Request for Action

By
Board of Commissioners

Approval of Final 2025 Qualified Allocation Plan

1. Summary of Issues

At its June 20, 2024 meeting, the Credit Committee of the Rhode Island Housing and Mortgage Finance Corporation ("RIHousing") Board of Commissioners approved a draft 2025 Qualified Allocation Plan ("2025 QAP"), which will govern the allocation of low-income housing tax credits ("LIHTC"), and authorized publication of notices advertising a public hearing on the draft 2025 QAP and opportunity to submit comments. On June 21, 2024, RIHousing published notices in the Providence Journal and Noticias Rhode Island, and on RIHousing's website.

A public hearing was held on July 23, 2024 via video conference with approximately 18 attendees. The public comment period ended on July 24, 2024. As of July 24, 2024, four parties had submitted written comments, which are summarized below.

Staff proposes the following changes to the draft 2025 QAP, as blacklined in Attachment B and summarized below, to address public comments and to correct some clerical errors:

Section III(B) Scoring Page 31-32	Updated Point Allocation Summary to reflect changes in overall points based on changes outlined below
Section III – General Points (D) Page 37	Added reference to the Developer's Handbook for 50% plan and specification criteria
Section III – General Points (D) Page 37	Reduced points for applications submitted without plans and specifications
Section III – Comprehensive Community Development Page 38	Added a requirement for engagement and coordination with the HEZ
Section III – Comprehensive Community Development Page 38	Modified language regarding MOUs for potential commercial leases
Section III – Comprehensive Community Development Page 38	Increased points for mixed-income developments
Section III – Comprehensive Community Development Pages 37 and 40	Increased point allocation and modified language regarding MOUs for supportive service provision
Section III – Community (B) Page 40	Changed the word "properties" to "buildings" to clarify intent

Section III – Efficiency Pages 41 and 47	Reinstated points for exceeding NGRID's RNC Tier II and Energy Star 3.1 revision 8 standards because the new state energy code has not yet been adopted
Section III – Efficiency Pages 41	Added clarifying language regarding all-electric buildings.

The final 2025 QAP is set forth at Attachment C. The 2025 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.

2. Summary of Public Comments

Commenter 1

Commenter 1, the Rhode Island Public Expenditure Council ("RIPEC"), provided written comments, which are summarized and addressed below:

Comment 1

Commenter 1 suggested that the 2025 QAP "reinstitute the cap on total development costs (TDC) per residential unit as a threshold requirement for developments." Commenter 1 noted that TDC caps were in the QAP from 2020-2023 and that two projects awarded 9% credits in 2024 were above the $450,000 TDC cap in the 2023 QAP. Commenter 1 also noted that the median selling price for a single-family home in RI is $450,000.

The impact of the pandemic on the construction industry has been well documented. In 2021 and 2022, there was a 28% increase in housing costs. While the increase has moderated, costs were up 6.85% in 2023 and certain supply chains remain volatile. In response to this dynamic economic environment, the proposed 2025 QAP includes points for 50% plans and specifications at the time of application, which should lead to better construction pricing and more cost certainty. In general, cost containment and cost-effectiveness are important components of staff review. For example, staff conducts an extensive design review to eliminate elements that add cost but no value, ensure that the housing is durable and has a long useful life cycle to reduce operating costs, and ensure energy efficiency to reduce tenant utility costs and meet State goals in regard to climate change.

No change is recommended.

Comment 2

Commenter 1 suggested that the 2025 QAP "[i]ncentivize mixed-income housing by prioritizing developments that include middle-income and market-rate residential units." Commenter 1 further suggests that the current points for the development of mixed-income housing in the Comprehensive Community Development section should be moved to a new Subsection E under General Points, and the weight of the element should be increased from 3 to 10 points.

RIHousing agrees that housing at all price points is needed to address the state's housing

shortage. The current criteria are meant to provide an incentive to develop market rate housing if it can be self-supporting and does not require cross subsidy from the affordable units. In response, the final 2025 QAP reflects an increase in points from 3 to 5.

Comment 3

Commenter 1 suggested that (i) the penalties for project cost overruns be increased and (ii) the penalties be assessed for all financing proposals, not just 9% LIHTC projects). Under the Negative Points section, the current penalty for cost overruns is 5 points. Commenter 1 is recommending that the penalty be increased to 20 points.

For clarification, the current negative point category assesses a penalty if the TDC increase results in a lower overall score but waives the penalty assessment if any gap is addressed through non-State funds, such as higher equity or a deferred developer fee. As noted in Comment 1, the proposed 2025 QAP includes points for 50% plans and specifications at the time of application, which is designed to provide better construction pricing and thereby reduce cost increases between preliminary and firm commitment.

We believe that the current penalty points are acceptable and reasonable and that cost overruns are sufficiently addressed by other changes, so no change is recommended.

Comment 4

Commenter 1 recommends a reduction in "the emphasis on the provision of housing for households with incomes at or below 30% of area median income (AMI)." Commenter 1 further notes that the points for this category increased from 6 to 25 points in the 2024 QAP and while a worthy policy goal, such emphasis requires a higher level of capital subsidy.

The State of Rhode Island Consolidated Plan prioritizes the development of permanent supportive housing for extremely low-income ("ELI") households. The LIHTC program is a valuable tool for financing affordable housing for the ELI population. Because ELI units are difficult to develop and often do not generate enough income to cover their operating costs, most developers will not build ELI units unless there are incentives like tax credits.

The current points reflect the challenge and importance of developing ELI housing. No change is recommended.

Comment 5

Commenter 1 recommends an overall reduction in the priority given to the social objectives that are supplemental to the production of affordable housing. Commenter 1 suggests that the scoring under the Comprehensive Community Development section of the 2025 QAP be modified to mirror the scoring under the Priority Projects Fund and the overall points in this category be reduced from 27 to 7.5.

IRC Section 42(m)(1)(B)(ii)(III) requires that a preference for an allocation of credits must be given to developments serving the lowest-income residents. Rhode Island has a strong track record of allocating tax credits and underwriting transactions using prudent decision-making. We

believe that the components included in the Comprehensive Community Development section are important components in any LIHTC deal as they help to ensure stability for residents and meet the goals of the State's Consolidated Plan.

Therefore, no change is recommended.

Commenter 2

Commenter 2, Barbara Sokoloff Associates, provided written comments, which are summarized and addressed below:

Comment 1

Commenter 2 recommends that the restriction only allowing one transaction with a preservation component per 9% LIHTC round be deleted. Commenter 2 notes that with less ancillary funding available in the upcoming round, it is unlikely RIHousing will have sufficient resources to fund 4% LIHTC preservation projects, leaving 9% LIHTC as the only funding path available for preservation projects. With the addition of a preservation unit total development cost per unit scoring metric, new construction and preservation are now on equal footing for scoring.

Given the shortage of newly produced affordable housing across the State and the small state allocation of 9% LIHTC, limiting the number of preservation deals funded annually under the program is prudent. The addition of a new scoring metric for preservation deals will act as a guide and may inform future changes to the QAP. In addition, the new State LIHTC may provide additional resources for 4% preservation transactions, reducing the need for other soft resources.

Therefore, no change is recommended.

Comment 2

To receive points for inclusion of certified Minority or Women-owned Business Enterprises, development team should be defined in this context as developer, general contractor, architect and property manager.

RIHousing agrees and confirmed that these four professional groups were included in the posted document.

Comment 3

Commenter 2 disagrees with awarding an additional point for having 50% plans and specifications. With more applicants than funding awards, and without a pre-application process to vet projects, many applicants will incur costs developing 50% plans for a project that will not be funded. Awarding an additional point for 50% plans divides the applicant pool into haves and have nots; applicants with the financial resources to pay for 50% plans (or access to ARPA predevelopment grant funds), and those without access to these financial resources.

Over the past three funding cycles, most developers have experienced cost increases between

preliminary and firm commitment, which is often caused by plans not being developed enough to provide accurate pricing. The cost increases subsequently delay the project from moving to construction. In addition to the $10 million of ARPA predevelopment grants awarded to projects in the pipeline, RIHousing offers a predevelopment loan to assist non-profit developers.

However, after further review, a one-point differential may not be incentive enough, and staff recommends reducing the points for "…master, preliminary and final plan approval for a development or for a development with "by right" approval and plans that are only schematic" from 5 to 4 points.

Comment 4

Commenter 2 noted that they are seeing similar pricing between non-elevator suburban/garden-style buildings and elevator/podium buildings. The additional cost of an elevator/multi-story construction is offset by the cost of multiple foundations, multiple roofs, internal roads, etc. Commenter 2 suggests one TDC per unit for all new construction building types or, in the alternative, a flattening of the differential between building types.

RIHousing staff is currently undertaking its annual review of building costs and TDC by building type, so it is currently unable to evaluate the cost differential as of mid-July. The proforma issued for the 2025 LIHTC funding round will reflect the current TDC by building type. No change is recommended.

Comment 5

As discussed in the public hearing, Commenter 2 requested that to receive points for being located in a HEZ community, the project should have some defined, documented participation/coordination with the HEZ. Simply being located in a HEZ community without the project taking advantage of any HEZ resources should not score points.

RIHousing agrees with this comment and will add the requirement for coordination with the HEZ in order to be eligible for points in this category.

Comment 6

Regarding mixed-use projects, Commenter 2 stated that the proposed changes present challenges in a couple of scenarios. New construction retail commercial space is unlikely to have leases or MOUs at the time of application, particularly if the proposed tenants are small local businesses. A commercial market study documenting achievable rents should be sufficient at application, instead of leases or MOUs. Similarly, proposed community service facility spaces are unlikely to have leases or MOUs at the time of application. Community service facility spaces may be leased for a nominal rent, resulting in no financial impact on the operating budget. In this case, the intent to provide community service facility space at nominal rent should be sufficient at application. Commenter 2 did not suggest any changes to this section.

The rationale for the proposed change is to address projects that include significant commercial lease payments that increase a project's net operating income (NOI) and, therefore, the amount of debt that can be leveraged. The expectation in these cases is that the developer has identified a tenant for such a space and, therefore, has negotiated basic terms. When the commercial or community space is not anticipated to generate significant income and, therefore, will have minimal impact on the NOI, a master lease between developer and borrower is common practice, and is an acceptable alternative for the application.

In response to this comment, the 2025 QAP has been amended to reflect the two underlined changes: "Commercial income reflected in the operating budget <u>that is being used to leverage the permanent first mortgage</u>, must be demonstrably supported through a lease or MOU outlining terms of a proposed lease (<u>or master lease between developer and borrower</u>); additional point for spaces that create jobs for local community members and/or service the local community".

Comment 7

Regarding service provision, Commenter 2 asked for clarification regarding what differentiates a 4-point 3rd party MOU from a 2-point 3rd party MOU?

The point differential is in reference to the number of hours of service. This has been clarified in the 2025 QAP.

Comment 8

Commenter 2 noted that if rehabilitation of vacant buildings is eligible for points, but redevelopment of vacant land is not eligible for points, they suggest replacing the word "properties" with "buildings".

This clarification has been made in the 2025 QAP.

<u>Commenter 3</u>

Commenter 3, Church Community Housing Corporation, provided a written comment, which is summarized and addressed below:

The 2 points awarded for developments in areas with high performing schools is woefully inadequate, and now, the HEZ points further reduce their effect since the HEZs are located primarily in low performing school districts. The long-term generational benefits of housing the children of low-mod income families in areas with high performing schools are so great as to justify this being the largest scoring category.

Developing affordable housing in areas of opportunity, often communities with less than 10% affordable housing, is a primary goal of the QAP. The graduation rate points are an important metric of this goal, as are several other metrics, such as 10 points for communities under the 10% requirement. The QAP attempts to balance many goals and meet the tax code requirements.

No change is recommended.

Commenter 4

Commenter 4, ONE Neighborhood Builders, provided written comments, which are summarized and addressed below:

Comment 1

Commenter 4 offered support for the inclusion of up to 4 points when developers offer evidence of Resident Service Coordinators and/or an MOU with a third-party provider of resident services.

No response/change required.

Comment 2

Commenter 4 offered support for the inclusion of 2 points if the development is located within one of RI's fifteen Health Equity Zones. They recommended a revision that would require developers demonstrate a partnership with the backbone organization of the Health Equity Zone in which the development lies.

This additional modification was noted above under Commenter 2, Comment 5.

Comment 3

Commenter 4 supports the inclusion of 2 points for projects that are 100% electric. They recommend allowing points to be pro-rated if some portion of the property is 100% electric. This is particularly relevant for developments comprised of a new construction and rehabilitation project. They also recommend considering an increase in the total points available for projects that meet the stated standard.

RIHousing currently prorates scoring when reviewing new construction and preservation transactions and will do so under this category. Staff believes the point allocation is appropriate given the pending updated Design and Construction Standards to be released with the 2025 Developer's Handbook, so no change is recommended.

Comment 4

Commenter 4 recommends a revision to the inclusion of 2 points for including a certified Minority or Women-Owned Business Enterprise as part of the development team. As this designation is available only to businesses, not nonprofits, it seems to disadvantage nonprofits. A revision could include an opportunity for nonprofits to demonstrate that they've met the intention of this component aside from the official MWDBE designation.

The goal of the MBE/WBE addition is to increase the roster of development team members who are members of these groups. Non-profit developers do not qualify under federal or state definitions for these groups.

No change is recommended.

Comment 5

Commenter 4 recommends RIHousing include points that would incentivize the production of units that meet accessibility standards. They note that RIHousing is developing resources to ensure developers understand and can navigate accessibility standards and think the addition of points to incentivize exceeding minimum standards would align with the broader stated goal.

The new Design and Construction Standards to be released with the 2025 Developer's Handbook will include more accessibility requirements than previous guidelines. As Commenter 4 noted, RIHousing has engaged a consultant to develop a resource manual for developing accessible housing and retrofitting existing housing to be more accessible. We recommend waiting for that final report and manual to be issued before adding requirements to the QAP so that points and associated costs can be adequately vetted.

No change is recommended.

Public Hearing Comments:

1. One commenter suggested adding "coordination with HEZ," not just location in a HEZ, as a requirement to receive points under this section. This change was made.

2. One commenter outlined the challenge of pre-leasing small commercial spaces that won't come online for two years. In response, we have added a provision for a master lease between developer and borrower.

3. One participant suggested that the composition of non-profit board members could meet the requirements of MBE or WBE participation in the Development team; however, as noted above under Comment 4 for Commenter 4, we do not recommend this change.

4. One commenter suggested that a 40–50-unit development is too small to support a full time Resident Services Coordinator. In response, the points for this metric have been modified.

3. Recommendation

Staff recommends that the Board of Commissioners approve the attached resolution adopting the 2025 QAP and recommending the 2025 QAP for final approval and endorsement by the Governor.

4. Attachments

a. Resolution
b. 2025 Qualified Allocation Plan – Blackline (to proposed draft 2025 QAP)
c. 2025 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;

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 2025 Qualified Allocation Plan (the "2025 QAP").

NOW, THEREFORE, BE IT:

RESOLVED, that RIHousing adopt the 2025 QAP for the State of Rhode Island in substantially the form attached hereto at Attachment C, and hereby recommends the 2025 QAP 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 2025 LIHTC pursuant to the 2025 QAP; and

RESOLVED, that the Executive Director, Deputy Executive Director, and Director of Real Estate 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.