October 7, 2016

Susan H. Biernacki
Tax Credit Program Manager
New Mexico Mortgage Finance Authority
344 4th Street SW
Albuquerque, NM 87102

RE: Draft 2017 State of New Mexico Low-Income Housing Tax Credit Qualified Allocation Plan

Dear Ms. Biernacki,

Enterprise Community Partners appreciates the opportunity presented by the Mortgage Finance Authority (MFA) to comment on the draft 2017 State of New Mexico Low-Income Housing Tax Credit Qualified Allocation Plan (QAP). Specifically, we offer comments on the elimination of green building standards and potential impacts of the efficient use of tax credits criterion.

Enterprise understands the importance of the Low Income Housing Tax Credit (Housing Credit) as a valuable tool for increasing private investment in affordable rental housing. We have over 30 years of experience creating opportunity through affordable housing connected to jobs, education, and healthcare facilities. Enterprise is also one of the largest Housing Credit syndicators in the country.

In New Mexico, Enterprise has invested over $170 million in the creation and preservation of low-income housing. We also are a leader in creating high quality energy efficient and sustainable affordable housing through our Green Communities Criteria building standard. Our Green Communities initiative provides funds and expertise to enable developers to build and rehabilitate homes that are healthier, more energy efficient and better for the environment – without compromising affordability. Green Communities also assists state and local governments to ensure their housing and economic development policies are smart and sustainable.

After reviewing the draft 2017 QAP, we offer the following comments:

Green Building Standards

We fully support the inclusion of comprehensive green building standards that utilize a “whole building approach” in the project selection criteria and/or design guidelines. Examples of such standards include but are not limited to Enterprise Green Communities, United States Green Building Council’s LEED, and Build Green New Mexico. The elimination of whole building standards in the draft 2017 QAP removes a valuable verification mechanism for ensuring that awarded projects are designed and built in a way that holistically considers economic, health, and environmental project impacts. Long term affordability, energy and water savings, and healthy living environments for residents may suffer as a result. New Mexico has consistently included green building standards in years past, which has helped earn the state
recognition as a leader in green building and sustainability. New Mexico currently has nearly 500 units certified to the Enterprise Green Communities Criteria across 11 cities. Families and individuals living in these homes benefit from the characteristics inherent in certified green buildings, including efficiency, healthy building practices, and connections to opportunity. Evaluation research has shown that projects certified to these standards are not only designed to perform well, but that this level of quality can be achieved at little to no additional cost. According to a January 2016 report by Southface and the Virginia Center for Housing Research, developments containing green building standards are nearly 5% less expensive on total construction costs per square foot and more than 13% less expensive on soft construction costs than the non-green developments. Therefore, we encourage MFA to reinsert green building standards such as the 2015 Enterprise Green Communities Criteria and the United States Green Building Council’s LEED program.

**Cost and Credit Efficiency Criterion**

Ensuring that Housing Credits are utilized in a cost-effective manner is an important goal, given resource limitations and the critical need for affordable housing. However, we have several concerns with the Cost and Credit Efficiency Criterion as currently constituted in the 2017 QAP draft. Enterprise and its partners have conducted extensive research on the subject of cost-effectiveness in the affordable housing delivery system, including reports on *Bending the Cost Curve: Solutions to Expand the Supply of Affordable Rents* (2014) and *Giving Due Credit: Balancing Priorities in State Low-Income Housing Tax Credit Allocation Policies* (2016).

Under the draft structure, in order to receive the maximum 50 points, a project must cost under 75 percent of the average of last year’s cost. Furthermore, a project can be discredited 20 points for exceeding the last year’s average costs. We are concerned that the structure of this incentive - both in terms of weighting and its calculation – could lead to a “race to the bottom” effect on all projects and disproportionately affect much needed housing in Indian Country and rural remote parts of New Mexico.

First, the amount of points awarded for this criterion significantly outweighs all other point-based incentives in the QAP. In a highly competitive process, this weighting could lead developers to make trade-offs in terms of construction quality and durability, and forgo points related to other beneficial project characteristics (including space for resident and supportive services) that might add development costs. This could have a detrimental impact on both quality and the opportunities afforded to residents.

Furthermore, while the proposed calculation differentiates between new construction and rehabilitation, the total development cost calculation does not control for location type (such as urban/suburban/rural, variations in market strength), level of supportive service provision, and targeted tenant population, among other characteristics. Different development types often have different baseline cost profiles. Incentives that do not account for these basic differences can create an incentive for undertaking inherently less-costly development types rather than creating an incentive for more cost-effective

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development practices. This could make it more difficult for MFA’s Housing Credit program to address the full range of New Mexico’s affordable housing needs.

Development proposals in high-need rural areas and Indian Country may be at a particular disadvantage under the proposed scoring criteria. These developments may experience higher labor and material transportation costs, often making construction in rural New Mexico and Indian Country more expensive than in urban centers.

A more thorough discussion of cost-related incentive structures and leading examples of effective state policies can be found in the aforementioned Giving Due Credit report, starting on page 15. In summary, we are concerned that without proper control measures that consider beneficial characteristics and the long-term viability of the development, quality in these projects may suffer. Poorly-structured incentives for reductions in up-front costs could potentially contribute to higher operating costs and/or the need for earlier recapitalization of the development, making development more costly in the long-run.

Though we encourage housing finance agencies to adopt thoughtful, proactive cost-effectiveness incentives, it is very important to carefully calibrate these provisions to avoid unintended consequences. Therefore, we suggest returning the point scale to 2016 QAP levels until a more context-sensitive point-based structure can be developed, preferably with proactive consultation with a range of practitioners in the state.

Once again, thank you for the opportunity to provide comments on the 2017 draft QAP. We commend MFA for its willingness to seek and respond to public input. We are available to discuss these recommendations and other issues related to green, sustainable, and cost-effective affordable housing. For further discussion, please contact Krista Egger, Director (202-403-8003; kegger@enterprisecommuntiy.org) for issues related to green building, and Michael A. Spotts, Senior Analyst-Project Manager (202-649-3902; mspotts@enterprisecommunity.org) for issues related to cost effectiveness.

Sincerely,

[Signature]

Benjamin Nichols
Vice President, National Initiatives
Enterprise Community Partners