

Request for Action
By
Board of Commissioners

Approval of Final 2022 Qualified Allocation Plan

1. Summary of Issues

At the June 17, 2021 meeting, the Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) Board of Commissioners preliminarily approved a proposed draft and authorized publication of RIHousing’s intent to adopt the 2022 Qualified Allocation Plan (the “2022 QAP”), which governs the allocation of low-income housing tax credits (“LIHTC”). On June 18, 2021, RIHousing published notice of a public hearing on the proposed draft of the 2022 QAP in the Providence Journal and on June 21, 2021, notice was posted on RIHousing’s website.

A public hearing was held on July 14, 2021 via video conference with one attendee. Written comments were received from three parties. In addition, on August 9, 2021, at a meeting of the RIHousing Credit Committee (the “Credit Committee”), substantial discussion resulted in several modifications.

Staff proposes additional changes to the proposed draft of the 2022 QAP as described below to address public and Credit Committee comments and to correct some clerical errors.

Summary of Sections Changed:

Added Glossary of Acronyms	To provide definitions of commonly used acronyms
Added Table of Contents	To help users navigate through the document
Section I	Ministerial changes to correct typos and acronyms
Section II (page 22)	Ministerial change for language consistency
Section II (page 29)	Increase absolute TDC cap from \$385,000 to \$390,000
Section III (A) Scoring (pages 29-30)	Deleted the requirement for 5 years of LIHTC experience for Developers
Section III (B) Scoring (page 33)	Eliminated capitalized reserves from the Total Development Cost Cap Threshold requirement
Section III (B) Scoring (page 33)	Clarified scoring metrics in scoring summary
Section III (B) Scoring (pages 33)	Corrected points summary
Section III (B) Scoring (pages 34)	Modified building types and distinguished between elevator and non-elevator buildings
Section III (B) Scoring (pages 36)	Deleted proposed additional points for larger units
Section III (B) Scoring (page 37-38)	Added points for bicycles under Transit and Connectivity and clarified language associated with bus routes
Section III (B) Scoring (page 38)	Added clarifications under Areas of Opportunity
Section III (B) Scoring (page 39)	Increased points under GIS mapping from 1 to 2 to boost

	points awarded under Fair Housing
Section III (B) Scoring (page 39)	Clarify that a qualified nonprofit can be part of a Joint Venture
Section III (B) Scoring (page 39)	Acknowledgement that there may be instances where there is a CCRP in place, but the site is not in a QCT
Section III (B) Scoring (page 39)	Increased points for the provision of free broadband to residential LIHTC units, either wireless or hard wired, and added requirements for supporting back-up.
Section III (B) Scoring (page 40)	Clarification to qualifying standards for services
Section III (B) Scoring (page 40)	Clarification that the 100% AMI reference is for the municipality
Section III (B) Scoring (page 41)	Added links to websites associated with energy efficiency metrics
Section III (B) Scoring (page 43)	Deleted obsolete reference under negative points
Section III (C) – Section XI	Ministerial changes to correct typos

The final 2022 QAP, set forth at Attachment C, reflects the changes made to the proposed draft based upon the public comments, some additional clerical errors, and the Credit Committee discussion. The 2022 QAP will become effective upon (i) final approval by the Board of Commissioners; (ii) approval by the Governor; and (iii) posting to the RIHousing website as a guidance document.

Public Comments

Comment 1

We received two comments regarding the requirement for five years of developer experience.

Commenters were concerned that the five-year requirement is too limiting and unfairly penalized developers who have significant real estate experience, both market and affordable through the HUD Section 8 program but who may not have LIHTC experience.

Staff reviewed the requirement for developer team capacity and determined that there were sufficient metrics aside from the five-year experience requirement for the team to evaluate whether the developer, and their team, have the requisite experience to undertake a project of the proposed size and scope. Therefore, the requirement for “five years” of experience was deleted.

Comment 2

We received one comment seeking the elimination of cost caps or alternatively the increase of cost caps by 20%. In addition, the commenter encouraged additional building types if the cost caps were to remain.

RIHousing is mindful of the pressure on construction costs due to the pandemic as well as the complexity of developing heavily subsidized affordable housing. To that end, RIHousing is proposing to adjust the building types it uses to assess total development costs (“TDC”) and

increase the TDC of each building type based on an analysis of current costs. However, given the national spotlight on affordable housing, a review of overall project costs of recently funded proposals and RIHousing's fiduciary responsibility as a steward of federal resources, staff does not recommend the elimination of cost caps in the 2022 QAP.

Staff agrees that the building types by which TDC is measured should be modified and determined that there will be five building types outlined in the Developer's Handbook. The TDC for each building type will be evaluated based on recent projects and a review of the RS Means Cost Index. The overall TDC for each will be adjusted based on that review.

Comment 3

We received two comments seeking the elimination of the Weighted Average Total Development Cost metric.

Several years ago, the QAP eliminated the use of square foot construction costs as the metric by which proposals were reviewed and transitioned to a TDC methodology. The change was made because most projects were exceeding the published construction cost guidelines, and the TDC was determined to be a better indicator when comparing project costs. Given the diversity of building types, including scattered duplex houses, elevated and non-elevated buildings, and mill rehabilitations, the TDC by building type is a more reliable metric by which to compare proposals. Therefore, the requirements for this category of the 2022 QAP will remain.

Comment 4

We received two comments regarding the addition of points for larger units and a similar comment regarding the need for elderly housing as identified in the Rhode Island Consolidated Plan.

Specifically, the commenters are concerned that the incentive for larger units is already included in the weighted average calculations for TDC and LIHTC. The commenters believe that the inclusion of additional points for three-bedroom or larger units constitutes double counting and makes it difficult for projects designed for the elderly or for smaller households, including units designed for supportive housing, to be competitive.

Given the complexities of the real estate market and sound underwriting principles, each project must respond to the needs of the specific community in which it is located and the population it will serve. Recent studies have identified a need for housing units in Rhode Island across all bedroom sizes and income bands; staff agrees that the market should determine what a developer should build.

Therefore, staff believes that more research is required before additional points should be included for three-bedroom or larger units. The 2022 QAP will not include additional points for larger units.

Comment 5

We received one comment requesting that points be added for bicycle access under the Transit and Connectivity Section.

Bicycles are a useful mode of transportation for short trips (one to three miles) beyond a walkable distance but accessible without an automobile. Some cities and towns have begun to prioritize bicycle routes and/or improve bicycle and transit integration. Bicycling is a tool that transit agencies can use to enhance mobility for customers and to augment the scope of conventional services like bus, rail, and ferries.

Therefore, staff agrees that the inclusion of points for bicycle storage and access are enhancement to the 2022 QAP.

Comment 6

We received one comment requesting that elderly housing be listed as a priority in several sections of the of the QAP given that it is referenced as a priority in the Rhode Island Consolidated plan.

Affordable housing shortages exist across all housing types and populations in Rhode Island, and the QAP balances multiple priorities. Staff agrees that the need for elderly housing should be identified in Section 1 of the QAP; however, staff disagrees that an express priority for elderly housing should be added to the QAP. The elimination of the bonus points for larger units as outlined in Comment 2 should mitigate some of the concern regarding developments that are primarily 1-bedroom units.

Comment 7

We received three comments regarding the inclusion of higher requirements for energy efficiency either through the integration of the Enterprise Green Communities criteria or the inclusion of points for LEED certified developments.

RIHousing's current Design and Construction Guidelines require a higher level of energy efficiency than the Rhode Island Building Code, specifically it requires RNC Tier 1. The QAP currently does not mandate RNC Tier II and ES 3.1 Rev 8 for all new construction developments because in previous reviews of the QAP, advocates were concerned that the higher levels of efficiency drove up cost. Developers receive extra points for achieving higher RNC tier ratings, with points for Tier II, Tier III (added this year) as well as net zero or passive house standards.

Staff does agree that it would be useful to undertake a wholesale review of the current Design and Construction Guidelines over the next several months. Therefore, the only recommended change for the 2022 QAP is the addition of points for RNC Tier III.

Credit Committee Comment

Two changes were requested by the Credit Committee, one recommending an additional point related to fair housing and the second related to the provision of free broadband to residents of

LIHTC units.

1. **Fair Housing:** The Chairman of the Board of Commissioners requested one additional scoring point for the Fair Housing and Areas of Opportunity category.

The draft 2022 QAP awarded 13 fair housing points for locating developments within communities: (i) with less than 10% affordable housing, (ii) with high-performing school districts, and (iii) within an identified GIS map area. The GIS map area is determined based upon the following data: (i) distance within ½ mile of a library, (ii) distance within ½ mile of a community health center, (iii) location within a “high opportunity area” as defined in the current State of Rhode Island Consolidated Plan, and (iv) location outside of any U.S. Department of Agriculture “low access” tract. Upon review, staff is recommending that an additional point be awarded for developments meeting these criteria. As a result, two points will now be awarded if a proposal meets three of the GIS map area’s four metrics.

2. **Broadband:** The Credit Committee requested that the 2022 QAP place more emphasis on the provision of free broadband to residents of LIHTC units. The Committee discussed various options including requiring free broadband access and establishing incentives for providing free broadband access.

As a result of the substantive discussion on this issue, staff surveyed broadband incentives in other states’ QAPs and learned the following:

- Like RIHousing, the installation of wiring and hardware (the infrastructure) is a requirement under most housing finance agency (“HFA”) guidelines, either in the QAP or design guidelines.
- Some HFAs are awarding points for the provision of service to the residents as part of their overall point system.
- The expectation for the length of service provision and the number of points awarded vary by state.
- Staff also reviewed points awarded for broadband under several state QAPs as a percentage of the overall points awarded.

In addition, staff examined recently completed new production projects within the RIHousing portfolio to determine the impact that the broadband service costs would have had on the project’s net operating income (“NOI”). The reduction in NOI ranged from 19% to 60%, reducing the amount of the projects’ supportable debt and in some cases, rendering the projects infeasible due to negative NOI within a few years of operation.

Based on this review, it is staff’s recommendation that RIHousing take an incentive approach, and that the points and metrics under this category be adjusted upward as follows:

Development provides high speed internet at the minimum required federal speed (currently 25/3) to residents of LIHTC units at no cost		Up to 5 points
<ul style="list-style-type: none"> Wireless broadband access within each LIHTC deed restricted residential unit 	3	=2.2% of total points
<ul style="list-style-type: none"> Hard Wired broadband access within each LIHTC deed restricted residential unit 	5	=3.7% of total points
The cost for broadband provision must be reflected in the proforma operating budget, and cost itemized for review. The application must include a written proposal for the provision of the infrastructure that supports the proposed broadband service.		

Overall, the QAP point allocation is as follows:

Financial Leveraging	40% of total points
General (includes <30% units, RI Firms, permitting and OZ)	14% of total points
CCD (includes Broadband)	23% of total points
Community	11% of total points
Efficiency	12% of total points

3. Recommendation

Staff recommends that the Board of Commissioners approve the attached resolution adopting the 2022 QAP and recommending the 2022 QAP for final approval and endorsement by the Governor.

4. Attachments

- A. Resolution
- B. 2022 Qualified Allocation Plan – Blackline (to proposed draft 2022 QAP)
- C. 2022 Qualified Allocation Plan – Final (Clean)

Attachment A

**Resolution of the Board of Commissioners of
Rhode Island Housing and Mortgage Finance Corporation**

WHEREAS, Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) has been designated by the Governor as the Tax Credit Allocating Agency for the State of Rhode Island (the “State”);

WHEREAS, the Revenue Reconciliation Act of 1989, as amended, requires tax credit allocating agencies to allocate low-income housing tax credits (“LIHTC”) according to a Qualified Allocation Plan (the “Plan”);

WHEREAS, the Plan must establish priorities and criteria for allocating the tax credits that best meet the housing needs of residents of the State of Rhode Island and must be adopted pursuant to a public hearing and comment period; and

WHEREAS, housing needs for the State of Rhode Island have been established pursuant to the Rhode Island Consolidated Plan: 2020-2024 and are incorporated into the 2022 Qualified Allocation Plan (the “2022 Plan”).

NOW, THEREFORE, BE IT:

RESOLVED, that RIHousing adopt the 2022 Plan for the State of Rhode Island in substantially the form attached hereto at Attachment C, and hereby recommends the 2022 Plan be approved and endorsed by the Governor of the State of Rhode Island; and

RESOLVED, that RIHousing develop and distribute a Request for Proposals soliciting applications for 2022 Low-Income Housing Tax Credits pursuant to the 2022 Plan; and

RESOLVED, that the Executive Director, Deputy Executive Director, and Director of Development, each acting singly, be, and hereby are, authorized and empowered and directed to take such action as she or he, in her or his sole discretion, shall deem necessary or desirable to effectuate the foregoing resolutions.