HFA: Alaska Housing Finance Corporation
Entry Name: Two Weeks Notice

Alaska Housing FINANCE CORPORATION

Time is money, and Alaska Housing Finance Corporation (AHFC) saved a lot of both in projects funded through the Low Income Housing Tax Credit (LIHTC) program from 2011-12. Over the past year and a half, AHFC broke the back of project cost escalations and process inefficiencies in our State through aggressive cost containment incentives and allocation process enhancements.

"*You guys are the best in the business*"
LIHTC Developer with experience in 42 states

In these austere times, policymakers and the media are scrutinizing housing programs for inefficiencies and waste. These days, AHFC's delivering more housing with fewer resources at exceptional efficiency: New construction costs in 2012 fell $59k / unit from their 2010 highs, LIHTC awards were announced 14 days after the application due-date, and projects set early start records.

<u>Innovations: Time & Money</u>

Time – The gap between the application due-date and the issuance of the Intent to Award has been reduced from 116 days (2008) to 14 days (2012). Over the same period, the scope and rigor of project underwriting parameters dramatically increased. While decreased processing times are not usually accompanied by a growing scope of review, we accomplished both by:

- Converting rental development applications from paper-based systems to online e-platforms
- Replacing subjective scoring with 100% objective criteria (If X, Then Y points)
- Adding a preliminary application stage to verify sponsor experience and market viability
- Fully utilizing all available financial and operating data from AHFC and USDA RD multi-family mortgage depts. (through information sharing MOUs) and AHFC's compliance dept.
- Proactively starting time-intensive underwriting preparation before the application submissions (i.e. assembling comp property data) using preliminary application information

Money – AHFC utilized a series of interrelated scoring incentives to break a vicious cycle of cost escalations. These factors scored the relationship between debt and development costs, the relationship of project costs to our adopted urban and rural project cost standards, and operational performance targets. Offsetting points were included for projects disadvantaged by these criteria that served recognized policy objectives (i.e. HUD 202 projects). While cost standards were applied during scoring, hard cost and square footage limits were deliberately avoided. We set achievable goals for developers to realize and left the particulars of the global scoring solution(s) to them.

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Responding to a Management Challenge or Opportunity

Fewer subsidies and higher development costs reduce the capacity for HFAs to serve our communities through rental development programs. Like many states, Alaska experienced a double-whammy from 2006-2010 as subsidies became scarcer while development costs rose. By 2012, AHFC's collective rental subsidies for LIHTC deals were 15% less than their 2008 levels.

Time - An integral cost factor in Alaskan projects is time. Time savings are high-yield, low-hanging fruit. Many communities are off the road system (requiring barge delivery), and prime building seasons are only five months long. The longer project sponsors idly wait for funding decisions, the greater their risk is of missing an efficient start date for construction that avoids winter building. The consequences of missing optimal start dates are value-engineering (quality↓), stopping the project to scope additional funding, and over-leveraging on debt to absorb the cost escalations.

Money - In 2006, AHFC funded 95.26% of the total units proposed in the LIHTC application round when average newly constructed units cost $247k. When per unit costs reached their peak in 2010, AHFC funded 50.71% the total units proposed in the LIHTC application round and average newly constructed units cost $356k. If the rate of per unit cost escalation from 2006 through 2010 went unchecked, forecasted new construction costs would have reached $420k / unit by 2012. These untenable cost escalations directly threatened AHFC's capacity to serve Alaskans housing needs.

Achieve Measurable Improvements in Agency Operations

Our development community initially greeted our one month application processing goal with skepticism. An informal survey of LIHTC developers operating in multiple states (including one with experience in 42 states) revealed the time they typically expect HFA's to take processing and scoring applications is 3-5 months. Our developers had never heard of <u>any</u> HFA issuing an award notice two weeks after an application due date. Well, we did it, and **nobody appealed** our process.

"*Never have the decisions come out so quickly…early decisions by AHFC had a significant positive benefit on our project*"
Developer with 10+ year LIHTC history in Alaska

In 2012, the new construction units cost $5.5M less than an equivalent new construction count would have at 2010 prices. The 2012 new construction costs per unit (including acquisition, demolition and reserves) are $59k / unit below (83.34%) the new construction costs / unit from the peak year, 2010. If the 2006-2010 escalation rate had continued unchecked, the projected 2012 costs / unit would have exceeded our realized 2012 costs / unit by over $122k. Put simply, we could not have funded our 2012 unit count at the 2010 prices.

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Provide Benefits that Outweigh Costs

The accomplishments noted in this entry were leveraged at zero cost. AHFC's electronic application system was already under contract when its cross-function potential was identified for the rental development programs. Data used to determine and support the objective rating criteria were pulled from existing sources in the allocation process and public data reported by the State.

Demonstrate Effective Use of Resources

Implementing the online application system, objective review and newly adopted underwriting framework involved partnership with AHFC's procurement, mortgage and compliance monitoring departments. Externally, AHFC's partners included the USDA RD office (information sharing during project underwriting), the State of Alaska Department of Labor and Workforce Development (data for scoring market conditions), and Third party market analysts under contract with AHFC (underwriting). Our cost savings were realized by leveraging the 2:1 ratio of applicant subsidies requested over subsidies available through our scored cost containment incentives.

Replicable:

Replicating our processing time improvements requires: an electronic application system, an objective rating criteria, performing a lot of underwriting preparation before the applications are received (using known applicant data), and queuing efficient approval paths. Replicating the scale of our project cost reductions requires a candid evaluation of existing development models, and following through with a decisive framework that incentivizes changes to those models.

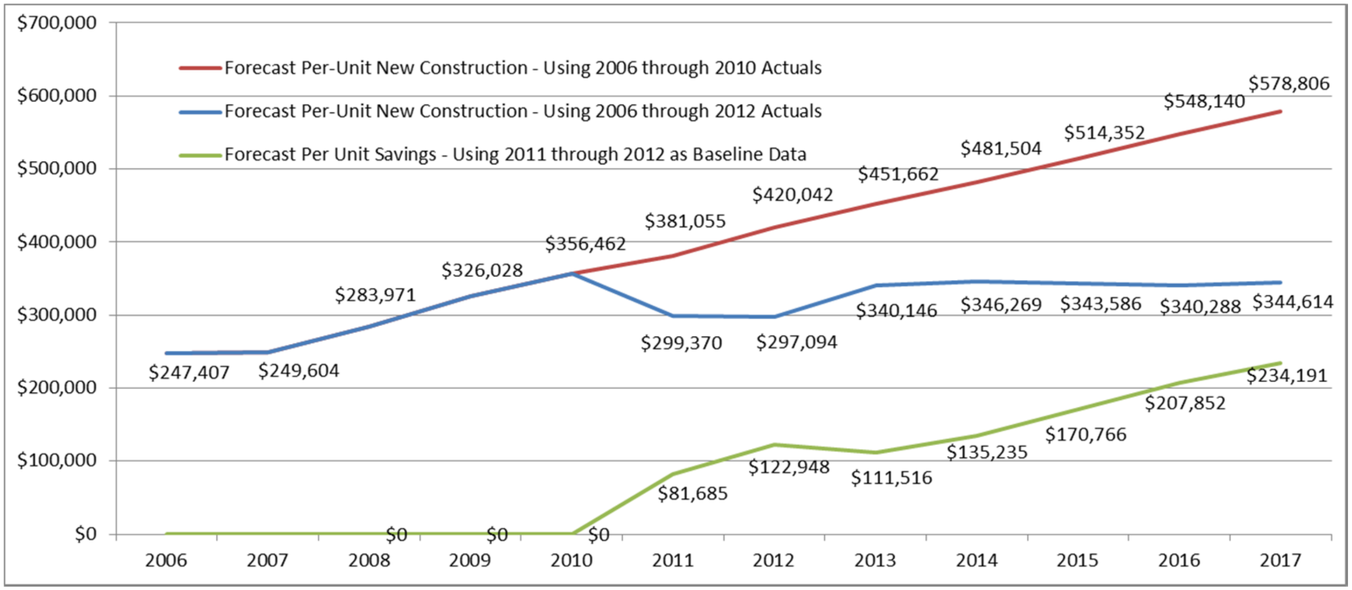
Achieve Strategic Objectives:

Over the past year, proposals have been offered to eliminate once-sacred programs like the LIHTC. AHFC's accomplishments from 2011-12 demonstrate responsible stewardship for these scarce public funds and phenomenal operational efficiency in managing them. These types of stories help insulate the LIHTC program from criticism and showcase its merits for by program advocates.

AHFC can proudly report achieving the following strategic goals through our innovations:

- Our cost savings avoided relaxing project quality and energy efficiency standards
- Our developer customers now save idle-time costs and minimize risks of winter construction
- We spread our housing subsidies further and at costs with considerably less "sticker shock"
- We evaluate, underwrite and fund complex LIHTC deals faster than private sector banks
- Our story illustrates government working proactively and "walking" the efficiency "talk"

New Construction Costs Per Unit: Historic and Projected



Days Between the Application Due Date and Award Announcement