrease the scoring category to two meetings worth 20 points each for a total of 40 points. Requiring four different meetings each worth 10 points is reasonable and allows for a greater scoring disparity. Surely each project will now be able to conduct two meetings and score the

max points in this category. With scoring already being so tight and with projects already scoring very similar overall, limiting this category will only make the scoring disparity worse. For example, Blackfeet 6 earned 10 points out of 40, or 30 points less than the max. Under the proposed change, Blackfeet 6 would have scored 20 points, or only 20 points less than max. Of the 8 submitted 2017 applications, only Blackfeet and Rockcress would not score the max 40 points under the proposed 2018 QAP where the 2017 scores ranged from 10, 20, 30, to full 40 points.

39 Remove appropriate development type scoring criteria

p. 39 – Travois Qualified Census Tract or Community Revitalization Plan check fed rule
We ask that MBOH remove "involves existing housing" from the criteria so that new construction projects in a community revitalization plan area can still receive the 10 points.

41 Such written agreements must specifically identify and describe the particular services/screening referral/donation/reduced price/grant/waivers/and support the entity is providing and how such services will benefit the project and must separately identify each of the items in (i) through (v) above.

p. 41 – Travois Participation of Local Entity
We do not believe that each of the qualifying participations in the QAP are equal to one another and therefore they should not be worth the same 10 points. A financial commitment from a local entity in the form of a cash flow only loan or project based rental assistance is significantly more beneficial to a project than a commitment from a local entity to screen and refer prospective tenants to the project. Similar to the structure of the Project Location category, we suggest the following point structure (up to a maximum of 60 points):

• 30 pts for a commitment of a cash flow only loan from a local entity equaling at least 10% of the TDC;
• 20 pts for a commitment of 100% project based rental assistance;
• 20 pts for a commitment by a local entity to donate land or sale at a reduced price to enhance affordability;
• 10 pts for each of the following:
o a commitment of less than 100% project based rental assistance;
o a commitment by a local entity to screen and refer individuals as prospective tenants;
o a commitment by a local entity to provide targeted supportive services to Project tenants either onsite or within a 5-mile radius of the project site for tribal projects;
o significant fee waivers on local government fees;
o other forms of significant monetary or material support equaling less than 10% of TDC.

42 Provide for notice and opportunity to respond in the event of a Negative Point assignment

43 Provide for Negative Point assignment if DCR changes significantly after Application and provide for Negative Point assignment for intentionally providing false information to MBOH

Staff Has been a member of the Development Team for a prior Project that exceeded maximum for limitation on soft costs at Final Cost Certification.

48 Increase fee for 10% test underwriting and clarify that deadline extensions are not available for submission of 10% test information

49 Increase fee for 8609 underwriting and set fees for corrections and re-underwriting

52 Provide for periodic compliance fee adjustments and fee posting by MBOH and increase fee amount for late correction submissions, Late fee for management change not reported, time period lengthened.

Syringa/Beki Brandborg

"Written Notification of changes to property management companies, managers, site managers, or changes to points of contact must be submitted to MBOH prior to or immediately upon implementation of the change." Then it goes on to name the penalties for failing to do so. I brought the requirement to the attention of management company for Bitterroot Valley Villas, Syringa Property Management, this morning. We would like to suggest for at least site managers, the time period for notification be a little longer, perhaps 2 weeks.

54 Increase fee amount for late submission of substantial change notification

p. 55 - On-Site Inspections
Language in the draft 2018 QAP states that MBOH may schedule on-site inspections with *minimal notice*. Federal guidelines require that ample time must be given in the notification of a site visit by a state allocating agency. While ample time is not defined, we can assume the intent is to allow housing authorities and management agents enough time to notify residents of inspections in accordance with their internal policies. We recommend that MBOH provide no less than two weeks notice of an on-site inspection. This will allow housing authorities and management agents to notify the tenants in writing and to confirm that occupancy staff will be available for the visit. Should MBOH retain the "minimal notice" language, we request that this term be defined in the QAP with a very specific timeframe so as to maintain a consistent standard for inspection notification.

56-7 Incorporate Qualified Contract Process into QAP

General Comment
Homeword
*Would it be possible to format this entire QAP with section and sub-section references, similar to a Limited Partnership Agreement (for 2019)? It would make navigating this document, and references within the document, much more-straight forward.
*Thank you for the opportunity to provide feedback and comment. We find this process very valuable.

Qualified Contract Process

2 Increase administrative fee to process Qualified Contract Process request

3 Require certification of calculated sales price by independent third-party CPA

4 Require Owner to make repairs and modifications necessary to bring property to sales price value; clarify physical inspection requirements

5 Clarify that Owner must pay MBOH’s third-party costs for QCP process