

2016 Qualified Allocation Plan (QAP) (Changes from 2015)

Application Package for Low Income Housing Tax Credits

COVER SHEET

Net Available tax credit amount changed to estimated \$2,607,282.

The following dates were changed/added:

- 02/12/16 - Deadline for pre-inspection written notification if applying for 2015 rehabilitation credits.
- 02/26/16 - Deadline to apply to Delaware Transit Corporation for Memorandum of Agreement.
- 03/11/16 - Deadline for General Contractor approval and/or updates
- 3/16/16 – Rent comparable requests due for projects requesting HDF.
- **04/29/16 - Application due date.**
- 07/01/16 - DSHA will notify sponsors of their preliminary ranking in accordance with the QAP and designated set asides outlined in the application package.
- 10/21/16 - 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.
- 12/16/16 - Deadline for pre-closing documents for HDF-financed projects.
- On or before 12/16/16 - DSHA will allocate Credits to selected projects.

2016 QUALIFIED ALLOCATION PLAN

Cover page

- Dates changed and estimated tax credit amounts.

Pages 5-7 (Introduction)

- Added eligible developments clarification and applicable credit percentage as a permanent rate of 9% for new and rehabilitation developments, but acquisition credits will be based on applicable rate issued by the Treasury Department..
- Revised qualified expenditure amounts to \$6,700 in summaries of eligible development categories.
- Added tax-exempt bond applicants as ineligible for a 30% state basis boost.

Page 12-14 (Tax Credit Allocations and Pools)

- Changed dates and net available credits to approximate amount of **\$2,607,282**.
- **Preservation/Rehabilitation Pool** - revised amount to \$1,169,141; **New Creation** pool to \$1,169,141; and **Non-Profit Set-Aside** to \$269,000.
- Clarified substantially complete demonstration for subsequent phases of development.

Page 15-26 (Definitions)

- Clarified acceptable Community Revitalization Plan.

- Revised Developer Fee amounts and added changes for tax exempt bond projects, subsequent phases, and contiguous properties.
- Added Donated Land definition.
- Revised Eligible State Basis Boost definition to show tax-exempt bond projects as ineligible for a boost.
- Revised Eligible Basis Limitations with HUD Section 234 Basic Mortgage Limits.
- Clarified acceptable uses of Interim Income.
- Added two year limitation to Preservation/Rehabilitation Subsidized projects at risk of losing affordability.
- Added veterans to Special Populations and Target Units.
- Revised Substantial Rehabilitation to require all units be brought up to the same standards and prohibits developments if more than 25% of the existing units are added as new units. Added allowable exception for HUD public housing sites.

Page 28-34 (Threshold Requirements)

- Added State Strategy Levels information.
- Added veterans to eligible special populations.
- Expanded explanation of Development Team applicants ineligible to compete, due to failure to meet obligations committed to in previous LIHTC applications.
- Added www.delawarehousingsearch.org requirement for all sites.
- Added tax-exempt bond and DSHA permanent financing projects must adhere to Minimum Construction Requirements.

Page 37-52 (Ranking and Points)

- Per Unit Cost Reduction – revised point range and example of calculation.
- Integrated Housing for Special Populations – added veterans to list of special populations.
- Leveraging of Non-DSHA Sources – added rolled debt or new to USDA Rural Development, value of donated land or subsidized land leases to allowable leveraging sources. Added clarification on DSHA fully amortizing and interest only payments not included in leveraging calculation.
- Promoting Balanced Housing Opportunities – revised definitions of Distressed, Stable, and Areas of Opportunity areas of the state.
- Historic Housing – added that applicant must obtain a letter from the State Historic Preservation Office listing all buildings as eligible and that state credits will be available at conversion.
- Preservation - Revised placed in service date to December 31, 1995.
- Access to Services – added rural area (as designated by USDA), whether incorporated or unincorporated to 1 ½ mile radius of services. Added community centers and facilities as services for points and added USDA designation link.
- Energy Conservation Measures – added point category for Energy Star, Version 3.0, with additional HERS ratings.
- Access to Transit – clarified that applications to DTC must be made by February 26, 2016 or the applicant will fail to qualify for receiving points in this category. Also added stipulations required in Draft Memorandum of Agreement, clarification of Transit Ready and Existing Transit categories, and details on application requirements for DTC. Reduced total points to three (3) points.
- Connectivity to Surrounding Communities – revised date of requests for technical assistance to March 15, 2016.

- Development and Unit Amenities – added non-smoking buildings and units clarification and eligibility for point category. Also added penalty for failure to provide amenities after points are awarded.
- Community Revitalization Plan – added that the plan cannot be older than five years and the location of the project must be clearly identified and certified by the agency that developed the plan.
- Downtown Development District – reduced points from three (3) to one (1) points.

Page 54 (Application Process)

- Revised application due date to April 29, 2016.

Page 59-60 (Placed in Service Requirements)

- DSHA Placed In Service Requirements – changed dates to reflect current year.
- Non-Compliance with Placed in Service Date – Forward Reservation – added a non-refundable, non-eligible fee for requests for Forward Reservations in an amount of 1 ½% of the carryover/allocation amount, with a maximum fee of \$15,000.

Page 67 (Compliance Monitoring Procedures)

- Compliance Monitoring Fee – revised fee amount to \$600 per unit.

Page 68 (Program Approval)

- Program Approval – changed approval date, newspaper ad dates, public hearing date, and location.

Page 70 (Tax-Exempt Bond Financed Developments)

- Tax-Exempt Bond Applications and DSHA Financing – added \$6,000,000 of HDF funds will be the minimum set-aside made available for 4% tax-exempt bond applications seeking HDF funding.

Page 72 (Application Fees and Processing)

- Revised application fee amount to \$1,250, allocation fee amount to 1.50% of carryover/allocation amount x ten (10) years, and compliance monitoring fee amount to \$600 per unit.

ATTACHMENTS TO THE QUALIFIED ALLOCATION PLAN

Page 3-9 (DSHA Underwriting Criteria)

- General Contractor's Overhead and Profit – stipulated that no increase in the percentage of overhead and profit will be allowed for change orders.
- General Requirements – revised amount to maximum of 7% of construction hard costs. Clarified that general requirements are still subject to verification by an auditor at cost certification, and general requirements costs cannot be charged under other trade line items. General requirements must be drawn based on percentage of construction completion and will no longer require backup documentation. No increase in the percentage of general requirements will be allowed for change orders.
- Contingency – clarified maximum contingency amount to 5% for new construction and 10% for rehabilitation, but percentages may be lower with prior approval from lenders and syndicators and receipt of all bids.
- Land and Acquisition Value – added DSHA current policy to this definition that related party maximum acquisition price stipulations; requires appraisers to contact DSHA for a list of comparable LIHTC properties; and appraisals may not be older than six months.
- Developer Fee – expanded identity of interest to include acquisitions of either land or rental properties. Revised maximum developer fee to \$1,500,000 for tax exempt projects only, but \$500,000 of fee must be deferred and paid only from cash flow and a maximum deferred fee of \$750,000. Added maximum developer fee of \$1,000,000 for 9% applications. Added that applications for contiguous properties in the same funding round using a combination of 9% and 4% credits will be subject to a reduction in developer fee, unless each application is for 60 units or more. Clarified which sources should be used and schedule of developer fee payment will adhere to.
- Working Capital Escrow – clarified amount to exclude rolled debt and added clarification on acceptable letters of credit. This is a current DSHA policy that was not in the guidelines.
- Operating Reserve Escrow – clarified that reserve must be funded by permanent closing for new construction developments and that all reserves cannot be used to guarantee other obligations. This is a current DSHA policy that was not in the guidelines.
- Transition/Subsidy Reserves – added that all reserves must be funded by permanent closing.
- Equity Factor and Equity Raised – added details required for Historic Equity/Credits.
- Relocation – added relocation costs as ineligible for basis.
- Relocation Operating Deficit Reserve – requires any remaining funds of reserve to be applied to DSHA loans and not other line items and details use of interim income to fund reserves.
- Legal Fees – revised maximum legal fees to \$175,000 for public housing or subsidized developments.
- Cost Certification/Accounting – revised maximum amount to \$28,000.
- Marketing/Rent-Up Fees – added a new line item and the requirements for rent-up costs incurred and not to exceed amount of \$500 per unit for certain projects.
- Bond Prepayment, Broker Fees, and Tax Credit Fees – added that tax credit and HDF application fees are eligible expenses if a successful award is made by DSHA. HOME application fees are not eligible.
- Appraisals – added clarification on DSHA requirements for appraisals. This is a current DSHA policy that was not in the guidelines.
- Updated note to reflect most recent IRS guide date.

Page 10-14 (Operating Pro forma Underwriting Guidelines)

- Operating Income – clarified that funding of reserves from interim income will not be considered to have caused a deficit in operations due to off-site relocation and interim income may not be used as collateral for any loan, operating deficit guarantee, or letter of credit. This is a current DSHA policy that was not in the guidelines.
- Operating Expenses – revised expense range to \$5,000-5,800 per unit for non-subsidized properties and \$5,900-6,900 per unit for federally subsidized properties.
- Debt Coverage Ratio – clarified ratios to 1.15:1 Loan to Value ratio of 50% or less and 1.20:1 Loan to Value ratio of 51-80%. Added that projects with fully amortizing DSHA permanent debt must have a Loan to Value ratio to cover all amortizing debt.
- Annual Replacement Reserves – revised amount for new construction and rehabilitation to \$500 per unit.
- Replacement Reserve – removed allowance of existing replacement reserves to re-establish new reserve escrows. Added \$1,500 per unit replacement reserve for all projects, due by permanent closing.
- Operating Pro Forma – stipulated that the annual equity distribution calculation for subsidy layering and pro forma purposes should be 1.5% of initial investment, unless DSHA does not provide financing to the development.
- Utility Allowances – added new section to show allowable methods of calculations and requirements.

Page 16 (Difficult Development Areas for Delaware)

- Updated year and added link to Delaware interactive maps.

Page 19 (Eligible Basis Limits)

- Updated limits to reflect basic HUD 234 limits effective 01/01/2016.

Page 20-31 (Application Checklist)

- 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.

Page 32-36 (Market Study Requirements)

- Clarified that the market study should include documentation on the demand, rent of over-cost burdened households, households in substandard housing, elderly homeowners likely to convert to rental housing, and existing qualified tenants likely to remain after renovation.
- Added Net Demand Methodology format to be included in the market study.

Page 37-53 (Minimum Construction Standards)

- Updated applicable building codes for each county.
- General Requirements – added all projects receiving DSHA amortized permanent financing must adhere to DSHA's minimum construction standards and all units in a development must receive the same upgrades/modifications and be brought up to the same standard.
- Bedroom – added clarification on required square footage and features.

- Environmental Site Assessment – added that where remediation costs were identified and such costs were not included in the projected cost line items, any additional costs shall be paid from the developer fee and cannot be paid from contingency.
- Architect Certification – added that all architects, engineers, surveyors, and consultants must be registered in Delaware and all consultants must have a contractual relationship to the architect. Also added DSHA construction standard waiver request fee of \$500 per request and redesign fee of \$500 per review.
- General Contractor Requirements – all contractors must be approved by DSHA by March 11, 2016.
- Bidding Protocol/Requirements – revised General Requirements maximum to 7% of construction hard costs and excluded change orders from an increase in General Requirements or Overhead and Profit. Also added stipulation that related parties and/or identities of interest sub-contractor firms may not bid on the construction work or perform work on the development.
- Site Work – added that a residential guide/manual shall be provided for residents to explain the intent, benefits, use and maintenance of their unit features and practices.
- Landscaping – added that a grading and landscaping plan must be approved by the applicable conservation district.
- Thermal and Moisture Protection – added that vinyl siding shall have composite trim installed when within 6” of finished grade.
- Doors – added that exterior hinge hardware shall be made of quality materials, ADA compliant doors must have two viewers at required heights, and patio/French doors shall have integral mini-blinds built in between glazing to provide privacy.
- Windows – added that single hung should be considered, but local codes shall dictate.
- Flooring – added an additional per unit replacement reserve (\$150 per unit) if carpet is utilized. Added that hardwood flooring or other materials may be utilized as approved by DSHA and gyp-concrete shall be sealed per manufacturer’s specifications.
- Drywall/Paint – moisture resistant drywall shall be used in bathrooms, all interior paints and primers shall have low or no VOC levels, and no flat paint will be allowed on walls.
- Specialties – added that water-conserving fixtures shall be installed in all bathrooms, as much as feasible, to reduce water consumption and stipulated the splash zone to be protected includes 4” adjacent to a tub faucet.
- Appliances – added that washer and dryer hook-ups or laundry facilities are required for each development and must meet all accessibility requirements.
- Furnishings – added requirement for blocking in both kitchen and bathrooms for fully accessible and adaptable units.
- Plumbing Piping – added that existing curb stops shall be examined for viability and inspection dates of maintenance shall be provided.
- Plumbing – added that water heaters shall have a minimum energy factor of 0.92 EF.
- HVAC System and Equipment – added furnace efficiency requirement of 90 AFUE.
- Fire Suppression – added that all sprinkler systems must be designed and approved by the appropriate fire marshal prior to construction closing.
- Electrical – added requirement for automatic openers (for ADA compliance) for community centers and public spaces.
- Lighting and Fixtures – added that ceiling fans shall be Energy Star Rated.
- Security and Surveillance systems were required and have the capability to be monitored by the police.

Page 54 (Rehabilitation Standards Checklist)

- Updated checklist to match requirements.

Page 63 (Energy Conservation Measures)

- Added attachment to be completed if achieving points in energy conservation category.

Page 65 (DSHA Green Certification)

- Added water-conserving features to be incorporated into the design and final work product and all interior paints and primers shall have low or no VOC levels.

Page 67 (DSHA Energy Certification)

- Added that energy star qualified heat pumps, furnaces, air conditioning and or ventilation equipment shall be sized accordingly.
- Added that water heaters shall have a minimum energy factor of 0.92 EF.

Page 86 (Integrated Special Needs Targeting Plan)

- Added veterans to special populations.

POINTS WORKSHEET

- Added Energy Conservation Measures categories and revised points available for Cost Efficiencies and Access to Transit. Total possible points are now 135.

2016 HOUSING DEVELOPMENT FUND SUPPLEMENT

Page 3 (Criteria for Selection)

- Added the use of State Strategy Levels areas.

Page 6 (Minimum Eligibility Requirements, 9% Tax Credit Properties)

- Added USDA requirements for properties seeking subordinate HDF or HOME funds.

Page 7-9 (4% Tax-Exempt Bond Properties with DSHA Financing)

- Revised minimum set-aside amount to \$6,000,000 of HDF funds.
- Added USDA requirements for properties seeking subordinate HDF or HOME funds.
- Added applicants must contact DSHA for rent comparable by 3/15/16.

Page 11-14 (Application Process for all applications)

- Application Fee – added that fees are due at the time of submission for each different DSHA funding source. Application fees have been revised to \$1,250 and may be financed as part of the development costs (with the exception of HOME fees).
- Commitment Fee – revised amount to 1.25% of greater total approved loan amount and that fee is due in full at construction loan closing. Fee may also be financed as part of the development costs and eligible basis.
- Permanent Loan Fee – added that where there is a fully amortizing or interest only permanent loan from DSHA sources, an additional permanent loan commitment fee of 1.25% of the amortizing/interest-only debt is due to DSHA. This fee may also be financed as part of the development costs and eligible basis.

- Initial Closing – revised time for initial closing to be scheduled within 60-90 days of the commitment letter.
- Note 1 – removed DSHA additional fee of \$1,000; added a non-financeable \$600 one-time, per unit fee for compliance monitoring; revised allocation/carryover fee to 1.50%; and added asset management fee on HDF units of \$250 per unit for performing asset management service for the LIHTC project.
- Note 4 – added stipulations for letters of credit.
- Note 5 – expanded definition of identity of interest relating to acquisition and revised developer fee for tax exempt projects, subsequent phases of a project, and contiguous properties.

Page 15-18 (Important HDF Administration Policies)

- Added \$500 waiver request fee for waivers from DSHA construction standards. Fee is due per waiver request submitted after award or during construction.
- Added \$500 redesign fee, per review.
- Bidding Protocol – revised General Requirements to 7% of construction hard costs and added that change orders may not increase the percentage of General Requirements or Overhead and Profit. Also added that failure to provide bids may result in the General Contractor being removed from DSHA’s approved contractor list, and added stipulation that related parties and/or identities of interest sub-contractor firms may not bid on the construction work or perform work on the development

Page 19 (Project and Neighborhood Standards)

- Added distressed areas as unacceptable for new creation units requesting HDF or HOME funds unless in a DDD Plan or Adaptive Re-Use.