



In summer 2010, Alaska Housing Finance Corporation (AHFC) used the entire 2011 Low Income Housing Tax Credit (LIHTC) authority to sponsor a first of its kind demonstration project. This site-specific demonstration project coupled LIHTCs and Project Based Vouchers (PBVs) to facilitate overdue capital improvements in AHFC's 60-unit Public Housing facility, Loussac Manor. The demonstration project successfully leveraged LIHTC, PBV and private sector equity to redevelop Loussac Manor into a privately owned 120 unit mixed-income development that jointly delivered much needed workforce housing to Anchorage's midtown community.

The Demonstration Project Need

Each passing year, AHFC watched the deferred maintenance of its Loussac Manor project escalate the already untenable operating costs and further deteriorate the quality of its housing units.

In 2009, the estimated renovation costs for the 45 year old Loussac Manor facility exceeded the replacement value of its 60 units. Although AHFC had accumulated authority to use corporate receipts to renovate Loussac Manor, those funds were insufficient to support full reconstruction.

In finding a solution for Loussac Manor, AHFC's CEO Dan Fauske set two fundamental goals:

- (1) Leverage the zoning for the site –which allowed up to 120 units – to respond to the unmet workforce housing needs in the midtown Anchorage community.
- (2) Identify and execute a replicable redevelopment model capable of addressing the deferred maintenance needs of AHFC's larger public housing stock through leveraged private equity.

Resources Deployed by AHFC to Address to the Need

Although AHFC primarily serves as a mortgage lender, AHFC is also the state's allocating agency for LIHTCs and the Public Housing Agency. To sponsor the demonstration project, AHFC combined its diverse capabilities to deliver a comprehensive set of agency resources including:

- The entire 2011 LIHTC authority: \$2,535,000 in annual credit
- \$10,000,000 in corporate receipts available as direct disbursements or soft loans
- 60 Project-Based Housing Vouchers
- A long-term ground lease for the 8-acre parcel of land
- A discretionary basis boost for proposals including at least 20 workforce housing units
- 30-year fixed rate financing with an available interest rate buy-down of up to 1%
- Relocation of the 60 households – at no cost to the redevelopment applicants
- Demolition of the Loussac Manor buildings – at no cost to the redevelopment applicants

How AHFC Implemented the Demonstration Project

Notice – Removing a state’s entire LIHTC authority from the annual statewide competition and using it for a single demonstration project is a delicate proposition. Consequently, AHFC initiated a notice process early in 2009 about its plans for the 2011 LIHTC authority. After public comment and notice, AHFC amended the Qualified Allocation Plan for allocating LIHTCs in May 2009 to allow using the LIHTC authority for demonstration projects. AHFC concurrently announced its intention for summer 2010 to use the entire 2011 LIHTC authority to sponsor a competition for development entities to redevelop, own and operate Loussac Manor.

Community - Through 2010, AHFC’s senior management provided Loussac Manor redevelopment process updates on tenant relocation, demolition schedules, etc. to Community Councils and Anchorage’s Housing and Neighborhood Development Commission. AHFC relocated the tenants over the school year break and granted them rights of return to the finished development.

Preparation – Developing a quality rating system, thresholds and process for the demonstration project required extensive due-diligence. Through spring 2010, AHFC staff consulted with market study analysts, LIHTC equity investors / syndicators, and members of the development community to form achievable expectations, parameters, and incentives for the Loussac Manor redevelopment competition. AHFC commissioned a comprehensive market assessment (MA) for the community that included capture rates for households at 30%, 50%, 60% AMI and workforce households (over 60% AMI). The assessment included an operating expense analysis for competing properties, a full summary of comparable properties, and was made available to all applicants.

AHFC’s due-diligence prior to the solicitation calibrated the subsequent rating criteria and underwriting requirements with precision to satisfy the community needs, AHFC’s policy objectives, and the LIHTC investor requirements. Workforce housing development was incentivized by a discretionary LIHTC basis boost for proposals incorporating 20 or more workforce housing units and by scoring incentives for up to 50 workforce units. Workforce housing units were required to carry gross rent caps equal to the HUD-Published Fair Market Rents.

Execution - AHFC began the solicitation with a pre-qualification round. To qualify, applicants had to provide an executed Limited Partnership Agreement –dated within the past 18 months- that placed at least \$500,000 in annual LIHTCs (excluding stimulus funds). Six development teams (located in AK, CO, ID, UT, VA, and WA) were qualified under the criteria.

The highly competitive solicitation to redevelop Loussac Manor began in summer 2010. Once the former tenants had been relocated, Loussac Manor was demolished and cleared in October 2010. In October 2010, six well-structured proposals were received that all included designs to meet the state’s highest Building and Energy Efficiency Standard rating possible. All proposed included 40+ workforce housing units. The selected team was announced in November 2010. Following the award notice, none of the unfunded applicants submitted a protest or appeal.

The Outcome

The Anchorage Daily News' headline for the funded proposal read "a more stylish look" for public housing <http://www.adn.com/2011/05/01/1839820/public-housing-gets-a-newer-more.html>.

AHFC's rating criteria, underwriting requirements and administration of the solicitation concluded with the selection of a 120 unit proposal delivering: 44 workforce housing units, 29 units for households at 30% AMI, 46 units for households at 50% AMI, and an on-site manager's unit. The selected development, named *Loussac Place*, will contain 1, 2, 3 and 4 bedroom units as well as a community building that will house an after-school program.

The selected development proposal was well-received by the lending and LIHTC investor communities and negotiated LIHTC pricing and pay-in schedules not seen for years in Alaska. Total development costs per unit (i.e. reserves, syndication fees, community bldg, etc.) were \$293k for the selected proposal. In Alaska's high-cost building environment, these costs are 10% below the high-cost 221(D)(3) mortgage limits for Alaska. Despite the significant resources made available by AHFC for the redevelopment, the rating criteria and solicitation process effectively incentivized building efficiency and cost controls to produce one of Anchorage's most efficient multi-family LIHTC properties developed in years. Although \$10 million in corporate receipts were available, only \$3.3 million was requested by the funded proposal – and they were requested as a soft loan with repayment over 30 years.

In partnership with private sector development and equity partners, AHFC addressed the deferred maintenance needs of an aged public housing property through a uniquely sponsored competition for LIHTCs, project based vouchers, and conventional debt. In April 2011, Loussac Manor was formally removed from AHFC's public housing inventory. The redeveloped *Loussac Place* will be owned by Loussac Place LP – an unaffiliated entity to AHFC. Construction of *Loussac Place* began in spring 2011 and is scheduled to bring its first units online in June 2012.

Implications from the Demonstration Project's Success

Beyond demonstrating how policy goals can be realized through a targeted LIHTC solicitation, the demonstration project's success delivered a replicable model for renovating and redeveloping public housing leveraging private sector debt and equity. In January 2011, HB 119 was introduced to the Alaska legislature to grant AHFC the authority to create a subsidiary corporation capable of developing and owning affordable housing. Governor Parnell signed this bill into law in May of 2011. Through a subsidiary, AHFC may now develop and own affordable housing projects either directly or as a general partner in a tax credit ownership structure.

Although the replacement of the Loussac Manor units was the underlying priority, 44 units of safe and quality rentals were also delivered along the way for workforce households above 60% AMI. Given *Loussac Place's* central location between Anchorage's downtown and midtown employment centers, the location for these workforce housing units was truly ideal.