



Strength, Dignity, Quality of Life
MISSOURI HOUSING
DEVELOPMENT COMMISSION



**EQUAL HOUSING
OPPORTUNITY**



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Building Permanent Solutions

Utilizing Low Income Housing Tax Credits (LIHTC)
To Expand Housing Options For Special Populations



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Agenda



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- MHDC Overview
- LIHTC History
- LIHTC Basics
- Service Enriched Housing
- Special Needs Housing
- Elements of a Viable LIHTC Development
- Development Stages
- Example – Special Needs Housing Proposal



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MHDC OVERVIEW



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- For purposes relating to the MHDC Rental Production Department, MHDC functions as a bank, providing financing directly to developers of affordable rental properties



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LIHTC History



- Federal Housing Credit
 - Tax Reform Act passed in 1986
 - Introduction of Internal Revenue Code Section 42: The Low-Income Housing Tax Credit
 - Permanent in 1993
 - Helps address need for affordable housing
 - Public/Private partnership
 - Created as an incentive for qualified investors and developers to facilitate the construction and rehab of affordable housing



LIHTC History



- Missouri State Housing Tax Credit
 - Established in 1990
 - Mirrors federal tax credits
 - Cannot award more state tax credits than federal
 - Note: Currently, less than twenty states provide some form of state LIHTC, with several of these ranging from a one to five year credit period



LIHTC Basics



- Provides a dollar for dollar credit on tax liability of individuals or corporations
- Rental housing developments are eligible for credits if:
 - At least 20% of the units are affordable to households at 50% AMI, adjusted for family size or,
 - At least 40% of the units are affordable to households at 60% AMI



LIHTC Basics

- **Eligible Basis** – Total allowable cost associated with the depreciable residential rental project which can be included in the tax credit calculation
- **Basis Boost** – Increase in eligible basis up to 130% of basis eligible costs
 - HUD Designated Qualified Census Tract (QCT)
 - HUD Designated Difficult to Develop Area (DDA)
 - **State Designated DDA – 9% Only**

LIHTC Basics



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- **Tax Credit Period – 10 Years**
- **Compliance Period – 15 Years (may opt for extension)**
- **Extended Use Period – 30 Years (may opt for extension)**



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Qualified Allocation Plan (QAP)



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Special Needs and Service Enriched Housing Priorities:

- Thirty-three percent set aside
- Competitive process
- First priority projects funded in 2011



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Special Need and Service Enriched Housing



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- Incentive
- Purpose
- Desired outcomes



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Service Enriched Housing (SEH)

- Proposals offering significant services tailored to the tenant population receive a preference in funding (“Service Enriched Priority”).



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Service Enriched Priority Requirements



- Employ staff dedicated to providing social services (service coordinator) or contract with a service agency to provide a service coordinator
- Offer services that are adequate for the tenant population
- Commitments from local service providers



Examples of SE Populations



Examples include, but are not limited to:

- Elderly households
- Individuals with children
- Formerly homeless individuals and families, including survivors of domestic violence and sex trafficking
- Individuals with physical and/or developmental disabilities
- Individuals diagnosed with mental illness
- Children of Tenants



Special Needs Definition



- Physical, mental, or emotional impairment, which is expected to be of long-continued and indefinite duration; substantially impedes his or her ability to live independently
- Person diagnosed with a mental illness
- Person who has a developmental disability
- Person who is homeless, including survivors of domestic violence and sex trafficking
- Youth aging out of foster care



Special Needs Housing



- Proposals with a special needs set-aside of no less than 10 percent of total units, receive a preference in funding (“Special Needs Priority”).



Lead Referral Agency (LRA)



- A “Lead Referral Agency” is a service provider agency that will provide services to the community and assist with locating special needs tenants through the Compliance Period.



LRA Role



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- Designate a person as point of contact
- Assist in marketing
- Process referrals
- Update and maintain waiting list
- **Collaborate in arranging rental assistance**
- Offer support services
- Collaborate with other partners
- Services cannot be required
- Fifteen year compliance period



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Special Needs Housing Agreements



- Draft Supportive Services Agreement/
Memorandum of Understanding (MOU)
 - An executed agreement that declares the number of set aside units and details the roles of the property owner, management company, and LRA in relation to SNH
 - Duration of compliance period
 - Separate roles of owner, property manager and LRA



Special Needs Housing

100 Percent vs. Integrated



- Discussions with national and local partners
 - 100 percent: All units of a development are targeted and occupied by special needs residents
 - Integrated: A percentage of units in a development are targeted and occupied by special needs residents



Elements of a Viable LIHTC Development



- The Development Team
 - **Developer/Co-Developer**
 - **Consultant**
 - **Guarantor**
 - Architect
 - General Contractor
 - Managing Agent
 - Syndicator
 - Attorney
 - Accountant



Elements of a Viable LIHTC Development

- Development Plan Information
 - Need
 - Feasibility
 - Location/Site
 - Market Study
 - Family/Elderly
 - Local Support
 - Design
 - Service Plan, if applicable

Elements of a Viable LIHTC Development

- **Site Selection**
 - Rehabilitation
 - Neighborhood
 - Preservation Issues
 - Proximity to other affordable housing
 - New Construction
 - **Location**
 - **Proximity to services**
 - Proximity to other affordable housing
 - Environmental review
 - Site work

Elements of a Viable LIHTC Development

- **The Application**

- General Information – Narrative Description
- FIN-100
- Development Team Information
- Site Information
- Development Rents
- Annual Operating Expense Budget
- Total Development Cost
- Proposed Sources of Funds
- Balancing Sources and Uses
- **Housing Priority Documentation**

Elements of a Viable LIHTC Development

- Special Needs Housing Priority Documentation:
 - Draft Referral & Support Agreement
 - Marketing Plan
 - Rental Assistance Commitment Letters, if applicable

Elements of a Viable LIHTC Development

- Service Enriched Housing Priority Documentation:
 - Detailed Supportive Services Plan
 - Service Provider Letters of Intent
 - Service Coordinator Job Descriptions

Development Stages

- The Cycle / Timeline

- QAP/Developer’s GuideMay/June
- NOFA (Notice of Funding Availability)May/June
- ApplicationSeptember
 - 9% and 4% Round (Fall)
 - 4% Round (Spring)
- Review/UnderwritingSept./Nov.
- Commission ApprovalDecember
- Conditional Reservation.....January
- Firm Commitment.....April/June
- Closing.....June/August

Development Stages

- The Application
 - Submitted by developer to MHDC
 - Undergo six stages of review
 1. Initial Review – primary and secondary documentation review
 2. Site Review
 3. Competitive Review
 4. Team Presentation
 5. Recommendation to Commission
 6. Commission Review, Vote and Approval

An Example...

Development Highlights

- A 32-unit townhouse & multi-story multi-family apartment complex
- Non-profit Set Aside
- A 25% special needs development, targeting homeless or formerly homeless individuals & families with rental subsidy provided by separate grant funding
- Developer will set aside portion of developer fee to provide emergency rental assistance for tenants
- Service enriched housing priority proposal
- On-site community building that provides office space for supportive service/management personnel, meeting room for classes, computer workstations & full kitchen
- Washer & dryer hook-ups provided in each unit

Development Cost

32 Unit Development with 25 % Special Needs

Construction	4,390,000
Arch., Eng., Survey, Soils	120,000
Int., Taxes, Ins., T&R, Legal, Appraisal, Fees, Etc.	291,800
Contingency	220,000
Land	241,000
Developer's Fee	640,000
Special Needs Reserve	8,000
Other Reserves	149,200
Total Development Costs	6,060,000

Tax Credit Determination

Total Development Cost

\$6,060,000

Total Eligible Basis

\$5,500,000

Max. Eligible 30% **Priority Boost**

\$1,650,000 (Max. Boost Amount)*

Total Eligible Basis

\$7,150,000

(x) Applicable Fraction

100%

Total Qualified Basis

\$7,150,000

(x) Applicable Percentage

9.00%

Total **Eligible** Tax Credit

\$643,500

Tax Credit Awarded

\$392,000

**Note: Amount awarded is based on need
after evaluating proposal's financial
feasibility**

Syndicators

Now what do you do with \$392,000 in federal credits and another \$392,000 state credits for ten years when you need funds to build NOW?

Developers sell the tax credit equity to syndicators:

These syndicators are generally profit motivated or non-profit corporations

Syndicators discount the value of tax credits. Essentially, they provide upfront money for future cash flows

Figuring the Value of Tax Credits

<u>Credit Amount</u>	<u>Pricing</u>
392,000 – Federal	.875
392,000 – State	.47
Underwriting Minimum	
Federal .855	
State .455	
392,000 x .875 x 10 =	3,419,858
392,000 x .47 x 10 =	<u>1,842,400</u>
Value of Tax Credit to the Development	\$5,262,258

Filling The Gap

The Gap: Total Development Cost (-) Tax Credit Equity

Total Development Cost	\$ 6,060,000
(Minus) Tax Credit Equity	\$ <u>5,262,258</u>
The Gap	\$ 797,742

How to Fill The Gap:

- A. Deferred Dev. Fee/Developer's profit
- B. MHDC F.B. \$
- C. MHDC HOME \$
- D. City HOME \$
- E. Conventional Loan \$

MHDC F.B. - \$400,000 @ 3.25% / 30 yrs.

City HOME Soft Loan - \$210,000 @ 0%

MO Foundation for Health Grant - \$137,350

Deferred Developer Fee - \$50,392

Financial Feasibility

Gross Income	\$196,956
Occupancy	.93
Eff. Gross Income	\$183,169
Operating Expenses	<u>\$142,180</u> - 4,443 PUPA
NOI	40,989
Annual Debt Service	<u>\$20,890</u>
Cash Flow	\$20,099
D.S.C.	1.96 - 1 st yr. ... year 15 = 1.27

Note: Gross Income is based on the 25% Special Needs units having Rental Assistance with rental rates higher than the tax-credit-only units

Income Restrictions

Tax Credit – 40% at 60% of Median Income

Tax Credit/HOME – 20% at 50% of Median Income

*In reality 100% units @ 60% income

60% of Median Income:

<u>1 Person</u>	<u>2 Person</u>	<u>3 Person</u>	<u>4 Person</u>
\$28,200	\$32,220	\$36,240	\$40,260

30% of Median Income:

<u>1 Person</u>	<u>2 Person</u>	<u>3 Person</u>	<u>4 Person</u>
\$14,100	\$16,110	\$18,120	\$20,130

Rental Rates for Development (without rental subsidy):

	<u>Max. 30%</u>	<u>Proposed 60%</u>
2-BR	\$259	\$400
3-BR	\$299	\$425 - \$475

Financial Feasibility for 25% Special Needs Development **with NO Rental Assistance**

Gross Income	\$149,964
Occupancy	.93
Eff. Gross Income	\$139,467
Operating Expenses	<u>\$142,180</u> - 4,443 PUPA
NOI	(2,713)
Annual Debt Service	<u>Not Applicable</u>
Cash Flow	Negative

Development is simply not feasible if it can not generate normal rental income to pay for it's daily operations.

Townhouse Elevation



12-Plex Building Elevation



Community Building Elevation



Why We Do What We Do

???

Statements from Old Article in Springfield News-Leader

- “Poverty is a thief, robbing children of what they require to thrive. It can leave them without nightly meals, proper shoes, coats when it’s cold outside, a quiet place to do homework, and even a safe place to sleep”
- “For families in situational poverty, it can be even more stressful because they don’t have that experience” But, ...
- With generational poverty, there’s this sense of hopelessness that develops that things can’t get better, that things aren’t going to get any better ...”
- “My plan is to do anything that I can to get a place and make sure that place is safe,” Ashley says. “... I’m not risking my daughter getting taken away from me again.”
- “They’re in Isabel’s so we know they’re taken care of, but we have one week’s worth of money to pay for a motel, and after that it’s going to be scary,” says Cherlyn, turning away as tears fall. “What’s going to happen? We don’t know.”

Outcomes

- “If it wasn’t for them, I wouldn’t have a place to live right now.”
- “My daughter and I have experienced homelessness twice in the eight years since my husband’s death. The two and a half years that we’ve lived at Beacon Village is the most stable and secure we’ve been in this time. My daughter had reservations when we were first offered the opportunity to Beacon Village because she feared we would be isolated here. With help from friends she realized quickly that that wasn’t so. She was able to finish school, keep dancing with the Springfield Ballet and find and keep a job for the last two years. Beacon Village and the Kitchen Inc. has afforded us a home we can be proud of in a neighborhood where we feel safe.”

Outcomes

- What does Beacon Village mean to me? It's the difference between life and death. After a couple years of undiagnosed health problems, resulting in job loss and financial ruin, I came to Springfield in May of 2013. Community Resources put me in touch with the Kitchen Inc. With their assistance, as well as the Kitchen Clinic my health issues were diagnosed and addressed. They literally saved my life and gave me shelter. I consider being a part of the Shelter Care Plus program and part of the Beacon Village Community a privilege that I will never take for granted. Although still struggling with various health issues, the peace of mind that comes from the opportunity to be a part of this community is overwhelming. Having the stress gone of trying to provide my own shelter has allowed me to focus on my health and the road to independence. A big THANK YOU to the Kitchen and Beacon Village. I honestly don't think I could have come this far without the security of the home you have helped me to maintain.

Competitive Nature of Process

- | | | | |
|----|----------|----|---------------|
| A. | Need | E. | Affordability |
| B. | Support | F. | Feasibility |
| C. | Location | G. | Dev. Team |
| D. | Cost | | |

Marketability
Management

More than Housing (?)

For this forum, the Provision of Outstanding Special Needs Housing
Priority Documentation that fits well with A through G

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