2022-2023 Qualified Allocation Plan Update

Overview for public distribution: Joint Committee on Tax Credits

Recorded: August 11th, 2020. Materials and Recording available at:

https://www.vhfa.org/rentalhousing/qualified-allocation-plan-qap

Process for Updating the Qualified Allocation Plan

- Qualified Allocation Plan (QAP) prioritizes investment for the significant affordable housing funding resource, both federal and state:
- **Federal** "Ceiling Credits" which are received annually on a per capita basis or a small state minimum.
- **Federal** "Bond Credits" which are generated through Tax Exempt Bond Financing.
- **State** Rental Housing Credits
- **State** Homeownership Credits (includes Manufactured Home Credit)
- **State** Down Payment Assistance Credits

Process for updating the QAP Effective: 2022-2023

- Public Comment Period
- Outreach meetings for developers, interested parties, advocacy groups, and the public: August & September 2020
- Meeting with Joint Committee on Tax Credits: October 2020
- Approval by VHFA Board of Commissioners: December 2020
- Goes before Governor for final signature: December 2020/January 2021

vhfa
Vermont Housing Finance Agency

Thresholds & Criteria

Thresholds apply to all projects, regardless of the type of credits the project is pursuing.

- Thresholds are required by IRS, and some are explicitly required. Thresholds can also be state created priorities.
- The Board may, in most cases, waive a threshold within reason but must substantiate the reasoning in doing so.

Criteria are used in analyzing 9% LIHTC applications, providing the basis comparative analysis.

- Checkmarks are issued based on projects characteristics and used to help differentiate projects in a competitive funding round.

vhfa Vermont Housing Finance Agency

Summary of Public Feedback

Deeper affordability targeting – specifically for 30-50% AMI households: VHFA staff agreed that the QAP could recognize the value of reaching deeper affordability.

Include additional statewide community development Designations: VHFA staff agreed that each state-issued community development designation should be addressed in the QAP.

Additional criteria checkmarks for non-profit developers: Vermont, as a state, already awards an extremely high proportion of our competitive resources for affordable housing to non-profits. An additional criteria further benefiting non-profit developers is not needed in Vermont at this time.

vhfa Vermont Housing Finance Agency

Summary of Public Feedback

Increase resources for Age-Restricted units: VHFA looked into this issue extensively during the 2020-2021 QAP update, including a report (Click Here to view report). The agency maintains that investments into General Occupancy Housing that includes universal design is already reaching populations that qualify for age-restricted housing.

Underwriting feedback: The agency received feedback highlighting the importance of our underwriting and consistency in applying guidelines across all projects.

Vermont Housing Finance Agency

Summary of Public Feedback

Permanently Supportive Housing & Targeting Investments for Homelessness: multiple comments ask for a reduction in the impact of Permanently Supportive Housing units and for units intended to support homeless or at-risk households. VHFA staff adjusted the basis boost section of the QAP and will discuss how Permanently Supportive Housing for the Homeless or at risk is now balanced in the Criteria of the QAP.

Vermont Housing Finance Agency

Summary of Public Feedback

Green Building Design Standards & criteria for Passive Housing & Net Zero: Comments suggested that the agency relax our goals by eliminating references to Passive Housing or Net Zero. The comments point to more ambitious baseline energy standards like statewide residential and commercial energy standards, and recent updates to Efficiency Vermont High Performance measurement. Staff recommends maintaining a higher one checkmark criteria for Passive House & Net Zero that awards projects able to reach beyond the statewide standards or criteria for receiving Efficiency Vermont funding.

vhfa Vermont Housing Finance Agency

Alignment with the ConPlan
(Section 1.2)

The State's Consolidated Plan, which is Vermont's application for $10.5 million in federal funding through HUD.

We have worked to ensure the plan and our QAP are working in concert:

- Included references to each of the various state community development designations.
- Added reference to working toward Fair Housing and overcoming discrimination.

Vermont Housing Finance Agency

Credit Limits
(Section 1.3)

Updates to the amount of available credits:

1. **Single project award maximum of 30%** of total available credit
2. **Limit on Age Restricted Projects** will follow the single project award maximum of 30%.
3. **Credit Enhancement Pool** for 5% award enhancements resulting from project increases or reductions in other funding sources.

vhfa Vermont Housing Finance Agency

Basis Boost State Priority
(Section 1.3)

State identified Basis Boost allows projects to calculate their maximum credit award using 130% of their eligible basis.

Previous State Priority focused on reaching projects with Permanently Supportive Units for the Homeless or At-Risk.

New Proposal focuses on deeper income targeting:

- Deeper income targeting where we are reaching more units below 50% AMI.
- Include three levels of basis boost that award deeper affordability, meaning projects can obtain a degree of boost

vhfa
Vermont Housing Finance Agency

Basis Boost Income Targeting Chart
(Section 1.3 & Appendix 4)

Tax Credit Units as % of Total Units (Unit Mix)	Basis Boost: Weighted Avg AMI (read as % Avg AMI or Below)		
	110%	120%	130%
20%	45.00%	40.00%	35.00%
30%	50.00%	46.67%	43.33%
40%	55.00%	52.50%	47.50%
50%	56.00%	54.00%	50.00%
60%	56.67%	55.00%	51.67%
80%	57.50%	56.25%	53.75%
100%	58.00%	57.00%	55.00%

vhfa
Vermont Housing Finance Agency

Application Process Updates

Pre-Application Meeting (Section 2.1): requires a project to hold a pre-application meeting with VHFA no later than 90 days prior to the application due date.

- During these meeting staff and the sponsors discuss the project's alignment with the goals of the QAP Thresholds and Criteria.

Anti-Lobbying (Section 1.5): discourages attempts to "unduly influence" the decision-making process outside working with staff on Tax Credit applications.

PBRA & Subsidy Layering VHFA will require information to substantiate compliance with Subsidy Layering Review for projects proposing Project Based Rental Assistance.

vhfa Vermont Housing Finance Agency

Transitional Housing
(Section 3.8)

QAP closely aligns the definition of Transitional Housing to IRS Section 42 Code, which focuses on Homelessness.

- The IRS more narrowly limits the use of tax credits in Transitional Housing than what you will find in state definitions.

QAP draft overlays that Transitional Housing be limited to recovery, relief from intimate partners violence, and at-risk youth households or those projects which adhere to transitional housing best practices.

vhfa
Vermont Housing Finance Agency

Cost Study Implementation Efforts
(Section 3.16)

VHFA, VHCB & DHCD will work with the affordable housing community to implement recommendations of the Cost Study.

Our focus has started with **three projects**:

1. Formalize that cost will be reviewed as part of the award process for all affordable housing resources.
2. Creating a Cost Analysis Tool that will provide a meaningful predictive and comparative analysis.
3. Reviewing Design Standards and considering cost efficiency best practice policies.

Vermont Housing Finance Agency

Building Design Standards & Accessibility
(Sections 3.14 & 3.15)

VHFA is taking a more holistic approach to Building Design Review.

QAP addresses multiple standards

- Universal Design Standards
- Visitablility requirements
- Green Building Standards (Building Design Standards)

Vermont Housing Finance Agency

Energy Efficiency Standards Update

In 2019, a working group consisting of VHFA, VHCB, Efficiency Vermont, Housing Vermont, and volunteers from a local architectural firm reviewed and updated the Building Design Standards (replacing “Green Building Standards”).

Policy is available at on VHFA’s QAP update page.

HUD Subsidy Layering Review Standards
(Section 3.17)

- VHFA performs HUD Subsidy Layering Review for projects. The process is directed by HUD and is purposed to analyze all resources going into a project to ensure projects are not being over-subsidized.
- QAP language updated to reflect the convergence of Internal Rate of Return, Safe Harbor, and link to the new (February 2020) policy from HUD.
- Integrated into Developer Fee section for all projects proposing PBRA.

vhfa
Vermont Housing Finance Agency

Developer Fee Updates
(Section 3.17)

- Developer Fee Examples were added, and entire section was reorganized for clarity.
- Exceptions to the normal calculation for developer fee were added to increase maximum cash portions for Hybrid and Bond projects.

New Construction or Acquisition/Rehab
< 60 Units 12% TDC

- 20 units
- Total Development Costs: $5,000,000
- Developer Fee: $600,000
- Defered Portion of Fee: $0
- Cash Portion of Fee: $600,000

New Construction or Acquisition/Rehab
< 60 Units 15% TDC

- 39 units
- Total Development Costs: $9,750,000
- Developer Fee: $1,462,500
- Defered Portion of Fee: $487,500
- Cash Portion of Fee: $975,000

New Construction or Acquisition/Rehab
> 60 Units 10% TDC

- 61 units
- Total Development Costs: $15,250,000
- Developer Fee: $1,525,000
- Defered Portion of Fee: $525,000
- Cash Portion of Fee: $1,000,000

vhfa Vermont Housing Finance Agency

Evaluation Criteria: Checkmarks Available (Section 4)

- Evaluation Criteria result in a project receiving “check marks” that support comparative analysis of projects.
- Staff sought to increase the potential gradation in checkmarks for criteria.
- New Criteria or Criteria with significant updates: Site Location/Designations, Income Targeting, Unit Size, Commitment of PBRA, Debt capacity.

Vermont Housing Finance Agency

Summary of Evaluation Criteria

Checkmark Comparison: 2020 QAP Vs. 2022 QAP				
Evaluation criteria	**2020 QAP Checkmarks**	**Percentage of Total Checkmarks**	**2022 QAP Checkmarks**	**Percentage of Total Checkmarks**
Site Location	2-5	16.7%	2-5*	16.1%
Tenancy/Type	1-5	16.7%	1-4*	12.9%
25% PSH	4	13.3%	4	12.9%
Affordability: With PBRA	1 or 3	10.0%	1-3	9.7%
Affordability: No PBRA	0	0%	1-3*	9.3%
Affordability: Mixed-Income	2	6.7%	2	6.5%
Permanent Debt	0	0%	2*	6.5%
Public Transportation	2	6.7%	1-2*	6.5%
Property Remediation (FKA Blight)	2	6.7%	1-2*	6.5%
Existing Federally Subsidized	2	6.7%	2	6.5%
Historic Rehab	1	3.3%	1	3.2%
Passive House/ Net Zero	1	3.3%	1	3.2%
Highly Ready-to-Proceed	1	3.3%	1	3.2%
Eventual Tenant Ownership	1	3.3%	1	3.2%
Underserved Town	1	3.3%	1	3.2%
Max Total Checkmarks:	30	100%	31	100%

*Added checkmarks from 2020-2022 QAP or the range of checkmarks has changed from 2020-2022.

vhfa
Vermont Housing Finance Agency

Site Location & Designations
(Section 4.2, #1)

- VHFA's alignment with ConPlan includes seeking to prioritize community development patterns.
- State maintains designation program, and we have historically focused on two of those designations (Designated Downtowns and Village Centers).
- We have adjusted QAP to value each statewide designation (for example Growth Centers and New Town Centers).

vhfa Vermont Housing Finance Agency

Site Location & Designations (Section 4.6)

Five Checkmarks

- Designated Downtown
- Village Centers

Four Checkmarks

- Areas that Support Downtowns & Village Centers:
  - Within .5 mile from Downtown or Village Center
  - A Neighborhood Development Area or a Growth Center associated with Downtown or Village Center

Three Checkmarks

- New Town Center
- Growth Center associated with a New Town Center
- Neighborhood Development Area associated with a Growth Center or New Town Center

Two Checkmarks

- Dense Infill Site
- Neighborhood Development Area not otherwise affiliated with other designations as detailed above.

vhfa Vermont Housing Finance Agency

Project Tenancy Type: Unit Size and Bedroom (Section 4.2, #2)

Updated Criteria language:

- Removed references to prioritizing projects that have larger bedrooms
- Removed priority for projects with majority of units 2 bedroom or larger

New language focuses on the unit mix that best meets the needs as document in the Market Study: provides flexibility for sponsors to meet needs of a community.

Vermont Housing Finance Agency

Permanently Supportive Housing
(Section 4.2, #3)

- Staff recommend maintaining the 4 checkmarks for projects that commit to 25% of the project having Permanently Supportive Housing for the Homeless or At-Risk.
- Clarified that the project sponsor can satisfy those units within their "owned portfolio". Require a detailed portfolio submission that demonstrates the units are additive to supply of PSH units in a portfolio.
- The redistribution and increase of the checkmarks better balances this criteria.

vhfa Vermont Housing Finance Agency

Affordability: Deep Income Targeting
(Section 4.2, #4)

- Following feedback from public comment period, VHFA investigated deeper income targeting, and reaching more households between 30-50% AMI.
- Created new criteria that provides checkmarks to projects reaching deeper affordability.
- Maintained prioritization of achieving mixed-income developments.

vhfa
Vermont Housing Finance Agency

Evaluation Criteria Income Targeting Chart
(Section 4.2, #4)

Projects that propose to leverage Project Based Rental Assistance

- Projects that are proposing or have commitments of PBRA have improved capacity to provide deep affordability targeting.

3 Checkmarks	2 Checkmarks	1 Checkmark
• Projects that obtain new PBRA for at least 25% of the units and can serve households at 30% AMI within those PBRA units	• Projects that have existing PBRA for at least 25% of the total units at the project.	• Projects that have applied for new PBRA in response to a Request for Proposal.

vhfa
Vermont Housing Finance Agency

Evaluation Criteria Income Targeting Chart
(Section 4.2, #4 & Appendix 5)

For Projects not applying for or receiving PBRA

Tax Credit Units as % of Total Units (Unit Mix)	Checkmarks: Weighted Avg AMI (read as % Avg AMI or below)		
	1 check	2 checks	3 checks
20%	45.00%	40.00%	35.00%
30%	50.00%	46.67%	43.33%
40%	55.00%	52.50%	47.50%
50%	56.00%	54.00%	50.00%
60%	56.67%	55.00%	51.67%
80%	57.50%	56.25%	53.75%
100%	58.00%	57.00%	55.00%

vhfa
Vermont Housing Finance Agency

Permanent Debt Capacity
(Section 4.2, #5)

- Staff recommend awarding two checkmarks for projects that carry debt that is equivalent to the 60th percentile of projects between 2015-2020 as a target percentage of their overall funding stack.
- Additional debt for projects will relieve pressure on secondary funding sources while ensuring projects maintain appropriate levels of subsidy.
- Debt capacity is not uniform across the state, as rural projects and/or projects in areas with lower area rent levels may struggle to carry debt.

Vermont Housing Finance Agency

Permanent Debt Capacity
(Section 4.2, #5)

Chittenden County	Outside Chittenden County
Total Development Costs: $5,000,000	Total Development Costs: $5,000,000
18% TDC to Receive Checkmarks: $900,000	3.5% TDC to Receive Checkmarks: $175,000
30 Year Amortization/ 30 Year Term	30 Year Amortization/ 30 Year Term
5% Interest	5% Interest
Monthly Loan Payment: $4,831.39	Monthly Loan Payment: $939.44

vhfa
Vermont Housing Finance Agency

Access to Transportation
(Section 4.2, #6)

Transportation criteria to reflect difference between the quality of public transportation available to projects. Previous Language: general availability of public transportation led to two checkmarks.

New Language more closely aligns to the various services available to communities

- Traditional fixed routes and schedules
- “On demand” transportation services
- Less regular “commuter stops”

Vermont Housing Finance Agency

Property Remediation
(Section 4.2, #7)

- We removed references to “Blight” from the QAP, and use Remediation.
- Staff sought criteria that would balance traditional remediation needs with the socio-economic impact of vacant sites.
- Criteria now considers two types of remediation:
  - Projects on sites that address parcels that pose a risk to public health or safety will receive 2 checkmarks.
  - For vacant lot infill, the project will receive one checkmark.

vhfa
Vermont Housing Finance Agency

Rental State Credit Priorities
(Section 5.1)

Prioritization of Rental Housing Tax Credit Awards

Two new preferences will be given to projects in addition to the current preference (to target households who are homeless), which was increased:

1. First, targets a minimum of the equivalent 15% (an increase from 10%) of the total units households who are Homeless or At Risk of Homelessness; and
2. Second, creates net new Housing Credit units in growing communities (as determined by recent Census data); and
3. Third, the degree to which a project satisfies or exceeds thresholds listed in Section 2 of the QAP.

Homeownership State Credit Priorities (Section 5.2)

Changes to Prioritization of Homeownership Housing Tax Credit Awards

- Updated: New construction in growing communities as determined by recent Census data or Housing Needs Assessment, or rehabilitation of existing housing in all other communities.
- Deleted: Project Site Prioritization:
    - Project is planned to maintain the Historic Settlement Pattern of Compact Village and
    - Urban Centers separated by rural countryside; or,
    - Projects that are in Downtown, a Village Center, or Neighborhood Development Area; or,
    - Projects that support Downtowns, Village Centers, or Neighborhood Development Areas by virtue of their location (i.e. that are within a reasonable walking distance from the town core)

vhfa
Vermont Housing Finance Agency

Other thoughts for the future…

- Electric Vehicle Charging stations and Project “EV Readiness”
- Internet and Broadband access
- Additional Cost Efficiency and Innovation
- More around Internal Rate of Return
- Debt and financial underwriting
- Vacancy considerations for New Construction and Rehabilitation/Preservation

Vermont Housing Finance Agency

Learn More & Materials for Public

You can find this presentation, supporting materials, a draft of the QAP, and information about upcoming meetings at https://www.vhfa.org/rentalhousing/qualified-allocation-plan-qap

Vermont Housing Finance Agency