

# Qualified Allocation Plan (QAP) update to align with Oregon Centralized Application (ORCA)

*4% LIHTC Application Process*

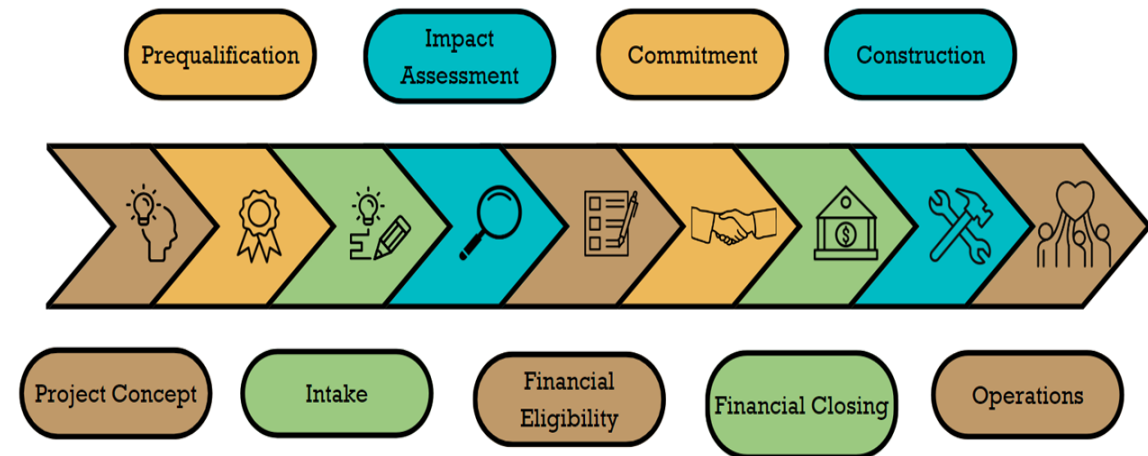
October 9, 2024

9:30-11:00

# Agenda

Meeting Objective: *Collect input to inform QAP update including feedback about the proposed 4% LIHTC proposed application process through ORCA.*

- Overview of LIHTC Program
- Proposed QAP Updates
- Proposed 4% LIHTC Application Process
- Small Group Discussions
- Next Steps



# Process Agreements

- Help foster an inclusive environment
- Stay engaged
- Speak your truth responsibly
- Listen to understand
- Be willing to do things differently and experience discomfort
- Expect and accept non-closure

# Low Income Housing Tax Credit - Primer

- Indirect federal subsidy used to finance the construction / rehabilitation of affordable rental housing for low-income households.
- Credit claimed over 10 years by an equity investor who receives a dollar-for-dollar reduction in their federal tax liability in exchange for the equity investor contributing equity into an affordable rental housing project.
- Two different types of LIHTC Programs:
  - 9% LIHTC: traditionally covers ~70% of total project costs
  - 4% LIHTC: traditionally covers ~30% of total project costs and requires Private Activity Bonds (PAB) for at least 50 percent to generate the credit
- Qualified Allocation Plan (QAP) required by the IRS to authorize distribution of tax credits by state Housing Finance Agencies (HFAs).

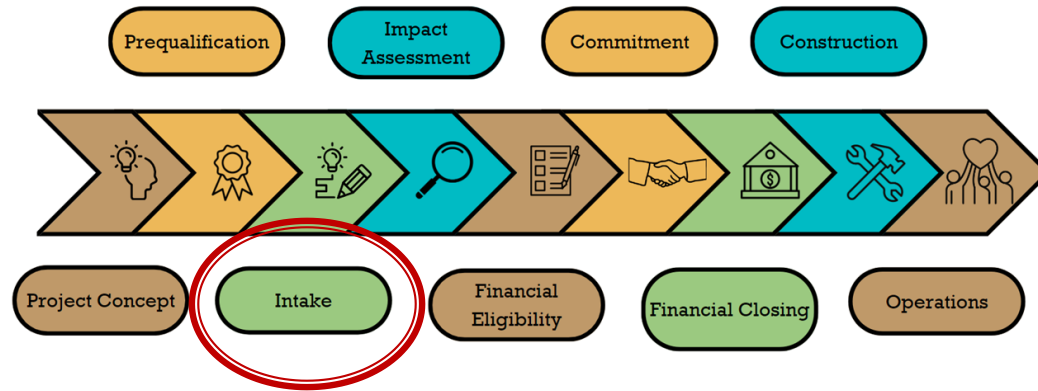
# LIHTC Processes

- Both LIHTC programs are over-subscribed:
  - 9% LIHTC requires a selection process
    - Traditionally through a stand-alone NOFA with complex scoring structures
  - 4% LIHTC requires an allocation process
    - Traditionally non-competitive, but with recent over-subscription of needed PABs to generate the credits, we stood up an interim prioritization process that includes priority for Housing Authority projects as well as those with significant local funding
- ORCA opportunity:
  - Incorporate both funding sources into the standards-based review and requirements. Added focus on pipeline management and readiness for funding commitments.

# Private Activity Bonds

- Private Activity Bond authority processes
- Timeline requirements:
  - Bond Bill attributes resources to OHCS (currently \$450M)
  - Private Activity Bond committee retains the balance of Current Year along with carryforward
    - Carryforward is current year resources that hadn't been used but are required to be used within three-years

# Proposed 4% LIHTC process



- Interested applicants will submit an **Intake Form** and indicate interest in PAB/4% LIHTC resources
- Will rely on set-asides of the ORCA and gap funding resources
- Prioritize readiness to proceed; with consideration to the timelines associated with both 4% and 9% LIHTC resources
- Projects must meet ORCA requirements and standards

# Proposed 4% LIHTC process

## 1. Notice

- A Technical Advisory will be released with advanced notice to let partners know that PAB is available in the ORCA
- PAB will remain available until OHCS has reserved 110% of resource available.
- OHCS will announce when the cap has been met and the pause has been initiated.



# Proposed 4% LIHTC process

## 2. Allocation

- Project must go through the ORCA process
- Total projects costs are part of the Impact Assessment proforma
- OHCS will use this cost to estimate PAB utilization and will award no more than 55% of the total cost in PAB
- Projects must stay within 10% of their PAB reservation amount as they move through the steps of the ORCA process

# Proposed 4% LIHTC process

## **3. Timelines and Closing Dates**

- Estimated closing dates are required at Intake and Impact Assessment and this information tells OHCS if a project is ready to proceed
- All projects must meet the timelines associated with each step of the ORCA process or their PAB hold may be forfeited.
- Projects must close within 12 months of Housing Stability Council approval of reservation and Letter of Intent from OHCS.
- Projects will need to go back to Housing Stability Council before closing to lock in final PAB rate in the Commitment step

# Proposed LIHTC gap subsidy limits - Rural

Incomes Served (based on unit restrictions; PBRA units use 30% AMI)	Rural New Construction			
	Studio	1 bedroom	2 bedroom	+ Per-Bedroom
<b>30% AMI</b>	\$180,000	\$210,000	\$240,000	\$30,000
<b>40% AMI</b>	\$170,000	\$200,000	\$230,000	\$30,000
<b>50% AMI</b>	\$160,000	\$180,000	\$200,000	\$20,000
<b>60% AMI</b>	\$150,000	\$170,000	\$190,000	\$20,000

Incomes Served (based on unit restrictions; PBRA units use 30% AMI)	Rural Acquisition / Rehabilitation			
	Studio	1 bedroom	2 bedroom	+ Per-Bedroom
<b>30% AMI</b>	\$145,000	\$165,000	\$185,000	\$20,000
<b>40% AMI</b>	\$125,000	\$145,000	\$165,000	\$20,000
<b>50% AMI</b>	\$105,000	\$120,000	\$135,000	\$15,000
<b>60% AMI</b>	\$85,000	\$100,000	\$115,000	\$15,000

# Proposed LIHTC gap subsidy limits - Urban

Incomes Served (based on unit restrictions; PBRA units use 30% AMI)	Urban New Construction			
	Studio	1 bedroom	2 bedroom	+ Per-Bedroom
<b>30% AMI</b>	\$160,000	\$190,000	\$220,000	\$30,000
<b>40% AMI</b>	\$150,000	\$180,000	\$210,000	\$30,000
<b>50% AMI</b>	\$140,000	\$160,000	\$180,000	\$20,000
<b>60% AMI</b>	\$130,000	\$150,000	\$170,000	\$20,000

Incomes Served (based on unit restrictions; PBRA units use 30% AMI)	Urban Acquisition / Rehabilitation			
	Studio	1 bedroom	2 bedroom	+ Per-Bedroom
<b>30% AMI</b>	\$125,000	\$145,000	\$165,000	\$20,000
<b>40% AMI</b>	\$105,000	\$125,000	\$145,000	\$20,000
<b>50% AMI</b>	\$85,000	\$100,000	\$115,000	\$15,000
<b>60% AMI</b>	\$65,000	\$80,000	\$95,000	\$15,000

# Discussion Questions

- Do you need any clarification about the application process?
- What is your feedback about the proposed subsidy limits?
- Do you have feedback on timeline expectations?
- Do you have recommendations for how OHCS should hold projects to timing and resource commitments?
- As we implement the 4% LIHTC into the ORCA for the first time, what strategies should we consider to ensure we leverage all of the Private Activity Bonds that could be used to support affordable rental housing?

# ORCA and QAP Update Anticipated Timeline

- October 8, 2024 – 9% LIHTC discussion on incorporating 9% LIHTC into ORCA process and related QAP updates
- October 9, 2024 – 4% LIHTC discussion on incorporating 4% LIHTC into ORCA process and related QAP updates
- November – December 2024:
  - Finalize framework for bringing the LIHTC resources into the ORCA with Housing Stability Council;
  - Conduct formal public comment period process to finalize QAP for consideration of the Governor for approval/signature
- January – February 2025: QAP Implementation into updated ORCA

# Thank You

[HCS.QAP@hcs.oregon.gov](mailto:HCS.QAP@hcs.oregon.gov)



# Partner Feedback





## Summary



## Cards

What clarification is needed about the proposed application process?

Need clarification about how the 4% application process will work for Preservation projects

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If timing of PAB offering release is unknown, and sponsor is only allowed 2 projects per phase of ORCA. How does one introduce a 4% project into the ORCA process.

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If an updated proforma will be used for impact or financial assessment, please make that available before the resources are released. Many projects have been waiting to apply and could be ready to submit immediately once resources are available.

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We have an application in the Impact Assessment phase currently modeled as LIFT only but would work as LIFT+4%. If we want to pursue LIFT+4% for this project should we submit a 4% application? My understanding is that the application is for 4% only projects.

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OHCS may want to consider applications submitted within the same 2-4 week window as the same timestamp for purposes of evaluation/prioritization, and adopt some type of tiebreaker (average AMI served, family-sized units, cost per unit, subsidy per unit, etc.) in case of oversubscription. This could lead to better policy outcomes as opposed to funding projects that have the earliest timestamp.

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What is your feedback about the proposed subsidy limits?

The delta between new construction and ack/rehab subsidy limits seems particularly startling. While rehab may be (but isn't always!) less expensive than NC, the it's not 50% less (and probably not even 30% less). I'm concerned that the difference here could lead to sponsors of ack/rehab projects doing VE to be competitive or because a project NEEDS recapitalization now, but the low subsidy limits will unintentionally position a project to need preservation funding even before the LIHTC period is up...

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How long will the proposed subsidies be in place, and is there an automatic mechanism for the limits to increase when necessary.

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We agree with breaking out subsidy limits by AMI, and disagree with the comment that there shouldn't be a tiered approach to this.

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Highly recommend doing some reverse math on AMI bumps. Lower AMIs reduce the private lending amount by a much greater rate than the increased subsidy can offset. There is currently a strong disincentive to support lower AMIs.

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Clarify if preservation of expiring projects are supposed to apply under "Acq/Rehab" subsidy limit or if there is a separate Preservation subsidy limit

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Will OHCS be holding or adjusting the 2024 limits to the 2025 limits for the project currently in the ORCA process?

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Thinking more about the higher subsidy limit for 4% projects, PSH projects should get a higher subsidy limit (more soft \$\$) period. So that they don't have to have a perm loan and be burdened with debt service.

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if the QAP conversation focused on rewarding projects that ask for the least amount of credits, then subsidy limits should be as high as possible across 4% and 9%.

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Do subsidy limits apply for PSH capital? While other gap funds had been structured previously with caps, PSH did not explicitly have a cap (but did retain scoring preference when less subsidy per unit was requested)

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■ Please share feedback on timeline expectations.

It will be important to make sure that OHCS and larger city permitting processes are collaborating due to longer lead times for approval processes. Trying to speed up design/permitting processes to meet OHSC guidelines may have unintended consequences in the projects costing even more than they already do.

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The draft indicates project should be within 6 months of close, but we know some jurisdictions may have longer permitting timelines. It seems there needs to be some flexibility in this timeline (assuming a project keeps to its projected timeline)

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The key is appreciating the difference between penalty and consequence. Developers tend to see results like going to the back of the line as the former, thus the "it's not our fault..." explanations. By contrast, from an agency perspective, not meeting a deadline has a consequence. This concept applies in the 9% side with meeting the 10% test and placing in service: why it doesn't happen doesn't matter. If you can't move forward, the resources could be used by those who can. Ultimately who matters are the residents to be housed.

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The purpose of the programs is to create apartments for low-income households. Other outcomes, like economic development, supporting particular developers, preserving history, creating nonresidential structures, etc., certainly are fine to have happen. However again they're not the purpose, let alone priorities. Other goals should not impede or delay the creation of housing.

This is true. AND it is true that small and culturally specific nonprofits are less able to weather not having access to predevelopment loans or funding delays. Both can be true. A balanced approach that allows the State to meet its goals and supports nonprofit housing providers is possible.

Confused about the assumptions about the projects on the waitlist. If the projects do not get state commitment, they may stop moving forward. If a funded project then falls out or have a delay, it's not guaranteed that the next project on the waitlist will be ready to hit the ground running at that point. There may be a stalling of projects on the waitlist that is difficult to re-start.

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How is OHCS going to manage choosing which projects move forward with PAB after they've submitted through ORCA? How does OHCS plan to select which projects are "most ready" if there are more projects that meet the "readiness" criteria?

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If an awarded proposal hits a snag and their award is rescinded for the next project on the waitlist, does the rescinded project proposal go to the end of the waitlist, or stay at the beginning of the waitlist to work through whatever delay they had? It would be so risky to know a funding commitment could be rescinded for a timing delay that could eventually be resolved.

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Not sure if it will be fair to move projects in the current 'impact assessment' to the front of the line with the ORCA process if they intend to use 4%. It would be fair for them to restart the process and be behind whoever is already in the hold waitlist. Some of our projects are on hold for 4%, so we do not know what is required of the impact assessment stage. Converting a project already in the impact assessment stage to 4% will create inequities, especially putting emerging culturally specific developers at a disadvantage and seasoned developers at an advantage.

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 Do you have recommendations for how OHCS should hold projects to timing and resource commitments?

Is the PAB allocation that's committed to at the LOI stage the maximum the project could receive, or does the PAB amount reserved at LOI include the potential 10% increase contemplated?

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If a project is able to attract additional resources after Impact Assessment, but does not require additional PAB, how will OHCS ensure this doesn't "send projects back" to earlier stages

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I agree with Jonathan's statement. For example for those timelines that are out of our control, such as RD processing, if you have a place for us to indicate to you when we will submit an RD Transfer App, then we can indicate the 8 months it takes RD to get to a closing. Noting that pretty much all the due diligence required for our lenders/investors and OHCS is completed at the time of the transfer app, or will be done by the time RD is done with their process.

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Oops, I put this in the wrong column, should be in timeline expectations

Accountability is important. Equity is important. Getting units built quickly is important. We understand that we don't want projects coming back for huge amounts of additional funding commitments in the 11th hour because they did not estimate correctly. And sometimes there are multimillion dollar cost changes that could not be anticipated. (Unknown utility or infrastructure requirements, a major environmental issue is discovered etc.) So flexibility AND accountability. It's a difficult balance!!

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The "development schedule" tab in the OHCS' proforma needs attention because it doesn't tell the department anything meaningful in terms of a project's true schedule milestones. (e.g. the focus on "Firm Commitments" that basically come at financial close) It doesn't give the department the info it needs to create accountability for staying on schedule. Much like the survey on the subsidy limits, OHCS should engage the development community on the questions "What are the scheduling milestones that you can control and should be accountable for?" The implicit contrast here is that also there are things outside of what developers can control and projects shouldn't be penalized if they're sideswiped by something that could not reasonably be planned for.

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How will OHCS manage the waitlist when the PAB is fully committed? We don't know how many projects and how much funding organizations are going to require in this first round and it's plausible there will be multiple qualified projects on the waitlist. How will projects get pulled off the waitlist?

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There's a "10% cushion" for PAB projects. Is there a 10% cushion for all OHCS subsidy funding?

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■ As we implement the 4% LIHTC into the ORCA for the first time, what strategies should we consider to ensure we leverage all of the Private Activity Bonds that could be used to support affordable rental housing?

Could a project proposal within the ORCA waitlist change their financing plan to become a LIHTC project if it could mean being first ready for LIHTC?

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for OHCS to efficiently use/allocate all their 4% and all of their 9% allocations, the subsidy limits for soft funds on 4% projects should be higher because there is a larger gap to fill. Then they can still "prioritize" projects that leverage other local funds and therefore ask for less soft funds.

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4% Allotment of funds and increase funding set-aside for nonprofits:

The 9% allocation amount maybe enough for 8 -10 9% projects right now. This is part of why I think they should hold more than 50% of funds for Nonprofits. There are plenty of non-profits with projects that they should fund those and then open it up to for-profits if there is money left. I would feel less anti-"increased funding per unit for the 4%" if it were more wholly directed to non-profits first.

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## Other Comments/Questions

As a Participating Jurisdiction (city), we have concern that there does not seem to be any prioritization for projects with local commitment of resources (like HOME funds). It means that community prioritized projects may not move forward.

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Multiple developers have mentioned the concern about leveraging funds across funders taking time, increasing cost.

One way to reduce the time this takes is by expediting commitment to projects with existing local funding commitments, given that many of these local funding NOFAs will likely continue to be competitive and released periodically.

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Are new construction manufactured home parks covered in gap and 4% & 9% bonds?

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Concerns about risk for small nonprofits with the ORCA application process. The previous process had less risk for these organizations.

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Portland specific, question. PCEF has become a key gap resource especially to fund things like heat pumps. the PCEF process is long and arduous, especially if applying outside of the PHB PCEF set-aside. Wondering about the timing concerns with this source.

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On this note and similarly, there are a lot of federal resources flowing for these kinds of investments as well. We want to bring these resources into our community and contribute to environmentally resilient properties, not disincentive this type of leverage.

Consider how OHCS can give stronger preference for nonprofit sponsors who are historically most likely to ensure stability and affordability for residents at the end of the LIHTC period.

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To date, ORCA process has favored developers that have had a project ready to go - judging by closing dates. That makes developers with new projects nervous as the money might run out before we have time to advance project, but we need to spend substantial \$\$ before knowing if we are funded in order to meet readiness to proceed criteria. So OHCS should consider this and be more transparent about timing on OHCS's side in order to move through process.

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I said this in the breakout session also, but right now I think a lot of developers, especially nonprofits, are reacting from a place of fear. While it's not OHCS' intent to instill fear, the idea of having a funding commitment rescinded and then not having funding available, when it takes millions to get through predevelopment, is SCARY.

We are all on the same team, we all want housing built, and there are people all over the state who need the housing.

We need a culture shift between OHCS and developers of transparency and accountability, communication and collaboration. Developers are unlikely to be completely transparent if they feel doing so will put their project, funding, or organization at risk. The reverse it also true, if being open and transparent decreases risk, developers will be more transparent.

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As an organization looking to rebuild our pipeline, it has been very difficult to understand the ORCA process and how to make acquisition decisions. Since we are putting a lot of money at risk, we need clarity and transparency around the funding process in order to do so. Although we know that the ORCA process was designed to help with transparency - due to lack of resources, it feels more like a race to get projects in as opposed to a managed pipeline process.

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"The subsidy limits established for this program are intended to:

- Allow for reasonable increases (up to 10% above subsidy limits, or in alignment with the maximum PAB cap)"

What does the 10% refers to—subsidy amount? Total development cost? PAB amount? Or does the 10% callout refer to different things in different sections? Clarification is needed.

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It seems like we're prioritizing development by organizations who don't know how to be developers. I have concerns about inefficiency and waste.

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