2014
Qualified Allocation Plan (QAP)
(Changes from 2013)

Application Package for Low Income Housing Tax Credits

COVER SHEET

Net Available tax credit amount changed to estimated $2,210,329. Clarified that both the 4% tax-exempt bond applications requesting HDF financing and 9% tax credit applications are due on 4/30/14.

Timetable changes:

The following dates were changed/added:
- 02/04/14 - Deadline for pre-inspection written notification if applying for 2010 rehabilitation credits.
- **04/30/14 - Application due date.**
- 07/01/14 - DSHA will notify sponsors of their preliminary ranking in accordance with the QAP and designated set asides outlined in the application package.
- 10/17/14 - Commitments for all financing must be submitted to DSHA.
- DSHA will make Tax Credit reservations for selected projects 30-60 days after financing commitments are received by DSHA.
- 12/19/14 - Deadline for pre-closing documents for HDF-financed projects.
- On or before 12/19/14 - DSHA will allocate Credits to selected projects.

2014 QUALIFIED ALLOCATION PLAN

Cover page
Dates changed and estimated tax credit amounts.

Pages 5 -6
Revised rehabilitation expenditure to $6,500 per IRS code.
Clarified the bond recapture disposition rule in accordance with Section 42.

Page 17-21
- Changed dates and net available credits to approximate amount of $2,210,179.
- **Preservation Rehabilitation Pool** – revised amount to $973,415 and **the New Creation** pool to $973,414; Non-Profit Set-Aside $263,500.
- Removed Chronically Homeless Set-Aside
- Added under Other Requirements that phased developments or contiguous development applications must be substantially complete and at least ninety (90%) rented to qualified residents and demonstrates three months break-even operations as defined in the partnership operating agreement.

- Clarified under Non-Profit Set-Aside that Ownership entities that include non-profit participation but that do not meet the definition of a Qualified Non-profit organization (see definition of Qualified Non-profit Organization) may apply but <u>will not</u> be eligible for consideration to compete in the Non-Profit Pool.

<u>Page 22 – 32 - Definitions</u>

- Removed Chronically Homeless definition.
- Revised Developer Fee calculation to exclude site environmental remediation costs and DSHA assumed debt. Removed rental subsidy reserve language.
- Revised Elderly Development definition to include FHA Risk Share definition requirements for federal programs.
- Clarified Environmental Audit - . Only the executive summary of the report shall be submitted in the hard copy application, however, the full report shall be submitted with the electronic application.
- Added definition of Equity, including Net Equity and Gross Equity. Gross Equity is the amount raised before any amounts for fees or deductions are made and Net Equity is all equity raised after deductions are made.
- Clarified Interim Income – if used as a construction or funding sources must be pre-approved by DSHA.
- Added the HUD definition of Literally or Imminently Homeless.
- Clarified the definition of Qualified Non-Profit for non-profits who are also Community Development Organizations (CHDO's) under the HOME program and will participate in LIHTC projects and Ownership entities that include non-profit participation but that do not meet the definition of a Qualified Non-profit organization (above) may apply but <u>will not</u> be eligible for consideration to compete in the Non-Profit Pool.
- Revised the definition of Special Populations and Target Units - Removed Migrant and Seasonal Farm workers and expanded the definition to include, the Literally Homeless, Victims of Domestic Violence, Persons with Disabilities, youth exiting foster care or state facilities. Added language for a referral process, certification and targeting plans.
- Added the HUD definition of the Section 811 Rental Program.

<u>Page 34 – 39 - Threshold Requirements</u>

- Added new threshold requirement for all developments will target 5% of total units for special needs populations for households at 40% of area median or below. Developments must target at least 3 units, regardless of the size development or 5% whichever is larger. Added that the Declaration of Restrictive Covenants (extended use agreement).

<u>Page 40 - 57 - Ranking and Points</u>

- **Balanced Income Category** – Revised category and separated Subsidized and Non-Subsidized developments scoring. Provided specific targeted income levels for tax credit units at particular area median incomes.
- **Mixed Income Category** – Added new category for developments that have at least 20% and no more than 50% of the total units at market rates.

- **Integrated Housing for Special Populations** – Revised category and changed the definitions for targeted populations. Provide applicants an additional 5 points if the development targets an additional 5% of units for the target populations for a total of 10%. Additional target units must also be at 40% of area median income. Added information on the referral system and vacancy issues.
- **Section 811 Project Rental Assistance Demonstration** – Added new category for applicants that agree to accept, if offered by DSHA, an assignment of Section 811 project based subsidies will receive 3 points.
- **Additional Fair Housing and Americans With Disabilities Act (ADA) Units -** Clarified that accessible units must not be concentrated in a given area (i.e. segregated to only one floor(s), buildings, or sections of the development. Clarified that Applicants are required to list their development and all accessible units on www.delawarehousingsearch.org.
- **Leveraging of Non-DSHA Sources –** Clarified DSHA fully amortizing first mortgage debt is not included in the calculation.
- **Historic Housing –** Clarified that the entire property, including all buildings, must already be listed on the National Historic Register.
- **Capacity of Development Team –** Clarified that the Management Agent experience points will not be awarded if one or more of the following occur: More than five (5) Form 8823, "Low Income Housing Tax Credit Agencies Report of Noncompliance" have been filed on development(s) in the portfolio; An average REAC score of 79 or below: The average vacancy loss for 5 or more" like" properties in the portfolio are 7% or more.
- **Sites and Neighborhood – Access to Services –** clarified the supermarket that must be a minimum square foot of 10,000 feet with a broad supply of sufficient food to maintain daily food consumption.
- **Community Compatibility -** Clarified the Community Design category that aesthetic amenities, such as trim, materials, and color enhances the exterior quality and interest of the project and building heights and bulk, as seen from the street, should be respected. The building should not look strange or out of place in the community where it is located.
- **Development and Unit Amenities** – Clarified Security/Surveillance must be tied to a monitoring system of local police to receive a point. Added Non-Smoking Buildings. Clarified size of eat-in kitchens and clarified private outdoor space.
- **Qualified Census Tract –** Clarified where all buildings and parcels of the development must be in a QCT.

Page 58

- **General Information** – Clarified that weighted averages for scoring purposes may be calculated when it is determined there is an inequitable advantage for subsidized and non-subsidized projects in same set-aside.

Page 59

- **Application Process -** LIHTC application due date changed to April 30, 2014.

Page 60-64

- **Cure Period –** Clarified that whether any defect in an application is minor or immaterial shall be determined in sole discretion of DSHA. Further, DSHA's allowing an applicant to cure certain minor/immaterial defects does not constitute approval or acceptance of the application in any respect, and is not an assurance that the application will, upon complete review, be deemed acceptable or in compliance with the QAP or DSHA policy

- Clarified appeal process is 15 days.
- **Placed- in-service date** – Clarified the IRS Placed in Service Requirements and DSHA Placed In Service Requirements. Revised dates for meeting the 10% test as an eligibility requirement for 2014 LIHTC applications. Changed 2013 dates to read as "2014".
- **Non-Compliance with Placed-In-Service Date –** Clarified that a new application will be required if credits are returned for a forward application.
- **Cost Certifications** – added web link for cost certification forms.

Page 73

- **Program Approval** - Changed approval date, newspaper ad dates, public hearing date and location.

Page 75

- **Tax-Exempt Bond Applications** - Revised Applications for both 4% and 9% will be due on the same due date of April 30, 2014. Process and requirements for both types of 4% applications were noted.

Page 77

- Added HDF application non-refundable fee of $1,000

ATTACHMENTS TO THE QUALIFIED ALLOCATION PLAN

The Attachments to the QAP were re-formatted for efficiency and improved arrangement.

Page 3 – 8 - DSHA Underwriting Criteria

- **Contingency –** Clarified that only one contingency is allowed and can be used for soft or hard costs. Also clarified that the balance of the line item must be exhausted prior to approval of funds to pay for construction interest or any other construction expense from the development's operations account.
- **Construction Interest –** added this definition that was used in DSHA forms and from Cost Certification Guide.
- **Developer Fee** - Revised Developer Fee calculation to exclude site environmental remediation costs and DSHA assumed debt. Removed rental subsidy reserve language.
- **Transitional/Subsidy Reserve –** Added same definition from DSHA forms and Cost Certification Guide.
- **Equity Factor and Equity Raised –** Added clarification on 15% minimum equity requirement for construction requirement. Also clarified if more than 15% of the net equity is being shown as a source during construction, documentation form the syndicator/investor with additional amount of equity and proposed pay-ins must be included with application.
- **Relocation –** Clarified that relocation expenses include on-site management administration beyond normal management duties (as documented by detailed timesheets and invoices).,
- **Operating Expense Per Unit** – Revised per unit range.
- **Debt Coverage Ratio** – Added language to include projects financed under the FHA Risk sharing Insurance program, DSHA will follow the risk sharing regulation of 1.176:1.
- **Vacancy Rate** – Added language to include loans financed using the FHA Risk Sharing Program will be underwritten using a 7% vacancy rate.

- **Operating Pro forma** – Added language for photovoltaic systems that are being utilized at the development, costs from third party aggregators and sources derived from the system must be included in the operating budget. Also clarified that a 1.5% equity distribution must be utilized for subsidy layering and pro forma purposes. If the project does not need DSHA financing, the 1.5% will not apply.

<u>Page 9</u>

- Revised Sussex County is a DDA for 2014.

<u>Page 15-23 Application Checklist</u>

The Exhibit/Attachment checklist was revised and the order of Exhibits was changed to reflect the order of the QAP, from threshold requirements, ranking items, construction information and financing information. New Exhibits were also added to reflect new requirements and old Exhibits were removed as applicable.

<u>Page 24 – 26 Market Study Requirements</u>

- Clarified that the market study should be conducted within six months of the date of application submission.
- Added in the definition of market area – the study should provide a detailed analysis of the income levels of the potential residents for the proposed property.
- Added in definition of Housing Supply – the market study should demonstrate the overall vacancy rate in the area of the proposed project (for all projects – should not exceed 15%) and the vacancy rates for affordable housing properties in the area (should not exceed 10%).
- Added absorption clarification – the market study must define and justify the absorption rate and absorption period for the proposed property, which should include a description of the methodology used for the calculation.
- Added a new section on capture rates.

<u>Page 27-49 Minimum Construction Standards</u>

- Revised and described the County Codes that are being followed by each County.
- Added a new section - Environmental Site Assessment - as a requirement under the general requirements section of the minimum construction standards. Require that when a site has environmental issues, the property will have remediation work completed to clear the site before construction closing. In addition, all costs associated with the clean up shall be paid in full and certified clearance will be available to all parties.
- Updated the date for which General Contractors must be approved – March 15, 2014.
- Clarified Bidding Protocol that for Option 1 – General Contractor shall obtain at least three sealed and DSHA shall provide copies of all bids and the written results forwarded to DSHA Option 2 – General Contractors shall review and provide written approval of bid documents prior to release for bidding to DSHA and No additional bidder requirements may be added to these protocols without written approval from DSHA which may be withheld in their sole discretion (examples include, but are not limited to, additional payment and performance bond requirements, letter of credit for contractors, unrealistic timing demands, construction schedule, liquidated damage requirements, etc.).
- Landscaping – added concrete splash blocks shall be provided for all downspout locations.
- Siding – added medium density overlay board is not allowed at any development.

- Doors – clarified that doors shall be solid core six panel masonite or better.
- Flooring – Added that carpets for the remaining areas of the unit are optional. DSHA encourages other environmentally friendly products as a substitution for carpet. Please contact DSHA for suggested alternate products.
- Electrical – General – added that automatic openers for ADA compliance were required.
- Security and Surveillance systems were required and have the capability to be monitored by the police.

Page 52 – Added a Fair Housing Certification

- Form must be completed and included as an exhibit to the application with the AFHMP.

Page 66 – 71 – Targeting Certification and Integrated Special Populations Targeting Plan

- Two Forms were added for compliance with the new mandatory special needs requirement of 5%. An owner/management certification and a targeting plan that details the management responsibilities of the referral system at the proposed development. Both forms are a requirement of each application.

POINTS WORKSHEET

- Revised/removed several categories. Removed Extremely Low Income category and revised Special Populations point category, Balanced Income Category, added Section 811 Project Demonstration category, total possible points are now 139.

2014 HOUSING DEVELOPMENT FUND SUPPLEMENT

Page 6

- **4% Tax-Exempt Bond Properties with DSHA Financing** - Added that Applicants combining two or more developments into a single ownership entity where each property currently has DSHA soft/deferred financing in place may be eligible for additional DSHA soft/deferred financing as long as the following conditions are met:
    - If a current LIHTC development, the project(s) must be in the extended use period;
    - The combined properties will be operated under one common ownership;
    - The project will be limited to the lesser of $45,000 per unit or $2.75 million per property (old and new debt combined). Two or more developments may or may not be contiguous.

Page 10

- Development Fee – Revised calculation to exclude site environmental remediation costs and DSHA assumed debt. Removed rental subsidy reserve language.
- Equity requirement - clarified if more than 15% of the net equity is being shown as a source during construction, documentation from the syndicator/investor with additional amount of equity and proposed pay-ins must be included with application.

Page 12

- Clarified Bidding Protocol that for Option 1 – General Contractor shall obtain at least three sealed and DSHA shall provide copies of all bids and the written results forwarded to DSHA Option 2 – General Contractors shall review and provide written approval of bid documents prior to release for bidding to DSHA and No additional bidder requirements may be added to these protocols without written approval from DSHA which may be withheld in their sole discretion (examples include, but are not limited to, additional payment and performance bond requirements, letter of credit for contractors, unrealistic timing demands, construction schedule, liquidated damage requirements, etc.).

Page 16

- DSHA revised the equity distribution language. Where LIHTC is involved, the amount of annual equity distribution is limited to 1.5% of initial investment in the following instances:

    - Deferred HDF/HOME debt;
    - Amortizing HDF/HOME debt with an interest rate of 3% or less;
    - Amortizing HDF/HOME debt, regardless of interest rate, that is not current at year-end when the surplus calculation is made.

  DSHA reserves the right to adjust profit/equity distribution at its sole discretion.