2027 QAP First Draft

Summary of Changes and Rationale

The purpose of this summary is to provide details on the draft changes to the critical elements contained within OHFA's Qualified Allocation Plan. The proposed changes and rationale are as follows:

- **Pg. 8 – Change:** Added clarifying language regarding Resubmissions.
  Rationale: This language was added to clarify that resubmissions must include updated forms when forms are either expired or have been updated in the most recent iteration of the QAP.
- **Pg. 11 – Change:** Applicants must file **ten (10) copies** of any response(s) to the final Review Report or other information they wish the Trustees to consider **not less than three business days** prior to the commencement of the meeting when the Application will be considered.
  Rationale: This language was revised to align with the current Chapter 36 program rules that were approved and effective 01-01-2024.
- **Pg. 12 – Change:** Applications for 4% Credits and Multifamily Bond Developments will be limited to requesting an amount of multifamily bonds equal to the greater of the permanent debt that the proposed development can support or thirty percent (30%) of the eligible basis plus the cost of land.
  Rationale: As Private Activity Bonds face ever-increasing demand, this change is meant to be a proactive effort to preserve the amount of bond cap available, thus allowing OHFA to fund more multifamily development across the state.
- **Pg. 14 – Change:** State Tax Credits will be available only for 4% Tax Credit Applications.
  Rationale: Awards made in recent rounds supports that the most efficient and productive use of the State Tax Credit is when it is paired with the 4% Tax Credit/Multifamily Bond Program. This allows OHFA to expand and stretch the State Tax Credit to produce even more units with such a limited resource.
- **Pg. 14 – Change:** Any Development that receives an award of State Tax Credits must dedicate 5% of the proposed units to individuals earning at or below 30% of the Area Median Income (AMI).
  Rationale: This change was made in an effort to target deeper affordability levels and to assist those who face the greatest need across the portfolio of properties funded by the 4% Tax Credit/Multifamily Bond Program. Receiving the added subsidy in the form of the State Tax Credit allows a development to support a percentage of units at 30% AMI.

- **Pg. 25 – Change:** Applications for adaptive reuse require a Capital Needs Assessment (CNA) performed by a qualified independent third-party.
  Rationale: While Applications for adaptive reuse are treated as New Construction developments, a CNA will be required to establish a property's condition and to support the scope of work being proposed to turn the existing building(s) into livable residential units. Further, it will provide evidence supporting the Hard Costs identified in the Application Budget.
- **Pg. 30 – Change:** Development Location Selection Criteria revised to add a subcategory where Applications can receive up to 5 points if it is addressing a housing gap according to the Oklahoma Housing Needs Assessment. If the proposed development includes units with bedroom sizes and AMI levels that correspond to an identified Housing Gap, the development may receive 5 points.
  Rationale: This is an effort to support developments that address a current housing need not otherwise incentivized by other Selection Criteria.
- **Pg. 32 – Change:** A category has been added to the Selection Criteria for Applications to receive up to 8 points depending on the Need Index of the County in which the development will be located according to the Oklahoma Housing Needs Assessment.
  Rationale: Housing Need is a concept used to identify and quantify the demand for housing for individuals with limited or no economic means. The Need Index categorizes each county by relative housing need compared to all other counties. This criterion is presented in an effort to give preference to developments proposed in locations with the greatest need.
- **Pg. 34 – Change:** The documentation requirements to receive Historic Nature points were revised to include the acceptance of the following: a letter from the State Historic Preservation Office (SHPO) stating that the building is eligible for listing on the National Register of Historic Places; **or** documentation showing that the building is already listed on the National Register of Historic Places.
  Rationale: Often times, a Historic Preservation Certification Application is required when applying for Historic Tax Credits. While this is one way of certifying the Historic Nature of a development, it could potentially disqualify other Historic Developments that could be converted into housing without accessing any historic tax credits. This allows Applications alternative ways to qualify to receive Historic Nature points.
- **Pg. 35 – Change:** Development Cost Efficiency amended to replace "Credits per Bedroom" and "Lowest Percentage of hard debt" factors with "Lowest Percentage of Deferred Developer Fee/Total Developer Fee" and "Highest Percentage of debt".
  Rationale: When reviewing the results of this formula over the past few years, it

appeared that the “Lowest Credits per Unit” and “Lowest Credits per Bedroom” were very similar in nature and did not lead to much differentiation. Additionally, as construction costs have increased and credit pricing has decreased, there has been an influx of applications increasing the amount of deferred developer fee, which may lead to deals being rather constrained and charging near maximum rents. We believe one way to counteract this is to change “Lowest Credits per Bedroom” to “Lowest Percentage of Deferred Developer Fee/Total Developer Fee.” The “Lowest Percentage of Hard Debt” may have been disincentivizing the leveraging of the credit for it to reach its maximum feasibility as a tool to create additional affordable housing units, so we revised this section to now be the “Highest percentage of debt,” taking into account other resources as well, beyond just hard debt. We believe these changes will encourage conservative financial projections, mitigate risk against unexpected outcomes and will allow OHFA to stretch this highly sought after funding resource to produce additional affordable housing units.

- **Pg. 35 – Change:** Withdrawn Applications will no longer affect other Application scores for the Development Cost Efficiency Criterion.
  Rationale: Oftentimes the removal of an application based on it being withdrawn had a nominal effect on each application’s score without impeding any funding order. Revising this will increase the reliability of our scoring system and limit any last-minute nominal changes due to a withdrawal.
- **Pg. 63 – Change:** The requirements for a capture rate will be waived if the proposed development is a rehabilitation with a current occupancy of at least 90%. (This criterion is not applicable to rehabs if more than 30% of the property is being demolished and rebuilt).
  Rationale: For properties with a current occupancy of at least 90%, the majority of the tenants will continue to reside at the subject property upon completion of the rehabilitation, thus not presenting a requirement to capture a significant portion of any given market.
- **Pg. 66 – Change:** The cost per square foot limit resulting in applications failing threshold has been revised from a Total Development Cost calculation of $250/sq. ft. to a Hard Costs calculation of $150/ sq. ft.
  Rationale: When reviewing the QAP annually, cost limits are one of the most engaging topics. This is for good reason as it is one of the biggest driving factors on the quality of construction and where future development might be located. OHFA wants to ensure that all developments are produced with an emphasis on both quality and efficiency. We believe reframing this requirement to review a hard cost limit does exactly that.

- **Pg. 66 – Change:** Hard Costs will be calculated according to the Development Budget provided and will be defined as any On Site Work, costs associated with News Structures or Rehabilitation, Accessory Structures, Builder's Permits & Fees (including any general requirements, contractor overhead, or contractor profit), Hard Cost Contingency, and Furniture, Fixtures, and Equipment (FF&E).
  Rationale: We believe this better aligns with common practice across the industry.
- **Pg. 68 – Change:** Minimum replacement reserves shall be set at $250 per unit per year for new construction and $300 per unit per year for substantial rehabilitation developments. Any interest income generated by reserve accounts must be clearly identified and reported separately from other income sources.
  Rationale: Because reserve accounts are intended to be drawn down over the life of the development, interest income should not be projected to increase over time. As balances decline, a corresponding decrease in interest earnings is expected.
- **Pg. 69 – Change:** Staff will only underwrite to a maximum debt service coverage ratio of 1.40 for the first five years of operation according to the pro forma.
  Rationale: This change is being put into place to ensure that debt is appropriately leveraged and no proposed development is over-subsidized.
- **Pg. 74 – Change:** Removal of the requirement to provide a General Contractor Cost Certification.
  Rationale: When reviewing application requirements, cost is always a limiting factor and something to be mindful of. This requirement presents a significant added cost to any development, which does not provide a specific benefit to justify its cost. Therefore, this requirement has been removed.