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October 30, 2020

Edwin King
Director of Multifamily Programs
Tennessee Housing Development Agency
Andrew Jackson Building, Third Floor
502 Deaderick Street
Nashville, TN 37243

Re: Comments on THDA's Multifamily Tax-Exempt Bond Authority Draft Program Description for 2021

Dear Mr. King,

Thank you for the opportunity to provide feedback on Tennessee Housing Development Agency's (THDA) Multifamily Tax-Exempt Bond Authority (MTBA) Draft Program Description for 2021. The Tennessee Developer Council's mission is to provide a unified voice for the development community on the most important state housing issues and to effectively and efficiently communicate concerns or feedback about state policy and legislation that directly impacts affordable housing development businesses. In that spirit, our comments are based on the premise of creating and preserving more affordable housing options for low-income Tennesseans.

Total Development Cost Limits

The Tennessee Developers Council has long called for increasing the Total Development Cost (TDC) limits for the bond program. We note that THDA took this action for the nine percent LIHTC in the summer but did not do here for the MTBA and four percent LIHTC. Construction costs continue to increase dramatically across the state, and this is exacerbated by additional costs related to COVID-19 safety measures.

The National Association of Home Builders recently reported that the price of lumber went up by a historic 29 percent in September, the fourth month-over-month consecutive double-digit percentage increase.[1] There is a nationwide shortage of several other critical supplies like appliances and cabinetry, leading to an increase in prices. For developers who are able to source the materials, many purchase in bulk and incur associated storage costs for large amounts of supplies. All developers and general contractors are responsibly implementing COVID-19 safety procedures and protocols which add additional costs in terms of material and time. Rehabs in particular incur significant additional costs to keep both workers and residents safe. Even before the outset of COVID-19 we believe that TDC limits were not in line with rising construction costs over the previous twelve months. It is imperative in order to maintain our current level of.

[1]Logan, David. October 14, 2020. *Softwood Lumber Prices Surge a Record 29% in September — Building Materials Up 4.4% in 2020.* National Association of Home Builders. Retrieved from: eyeonhousing.org/2020/10/softwood-lumber-prices-surge-a-record-29-in-september-building-materials-up-4-4-in-2020/.

In addition to increasing TDC limits to accommodate rising construction costs we also recommend THDA make proportional increases to the total per developer limits – we suggest that $75-85 million in volume cap would be an appropriate per developer limit for the 2021 BPD.

Additionally, we do not believe that the program is well served by the current tiered approach for Rehabilitation. As we have commented in previous years, the size of the request does not always align with specific needs of a property. The best indicator of rehabilitation needs in any given project is an independent third-party Physical Needs Assessment (PNA). The current tiered scale can require developers of larger scale projects and/or projects with relatively high acquisition costs (e.g. larger projects located in hot real estate markets) to incur significant expenses replacing systems and building components that may otherwise have a useful life in excess of the 15-year compliance period. We suggest as an alternative, modifying the current tier system in the BPD so that each tier is scaled against bond authority requested per unit as opposed to total bonds requested. This will make the rehab requirements neutral to the total number of units in a proposed project, which we feel is a better outcome. If tiered rehab requirements are retained and given the increase in construction costs, we request that the per development limits for rehab be updated as follows:

- Substantial Rehab: Increase from $25,000,000 to $30,000,000 MTBA
- Moderate Rehab: Increase from $16,000,000 to $20,000,000 MTBA
- Limited Rehab: Increase from $13,700,000 to $17,000,000

Special Requests

We acknowledge and support the continued need for a process to allow for the financing of high priority large-scale preservation projects through the bond program. Given the large amount resources required, we believe it is appropriate that these applications receive a higher level of scrutiny from THDA and that the special request process as outlined in the BPD is an appropriate process. Several of our members have raised concerns that, should THDA receive multiple special requests sized at the upper limit as proposed in the draft BPD, there will be insufficient volume cap to fund other MTBA transactions. Based on our knowledge of likely special requests in 2021 we think it is likely that any special requests submitted will likely be on the lower end of the special request range. That being said, we believe there will be a robust pipeline of bond deals in 2021 and urge THDA to work with ECD to request as large an allocation as possible in 2021. Several of our members raised concerns about special requests not counting against the maximum amount of MTBA per developer. We believe that aligning the per developer limit with the ceiling set by the special requests would likely address this concern and would have the additional benefit of addressing the concerns previously stated relating to increased construction costs.

We further urge THDA and the Tax Credit Committee of the THDA Board to consider the special requests in a timely manner, perhaps outside of the regularly scheduled board meetings, so that developers can have certainty on how much MTBA is available and plan accordingly.

Previous Phases of the Same Development to Count in Aggregate Basis

We struggle to understand THDA's intent and the potential implications of the proposed change to include all previous phases of the same development in aggregate basis when calculate the maximum

MTBA per development. How is THDA defining “same development”? Will THDA apply an inflation or cost adjustment factor for multi-year phases?

We reiterate our previous comments that understanding THDA’ rational for changes will allow the development community to provide THDA with more useful feedback. Many states provide an explanation of their reasoning for proposed changes as a supplement to their draft documents -- we encourage THDA to adopt a similar approach, as well as allowing more than five business days to submit public comments.[2]

2021 MTBA

We advocate that the maximum amount of tax-exempt bond authority as possible be allocated towards multifamily. We understand that many single-family borrowers are opting to re-finance their homes to take advantage of the low interest rate environment. At the September meeting of the Board of Governors of the Federal Reserve System’s (Fed) Federal Open Market Committee, the Fed indicated that it will maintain current interest rates for the next several months. With the near-historically-low spread between taxable and tax-exempt rates, we reiterate our desire to see THDA implement taxable and blended tax-exempt and taxable products to ease some pressure on the availability of MTBA.

Thank you again for the opportunity to provide comments. Please feel free to contact me directly at 202-939-1753 or tamdur@housingonline.com.

Sincerely,

Thom Amdur
President

[2] Sample Example: California Tax Credit Allocation Committee. Proposed Regulation Changes with Initial Statement of Reasons. Retrieved from: https://www.treasurer.ca.gov/ctcac/programreg/2019/20190816/proposed-changes.pdf.