Entry Name: Michigan Affordable Housing Reinvestment & Innovation Program
Category: Rental Housing
Sub Category: Preservation and Rehabilitation
HFA: Michigan State Housing Development Authority (MSHDA)

When the American Recovery and Reinvestment Act was signed in mid-February, most industry participants began planning how to implement provisions related to the Low Income Housing Tax Credit (LIHTC). Five weeks later, on March 25, Michigan was one of the first states to announce a policy framework for implementing the Act. Given the economic and demographic challenges facing the state, the Michigan State Housing Development Authority (MSHDA) has focused its efforts on the preservation of existing affordable housing.

Among the framework initiatives is the ***Michigan Affordable Housing Reinvestment & Innovation Program***. The goal of the program is to "reinvest in existing developments that could, with appropriate infusion of rehabilitation funding, be preserved for at least 15 years without the need for a full preservation transaction." The Authority's preliminary implementation plan noted that such a program aligns with both key state policies and with the broader goals of the Recovery Act. "Specifically, rehabilitation of existing housing can be done more quickly than development of new housing, speeding the economic impact of this capital investment. Rehabilitation is also "greener" than new construction in most cases and will be done in a manner to maximize cost effective energy efficiency, creating additional benefits to the nascent 'green economy.'"

Since March, the Authority staff has worked to develop both the regulatory basis and the policy around which to implement the Reinvestment Program. On July 31, the Authority published a draft Program Notice for public review and comment (see attached as support material). The Program Notice further identifies the policy, design, and implementation of the Reinvestment Program.

Specifically, the Reinvestment Program will provide Section 1602 Program funding to existing owners of affordable housing developments to fund needed rehabilitation, energy efficiency and green improvements, needed reserves, and a modest developer fee. In return, existing owners will extend the affordability of developments for another 30 years and forego prepayment. The program will require that all participants obtain both a Capital Needs Assessment and an Energy Audit, both of which will inform the scope of work. Developments will be re-underwritten to ensure that Reinvestment Program funds go only to developments that can be expected to maintain positive cash flow for the next 15 years, in spite of dramatically different underwriting projections required by prevailing economic conditions.

The tax credit exchange opportunity presented by the Recovery Act is both a one-time opportunity and, as state agencies are discovering, a fundamentally different program than the LIHTC program we have become accustomed to managing. Through the Authority's early efforts to analyze the state's unique circumstances, a comprehensive and cohesive policy framework was developed that identified the needs of existing developments – underwritten and built under very different economic circumstances and based upon more optimistic future assumptions – as a gap in the delivery system. The Reinvestment Program has been a central response to these needs and represents a creative, and generally unanticipated, use of the Section 1602 Program.

As part of the comprehensive response to the Recovery Act's multifamily housing provisions, the Reinvestment Act has additional specific benefits to the state of Michigan. By exchanging 40 percent of the state's 2009 credit prior to the 2009 funding rounds, in concert with the Authority's 9 percent Tax Credit Exchange Program, it helps remove the relative oversupply of LIHTCs from a weak-demand market. At the same time, by focusing on preservation strategies that extend the life of the development without requiring a full sale, refinancing, and recapitalization, the Reinvestment Program is more cost effective, saving substantially on soft costs that, while often necessary in a refinancing, do not directly improve the operating feasibility of a transaction.

Finally, the Reinvestment Program provides clear evidence of the Authority's efforts to find creative solutions for existing projects that are challenged or stressed, but that have limited options in the current market. For example, deals that might currently be over-leveraged and unable to refinance due to low appraised values can still be preserved while providing a financial structure that will continue to amortize debt rather than restarting the clock on a long-term amortization schedule. Additionally, the Reinvestment Program can address the needs of developments that may still be in initial LIHTC compliance periods and therefore structurally unable to recapitalize to address needed repairs and improvements.

The Authority has set aside $78 million in Section 1602 funding for the Reinvestment Program and projects that 35 to 50 existing transactions, representing 4,000 to 5,000 units of affordable housing, will be preserved. We also estimate that more than 1,200 construction related jobs will be created or retained through this activity.

Given the one-time nature of the Section 1602 Program and the opportunity to share it with our sister agencies while some may still have time to implement similar strategies within the deadlines required by the Recovery Act and Treasury, the Michigan State Housing Development Authority is pleased to submit it's ***Michigan Affordable Housing Reinvestment & Innovation Program*** for consideration in 2009 even though full results may not be known for several more months.