From: Steve Frick [mailto:frick@vestcor.com]
Sent: Wednesday, June 12, 2013 8:13 AM
To: Kevin Tatreau
Cc: Steve Auger
Subject: 2014 LIHTC Allocation Process

Kevin,

Our understanding for the revamping of the allocation process was driven by 1. improving the efficiency of the allocation process and 2. controlling development costs.

We appreciate your efforts related to these two items, because impacting these items leads directly to more quality affordable communities being constructed for the low income residents of our State.

While your ideas of separate RFP's, development cost caps, and leveraging tiebreakers are good ideas for addressing these two issues, we believe that the main culprit in causing both the inefficiency in the process and higher development costs is the proximity scoring system.

With respect to how the existing proximity system impacts the efficiency of the allocation process, the numerous proximity items and the related distances have undoubtedly led to a much more difficult and time consuming scoring process. This proximity system has also led to many errors by both the developer and FHFC staff. These errors have led to many appeals, which have caused significant delays in the allocation of credits and have resulted in future years' credits being used to address appeals lost in a current year cycle. While removing FHFC from the scoring and appeals process is a good idea, the challenges and lawsuits will most likely not diminish if the current proximity system or a system similar to the current system is kept in place. Therefore, the allocation of credits will still be significantly delayed.

While the development cost cap and leveraging tiebreaker are good ideas related to reducing total development costs, eliminating proximity will directly lead to reduced development costs. The natural market supply and demand of land has been impacted by the tight proximity scoring system of recent years, and has led to higher land costs. There are several examples of land prices being bid up significantly when two or more developers are chasing the one or two parcels of land that "score" in an area. In many of these cases, there is good real estate in close proximity to the parcel of land being bid up, but the other parcels' scores do not meet the required proximity score. Over the past several years, as a result of the proximity scoring system, there have been many cases where land cost/unit was higher on an LIHTC affordable community than on a luxury conventionally financed community. The only explanation for this occurring is the land price on LIHTC being artificially high due to the proximity scoring system. Having this tight proximity scoring also requires developers to build on land that "scores" not on land that is the most efficient and effective land to develop. This typically increases construction costs, which increases total development costs.

Other issues created by the proximity scoring system not directly related to an inefficient system or increasing costs are:

1. certain small and medium counties are, for the most part, eliminated from qualifying for a LIHTC community, which leads to the low income residents in these counties living in sub standard housing.

2. Congregating affordable housing communities.

Based on the above, we would recommend eliminating proximity in the allocation process. Allow developers, lenders, investors, FHFC's credit underwriters, and ultimately the tenants determine if a site is suitable for development.

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