Recommended Changes to the 2023 Oklahoma Qualified Allocation Plan
May 27, 2022

Income Targeting
Question 1 – 40% of units at 50% of AMI obtain 5 points
Recommendation – change to 40% of the units at 50% OR 10% of the units at 30%

Rationale – Twenty-six percent (26%) of Oklahoma’s renter households are Extremely Low Income (ELI) and 67% of the extremely low-income renter households have several cost burdens. The rental housing shortage for ELI households is 71,160 units. (https://nlihc.org/housing-needs-by-state/oklahoma). Adding an alternative option to target households with ELI, defined as 30% AMI and below, provides developers a choice to serve the lowest income households while assisting the State in overcoming the affordable housing shortage.

Term of Affordability
Question 2 – 10 additional years of affordability scores 10 points
Recommendation – Scale points and combine terms of affordability and tenant ownership on the self-score sheet. Combine question 6 of homeownership in this section. One point per year up to 10 years.

Rationale – Offers applicants a choice for the extended years of affordability. It is assumed most will choose 10 to maximize their points.

Development Location
Question 3 - Located in a QCT, DDA, or High Opportunity Area and 2) no other 9% LIHTC projects built within 3 miles in the last two years – scores 7 points
Recommendation – increase to 10 maximum possible points. Expand the list of location characteristics.

- 5 points for High Opportunity Area
- 1 point for QCT
- 1 point for DDA
- 3 points for no other LIHTC development within 3 miles in 2 years
- 1 point if within 1 mile in urban or 4 miles in rural of the below (1 pt. for each)
  - School
  - Grocery store
  - Pharmacy
  - Bus stop
  - Public Park
  - Hospital or urgent care
  - Daycare
  - Library
  - Bank
  - Public recreational facility
  - Police or fire station
  - Gym or health club
- If there is an increase in population over the past three years, three (3) points.
Rationale—Expansion of site location characteristics expands access to essential community services for renters while providing developers more options in selecting sites.

Tenant Targeted Populations

Question 4 – Family or Elderly projects with at least 10% of units set aside for target populations—homeless families, households with persons with disabilities, veterans, or youths aging out of foster care scores 8 points

Recommendation - Add domestic violence as a target population.

Rationale—Oklahoma is experiencing an increase in domestic violence.

Domestic Abuse Continues to Climb

In 2020, domestic abuse reached a 20-year high in Oklahoma with 27,089 incidents reported. That's the highest number since at least 2000. The rate of abuse also escalated, reaching its highest level since 2005 during the pandemic. For every 1,000 Oklahomans, 6.8 experienced abuse. Advocates say many incidents remain unreported.

Tenant populations of individuals with children

Question 5 – 30% or more of the units are 3 BR or larger score 3 points

Recommendation – For new construction, change to 30% of units are 3 bedrooms or larger, OR 50% are 2 bedrooms or larger. Acquisition/rehabilitation development receives the 3 points.

Rationale - Family size is decreasing with an average current household size of 2.49. Acquisition/Rehabilitation developments cannot change configuration to meet the proposed unit distribution without actually reducing the total number of units by combining smaller units.
Tenant Ownership
Question 6 – Projects that contain units to be sold to tenants at the end of the 15-year compliance period score 10 points

Recommendation - Move as a selection under terms of affordability. 1 point per year up to 10 years, homeownership receives 10 points and combine with question 2.

Preservation of Affordable Housing
Question 7 - Rehabilitation of federally assisted housing properties receive 3 points

No recommended changes

Energy efficiency/Green Building
Question 8 – Energy efficiency/Green Building Certification listing specific building components for which points are being requested. 18 points possible

Recommendation – Reduce points to 10 and change the list to use the HERS rating score only. The lower HERS score receives the highest points (10) and lower points are given to the higher HERS scores, thus a lower efficiency rating.

Rationale- The HERS or Home Energy Rating System is a nationally recognized system for inspecting and calculating a home's energy performance. This system uses highly developed software to compare the projected energy use of planned and actual homes with standard references. Scoring details are here: https://www.hersindex.com/know-your-homes-hers-index-score/hers-index-understanding-the-hers-score/.

Projected ratings give owners and builders an estimate of what a home's efficiency will be like after construction or improvements so that they may determine the most cost-effective route to improve a building's efficiency. A confirmed rating, which indicates the home's current efficiency, requires an inspection of the house from an energy rater. The home energy rater reviews the home to identify its energy characteristics, such as insulation levels, window efficiency, wall-to-window ratios, the heating and cooling system efficiency, the solar orientation, and the water heating system. In addition, performance testing, such as a blower door test for air leakage and duct leakage, is usually part of the rating.

HERS Rating can qualify a building for many different programs, including energy efficiency financing, energy code compliance, utility incentive programs, builder’s tax credits, and green home marketing such as ENERGY STAR Homes, LEED for Homes, and the National Green Building Standard.

Historic Credits
Question 9 – Buildings that are certified or are applying for historic certification can receive up to 3 points

No recommended changes
Subsidy per unit

Q10 – Projects requesting the fewest LIHTCs can receive up to 10 points

Recommendation – change to the formula below. If the square feet, number of units, or number of bedrooms change between the application and receipt of 8609 – the developer will receive negative point(s) on future applications.

- Definitions:
  - Unit – Affordable (60% AMI or below, LURA)
  - Credit – Federal and State credits
  - Cost – Total Development Cost
  - Square Foot – Livable/conditioned space
  - Bedroom – the code definition

- Calculation:
  - Lowest Credits per Unit, max 8 points
  - Lowest Credits per Bedroom, max 8 points
  - Amortizing Hard Debt/Total Development Cost, max 8 points
  - Most Square Foot per Unit, max 5 points

- The Applicant will not certify their score for this criterion, because the score will be determined based on other submitted applications. The applicant will certify to the following items (# of units, number of bedrooms, square footage, credit request, total development costs, and amortizing hard debt). Staff will then assign the final score.

Rationale - The task force devised the above analysis to encourage developers to build the most cost-efficient unit without diminishing quality or a “race to the bottom”. This calculation should ensure sufficient funding at the most effective costs.

Q 11 – Tie Breaker – If projects are found to score the same number of points, the project with the highest number of LIHTC units is selected. If still tied, projects are entered into a drawing at the next OHFA Trustee meeting, although a drawing can be held earlier if a project qualifies for a set-aside.

No recommended changes

Threshold Recommendations:

1. Move amenities from threshold to points, max 10 points. For example, the below list receives 1 point, except the storm shelter receives 5 points. All construction must meet the State's construction standards.
   a. Fitness center
   b. Playground
   c. On-site computer stations
   d. Covered parking
   e. Dog parks
   f. Pool
   g. Splash pad
   h. W/D or connections
   i. Building façade
   j. Gated community
   k. Ceiling fans (all beds & living)
   l. Smoke-free for building
   m. Broadband connection
   n. Charging station for cars
   o. Storm shelter
   p. Dishwasher
   q. Disposal
   r. Sports facility
   s. Security cameras
   t. Security systems
   u. Covered parking for min. 50% of parking spots
   v. Outdoor grills – minimum of 1 grill per 20 units
   w. Outdoor covered seating
   x. Community room – 3 points
Rationale- This ensures that quality developments are built while allowing developers to determine what is best for their sites. Giving developers multiple scoring criteria to produce that quality provides better flexibility as no two developments are alike. Amenities should not be a threshold issue. They aren’t a requirement of Section 42. However, they are an excellent way to differentiate quality developments.

2. Market Studies
   a. NCHMA Standards
   b. Analysts certified by NCHMA
   c. Stricter Review/Train Staff
   d. Add guidelines for PMAs, etc.

   **Rationale**- Adopting national standards assures the State that all market studies are consistent.

3. Underwriting Standards
   a. DSCR 1.20
   b. DSCR 1.15 for any development receiving federal assistance
   c. 7% vacancy
   d. 2%/3% - increases in income/expenses and 2%/2% for RD 515 because rents are based upon RD approved budget.
   e. Construction contingency – 5% new construction/10% rehabilitation

   **Rationale**- Increasing the DSCR to 1.20 for developments without government subsidy helps to ensure the borrower has sufficient income to pay its debt obligations. Retain the DSCR of 1.15 for government/federally assisted subsidized projects to leverage program resources, follow their underwriting minimum, and maintain affordable housing in rural communities.

   Vacancy rate: 7% is the industry standard for underwriting and what most syndicators and lenders will require. The standard rate ensures uniformity in underwriting.

   Fixed income/expense factors: Setting a static income/expense factor of 2%/3% ensures underwriting consistency and standards to minimize risks and losses for new construction with no government subsidy. Applicants with rural development or other federal-funded support may use an income and expense factor of 2%/2% or 3%/3%.

   Construction contingency: Setting a minimum standard for underwriting ensures developments have cushion for price fluctuations and unforeseen costs. Additionally, most Syndicators and Lenders will require these minimum amounts.

4. Change New Construction Set Aside to 50% Urban and 50% Rural

   **Rationale**- Slightly decreasing the New Construction Urban set-aside encourages applicants to utilize the 4%/Bond program for developments in large metro areas with substantial affordable housing demands. For the past five years, the State has focused on urban new construction and increasing rural new construction in communities within a metro county that meets the USDA rural area definition.
5. Sponsor Strength – recommend adding Syndicator and Lender to the list of team members. Additionally, 50% of the team must have participated in 5 developments in Oklahoma within the last five years.

**Rationale**- OHFA has seen increased developments receiving credit allocations that struggle to close and get and completed. This can partially be attributed to development teams not experienced with Oklahoma's market. This solution ensures that the team has Oklahoma experience and is committed to the State.

6. Remove the requirement of the "as-rehabbed" value in the appraisal of rehabilitation developments.

**Rationale**-The rehabbed appraisal requirement was added to the 2022 QAP. However, the as rehabbed value model doesn’t seem necessary to the application process for the following reasons.

- This new requirement significantly increases the cost of the application due to the additional time required by the appraiser. The appraiser must actually evaluate the construction plans and specifications and then estimate the impact on the development.
- Due to very different and unique rehabilitation requirements of each property, there is no basis for comparison of the properties after renovation. These values can’t be compared and therefore this value estimate doesn’t provide a benefit for application comparison purposes.
- Perhaps most importantly, the as rehabbed value doesn’t have much of a relationship to the rehabilitation costs. The costs spent on renovation cannot typically be justified by the potential increase in rental income or value. This is the basis for the tax credit program to provide funding support where otherwise, the development would not be economically justified. The rehab costs typically cannot be fully financially supported by increased rents or value due to the program income and market restrictions. Therefore, the as rehabbed value presentation should not be relied upon to help the allocation and cannot be compared equally to other rehab applications.
- This requirement seems to burden the rehab applications unfairly and is not required of new construction applications.

7. Consider adaptive reuse as New Construction.

**Rationale**-Adaptive reuse is taking an old building or site and reusing it for a purpose other than it was originally designed. Modifying these facilities differs significantly from an existing multifamily complex and should compete with the new construction set-aside. The purpose of new construction is to bring new housing units to the state and adaptive reuse serves that purpose.
Recommendations for 4% Bond Transactions requesting State Low Income Housing Tax Credits

June 15, 2022

1. Allocation of State LIHTCs
   a. First round - State LIHTCs reserved for 4% Bond transactions
   b. Second round – 4% Bond transactions receive preference over 9% LIHTCs

2. Allocation preference
   a. New Construction with land ownership
      i. Tie-breaker calculation (described in no.5)
   b. Acquisition/Rehabilitation with land ownership
      i. Preference for “Preservation” Developments
      ii. Second Preference a minimum 75% of units with rental assistance
      iii. Tie-breaker calculation (described in no. 5)
   c. New Construction without land ownership
      i. Tie-breaker calculation (described in no. 5)
   d. Acquisition/Rehabilitation without land ownership
      i. Preference for “Preservation” Developments
      ii. Second Preference a minimum 75% of units with rental assistance
      iii. Tie-breaker calculation (described in no. 5)

3. Definition of Land ownership
   a. 51% owner of the Controlling Entity (of GP or Managing Member)
   b. To qualify for the set-aside, the owner of land must also be a 51% owner in the proposed development.

4. $2MM Developer (Principal) Cap of State Credits

5. Tie Breaker Calculation based on the State Tax Credits per Unit (8 points) and State Tax Credits per Bedroom (4 Points)