MARYLAND AFFORDABLE HOUSING COALITION

July 17, 2023

MAHC Recommendations – 2023 QAP and Guide Revision

We appreciate the opportunity to comment on the draft of the 2023 QAP and Guide. Our members met to discuss their thoughts on the draft document, and we offer the following recommendations:

1. **Infill and Redevelopment Pool. Section F.2.** We support the intent of this new set-aside to provide more opportunities for emerging developers to access LIHTC; however, by limiting them to small projects that will generally range from 12-20 units, you are inadvertently creating inefficient projects. Small projects have higher operating costs and have very limited opportunities for re-syndication at Year 15, so we are concerned that this pool will only set these developers up for future problems. We caution that the per project limit will create inefficient deals with potentially long term sustainability and operating concerns.

2. **Application Form. Section 2.4.1.** We again request that the requirement for submitting a hard copy of applications be eliminated and in favor of electronic-only submittals.

3. **Development Team Requirements. Section 3.1.** Please clarify if Developers/Sponsors will be permitted to submit compiled financial statements, as was previously allowed. The requirement for audited/reviewed financial statements places an additional and unnecessary financial burden on developers with no real benefit, so we recommend that accountant prepared financial statements only be required for Guarantors.

4. **Other Financing Commitment. Section 3.6**. While we appreciate the intent of the new requirement to provide a Year 15 Exit Strategy, this is not the appropriate way to handle aggregator-related concerns that have recently begun to cause serious problems within our industry. This requirement is also very vague and subject to too much interpretation. We request that this requirement be removed and addressed in another manner.

5. **Professional Fees. Section 3.9.8.3.** Please clarify if the maximum Developer' Fee for Twinning project is the Gross or Net fee. We recommend that only the Net cash fee (the fee paid, which excludes the deferred portion repaid out of cash flow) be limited to the calculations indicated in the Guide as the Gross Fee generates tax credit equity (i.e.

third-party funding) that is important to maximize in the capital stack.

6. **Criteria Applicable to all Projects. Section 3.13.1.** We understand the State has recently passed new legislation that will move towards a more energy efficient environment and more consumers owning electric vehicles, and we agree that projects should be required to provide ample electric capacity to handle EV charging stations. However, we propose that only running conduits to identified areas in the parking lot for future EV charging be required as threshold and that providing a level two charging station on-site be moved to the incentive scoring criteria. This item adds to development costs and there is not enough data or best practices on affordable housing projects use of electric vehicles to support this requirement at this time.

7. **Competitive Scoring Criteria. Section 4.** To adequately support emerging developers and encourage applications under the Infill and Redevelopment Pool, we recommend lowering the total minimum score to 145. The proposed 160 score will be very hard to achieve.

8. **Developer Financial Capacity. Section 4.1.3.** Please re-word this section to be more specific and clarify the intent behind the combination of roles stated as "Developer/Sponsor/General Partner/Managing Member."

9. **Nonprofits, PHAs, MBE/DBEs. Section 4.1.4.** Nonprofits, Public Housing Authorities, and MBE/WBE/DBE Developers are all completely different entities with different missions and structures. We fully support the Department's intent to encourage more MBE/WBE/DBE Developer participants; however, the newest extra point should only be given to MBE/WBE/DBE participants (not to Nonprofits or PHA's). Further, with the expectation of adding more parties to the development team, the Department should be open to more types of qualifying team members.

10. **Transit Oriented Development. Section 4.3**. We support the range of scoring and incentivizing transit proximity that has happened with this change. We recommend that the points a project can qualify for should be "stacked" together to recognize that a variety of transit opportunities and a particular walk score should all be considered in the points.

11. **Targeted Populations. Section 4.4.2.** The decision to disallow targeting more than 25 percent of units to serve the homeless population via permanent supportive housing is a mistake. These populations continue to grow, and they require intensive services to be successfully housed. Such projects can only work financially if scaled so that multiple residents are able to use the on-site services. We request that this language be revised to allow developers who specialize in serving this population the ability to compete for tax credit financing without penalty.

12. **Policy Incentives. Section 4.4.5.** Recognizing the difficulty in receiving an Implementation grant, we recommend that there be a point differential between

projects located in a neighborhood that has received a Choice Neighborhood Implementation grant and a Choice Neighborhood Planning grant.

Additionally, we support the 1 point to be awarded to Category 1 MBE/DBE entities, but to further encourage and support diversity, equity and inclusion in the award of competitive credits, we highly recommend that this point be awarded to all Category 1 MBE/DBE entities and not just to those competing in the Infill and Redevelopment Pool. No Category 1 MBE/DBE entities were awarded tax credits in at least the last three rounds, so this new point will further encourage more diverse applicants.

13. **Direct Leveraging. Section 4.5.1.** The Leveraging calculation disincentivizes mixed income projects by creating a penalty for those projects that would otherwise be able to offer market rate units and tax credit units within the same project. Mixed income projects offer more flexibility and stability for investors and owners and are more resource efficient, so we request that the penalty created in the 202 Form adjustment factor for the percent of affordable units be removed to encourage more Mixed income projects.

    The current calculation for twinned deals in the direct leveraging score incentivizes the inefficient use of resources by encouraging excess basis on the 9% to increase the score. It also does not take into account the financing plan for the 4% components, which means that one twinned project may be requesting more state resources than another but still get the same 2 additional points for being a twin. The current policy is both inefficient and a poor differentiator, as it masks the true leverage of a twinned project when considering both the 9% and 4%. We recommend a direct leveraging calculation that takes into account both components of the project for direct leveraging.

14. **Project Durability and Enhancements. Section 4.6.3.** Studio units are by nature smaller than one bedroom units. We request that the definition of a Studio unit be updated to 425-450 square feet and not be the same square footage as the One Bedroom unit.

    Please clarify the language “at least three of the following” to clarify if a project must provide one of each type of storage closet or if they can provide any combination of the three closet types to receive the full points in that section (i.e. two linen closets + one entry coat closet).

    We recommend awarding one point for projects that provide a level two EV charging station.

In addition, we were very disappointed that none the recommendations we provided to the Department in advance of the Round were incorporated into the Draft Guide and encourage the Department to reconsider these recommendations again. They include:

1. Raise the $1.5 Million cap per project to make additional resources available to projects in the next Round. Given the current economic uncertainty and fluid interest rate environment, additional resources are needed to support projects and ensure they can remain financially viable from inception through closing and completion.

2. Update the 3-BR point category to reduce the minimum percentage of 3-BR units required for maximum points.

3. Increase the Operating Expense limits to more accurately reflect the increases in utilities, insurance costs, supplies and equipment, and personnel costs that properties have absorbed over the last year or more.

4. MAHC also supports the position of the market study industry that the conservative 30 percent and 35 percent rent burden mandated in Section 3.12.2 Capture Rate in skews the reliability of any affordability analysis presented in market studies at application. Instead of reflecting how the market will operate, this conservative assumption requires developers to artificially reduce rents below what the market would pay. MAHC recommends setting rent burden at 35 percent for general occupancy and 40 percent of seniors allows the capture rate analysis to truly reflect how the actual market operates.

5. In light of the FY2024 Budget constraints, we urge you to reconsider the high preference given to Twin deals, which utilize a large share of the Department's annual resources.

Thank you for the opportunity to provide comments on the draft 2023 Qualified Allocation Plan. MAHC deeply values our partnership with DHCD and appreciates the consideration given to our organization and our members.