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Donna Duarte
Tennessee Housing Development Agency
502 Deaderick Street, Third Floor
Nashville, TN 37243

Re: 2019 QAP Talking Points

Dear Ms. Duarte:

On behalf of the Tennessee Developers Council (TDC), I am writing to provide comments on THDA's four talking points in connection with the upcoming 2019 Draft Qualified Allocation Plan. TDC and our members appreciate the opportunity to provide commentary regarding these four important topics.

I. Creation of Separate Rounds for New Construction and Existing Housing

TDC believes that a balanced QAP should have dedicated resources available for both new construction and the preservation of existing affordable rental housing. Given the substantial differences between new construction and preservation, TDC supports the idea of creating separate scoring criteria for each segment within their respective set-asides. This will allow THDA to target its limited resources to the highest impact projects and locations within each category and allow like projects to compete on a more level playing field.

Factors & Criteria for Consideration of New Construction Projects:
New construction projects should be prioritized based on a variety of factors, including property amenities and services, leverage, overall project quality, as well as incomes and populations served. TDC suggests a market approach, allowing developers to determine the best sites in a priority county or region to the maximum extent possible. At the same time, we understand THDA does not want to saturate individual submarkets with too many LIHTC properties and that there may also be other characteristics of a particular submarket that may be undesirable from a public policy perspective. TDC advocates that THDA create a binary scoring mechanism (for example a negative point for undesirable locations, which are updated from year to year) that will drive projects away from specific areas but otherwise lets market forces drive location.

TDC believes it is important to facilitate new construction development in areas of opportunity as well as distressed areas which may benefit from a concerted community revitalization plan. Furthermore, development should also be balanced amongst high growth areas and smaller suburban and rural areas with demonstrated need. Creating regions with dedicated percentages of allocation based on population and need could help guarantee affordable housing development is spread equitably across the state, and this regional proposal is discussed further in section II. To the extent geography plays a role in scoring projects, we recommend using regions at the zip code level.

THDA may also consider factors benefitting a project's finances. This could include if the project is in a DDA, QCT, and/or Opportunity Zone. THDA may also consider additional factors that may benefit the residents including access to public transit / walk-scores, quality of the local school system, access to community amenities such as fresh foods, public libraries, healthcare, etc.

THDA may further wish to differentiate the needs and scoring criteria by resident tenure (i.e. family/general occupancy vs. housing for the elderly vs. special needs housing). For example, a high-quality school system may be a significant factor in determining the location for a family/general occupancy project but not relevant for age-restricted housing.

Factors & Criteria for Consideration of Rehabilitation Projects:
Given the current viability of the TEB program combined with 4% LIHTCs, we believe the projects that can reasonably be financed with this resource (i.e. larger scale projects, "newer" projects with relatively limited rehab scopes, etc.) should be discouraged from using the 9% credit.

We believe it is important that the rehabilitation category have a preference for preserving existing affordable housing and projects could be further differentiated by metrics that evaluate which are most at-risk of losing affordability. In defining "at-risk", THDA should consider:

a.) the ability to opt-out of affordability restrictions,
b.) substantial differences between the current subsidized rents and market rents were the property to opt-out, and
c.) risk of becoming physically obsolete due to an affordability restriction lasting longer than the property's reasonably expected term of physical use.

We provide c. in the list above to bring attention to properties including those in the Mark-to-Market program and Section 515 under MAHRA utilizing operating cost adjustment factors. In these scenarios, the property may not be at-risk of losing affordability per se, in that several years remain on a long-term use and affordability restriction, but significant physical property needs serve as a de facto decommissioning of the property in its mission to provide safe and affordable housing.

We concur that as a minimum threshold, all proposed projects should meet property needs as identified in an independent Capital Needs Assessment. We also agree that some consideration should be given to the time since the last recapitalization. For example, we do not generally think it is the best use to recapitalize a new construction 9% project at year 15 with additional 9% credits.

Project and community amenities could also be considered to further differentiate projects, but a variety of options should be presented to select from since buildings are constrained by both their geography and their physical layout.

II. Identification of Program Services by Area to Fairly Address the Affordable Housing Needs of Tennessee Using Total Development Costs, Per Development Caps, County Caps, and Region Caps.

TDC supports a QAP that directs percentages of overall tax credit allocation to various geographies that better reflect the state's evolving housing needs. Ideally, the percentage of allocation would be determined by demand and population and would be defined with more granular specificity than the three grand divisions. In evaluating dozens of QAPs from across the nation, we find the Virginia QAP to be a good starting point for creating geographic pools, though we recognize that the needs and geography of the two states are different. Regardless of a population metric, we also advocate for having a minimum percentage of allocation for each region as well in an amount sufficient for at least one project.

TDC also supports the idea of customizing credits per development caps by geographic pool, as the cost of development differs based on geographic location. We find HUD's published Unit Total Development Costs to be a suitable guide in this area. HUD's Unit Total Development Cost Data:

- Is geographically specific, allowing for greater cost in areas of high opportunity and hot markets, and recognizes lower cost limits in more affordable areas.
- Recognizes cost striations amongst different unit sizes, acknowledging the legitimate cost differences from one to six-bedroom units.
- Recognizes differing costs for building type, from rowhome type structures to buildings with elevators.
- Contains yearly updated data and uses averaging of construction cost data from both "average" and "good" quality projects.

III. Utility Allowance Methodologies and Energy Efficiency Requirements

TDC strongly supports THDA adopting policies and procedures that will allow developers to select from any of the five utility allowance methodologies currently permitted by the IRS for LIHTC properties. We believe this will create additional market incentives that encourage developers to pursue energy and water efficiency measures within the affordable housing portfolio without adding additional administrative burdens on the development team. Such a change will incentivize developers to build projects that create long-term savings, ensure affordability, and create more long-term financial stability.

IV. Leverage: Defining and Prioritizing

If THDA wishes to consider leverage as a scoring criterion, we recommend that leverage be defined as broadly as possible to include additional public and private financing sources. Examples include: local funding sources, HOME, CNI, CDBG, National Housing Trust Fund, PBRA/PBV commitments, AHP Funds, land grants, philanthropic dollars, contribution of land, confirmed PILOTs, as well as infrastructure support including new roads, sidewalks, parks, and recreational facilities. A minimum per unit threshold should be required and we recommend that, if leverage is added as a scoring criterion, it be considered on a binary basis (i.e. x points for meeting the per unit leverage threshold). THDA may consider differentiating leverage requirements between new construction and rehabilitation projects as well.

Once again, TDC appreciates the opportunity to provide THDA with this feedback. We are happy to discuss any specific questions you might have regarding these comments or other subjects of concern. Please feel free to contact me directly with any questions at 202-939-1753.

Best Regards,

Thom Amdur
Executive Director