VERMONT HOUSING FINANCE AGENCY

ALLOCATION PLAN FOR

FEDERAL LOW INCOME HOUSING TAX CREDITS

1987

I. Introduction

The Tax Reform Act of 1986 establishes a new low income housing tax credit as a replacement for previous tax incentives. The credit offers a reduction in tax liability to investors for the qualified **acquisition, rehab** or **new construction** of low income housing.

The tax credits may be taken only on the qualifying (low income) units in equal installments over a ten-year period. Projects must be placed in service for Federal tax purposes within specified deadlines. They must then comply with Federal regulations for a fifteen-year period. Only projects qualifying during the years 1987, 1988, and 1989 can receive the credit. The Federal legislation "sunsets" in 1989.

A limited amount of credit is assigned to each State. In Vermont, the credit amount equals $1.25 per capita or approximately $650,000 per year. The Agency of Development and Community Affairs has been designated by the Governor as the State Credit Agency. A credit policy committee will formulate credit allocation priorities. The Vermont Housing Finance Agency (VHFA) will issue the credit pursuant to the policy, and owners must apply to VHFA for their allocations.

A project **DOES NOT QUALIFY** if:

1) It is a nursing home, hospital, life care facility, retirement home or trailer park.

2) It is rented on a transient basis (leases of less than six months duration.)

3) You have purchased a building and are seeking the 4% acquisition credit but the seller did not own the property for at least ten years before selling it to you.

4) It is owner-occupied and less than 4 units.

<u>Low Income Housing Tax Credit is a complex area of Federal Tax Law subject to change as Treasury regulations are issued. Applicants for the credit should seek complete legal and accounting advice in determining the benefits of the credit program as it relates to their specific projects.</u>

II. The Value of the Credit

	Credit Amount
1. **New Construction and Substantial Rehabilitation of Existing Buildings**	**9%**
* Only on substantial rehabilitation or new construction, not on land or building acquisition costs.	
* Substantial rehabilitation means aggregate expenditures equal to or greater than $2,000/unit.	
2. **New Construction and Substantial Rehabilitation Financed by Federal Subsidy**	**4%**
* A federal subsidy is defined below, includes FmHA 515, CDBG, and tax-exempt bond loans. No credit may be taken on costs financed by grants.	
3. **Acquisition Cost of Housing**	**4%**
* Includes rehabilitations of less than $2,000/unit.	
* Projects must not have been previously placed in service (not transferred or sold) within the past 10 years (may be waived only for troubled federally assisted projects).	

See Page 5 for Three Examples of How the Credit Works

The 4% and the 9% credits are intended to yield 30% and 70%, respectively, of the present value of the qualifying units over the ten-year credit period. In 1988 and 1989 the percentage rates will be changed monthly by the U.S. Treasury to reflect changing discount rates but the purpose will be the same: to yield the above present values.

III. Federal Requirements

Project Eligibility

The owner must irrevocably elect to reserve a minimum of either 20% of the project units for occupancy by households below 50% of the Area Median Income, or 40% of the units for occupancy by households below 60% of the Area Median Income. Note that the income limits are adjusted by household size and that the Area Median Incomes are subject to change by federal notice from time-to-time. (Table I, attached to the Credit Application, gives the income limits for each income area in Vermont as of February 1987.)

Compliance Period

To receive the credit, projects must comply with federal requirements for a 15-year period beginning when the building is placed in service. A portion of the credit is "recaptured" by the IRS with interest if non-compliance occurs during that time. Tenant incomes must be re-examined annually by the project owner. Tenant incomes can increase up to 40% over the current income limit with the unit still qualifying. If the increase is above 40%, then the project may still remain in compliance if the next vacant unit of equal or smaller size is rented to a new, income-qualified tenant.

Placed In Service Requirement

All projects must be placed in service in the year the credit has been allocated. 1987 credits, for example, cannot be used for projects which are placed in service in 1988 or 1989. Unused credits from any year may not be carried forward.

Start of Compliance Period

Notwithstanding the above, sponsors of acquisition and substantial rehabilitation projects have 12 and 24 month grace periods, respectively, from the project's placed in service date to achieve elected low-income tenant ratios (20% of units @ 50% of median income, 40% @ 60%, etc.). The 15-year compliance period (and taking of credits) must begin at the end of the grace periods.

Rent Caps

Rents on the low-income units cannot exceed 30% of the maximum income for each household size. Where tenants pay their own utilities a utility allowance must be deducted from that figure. Table II of the Credit Application shows what the maximum net rents are in each income area of the state. Note that a utility allowance must be deducted from these rents if the owner does not include utilities in the rent. Utility allowance figures may be obtained from the Vermont State Housing Authority (Table II) or, in some jurisdictions, the local Public Housing Authority.

Federal Subsidies Defined

A federal subsidy is an obligation or loan of federal funds provided directly by a federal agency or indirectly by a local or state governmental unit where the interest rate on the loan or obligation is less than the "applicable federal rate" as published periodically by the U.S. Treasury. Tax-exempt bond proceeds are considered to be federal subsidies regardless of the interest rate. A grant of federal funds where there is no obligation to repay is treated differently. Tax credits cannot be obtained for those project costs financed by a federal grant.

Annual Set-Aside

A minimum of 10% of each year's state allocation must be set-aside for use by non-profit housing sponsors.

Pending Treasury Regulations

The U.S. Treasury will issue regulations regarding many aspects of the Low Income Housing Tax Credit in the coming months. Until these are published, no credit can be awarded unconditionally.

IV. State Policy Priorities

A. Every attempt will be made to fully utilize each year's state allocation. Initally, it is anticipated that the supply of credit may outweigh the demand for it. However, as more housing sponsors become familiar with the program, the demand may exceed the supply. In order to address that situation the following priorities will govern:

1) Acquisition and Rehabilitation of existing, Federally subsidized projects, where a binding agreement insures affordability at least through the remainder of the subsidy commitment. Examples include FmHA 515, Section 8, Section 23 and Section 236 housing as well as projects insured through FHA.

2) Any project offering permanent affordability.

Berezin 3) Projects combining other housing resources.

4) Acquisition and rehabilitation projects by ~~for~~ NON-profits.

5) Acquisition by non-profits.

6) Acquisition and rehabilitation projects by for-profits.

7) Acquisition by for-profits.

B. During 1987 '87 credit, applications which address any of priorities 1 through 6 will be considered on a first-come first-serve basis until at least 50% of the credit has been reserved. Thereafter reservations will be based upon the above priorities. No reservation of credit will be made for projects addressing priority #7 until after August 1 of each year.

C. A reservation of credit to any applicant may be withdrawn by the issuer after October 1, of any credit year if it appears that the applicant will not be able to use the credit in the applicable credit year.

D. In order to assure the maximum use of credit in Vermont, forward commitments of credit will be made in the following circumstances:

1) A forward commitment of credit from any credit year will be made with respect to applicants who qualify under priority #1 above.

2) A forward commitment of credit will be made from the succeeding year's allocation to applicants who propose new construction projects that will be placed in service no later than June 1st of the succeeding year.

V. The Credit Award Process

Credit will be awarded using the following procedures:

A. Application

Application materials will be provided by the Vermont Housing Finance Agency. Completed applications must be filed with that Agency. The application will be reviewed, and the Agency will inform the applicant within 30 days as to whether the credit request complies with federal and state requirements.

An application fee in the amount of 4% of the annual credit requested by the applicant is due at the time of filing. One-half of this fee will be remitted to the applicant provided that the project is "placed-in-service" in the applicable credit year. For non-profit sponsors a filing fee of $200 will be charged with an additional fee of 2% of the annual credit (less the filing fee) due when the credit is awarded.

In cases where credit is awarded prior to the completion of rehabilitation work, VHFA may require an earnest money deposit of $500 per low income unit refundable as each unit is occupied by income-eligible tenants.

B. Reservation

A formal reservation of credit will be made in the name of the applicant when the project is ready to proceed. In the case of new construction and substantial rehabilitation projects this will occur when all necessary permits have been awarded and the construction begins. Where acquisition only is involved, the reservation stage may be waived at the discretion of the Agency.

C. Award

Consistent with federal law and state priorities, tax credits will be awarded when the project is placed in service.

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THE VALUE OF THE CREDIT/EXAMPLES

To determine the Low Income Housing Tax Credit, the project's eligible, or adjusted, basis must be calculated. (As a general rule, the eligible basis will equal the total project cost less land cost, less any depreciation already claimed.) Once the **eligible** basis is known, the **qualified** basis can be determined.

The qualified basis is the eligible basis times a fraction which is the lesser of:

1) the total number of low income units divided by the total number of units, or

2) the total low income floor space divided by the total residential floor space.

This is the applicable fraction. Where all units are occupied by income-eligible tenants the applicable fraction is 100%. Where the low income units are a percentage of the total units, the applicable fraction will be less than 100%.

Once the qualified basis is determined, it is multiplied by the appropriate credit percentage (for 1987, either 4% or 9%) to determine the annual credit amount.

EXAMPLE I.

A building is purchased for $120,000 from a seller who has owned it for at least ten years. The new owner does $200,000 of rehabilitation work using bank financing. There are 10 units in the building, all of which will be rented to income qualifying tenants at qualifying rents throughout the compliance period. The eligible basis of the acquisition portion qualifies for the 4% credit and the rehabilitation portion qualifies for the 9% credit as follows:

4% Credit		9% Credit	
Acquisition	120,000	Rehabilitation	200,000
Less Land	(20,000)	Less Land	-0-
= Eligible Basis	100,000	= Eligible Basis	200,000
Times Applicable Fraction	100%	Times Applicable Fraction	100%
= Qualified Basis	100,000	= Qualified Basis	200,000
Times Credit	4%	Times Credit	9%
Annual Credit	4,000	Annual Credit	18,000

TOTAL ANNUAL CREDIT	$ 22,000
TOTAL 10 YEAR CREDIT	$220,000

EXAMPLE II.

Same as above but only the minimum 20% of the units are set-aside for occupancy by qualifying tenants.

4% Credit		9% Credit	
Acquisition	120,000	Rehabilitation	200,000
Less Land	(20,000)	Less Land	-0-
= Eligible Basis	100,000	= Eligible Basis	200,000
Times Applicable Fraction	20%	Times Applicable Fraction	20%
= Qualified Basis	20,000	= Qualified Basis	40,000
Times Credit	4%	Times Credit	9%
Annual Credit	800	Annual Credit	3,600

TOTAL ANNUAL CREDIT	$ 4,400
TOTAL 10 YEAR CREDIT	$44,000

EXAMPLE III.

Same as Example I but the rehabilitation financing is a 50-50 blend of bank and "Federal Subsidy" financing. Where there is mixed financing the owner may elect to:

a) subtract the subsidized portion from the eligible basis and take the 9% credit, or

b) keep the subsidized portion in the eligible basis and take the 4% credit.

IIIa

4% Credit	
Acquisition	120,000
Less Land	(20,000)
= Eligible Basis	100,000
Times Applicable Fraction	100%
= Qualified Basis	100,000
Times Credit	4%
Annual Credit	4,000

9% Credit	
Rehabilitation	200,000
Less Subsidy	100,000
= Eligible Basis	100,000
Times Applicable Fraction	100%
= Qualified Basis	100,000
Times Credit	9%
Annual Credit	9,000

TOTAL ANNUAL CREDIT $ 13,000
TOTAL 10 YEAR CREDIT $130,000

IIIb

4% Credit Only	
Acquisition	120,000
Rehabilitation	200,000
Less Land	20,000
= Eligible Basis	300,000
Times Applicable Fraction	100%
=Qualified Basis	300,000
Times Credit	4%

TOTAL ANNUAL CREDIT $ 12,000
TOTAL 10 YEAR CREDIT $120,000

(Where the subsidized portion exceeds 55% of the cost of new construction or substantial rehabilitation, a greater credit will be obtained by counting the subsidized portion in the eligible basis.)

VERMONT HOUSING FINANCE AGENCY
Low Income Housing Tax Credit
Application
1987

I. General Information

A. Sponsor

Name of Sponsoring Entity: ____________________

Mailing Address: ____________________
____
____
____

Federal Tax I.D. #: ____________________

Tax Status (Check one):
Non-profit Corp. ___ For-Profit ___
Gen. Partnership ___ Ltd. Partnership ___
Individual ___ Other ___ (Explain)

Contact Person: ____________________
Telephone No. ( ) ____________________
Mailing Address: ____________________
____
____

NON-PROFITS: DESCRIBE HOW YOU'LL MATERIALLY PARTICIPATE IN THE PROJECT:
____
____

Applicants Accountant: ____________________
Telephone No. ( ) ____________________

B. Project Information

Project Name: ____________________

Street Address: ____________________ Municipality: ____________________
____________________ County: ____________________

Number of Rental Buildings: ________

*(Note that scattered sites require separate applications for tax credits)

Total Number of Units: ________ Number of Low Income Units: ________

Income Limit (check one):

50% of Area Median Income ______ 60% of Area Median Income ______

Compliance Period: 15 years ______ Longer (give number) ______

C. Credit Amount/Date:

Annual Credit Amount Claimed $________

Month and year project will be placed in Service ________/________

II. CREDIT COMPUTATION INFORMATION

A. Total Cost

1. Acquisition ______________

    Appraisal ______________

    Purchase Price ______________

    Transaction Costs ______________

    Renovations (less than $2,000/unit) ______________

    Assessments ______________

    TOTAL ACQUISITION ______________

Date when building(s) were last placed in service ______/______
Month Year

2. Construction/Substantial Rehabilitation

    Residential ______________

    Commercial ______________

    Common Areas ______________

    Site Work ______________

    Demolition ______________

    Personal Property ______________

    Other ______________

    TOTAL CONSTRUCTION ______________

3. Fees

    Design Engineering ______________

    Legal ______________

    Permit ______________

    Other ______________

    TOTAL FEE ______________

4. Financing

    Construction Loan Interest ______________

    Construction Loan Fee ______________

    Permanent Loan Fee ______________

    Taxes ______________

    Insurance ______________

    Other ______________

    TOTAL FINANCING ______________

TOTAL COST ______________

B. Eligible Basis

Costs not chargeable to Capital Account:

Land ______________

Other (specify) ______________

Other (specify) ______________

Other (specify) ______________

Other (specify) ______________

SUB TOTAL ______________

TOTAL COST ______________

SUB TOTAL ______________

ELIGIBLE BASIS ______________

(Total cost minus subtotal)

C. Applicable Fraction

Total Units ______________

Low Income Units ______________

Unit Fraction ______________ %

Total Residential Space ______________

Low Income Space ______________

Floor Space Fraction ______________ %

APPLICABLE (smaller) FRACTION ______________

D. Qualified Basis

Eligible Basis ______________

Applicable Fraction X ______________ %

QUALIFIED BASIS ______________

E. Credit Computation

Allocate eligible basis as follows:

	Acquisition	**Fed. Subsidized Construction**	**Construction**	**Rate**	**Term**
Equity				N/A	N/A
Debt 1					
Debt 2					
Debt 3					
Debt 4					
TOTALS					

	x 4%	x 4%	x 9%
Annual Credit	______________	______________	______________

TOTAL ANNUAL CREDIT ______________

III. CERTIFICATION

I hereby certify that the above information is correct. The information provided with this application is for instructional and guidance purposes only, and I have not relied on any information provided to me by VHFA in the determination of the requested credit amount. I understand that this application will be subject to all revisions and regulations adopted by the U.S. Treasury, and I waive any claim against VHFA in connection with the amount of credit awarded if such revisions or regulations affect the amount of credit issued to me. I represent that I am authorized to execute this application on behalf of the owner or proposed owner of the building(s) for which the Low Income Housing Tax Credit is being requested. I acknowledge that in the event the issuer allocates an amount of credit in excess of the authorized amount, credits will be reduced to the amount of such excess in the reverse of the order in which the allocations of such amounts were made.

__________________________________ (Signed)

____________________________ Date

TABLE I ------- EFFECTIVE: Jan 16, 1987

LOW INCOME HOUSING TAX CREDIT
*********INCOME LIMITS*******

(Pending Final Treasury Regulations)
ADJUSTED BY FAMILY SIZE

COUNTY AND MEDIAN	PERCENT OF MEDIAN	1PERS.	2 PERS.	3 PERS.	4 PERS.	5 PERS.	6 PERS.	7 PERS.	8 PERS.
ADDISON	50%	8,850	10,100	11,400	12,650	13,650	14,650	15,700	16,700
25,300	60%	10,626	12,144	13,662	15,180	16,394	17,609	18,823	20,038
BENNINGTON	50%	9,250	10,550	11,900	13,200	14,250	15,300	16,350	17,400
26,400	60%	11,088	12,672	14,256	15,840	17,107	18,374	19,642	20,909
BURL msa**	50%	11,500	13,100	14,750	16,400	17,700	19,000	20,350	21,650
32,800	60%	13,776	15,744	17,712	19,680	21,254	22,829	24,403	25,978
CALEDONIA	50%	8,350	9,500	10,700	11,900	12,850	13,800	14,750	15,700
23,800	60%	9,996	11,424	12,852	14,280	15,422	16,565	17,707	18,850
CHITTENDEN	50%	10,900	12,500	14,050	15,600	16,850	18,100	19,350	20,600
31,200	60%	13,104	14,976	16,848	18,720	20,218	21,715	23,213	24,710
ESSEX	50%	7,850	8,950	10,100	11,200	12,100	13,000	13,900	14,800
22,400	60%	9,408	10,752	12,096	13,440	14,515	15,590	16,666	17,741
FRANKLIN	50%	8,650	9,800	11,100	12,350	13,350	14,350	15,300	16,300
24,700	60%	10,374	11,856	13,338	14,820	16,006	17,191	18,377	19,562
GRAND IS.	50%	8,000	9,100	10,250	11,400	12,300	13,200	14,150	15,050
22,800	60%	9,576	10,944	12,312	13,680	14,774	15,869	16,963	18,058
LAMOILLE	50%	8,650	9,900	11,100	12,350	13,350	14,350	15,300	16,300
24,700	60%	10,374	11,856	13,338	14,820	16,006	17,191	18,377	19,562
ORANGE	50%	8,000	9,150	10,300	11,450	12,350	13,300	14,200	15,100
22,200	60%	9,324	10,656	11,988	13,320	14,386	15,451	16,517	17,582
ORLEANS	50%	7,850	8,950	10,100	11,200	12,100	13,000	13,900	14,800
22,400	60%	9,408	10,752	12,096	13,440	14,515	15,590	16,666	17,741
RUTLAND	50%	9,350	10,700	12,000	13,350	14,400	15,500	16,550	17,600
26,700	60%	11,214	12,816	14,418	16,020	17,302	18,583	19,865	21,146
WASHINGTON	50%	9,050	10,350	11,650	12,950	14,000	15,000	16,050	17,100
25,900	60%	10,878	12,432	13,986	15,540	16,783	18,026	19,270	20,513
WINDHAM	50%	9,050	10,300	11,600	12,900	13,950	14,950	16,000	17,050
25,800	60%	10,836	12,384	13,932	15,480	16,718	17,957	19,195	20,434
WINDSOR	50%	9,750	11,150	12,550	13,950	15,050	16,200	17,300	18,400
27,900	60%	11,718	13,392	15,066	16,740	18,079	19,418	20,758	22,097

TABLE II. TAX CREDIT RENT LIMITS BY COUNTY

(Rent is 30% of monthly income where the tenant's income, adjusted for household size, is 50% and 60% of Area Median Income, respectively.)

THESE RENTS ARE PRELIMINARY...TREASURY APPROVAL PENDING.

COUNTY & MEDIAN		FAMILY SIZE 1 PERS.	2 PERS.	3 PERS.	4 PERS.	5 PERS.	6 PERS.	7 PERS.
ADDISON								
	Rent/50%	201	230	259	288	305	323	341
	Rent/60%	242	276	311	345	367	388	410
BENNINGTON								
	Rent/50%	210	240	270	300	319	338	356
	Rent/60%	252	288	324	360	383	405	428
BURL msa								
	Rent/50%	262	299	336	374	397	420	444
	Rent/60%	314	359	404	449	477	505	533
CALEDONIA								
	Rent/50%	190	217	244	271	288	305	322
	Rent/60%	228	260	293	326	346	366	387
CHITTENDEN								
	Rent/50%	249	284	320	355	377	399	422
	Rent/60%	298	341	383	426	453	479	506
ESSEX								
	Rent/50%	179	204	230	255	271	287	303
	Rent/60%	214	245	275	306	325	344	363
FRANKLIN								
	Rent/50%	197	225	253	281	299	316	334
	Rent/60%	236	270	304	338	359	380	401
GRAND IS.								
	Rent/50%	182	208	234	260	276	293	309
	Rent/60%	218	250	281	312	332	351	371
LAMOILLE								
	Rent/50%	197	225	253	281	299	316	334
	Rent/60%	236	270	304	338	359	380	401
ORANGE								
	Rent/50%	177	202	227	253	268	284	300
	Rent/60%	212	242	273	303	322	341	360
RUTLAND								
	Rent/50%	213	243	273	304	323	342	361
	Rent/60%	255	292	328	365	387	410	433
ORLEANS								
	Rent/50%	179	204	230	255	271	287	303
	Rent/60%	214	245	275	306	325	344	363
WASHINGTON								
	Rent/50%	207	236	266	295	313	332	350
	Rent/60%	248	283	319	354	376	398	420
WINDHAM								
	Rent/50%	206	235	264	294	312	330	349
	Rent/60%	247	282	317	353	375	397	419
WINDSOR								
	Rent/50%	222	254	286	318	337	357	377
	Rent/60%	267	305	343	381	405	429	452

TABLE III

UNIT TYPE: Area I - MULTI-FAMILY LOCALITY: Addison, Bennington, Chittenden, Rutland, Franklin, Grand Isle & Windham DATE: 05/01/87

UTILITY OR SERVICE	0-BR	1-BR	2-BR	3-BR	4-BR	5-BR
HEATING:						
a. Natural Gas	31	41	50	61	76	85
b. Bottle Gas	39	47	60	71	88	101
c. Oil	24	33	42	51	66	74
d. Electric	41	58	92	123	135	151
e. Wood	21	29	37	45	58	72
COOKING:						
a. Natural Gas	6	7	8	9	11	12
b. Electric	2	3	4	5	6	7
c. Bottle Gas	4	6	7	10	11	13
OTHER ELECTRIC LIGHTING, REFRIGERATION, ETC.	12	13	19	23	25	29
WATER HEATING:						
a. Natural Gas	11	13	16	19	23	25
b. Electric	7	10	15	21	30	36
c. Bottle Gas	11	14	18	22	28	32
d. Oil	7	8	11	13	17	20
WATER/SEWER						
OTHER	---	---	---	---	---	[illegible]
	---	---	---	---	---	[illegible]
TRASH COLLECTION	12	12	12	12	12	12

UNIT TYPE: Area II - MULTI FAMILY LOCALITY: Caledonia, Essex, Lamoille, Orange, Orleans, Washington & Windsor DATE: 05/01/87

UTILITY OR SERVICE	0-BR	1-BR	2-BR	3-BR	4-BR	5-BR
HEATING:						
a. Natural Gas	33	44	53	65	81	91
b. Bottle Gas	40	52	62	77	94	108
c. Oil	26	36	45	55	71	80
d. Electric	45	63	100	131	148	164
e. Wood	23	32	39	49	63	78
COOKING:						
a. Natural Gas	6	7	8	9	11	12
b. Electric	2	3	4	5	6	7
c. Bottle Gas	4	6	7	10	11	13
OTHER ELECTRIC LIGHTING, REFRIGERATION, ETC.	12	13	19	23	25	29
WATER HEATING:						
a. Natural Gas	11	13	16	19	23	25
b. Electric	7	10	15	21	30	36
c. Bottle Gas	11	14	18	21	28	31
d. Oil	7	8	11	13	17	20
WATER/SEWER						
OTHER	---	---	---	---	---	---
	---	---	---	---	---	---
TRASH COLLECTION	8	8	8	8	8	8
TOTAL						