



MAINE AFFORDABLE HOUSING COALITION

June 6, 2012

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Westbrook Housing Authority
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York County Community Action, Sanford
York County Shelter Programs, Alfred
York Housing

Dan Brennan, Director of Development
Maine State Housing Authority
353 Water Street
Augusta, ME 04330

Dear Dan:

Last month, the Maine Affordable Housing Coalition (MAHC) forwarded to you a set of recommendations for changes to the Qualified Allocation Plan, Green Building Standards and Design and Construction Manual that we believe would lead to cost savings, greater efficiencies and improved outcomes in the multifamily affordable housing development process. However, we believe that there are additional opportunities to create savings and efficiencies within the agency and offer the following recommendations for your consideration, which have been unanimously approved by a vote of MAHC's membership at our June 5th meeting.

Construction Services

We recommend the following changes to policy and practice within the construction services division at MSHA:

- (1) All construction services policies should be put in writing so as to reduce confusion and encourage transparency. These policies should follow construction industry standards, such as AGC Maine's "Blue Book."
- (2) A 3 business day deadline should be established to respond to questions and issues requiring agency decision-making that arise during construction, particularly those that affect critical path items. Project delays and cost increases have frequently been caused by the excessive amount of time required to get agency approval or resolution.
- (3) The role of construction services personnel should be limited to that of observation, compliance monitoring and facilitation, rather than directing changes to design, opining on means & methods or giving field directions to subcontractors.

Underwriting

- (1) 75% of the subsidy funds that MSHA puts into a project should be put in at construction loan closing rather than waiting until permanent loan closing. This practice is utilized in other states and can save projects significant amounts in construction loan interest.
- (2) Bond rates and fees should be consistently published and updated on a regular basis, allowing for greater transparency.

- (3) MSHA should convene a discussion of creative alternatives to the existing arrangement of operating deficit reserve requirements. Millions of dollars are currently sitting in these reserve accounts, most likely never to be used, creating significant opportunity costs in addressing Maine's housing problems. New ideas for addressing reserves are being considered in other jurisdictions and should be explored in Maine as well.
- (4) Debt capacity for a particular project can be determined at initial underwriting, much earlier in the process than is currently practiced. Doing so will a) allow developers and investors to assess their tolerance for the proposed level of operating risk prior to significant expenditure of predevelopment capital and b) help to eliminate delays in final project approvals.

Legal

MAHC believes that one of the best opportunities for shortening the timeline of project development lies in the streamlining of legal review. Such a streamlining also brings with it the opportunity for cost savings through reduced legal fees, lower construction loan interest costs and avoided construction delays. We recommend the following as a starting point for improvement:

- (1) Permanent loan documents should be negotiated, completed and placed in escrow at CLC, to help reduce legal costs. Other states, including New Hampshire, have successfully taken this approach and should be looked to as a model.
- (2) The numerous legal documents required to close affordable housing transactions should be made boilerplate. Since the vast majority of the provisions in these documents do not or should not change from project to project, variations from the standard documents can be more efficiently captured and negotiated as exhibits.
- (3) The inordinately detailed review of ALTA surveys is a frequent and unnecessary cause of project delay. The requirement for an initial ALTA survey should be eliminated and the review of the as-built ALTA survey should be limited to ALTA's standard requirements. Additional survey requirements added at the agency level should be eliminated. These changes alone could save as much as \$5,000 in project costs, while speeding up the process of reaching loan closings.
- (4) The legal review process leading to construction and permanent loan closings should mirror the efficiency of the private market. One significant way of accomplishing this goal would be to establish timelines for reaching critical steps in the development process. A 45-day timeline for reaching construction loan closing after construction budgets are established, and a 30-day timeline for reaching permanent loan closing after receipt of a certificate of occupancy are realistic goals that would help to address the cost and risk issues that currently impact the development process in a negative way. Engagement by MSHA's legal staff earlier in transactions (rather than waiting until FINCO approval) or greater outsourcing of legal work should be considered as options in meeting these goals.

We hope you find these recommendations to be helpful and worthy of your consideration. **Please note that many of these ideas, if found useful, could be implemented immediately to**

improve the multifamily affordable housing development process and reduce costs. If you would like to discuss these suggestions in more detail, please do not hesitate to let me know.

Sincerely,



Greg Payne, Coordinator

cc: Board of Commissioners