Vermont Qualified Allocation Plan 2020 Update

To: Interested Parties

From: Seth Leonard, Managing Director of Community Development
Joshua Slade, Development Underwriter

Date: June 10, 2019

Re: Vermont Qualified Allocation Plan 2020 Update

The proposed 2020 Qualified Allocation Plan (QAP) reflects significant updates to further its readability and clarity. VHFA staff has focused primarily on the order and structure of the document itself including section numbering, document navigation to reference definitions, text flow and removing policy from narrative by putting policy in clearly marked sections. Additionally, there were a number of necessary policy issues to address due to present focus on the issues, such as income averaging, qualified contracting, and a cap on the total portion of ceiling credits that may be allocated to a single project. VHFA staff decided there were a number of other large policy issues (see below in the 2022 QAP update portion of this memo) that we would like to begin engaging the public around. In addition to the proposed changes for the 2020 QAP, we encourage you to start thinking about the issues outlined in the 2022 QAP update outline below, and being engaging with the agency around these issues.

For the 2020 QAP staff recommends the following:

Income Averaging

- VHFA staff created a new policy which allows for income averaging in LIHTC projects. The QAP is updated to accommodate this policy and income averaging.

Green Building and Design Standards

- Updates – VHFA staff is working with VHCB, Housing Vermont as well as other interested parties in updating the GBDS. These have not been updated in a number of years and are due for review. A draft will be published as soon as it is available.

Qualified Contracts

- VHFA staff recommends that with each project the Sponsor submits a list of (as well as the status of) any Qualified Contract application. Currently staff does not recommend immediately denying any application for credits based on a Qualified Contract request, but will consider it based on the Sponsor’s history.

Housing for the Homeless/At Risk

- Compliance – Changed MOU to 15 years only. Made requirement to be between VHFA and Sponsor(s) in addition to an MOU between Sponsor(s) and an AHS approved agency. The change being that VHFA understands the MOU with the AHS approved agency is fluid and may change during the duration of the MOU with VHFA for the initial compliance period (15 years). This change reflects our current practice which seems to be working for all parties.
- VHFA staff is proposing limiting the number of units within any housing project at 30%. Staff has heard from property managers that 25% seems to be a workable number of units in any given project.
• VHFA staff is recommending the QAP require that at least 25% of the Housing Credit units be set aside for Supportive Housing in order to get the 4 points. This allows staff to round up when calculating the number of supportive housing units in a project.

Per Project Limit

• VHFA staff recommends that not more than 30% of the annual Ceiling Credit be awarded to one project.

State Rental Credit

• Statute Updates – No changes were made due to statute amendments.
• Staff added language in multiple sections to clarify that projects receiving state credit must be perpetually affordable.

Passive House & Net Zero

• Definitions update – VHFA staff removed “standards” from the definitions for both Passive House and Net Zero. Instead staff has referenced programs and/or certifications for each energy goal.

Developer’s Fees

• New limits were added:
  o Projects which are phased and constructed within three years of the previous phase: the maximum cash portion of the Developer’s Fee shall not exceed $1,000,000.
  o Project which are Hybrid Developments: the maximum cash portion of the combined Developer’s Fees shall not exceed $1,000,000.

Definitions

• A definition was created for Hybrid Development: A single development constructed simultaneously by two partnerships using both Ceiling Credit and Bond Credit as either a single or separate building(s).

State Homeownership Tax Credit

• Changes were made to reflect how this credit is being used. The original QAP was written to reflect new large developments such as Village Glen or Cascades.

Structure

• There are now nine distinct sections: Program Guidance and Priorities, Application Process, Threshold Requirements for Ceiling and Bond Credits, Evaluation Criteria for Ceiling Credit Projects, Vermont Affordable Housing Tax Credits, Compliance, Definitions, Disclaimers and Appendices.
• VHFA staff delineated project requirements for Bond Credits versus Ceiling Credits.
• There are now links within the QAP itself which when clicked bring the reader to the definition of key terms.
• VHFA staff has worked to separate narrative from policy in the introduction and program guidance sections primarily in addition to creating the new threshold requirement section. The program guidance section now includes a shorter introduction which describes the formation of the LIHTC program, a summary of the program in Vermont which ties the QAP into the Vermont Consolidated Plan, the Vermont specific guidance of how to calculate the amount of credits that could be available to any one project and then how to determine the amount of credit for a project.
• Numbering. The new QAP is fully indexed with a table of contents in the beginning.
• The document links were removed from Appendices II and III. Instead we have links to the pages on which the documents can be found.
Public Comments

- VHFA staff received one public comment requesting that the automatic basis boost be permitted for more than one project receiving Ceiling Credits which we do not recommend changing the QAP to support. The benefit of this change would mostly accrue to historic rehabilitation projects located in downtowns, which, as a result of other scoring priorities in the QAAP naturally score well anyway, and VHFA staff is concerned that formally extending the automatic basis boost for Ceiling Credits beyond one project may further limit the resources available for new construction applications.
- VHFA staff received two public comments requesting that the 25% cap on age-restricted housing developments be removed. At this time staff does not support removing this cap.
- VHFA staff received a comment requesting elimination of the preference for majority two-bedroom units in general occupancy housing. The QAP was previously amended to acknowledge that some markets are better served by one-bedroom units by awarding four checkmarks to general occupancy projects over age-restricted projects, but leaving the preference for two-bedroom or larger. Staff does not recommend a change at this time.
- VHFA staff received a comment requesting elimination of age-restricted housing awards of Ceiling Credit beyond the current limitation of one project per year. Staff does not recommend a change at this time.
- Finally, VHFA staff received a comment regarding the lack of accessible housing in Vermont. The 2018 QAP was amended to require Universal Design with a strong focus on the adaptability of units. In the previous Ceiling Credit award cycle, 100% of the units were adaptable and 100% of the units were designed to meet the VHFA Universal Design Standards.

The 2022 QAP update will focus on among other things:

- Considering implementation of cost containment incentives
- Including with Readiness to Proceed a provision that no more than 10% of the total development sources are from limited public sources (not including equity generated from Housing Credits)
- Discussing “phasing” of projects in greater detail including looking deeper into Hybrid Developments
- Discussing yields as a scoring criteria with a greater understanding of internal rate of return, availability of equity and other factors that determine projected yields
- Reviewing the practice of using an existing portfolio to meet the supportive service and homelessness requirements
- Clarifying how VHFA will use required appraisals

Staff’s goal is to have the next QAP approved by the Board of Commissioners by February 2021 to allow for ample planning time by the development community before the 2022 award round.