

The State of Vermont's Low Income Housing Tax Credit Allocation Plan for 1995 has been developed by the Agency of Development and Community Affairs in accordance with the Federal Internal Revenue Code (IRC of 1986 Section 42, as amended) and rules adopted by the State of Vermont on May 16, 1990. This Allocation Plan shall remain in effect until amended by the Governor of the State of Vermont as may be necessitated by changes in federal law or changes in the State's housing market.

Approved by: 

Howard Dean, M.D., Governor

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1995 ALLOCATION PLAN
FEDERAL LOW INCOME HOUSING TAX CREDIT PROGRAM
STATE OF VERMONT

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FEDERAL LOW INCOME HOUSING TAX CREDIT PROGRAM

INTRODUCTION

The purpose of this Allocation Plan is to set forth the process and criteria under which specific housing developments will be selected to receive federal tax credits that have been returned from allocations made in 1993 or 1994, or that otherwise may become available in 1995. In accordance with the requirements of the Omnibus Budget Reconciliation Act of 1989, this Allocation Plan describes the application and allocation decision-making process. Priorities are set by the requirements of the law, and by the rental housing needs of Vermont, as determined by the Agency of Development and Community Affairs (DCA) and the Joint Committee on Tax Credits (Joint Committee). The rental housing needs of Vermont have been assessed and are highlighted in the attached Housing Needs Statement.

DCA was designated the State Housing Credit Agency by then Governor Kunin in March, 1987. DCA has sole responsibility and authority for the Low Income Housing Tax Credit Program's policies including the development of the state's Allocation Plan, which is approved and signed by the Governor. In furtherance of this responsibility, DCA has promulgated rules entitled "Federal Tax Credits for Low Income Housing; State Allocation System, Joint Committee on Tax Credits."¹

DCA works in partnership with the Vermont Housing Finance Agency (VHFA, or the Agency) and the Joint Committee on Tax Credits to administer this program. VHFA is under contract with DCA to allocate credits to specific projects in accordance with this Allocation Plan.² Under the rules cited above, an advisory Joint Committee on Tax Credits has been established to review and adopt allocation policies, and review VHFA's performance.

The Joint Committee is comprised of the Commissioner of Housing and Community Affairs or his or her designee, the Executive Director of the VHFA or his or her designee, the Executive Director of the State Housing Authority or his or

¹ The original rules were adopted in May 1987, and substantially amended in June 1990.

² A Memorandum of Understanding between DCA and VHFA was signed April 17, 1987.

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her designee, the Director of Planning, Office of Policy Research and Coordination, and one additional member representing housing interests appointed by the Secretary of DCA.

HISTORY

The original LIHTC program was established by Congress as part of the Tax Reform Act of 1986. It offered a ten year federal income tax credit to owners of rental housing who made certain percentages of their rental housing available for occupancy by low-income residents for at least 15 years. This incentive for the development, acquisition and rehabilitation of low-income housing allowed owners, developers, and/or investors to reduce their federal tax liability in exchange for the provision of eligible low-income rental housing.

NEW LAW

The LIHTC program was originally set to expire on December 31, 1989, but was extended for one year by Congress as part of the Omnibus Budget Reconciliation Act of 1989, extended again for one year by the 1990 Budget Reconciliation Act, and extended until June 30, 1992 by Congress in December 1991. On August 10, 1993, the LIHTC was permanently extended with the enactment of the Omnibus Budget Reconciliation Act of 1993.

SUMMARY OF ALLOCATION PLAN REQUIREMENTS

The 1989 and 1990 laws made numerous changes to the LIHTC program, including the requirement to create a "qualified allocation plan." The State's Allocation Plan must set forth selection criteria that include:

- a. project location
- b. housing needs characteristics
- c. project characteristics
- d. sponsor characteristics
- e. participation of local tax-exempt organizations
- f. tenant populations with special housing needs, and
- g. public housing waiting lists.

In addition, the states must give preference among selected projects to those serving the lowest income tenants and to those serving qualified tenants (those persons at or below the maximum income limits set by law) for the longest period.

States may include such other criteria as they deem appropriate, and, except for the specified preference items, there are no requirements as to the relative weight of the various factors. As part of the review for each selected project, the chief executive officer of the particular local jurisdiction within which the project is located is to be provided "a reasonable opportunity" to comment on the proposed allocation.

Additional VHFA LIHTC responsibilities mandated by Congress include:

1. Assurance that the amount of tax credits allocated does not exceed the amount "necessary for the financial feasibility of the project and its viability as a qualified low-income housing project throughout the credit period."
2. Evaluation of all projects for consistency with the Allocation Plan and for credit need, including situations when the project is financed using tax exempt bonds.
3. Agreement to "an extended low-income housing commitment" for every project. This agreement must be recorded as a restrictive covenant binding all successor owners, and must allow low-income individuals the right to enforce the commitment in state court (See Compliance section). The commitment must require continued low-income occupancy for all tax credit units for at least an additional 15 years beyond the initial 15 year compliance period. However, the law provides owners an alternative to the 30 year compliance period by offering the property for sale, after the 14th year, to or through the Housing Credit Agency (i.e., DCA or its assignee) at a below-market price using a formula set forth in the law.
4. Monitoring of compliance with the provisions of Section 42 and notifying the Internal Revenue Service of any noncompliance of which the Agency becomes aware.

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APPLICATION PROCESS

Application forms can be obtained from VHFA, and submitted at any time. Unless a different application schedule is published, applications will be considered if received at least forty-five days prior to a Joint Committee meeting. The Joint Committee will meet approximately every other month. All completed and still active applications received at least forty-five days prior to a Joint Committee meeting, plus any completed applications deferred by VHFA from a previous cycle, will be considered for the cumulative amount of tax credits to be allocated or reserved by that time period. Applicants are encouraged to submit their LIHTC applications as early in the calendar year as possible.

If credits sought by any one application total 25 percent or more of the total per capita tax credit cap (\$1.25 per Vermont resident - \$720,000 in 1994) then the application can, at the discretion of VHFA and the Joint Committee, be held over to a competitive round. If more than 65 percent of the total credits to be awarded during the year (annual per capita cap plus returned credits) are allocated before June 30 of that year, then the remaining credits will no longer be awarded on a first-come first-serve basis: Instead projects will be compared against one another in distinct competitive rounds and credits awarded based on the priorities set forth in this Allocation Plan. If it is determined that the remaining credits will be distributed through competitive rounds, then the number and timing of any competitive rounds will be published. Notwithstanding the above, credits remaining after October 31 of any year may be awarded on a first-come, first-served basis.

By law, a minimum of 10% of Vermont's annual credit ceiling must be reserved for developments sponsored by nonprofit organizations that own an interest in the project (directly or through a partnership) and materially participate in the development and operation of the project throughout the compliance period.

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1. APPLICATION REQUIREMENTS

VHFA is required by the law to assure that each project that receives a tax credit allocation substantiates its viability and need for tax credits. An application must meet the following basic qualifications:

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- a. The development must meet the basic occupancy and rent restrictions of the law;
- b. The applicant must establish the need and demand (i.e., market feasibility) for the type and cost of housing that is being proposed;
- c. Detailed development cost projections and expected sources and terms of financing must be provided;
- d. Detailed income and expense projections must be provided for the full term of the rental commitment (i.e., 30 years); and
- e. The VHFA LIHTC Application Form must be complete, including payment of required fees.

Detailed project financial documentation must be submitted at various stages of the tax credit approval process, in support of VHFA's responsibilities under the law. Certifications regarding projected or actual costs and sources of funds are required at the time the carry-over allocation is approved and at the time the final tax credit allocation (IRS Form 8609) is requested.

2. GENERAL EVALUATION CRITERIA

a. Primary Evaluation Criteria

The following two criteria apply to all projects that meet the Application Requirements, and constitute the primary evaluation criteria:

- i. Preference must be given among selected projects to proposals serving the lowest income tenants. The State of Vermont's Comprehensive Housing Affordability Strategy includes a general priority for housing that serves those at or below 30 percent of area median income.
- ii. Preference must be given among selected projects to proposals serving qualified tenants for the longest period.

b. Secondary Evaluation Criteria

The following items shall constitute the secondary guidelines, the implementation of which must be consistent with the primary guidelines cited above.

- i. Allocations will be based upon the experience and capacity of the project team.
- ii. There will be no particular priority locations within Vermont; however, applicants will be asked to provide evidence of the market demand for the proposed LIHTC units. This policy decision is based on the attached Housing Needs Assessment, compiled by VHFA in 1990 to comply with the requirements of the law. VHFA will consider the quantity of publicly supported housing already present in the area, and give priority to those areas which have a higher need. VHFA will also consider the impact of a proposed project on existing housing in the area.

c. Minimum Set-Aside

A minimum of 10% of Vermont's annual credit ceiling must be reserved for developments sponsored by nonprofit organizations that own an interest in the project (directly or through a partnership) and materially participate in the development and operation of the project throughout the compliance period. This 10% minimum set-aside is required by law.

3. THRESHOLD REQUIREMENTS

All applications must meet the following threshold requirements:

- a. Credits allowed. Credits allocated to a project shall not exceed the amount the housing credit agency determines is necessary for the financial feasibility of the project and its viability as a qualified low-income housing project throughout the credit period. In making this determination, the housing credit agency shall consider:
 - i the sources and uses of funds and the degree of certainty of the total financing planned for the project;

- ii any proceeds or receipts expected to be generated by reason of tax benefits;
- iii. the percentage of the housing credit dollar amount used for project costs other than the cost of intermediaries; and
- iv. the reasonableness of the developmental and operational costs of the project.

VHFA reserves the right, as permitted by Section 42 of the Internal Revenue Code, to issue less than the maximum credit allocation otherwise supportable by the project's eligible basis.

- b. Cost Guidelines. VHFA encourages development at the lowest reasonable cost and will review development costs for reasonableness. Generally, per unit costs in excess of the following guidelines will be considered excessive:

<u>Unit Cost Limits</u>	
0 Bedroom	\$73,380
1 Bedroom	\$78,380
2 Bedroom	\$83,380
3 Bedroom	\$88,380
4 or more Bdrms	\$93,380

Certain costs will be excluded in applying these cost limits. Such exclusions will include: 1) costs of tenant relocation; and 2) capitalization of cash accounts that will remain an asset of the project, such as deficit escrow and operating subsidy accounts.

Project-specific exceptions may be made on a case-by-case basis for projects that do not meet these per unit cost guidelines as a result of extraordinary situations, e.g. community spaces and extraordinary environmental site-cleanup costs.

- c. Developer's Fee. The amount of the fee shall be agreed upon by the developer and the allocating agency prior to the issuance of the initial tax credit Reservation Certificate. Once this fee has been agreed upon the allocating agency will not recognize any increases in the fee, whether total development costs increase or decrease, in any carryover allocation or final

allocation of credits, except as described below. In the event of a substantial change in the project, such as an increase or decrease in the total number of units in the project, the allocating agency may permit an increase in the fee or require a decrease.

The total developer's fee shall not exceed 15% of the total development cost (excluding the fee itself and excluding cash accounts) when the total development cost is less than or equal to \$1.5 million. For projects in which the total development cost exceeds \$1.5 million, the total developer's fee shall not exceed 13% of the total development cost (excluding the fee itself and excluding cash accounts) for the portion of the development cost in excess of \$1.5 million when the project is getting net syndication proceeds of up to \$.50 per tax credit dollar. "Net syndication proceeds" shall mean Gross Syndication Proceeds less certain costs of syndication (including syndication and brokerage fees paid to third parties) as determined by the Agency. In the event that the developer is able to secure a greater net syndication yield and the project can support additional developer's fee, the developer's fee may increase by up to 65 percent (\$.65 on \$1.00) of the **additional** net syndication proceeds, up to a total developer's fee of no more than 15% of total development cost (excluding the fee itself and excluding cash accounts). This basic threshold net yield of \$.50/tax credit dollar may be revised from time to time by VHFA staff as market forces require. VHFA may consider exceptions to the 15% developer's fee limit on a case-by-case basis for extraordinary circumstances.

- d. **Consultant Fees.** The Developer's Fee limit also includes any consultant fees ("Consultant Fee(s)") associated with the project. "Consultant Fee(s)" are defined as any fee(s) paid by the developer to a third party for services that a developer generally would be expected to perform, such as preparing applications for financing, obtaining local permits and approvals, and project oversight functions.

Consultant Fees do not include the fees paid to independent third party professionals for specific development-related services, such as architectural, engineering, appraisal, construction supervision, and environmental testing or assessment.

VHFA shall make the final determination of which fees in a specific project shall be considered Consultant Fees.

- e. Builder's Profit, Overhead, and General Requirements. The following limits shall apply when there is an identity of interest between the developer and the contractor: builder's profit - 6%; builder's overhead - 2%; general requirements - 6%. These limits will also apply for projects where the builder is selected by the developer without competitive bidding. These limits will not apply to projects that are competitively bid, whether through open public bidding or selective bidding; this bid process will determine the amount of builder's profit, builder's overhead, and general requirements. The developer must make best efforts to obtain at least three competitive bids; documentation of the bid process must be provided. For Farmers Home 515 projects, the limits will be the amounts approved for each project under the Farmers Home cost containment guidelines.

4. PRIORITY SCHEDULE

Projects that meet the Application Requirements, General Evaluation Criteria, and the Threshold Requirements shall be ranked in the following order of priority.

- a. Acquisition and rehabilitation of existing federally subsidized projects, where the preservation of a project's existing affordability is at risk. Examples include but are not limited to Farmers Home 515, Section 8, Section 23, Section 236, and Section 221(d)3. Elements to be considered include:
- marketability
 - length of subsidy contract
 - prepayment potential
 - current ownership
 - nature of financing
 - condition of project
- b. Any project that serves special needs populations, including those needing single room occupancy housing (SRO's), the mentally disadvantaged, the physically challenged, or families currently on public housing (State or local) waiting lists; that provides services supported housing; or that provides for resident involvement in project or sponsor management.
- c. Any project that includes a satisfactory mechanism for affordability beyond year 31, the extended qualifying period.

- d. Projects that are planned to maintain the historic settlement pattern of compact village and urban centers separated by rural countryside or that are located in growth centers designated on regional plans or on local plans that have been approved by a regional planning commission.

The following priorities will also be considered:

- a. Any project that secures a relatively high net syndication yield per tax credit dollar.
- b. Any project that effectively combines resources to enhance the affordability of a project including but not limited to federal, state, local, foundation or private resources.
- c. Mixed income developments.

5. CARRYOVER AND VHFA REVISION OR REVOCATION OF RESERVATION CERTIFICATES

VHFA is authorized to issue carryover allocations to certain projects that will not be placed in service by the end of year in which a reservation is issued, so long as a minimum of 10% of the reasonably expected basis (depreciable basis plus land) has been expended by the end of that year. The owner must certify, in a form acceptable to VHFA, 10% of costs prior to the issuance of carryover allocation.

With regard to Reservation Certificates, VHFA shall retain authority to revise or retract the Certificate at any time if it is judged infeasible for the developer to meet any of the conditions set forth in the Certificate, or if financial information provided by the applicant indicates, in the opinion of VHFA, that a lesser or greater amount of tax credit allocation is needed for project feasibility.

6. FINAL TAX CREDIT ALLOCATION COST CERTIFICATION

VHFA requires final cost certifications for all projects prior to issuance of IRS form 8609 based on the following guidelines:

1. For projects of fewer than 25 units, final cost certifications prepared by the owner will be accepted.

2. For projects of 25 units or more, the final cost certification must be prepared by an independent CPA. If this is not possible prior to the end of the calendar year in which the last building is placed in service, VHFA will issue the IRS form 8609 on the basis of an owner's final cost certification and supporting documentation, but requires the CPA cost certification to be submitted as soon thereafter as possible.

VHFA recommends CPA prepared cost certifications for all projects.

7. RETURN OF PREVIOUSLY ALLOCATED TAX CREDITS

VHFA may re-issue tax credits allocated to projects that have not utilized the tax credit. Returned tax credits will be reused in accordance with this Allocation Plan.

8. COMPLIANCE

The Budget Reconciliation Act of 1990 adopted by Congress amended Section 42 of the IRS Code to require that state tax credit agencies provide a procedure for monitoring developments for compliance with the requirements of the law, and for notifying the IRS of any non-compliance it discovers.

In order to implement this responsibility, all LIHTC recipients will be required to execute and record a LIHTC Housing Subsidy Covenant (the Covenant). The Covenant must be approved by VHFA. The Covenant must be signed by the Owner and returned to VHFA for recording prior to VHFA issuing a Carryover Allocation or 8609. The Covenant will, at a minimum, require conditions wherein the developer and the development must continuously comply with Section 42 and other applicable sections of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations issued thereunder and will bind any successors' interest for the specified time period. In the event that a project's funding source requires its own Housing Subsidy Covenant, the provisions of the LIHTC Housing Subsidy Covenant may be incorporated into such Covenant, and the requirement of a separate LIHTC Housing Subsidy Covenant may be waived by VHFA.

- a. VHFA is required to monitor compliance with the provisions of section 42 and to notify the Internal Revenue Service of noncompliance and will charge fees to cover costs related to this monitoring.
- b. Record Keeping and Record Retention

The owner of a tax credit eligible development must keep records for each qualified tax credit eligible building in the project showing:

- i. The total number of residential rental units in the building;
- ii. The percentage of residential rental units in the building that are tax credit eligible units;
- iii. The rent charged on each residential rental unit in the building;
- iv. The tax credit eligible unit vacancies in the building and the occupancy of the next available units;
- v. The income certification of each tax credit eligible tenant;
- vi. Documentation to support each tax credit eligible tenant's income certification (for example, a copy of the tenant's federal income tax return, Forms W-2, or verifications of income from third parties such as employers or state agencies paying unemployment compensation); and
- vii. The character and use of the nonresidential portion of the building included in the building's eligible basis under section 42(d) [e.g., tenant facilities that are available on a comparable basis to all tenants and for which no separate fee is charged for use of the facilities, or facilities reasonably required by the project].

The owner of a tax credit eligible development must retain the records specified in this section b for each building in the project for a period of at least 6 years beyond the end of the compliance period for each building.

c. Certification and Review Procedures

The Agency will utilize a certification procedure and the second review option as set forth by the IRS under their final monitoring regulations.

- i. Certification Procedure

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Under the certification procedures, the owner of a tax credit eligible development is required to certify to the Agency, under penalty of perjury, at least annually, that:

- (a) The project meets the requirements of the 20-50 test under section 42(g)(1)(A) or the 40-60 test under section 42(g)(1)(B), according to the election made by the sponsor at the time of the allocation;
- (b) The owner has received an annual income certification from each tax credit eligible tenant and documentation to support that certification, or in the case of a tenant receiving Section 8 housing assistance payments, a statement from the appropriate public housing authority declaring that the tenant's income does not exceed the applicable income limit under section 42(g);
- (c) Each tax credit eligible unit in the project is rent-restricted under section 42(g)(2);
- (d) All units in the project are for use by the general public and are used on a non-transient basis;
- (e) Each building in the project is suitable for occupancy, taking into account local health, safety and building codes;
- (f) There has been no change in the eligible basis (as defined in section 42(d) of any building in the project, or that there has been a change, and the nature of the change;
- (g) All tenant facilities included in the eligible basis under section 42(d) of any building in the project, such as swimming pools, other recreational facilities, and parking areas, are provided on a comparable basis without charge to all tenants in the building;
- (h) If a tax credit eligible unit in the project became vacant during the year, reasonable attempts were or are being made to rent that unit or another available unit of comparable or smaller size to tenants having a qualifying income before any units in

the project were or will be rented to tenants not having a qualifying income.

- (i) If the income of tenants of a tax credit eligible unit in the project increases above the limit allowed in section 42(g)(2)(D)(ii), the next available unit of comparable or smaller size in the project will be rented to tenants having a qualifying income.
- (j) There was no change in the applicable fraction of any building in the project, or, if there was a change, a description of the change; and
- (k) An extended low income housing commitment was in effect (for buildings subject to section 7108(c)(1) of the Revenue Reconciliation Act of 1989).

ii. Review Procedure

Under the review procedure, the Agency will inspect at least twenty percent (20%) of tax credit eligible developments each year, and review on-site the tax credit eligible tenant income certifications for that year and the documentation the owner has received to support those certifications, and the rent record for each low income tenant in at least 20% of the tax credit eligible units in these projects.

iii. Exception for Certain Buildings

The review procedure outlined above may not apply to the following types of tax credit eligible buildings, which are subject to other monitoring programs.

- (a) Buildings financed by the Farmers Home Administration (FmHA) under its section 515 program; and
- (b) Buildings of which 50 percent or more of the aggregate basis (taking into account the building and the land) is financed with the proceeds of obligations the interest on which is exempt from tax under section 103 of the Internal Revenue Code.

In order for a monitoring procedure to make an exception for these buildings, the Agency must enter into an agreement with FmHA (or the tax exempt bond issuer). Under the agreement, they must agree to provide information concerning the income and rent of the tenants to the Agency.

- iv. The certifications required under paragraph 1 of this section c (Certifications and Review Procedures) must be made at least annually through the end of the 15-year compliance period under section 42(i)(1) and be under penalty of perjury.

d. Auditing Procedure

The Agency has the right to perform an audit of any tax credit eligible development at least through the end of the compliance period of the buildings in the project. An audit includes an inspection of any building or buildings in the project, as well as a review of the records described in section b. The audit may be performed in addition to any inspection of income certifications and documentation under the review procedure.

e. Notification of Noncompliance

- i. If the Agency does not receive the certification described in paragraph 1 of this section c or discovers on audit, inspection, or review, or in some other manner, that the project is not in compliance with the provisions of section 42, the Agency will provide prompt written notice to the owner of the project.
- ii. The Agency will file Form 8823, Low-Income Housing Credit Agencies Report of Noncompliance, with the Internal Revenue Service no later than 45 days after the end of the correction period described in paragraph 3 of this section, whether or not the noncompliance or failure to certify is corrected. The Agency must explain on Form 8823 the nature of the noncompliance or failure to certify and indicate whether the owner has corrected the noncompliance or failure to certify.
- iii. The correction period shall be a period of 90 days from the date of the notice to the owner under paragraph 1 of this section and during that period, the owner must supply any missing certifications and

bring the project into compliance with the requirements of section 42. For good cause shown, the Agency may extend the correction period for up to six months.

f. Delegation of Authority

The Agency may retain an agent or other private contractor to perform compliance monitoring. VHFA will retain the responsibility to notify the Internal Revenue Service under paragraph 2 of section e (above).

g. Liability

Compliance with the requirements of section 42 is the responsibility of the owner of the building for which the credit is allocated. The Agency's obligation to monitor for compliance does not make the Agency liable for an owner's noncompliance.

9. DISCLAIMERS

VHFA is charged with issuing no more tax credits to any given development than are required to make that development economically feasible. This decision shall be made solely at the discretion of VHFA, but VHFA in no way represents or warrants to any sponsor, investor, lender or others that the project is in fact feasible or viable, either before or after the final allocation decision.

VHFA's review of documents submitted in connection with this allocation is for its own purposes. DCA and VHFA make no representations to the owner or anyone else as to compliance with the Internal Revenue Code, Treasury regulations, or any other laws or regulations governing the LIHTC program.

No member, officer, agent or employee of DCA, VHFA, or the Joint Committee on Tax Credits shall be personally liable concerning any matters arising out of, or in relation to, the allocation, issuance or compliance monitoring of the LIHTC.

VHFA is under no obligation to necessarily reserve or allocate any part of Vermont's LIHTC allocation. VHFA may enter into binding commitments to allocate credits for future years.