As of June 2012, only two of the six states that responded to our survey had completed SLRs under the alignment MOU, and 24 SLRs have been conducted in those two states. For the four HFA survey respondents who had completed their LIHTC application cycles at the time of the survey, estimates indicate that 43 LIHTC applications will be reviewed under the MOU this year.

According to the survey respondents, the average number of staff members involved in the execution of the MOU was 3.29. Most respondents said it took fewer than 30 days to draft their portion of the MOU and provide legal review and approval. On average, respondents advised that it would be somewhat easy to duplicate all sections of the MOU. Most respondents said their offices did not undergo or plan to make any staffing changes, either temporary or permanent, to conduct or review SLRs under the pilot program. One agency said they have now assigned one staff person to the HUD SLR review. Only one respondent had to make a change to existing forms, applications, or databases to conduct and review SLRs per the MOU. This respondent specifically tailored its due diligence checklist to include required items when conducting the SLR. Only two HFAs have not yet completed the 2012 LIHTC application cycle. The HFAs that completed their LIHTC application cycle for 2012 awarded tax credits in the months from February to May. Respondents thought that HUD's Office of Public and Indian Housing should have been included earlier in the MOU drafting process to facilitate inclusion of project-based voucher housing within particular states. They also indicated that HOME funds generally were not covered by the MOU (except for cases in which the HFA party to the MOU is also the HOME-allocating agency for their state and, as such, already has the authority to conduct reviews for HOME-funded properties). Respondents also thought that more work up front to include HOME in the MOUs would have been helpful during implementation.

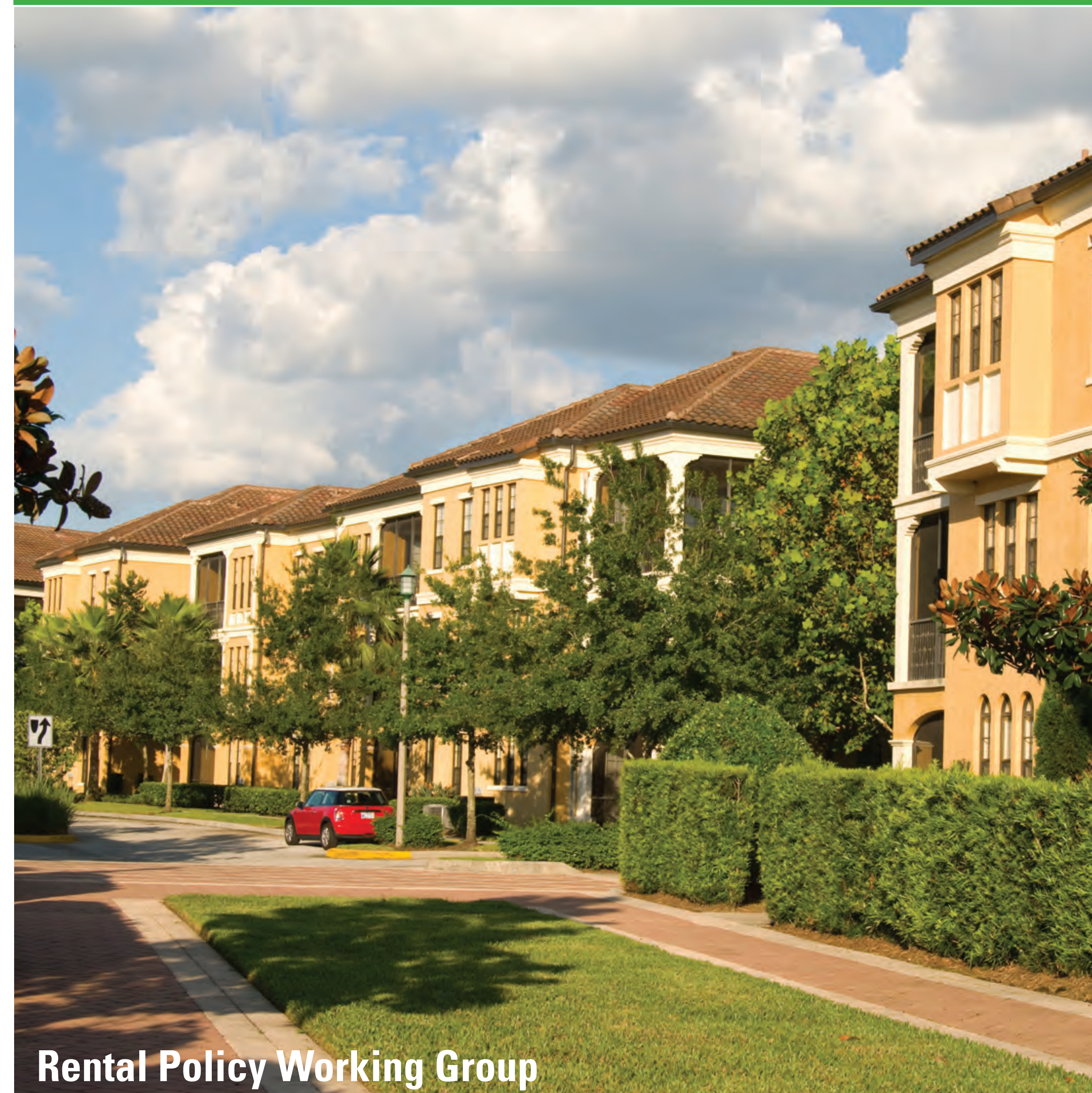
Survey respondents advised that they are satisfied with the current guidelines established in the SLR-MOU and the level of convenience or perceived convenience in conducting and reviewing SLRs under the SLR-MOU. According to the survey, primary advantages of implementing the processes outlined in the MOUs included (1) it diminishes the likelihood of projects being over subsidized; (2) it forces developers to work with one set of numbers, which could lead to cost savings; (3) it will reduce cost to developments because of the reduction in the number of third-party reports; and (4) the MOU can better enable each agency to provide only the subsidy needed.

Conclusion

This early survey on the process of launching the pilot programs has provided the RPWG and the pilot participants with helpful insights into the opportunities for success and improvement as we move forward with the pilot programs in the coming months. HFAs indicate that the pilots are valuable in both direct (cost savings) and indirect (increased collaboration) ways; however, more effort at the outset to ensure the comprehensiveness of the MOUs would improve the process of approval and implementation. The team will conduct a complete evaluation of outcomes at the end of 2012, at the conclusion of the pilots. We expect to use these results to inform an expansion of the pilots in 2013, continuing to strive for a comprehensive solution to duplicative and burdensome administrative overlap in the areas of physical inspection and subsidy layering review to support and sustain affordable housing efforts. We appreciate your continued interest and feedback on this initiative and encourage you to stay in touch through our rental alignment website at http://www.huduser.org/portal/aff_rental/home.html.

Rental Alignment Pilots

Interim Progress Report



Rental Policy Working Group

Background

For owners, developers, tenants, and local communities working to create and preserve affordable housing, federal funds often make up a significant share of a property's financing structure. For these stakeholders, however, overlapping administrative requirements associated with federal affordable housing programs can be burdensome. When different federal departments support and administer affordable housing programs separately, the outcome has generally been good for the rental housing field because different programs respond to different needs. But over time, developers and owners of affordable housing have become increasingly reliant on multilayered finance and subsidy structures—and these programs have not always been designed to work well with each other.

Responding to the need for better coordinated federal rental policy, the White House's Domestic Policy Council established the interagency Rental Policy Working Group (RPWG). As part of its coordinated strategy, the RPWG has engaged state, local, individual, and private stakeholders to identify administrative changes that could increase overall programmatic efficiency and further enhance the ability of communities to create and preserve affordable housing. Through this process, recommendations have been developed to align physical inspections, subsidy layering reviews (SLRs), financial reporting, appraisals and market studies, capital needs assessment tools, energy efficiency standards, fair housing compliance enforcement, improved data sharing on owner defaults, and income reporting and definitions.

Of these opportunities, two in particular—physical inspections and SLRs—were deemed particularly ripe for immediate implementation. The redundancies were glaringly obvious. A property that has multiple federal funding sources may be subject to duplicate physical inspections using multiple physical inspection standards. Similarly, most federal housing programs require agencies to certify that the total value of subsidies provided to an affordable housing development does not exceed what is necessary and feasible, with each program performing a nearly similar review of these multiple subsidy sources. Through the launch of pilot programs, in which local solutions can be supported, tested, and potentially taken to scale, federal, state, local, and private partners can begin to realize cost and time savings, as well as put program dollars to use more quickly, ensuring that low-income families can continue to have access to affordable rental housing when they need it most.

This report provides the results of interim process surveys implemented across the participating pilot states in late spring of 2012 at the approximate mid-point of the expected implementation period of the pilots. Overall, participants report that they are pleased to be participating in the pilots and that they believe value is being realized for government agencies and practitioners. Although participants noted a number of procedural issues that would benefit from refinement as the pilots continue, most were optimistic that the challenges could be resolved and that further effort to begin developing a scalable national solution would be worthwhile.

Physical Inspection Pilot Program

The physical inspection pilot program was launched in six states in November 2011 with the goal of testing methods for developing a single, periodically scheduled physical inspection for jointly subsidized multifamily housing that can be performed by one housing agency but which will satisfy all other agencies' inspection requirements. As part of the pilot, state-level teams in Michigan, Minnesota, Ohio, Oregon, Washington, and Wisconsin agreed to merge all required physical inspections into a single inspection protocol with a defined frequency at each multifamily property. The details of this agreement are included in Memoranda of Understanding (MOU) signed in each state. In addition, the MOUs identify the lead agency for each inspection, determine which pilot properties to inspect, and establish inspection frequency, followup, and information-sharing protocols.

To highlight areas in which the process of implementing aligned physical inspections can be improved through changes or additional resources, the RPWG created an online survey for each state housing finance agency (HFA) to complete. The survey was designed to rate the process of creating the MOU, executing the MOU, and interacting with federal agencies. It captured the full spectrum of rated responses, including positive feedback, criticisms, and suggestions for changes in the future.

According to the responses, the average number of months the HFA took to create the MOU was 5.17, with an average of 2.67 staff hours per week. One-half of the HFAs thought it was easy to design the MOU and all stated that it was easy or very easy to obtain approval from necessary state officials. One participating HFA responded, "A longer pilot term would have provided a better opportunity to see how followup actions and ongoing alignment might work." As one might expect, opinions varied among HFAs on the pilot launch's success and shortcomings. For instance, although most HFAs stated that they would want to continue using the MOU or another one similar to it in the future, one-half advised that they would have done things differently during the implementation process of the MOU to improve it or reduce challenges. In addition, one-half of the HFAs thought they would not have to make any changes to the MOU if they were to continue to use it to reduce the number of inspections.

The survey revealed that selecting pilot properties was difficult for most agencies. Of the six HFAs, four indicated that properties initially included in the pilot were later dropped. Comments suggest that the difficulty in selecting pilot properties stemmed from challenges in confirming which properties could be inspected within the pilot period and from challenges in matching properties that are referred to by different names, addresses, and identification numbers among different agencies. Many HFAs reported that they have not inspected enough pilot properties to adequately measure the success of the pilot program, yet all recommended extending the pilot, suggesting optimism that continuing to coordinate inspection efforts will result in more lessons learned for a large-scale alignment.

As of July 2012, the total number of inspections conducted for pilot properties was 197. An additional 292 have been scheduled. The total number of pilot properties to be inspected in calendar year 2012 is expected to be 677. The survey results indicate that the average cost per inspection for the HFAs for the past 3 years was $375.[1] The average inspection cost for U.S. Department of Agriculture Rural Development (USDA-RD) and the U.S. Department of Housing and Urban Development (HUD) is approximately $400. HUD has taken the lead on most inspections in the pilot, with USDA-RD taking responsibility for the next largest share. Because of the contract-bidding process, the Real Estate Assessment Center inspections have been slow but are expected to increase in the coming months. Because of resource limitations, USDA-RD has also faced challenges in the timely completion of inspections.

The HFAs participating in the pilot program are using Microsoft Skydrive, a file-hosting service that enables users to upload and sync files to cloud storage and then access them from a Web browser or their local device, to collect and store data that identify property characteristics, funding sources, and when and by whom pilot inspections are being undertaken. The HFAs are concerned about Skydrive, because it has proved inconsistent in the accessibility and accuracy of the data it contains. Plans are under way to replace Skydrive with a more efficient, reliable system.

Overall, most HFA participants indicated that the physical inspection pilot program has been worthwhile for their organizations. One said, "This has been a great experience for us and an opportunity to reach out to other stakeholders to promote this initiative." Another wrote, "We feel that this is a very good program and way to provide cost savings for all parties involved." Despite challenges, the physical inspection pilot program is likely to result in significant benefits to all parties. Given that each property selected for the pilot was due at least one duplicative inspection that was avoided as a result of the pilot, the estimated cost savings resulting from the pilot are expected to be at least $250,000. Parties to the MOU may also experience reduced staff time and travel costs, resulting in increased attention to regular duties.

Subsidy Layering Review Pilot Program

A second pilot launched to coordinate the subsidy layering reviews that various federal and state housing program administrators conduct with the aim of eliminating redundancy in the underwriting and review process. Nearly all federal housing programs have statutory requirements requiring the administering agencies to confirm that, at the time of making a grant or subsidized loan, the total amount of subsidy being provided by public sources does not exceed eligible costs. When developers of affordable housing are awarded multiple sources of public funding, they consequently become subject to multiple SLRs, which causes delays and adds costs to projects that are preparing to start construction. Pilot state teams have collaborated on specific items contained within their respective MOUs addressing common SLR processes.

HUD, USDA, and state HFAs administering HOME and Low-Income Housing Tax Credit (LIHTC) programs traditionally handle their required reviews differently. State-level teams in Michigan, Nevada, North Carolina, Ohio, Pennsylvania, South Carolina, and Wisconsin have implemented pilots to align SLRs. Over time, efforts are expected to generate governmental savings through fewer reviews and consistent, better informed decisions and to provide the private sector with benefits that include improved completion time for reviews and a reduced risk of closing delays.

In September 2011, Michigan State Housing Development Authority (as a LIHTC-allocating agency and HOME-participating jurisdiction), USDA-RD, and HUD were the first to enter into a comprehensive MOU to align and share basic underwriting for all jointly funded programs across the state. Over the ensuing 5 months, the remaining above-mentioned states followed suit, signing MOUs. The results of this work are intended to become the basis for a standardized format. The RPWG implemented a process survey of the participating states for the SLR pilot program; the results are as follows.

[1] The costs for Ohio and Wisconsin were not included in this calculation because they could not separate inspection costs from the cost of doing a complete review of the property.