

PRESIDENT'S MESSAGE

Stand Up for the Housing Tax Credit



Don Sterhan
MPEP President & CEO

For those of us working to provide affordable housing, the low-income housing tax credit (the Housing Credit) has long been recognized as a very effective and efficient financing program. Enacted as part of the Tax Reform Act of 1986, this bi-partisan tax reform package ushered in significant modifications to the federal tax code. Arguably four years in the making, the Tax Reform Act represents the last time Congress acted in such a historic manner to reform our nation's income tax laws.

Over a history that now spans 25 years, the success of this program is obvious and Congress should be proud of the results. This public-private partnership harnesses the discipline of the marketplace, certainly a more efficient way to build quality, affordable housing than can otherwise be accomplished through a direct spending program.

Each year, the Housing Credit is responsible for the creation of thousands of construction jobs, most being small business construction subcontractors. According to the NAHB, for every 100 units constructed with the Housing Credit, about 116 jobs are created and \$3.3 million in federal, state and local revenue is generated. At current production levels, the Housing Credit program creates 95,000 jobs annually.

The Joint Center for Housing Studies at Harvard University reported in 2010 the Housing Credit is "widely regarded as the most successful housing production and preservation program in the nation's history." And as noted by the NCSHA, the Housing Credit has led to the development of more than 2.4 million affordable housing units for American families.

I could continue to cite the benefits of the Housing Credit, but I think you get the point. Without this type of "tax expenditure," the quality and availability of affordable housing would be in serious jeopardy. Simply put, the construction of multifamily housing, rented to lower income residents at controlled rents, is not financially feasible without a subsidy. That's the reality.

I urge you to consider carefully the budget and tax issues that are now being debated in Congress. Reminiscent of the days of the Tax Reform Act of 1986, lawmakers on both sides of the aisle are scrambling for solutions and demanding an overhaul of the tax structure. In addition to spending cuts, it's likely policy changes will be proposed, thus posing a threat to the Housing Credit, the New Markets Tax Credit, and other tax incentives for housing and community development.

Make no mistake about it, despite the success and efficiency of the program, the Housing Credit is likely to be one of many programs examined and debated within this complex process. It will be essential for the low-income housing community to get engaged in the dialogue. Let's make sure our lawmakers clearly understand the value of job creation, affordability, and other such benefits related to this incentive. This is a fight we must take seriously, or we may soon regret our apathy.

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OUR VISION

Mountain Plains Equity Group, Inc., is dedicated to the development of affordable housing units. By providing equity investment capital and other key resources to project developers, MPEG is working to enhance the quality of life and to promote sustainable growth in our communities.



WINTER CONDITIONS

And the Effects on Construction

It's getting cooler and the leaves are falling. This is a busy time in our office as we work to underwrite our potential investments, complete our due diligence and close partnerships. As I complete Plan and Cost Reviews, the weather change reminds me that many projects will be



Tim Morgan
Development Risk Manager

facing winter conditions and that evaluating the associated risks is important for all of the project participants.

An unfortunate consequence of the LIHTC allocation cycle is that construction starts tend to happen in late summer or fall, and as a result many projects break ground late in the construction season. Construction schedules are driven in part by two important LIHTC requirements, the 10% carryover deadline and the Placed-in-Service date. These thresholds make it

imperative to begin construction as soon as possible after award of the credits. The end result is that contractors are faced with the prospect of building through the winter.

In the region that we serve, winter conditions are a serious consideration in both project scheduling and project cost. Both are as difficult to define as it is to predict the weather. Here lies my challenge as a development risk manager. If significant winter conditions are built into a budget to account for cold and weather delays, how does the developer recover these costs if there is a mild winter? If these costs are not included in the base contract, is there sufficient hard cost contingency to account for a harsh winter? Is there sufficient give in the lease-up schedule to avoid costly adjusters if the project does not meet its Placed-in-Service deadline?

When winter conditions are included in the base construction budget, one effective way to address potential savings is to employ a Guaranteed Maximum Price (GMP) contract. Savings are returned to the owner, often on a shared percentage basis. However, the scope of winter condition work must be clearly defined to avoid Change Order requests for exceeding the winter conditions budget. More

often, winter conditions are added to a contract by Change Order as they occur and costs are drawn from contingency. In this case, control of contingency expenditures is critical until the exposure to winter condition costs has ended. In our underwriting, where we believe that there is a significant potential for winter conditions, a slightly higher contingency might be required to cover this exposure.

During construction, additional due diligence is required on the part of the developer, architect and contractor to assure that the winter condition measures have been appropriately employed. These include: assuring that frozen soils are removed from beneath foundations and slabs, appropriate concrete mixes are incorporated, adequate freeze protection is provided for concrete placement, temporary heat is sufficient and of appropriate type, and additional weather protection is provided to prevent damage to interior work.

“In the region that we serve, winter conditions are a serious consideration in both project scheduling and project cost.”

In the end, accurately assessing the impacts of winter conditions and implementing appropriate strategies and controls is a complex challenge for the developer, contractor and investor. Changing weather patterns are difficult to predict. Fuel prices fluctuate wildly. Reaching a consensus on how best to mitigate the risk is our goal.

For us who are skiers, the temptation is always to throw caution to the wind and to pray for lots of snow. If only we could find a way to keep it on the slopes. Those would be perfect winter conditions.



GRAND OPENINGS

Meadowlands Apartments

The Meadowlands 48-unit senior apartment project in Butte, Montana marked its Grand Opening on November 3rd with a well-attended Open House and ribbon cutting. This project for seniors was the result of a cooperative effort between the city and county of Butte-Silver Bow, Butte Affordable Housing, Inc., and Thomas Development Company, bringing together a coalition of community resources focused on meeting the housing needs of seniors with a high-quality facility.



Meadowlands Grand Opening

bring the project from concept to reality. The celebration was well-attended by local civic leaders, project participants and potential residents, all of whom were very enthusiastic and complimentary of the project's high quality and comfortable feeling. Butte-Silver Bow Chief Executive, Paul Babb; Butte Affordable Housing Director, Revonda Stordahl; and Scott Fitzpatrick of Mountain Plains Equity Group added their compliments and thanks to the project team prior to the ribbon cutting.

Scott Fitzpatrick, Acquisitions Manager for MPEG, noted the many partners that made the project financially possible including the Montana Board of Housing (Tax Credits), Montana Department of Commerce (CDBG and HOME Funds), Mountain Plains Equity Group and Wells Fargo Bank (Equity Capital and Construction Loan), USDA Rural Development/Bonneville Mortgage Company (Permanent Financing).

The project was designed to meet the stringent requirements of LEED for Homes and has achieved Platinum Certification, the highest level of performance achievable. It has been estimated that energy costs for tenants will be as much as 30-50% less than conventional apartment units. Clancy/Rockwell, the project architects, led the design team that created a well-conceived sustainable design meeting energy conservation goals and creating a comfortable living environment for tenants.

MPEG is proud to be a part of this very successful development and offers its congratulations to all who have worked together to make Meadowlands a reality.



Meadowlands Senior Apartments

Tom Mannschreck, president of Thomas Development, recognized and thanked the many organizations and individuals whose efforts helped

Weeks Field Estates II

Weeks Field Estates II Apartments celebrated its Grand Opening on July 19th. Weeks Field Estates II Apartments is a 56-unit family apartment development in Fairbanks, Alaska, and is the second phase of a 130-unit redevelopment of a site formerly occupied by Fairview Manor.



Weeks Field Estates II

In attendance at the Grand Opening were Scott Fitzpatrick of Mountain Plains Equity Group as well as representatives of Community Development Incorporated; Gellert & McGrew, LLC; Alaska Housing Finance Corporation (AHFC); the Rasmuson Foundation and Wells Fargo Bank.



Weeks Field Estates Grand Opening

This second phase of Weeks Field Estate II was constructed in large part through the use of the Tax Credit Acceptance Program and the Tax Credit Exchange Program, as well as HOME and NSP funds awarded through AHFC. Additionally, Rasmuson Foundation funds were utilized to round out the financing of this development. Construction financing was provided by Wells Fargo Bank.

CALENDAR OF EVENTS

Upcoming Events and Notices

Montana:

- LIHTC Application Deadline – January 20, 2012
- Annual Compliance Reports are due by January 25, 2012 www.housing.mt.gov
- Kay-Kay Tax Credit Seminar (presented by Tamarack Property Management) March 14–16, 2012 – Helena, MT – Wingate Inn For registration information please contact Ann Warnica at awarnica@tamarackpm.com
- Annual Fair Housing Conference April 18–19, 2012 – Butte, MT Copper King Hotel & Convention Center For more information contact the Montana Fair Housing office at 406-782-2573.
- Spectrum C3P Tax Credit Certification Seminar April 23–24, 2012 – Helena, MT – Holiday Inn www.spectrumseminars.com
- Save the date: June 26-28, 2012 – Billings, MT 2012 Montana Housing Partnership Conference Sponsorship & exhibitor opportunities available For more information go to <http://housing.mt.gov/2012housingconference.mcp>

North Dakota:

- Proposed LIHTC Application Deadline January 31, 2012. Please review the final 2012 QAP when available in December.
- NDHFA Champion of Affordable Housing Awards for Housing Production & Leadership Nomination Forms are due by: Friday, January 6, 2012. Forms are available online at www.ndhfa.org.
- Statewide Housing Conference February 8-9, 2012 – Bismarck, ND Registration materials will be available online the end of December at www.ndhfa.org Sponsorship & exhibitor opportunities available now, 1-800-292-8621 or info@ndhfa.org.

South Dakota:

- LIHTC Application Deadline – February 29, 2012

Wyoming:

- LIHTC Application Deadline – January 31, 2012

Colorado:

- First Round Letter of Intent Deadline: February 1, 2012
- First Round LIHTC Application Deadline: March 1, 2012
- Second Round Letter of Intent Deadline: June 1, 2012
- Second Round LIHTC Application Deadline: July 1, 2012

National:

- National Council of State Housing Agencies 2012 HFA Institute Open to HFAs, Affiliates, and the Public January 8–13, 2012, Washington D.C. <http://www.ncsha.org/event/2012-hfa-institute>
- Novogradac & Company Tax Credit Housing Finance Conference December 1-2, 2011, Las Vegas Pre-Conference Workshops (Nov. 30): LIHTC Basics For the Experienced Professional <http://www.novoco.com/events/index.php#>



CONGRATULATIONS

Congratulations to Mary Bair as she assumes the role of Multifamily Program Manager for the Montana Board of Housing. Mary follows in the footsteps of Gerry Watne, who retired from this position on October 6th of this year. We thank Gerry for his hard work and dedication to the multifamily program. As Multifamily Program Officer for the past three years, and a member of the compliance team for a total of 9½ years, Mary has been intricately involved in the day-to-day management of the program. We look forward to working with Mary in her new capacity and wish her the best as she embarks upon this new endeavor!

CHFA REACH

Resources, Education & Assistance for Colorado Housing

Colorado Housing and Finance Authority (CHFA) is pleased to have created the **chfareach** Program to provide training for housing professionals across the state of Colorado. This program is a unique and cost-effective way to stabilize and enrich your developments through education and training. Roughly 50-60 classes are offered throughout the year on topics relevant to affordable housing management such as Tax Credit Compliance, Marketing and Leasing Strategies, and Fair Housing Law and Property Maintenance. For more information about the **chfareach** program please contact Kirsten Coe at kcoe@chfainfo.com or visit www.chfainfo.com/chfareach.

UNDER CONSTRUCTION

Buffalo Court

Buffalo Court Apartments, a senior development, is now under construction in Havre, MT. When completed, Buffalo Court will provide 20 one-bedroom single-story units to the residents of Havre and Hill County. District IV HRDC, Inc., and GL Development, LLC, will act as co-sponsors of this development.



Buffalo Court



Cascade Ridge

Cascade Ridge

Construction of the Cascade Ridge Senior Living development began on October 24th. This 40-unit senior complex will be located near the Benefis Health System Campus. Benefis Health System, in an effort to address a portion of the Great Falls community's need for affordable senior housing, joined with Mountain Plains Equity Group to bring this project to fruition.

NASLEF CONFERENCE

Two members of MPEG were in attendance at the 18th Annual Conference of the National Association of State and Local Equity Funds (NASLEF) held September 21-23 in Columbus, Ohio. Conference attendees received updates from industry experts on a variety of topics, including changes to the nation's housing policy and NASLEF members' congressional advocacy strategy, analyzing developer financial strength, asset management best practices and underwriting trends. The conference is an excellent opportunity to compare notes and network with peers from across the country.

MPEG is an active member of NASLEF, a professional organization formed in 1994 to help support the efficient management of state and local equity funds. NASLEF members are mission-driven and willing to invest in smaller projects, serving rural areas or economically distressed neighborhoods, where investments in housing can have the greatest impact on low-to-moderate income families. Collectively, NASLEF members have created or rehabilitated over 111,000 units of affordable housing and have raised over \$7.4 billion in tax credit equity capital throughout the United States.

CURRENT RATES

Tax Credits

For 70% credit projects, the HERA of 2008, allows buildings placed in service after July 30, 2008, and before December 31, 2013, to use the minimum rate of 9%. No similar flat rate was set for 30% credits.

LIHTC RATES	2010		2011	
	30%	70%	30%	70%
January	3.32%	7.76%	3.29%	7.67%
February	3.36%	7.84%	3.32%	7.75%
March	3.35%	7.81%	3.33%	7.78%
April	3.35%	7.82%	3.33%	7.78%
May	3.36%	7.85%	3.33%	7.77%
June	3.35%	7.81%	3.31%	7.73%
July	3.31%	7.73%	3.29%	7.68%
August	3.30%	7.69%	3.28%	7.66%
September	3.28%	7.65%	3.26%	7.60%
October	3.25%	7.58%	3.20%	7.48%
November	3.24%	7.57%	3.19%	7.44%
December	3.25%	7.58%	3.20%	7.47%