



To: Joint Committee on Tax Credits

From: Bill Schrecker, Development Underwriter
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Date: August 11th, 2020

Re: 2022 – 2023 Qualified Allocation Plan Changes

Updating the 2022 – 2023 Qualified Allocation Plan (QAP) is well underway. The following is a summary of the changes that have been proposed and are in the order in which they appear in the QAP.

1. ConPlan Priorities – The new Consolidated Plan expanded upon the three guiding principles in the most recent update. Staff changed them in the QAP to show how they help define our priorities. (Section 1.2)
2. Basis Boost – The basis boost was previously available for any project that proposed a set-aside of 10% of the total units as Supportive Housing for the Homeless or At-Risk. Since one of the evaluation criteria requires a set-aside of 25% of the Housing Credit units (and Housing Credit Units make up the majority of units in a typical Ceiling Credit project), Staff proposes deleting this basis boost incentive. The idea of the basis boost set by the state allocating agency was that it would create a different opportunity to get the boost. This is no longer creating a unique opportunity.

Staff is recommending a basis boost for projects which meet levels of deep affordability, based on unit mix and a weighted average Area Median Income of Housing Credit units (see Appendix 4). This deep affordability is also a new evaluation criteria. Staff recognizes that lowering potential income results in less ability to take on permanent debt and offer the basis boost as an offset of that result. (Section 1.3(3)(a))

3. Per project limit – The per project limit is now an initial award allowing for additional years to be sought if necessary. Staff also recommends removing “of significant statewide significance to the extent that applying the limit” acknowledging that any inaction which might result in the loss of federal funding, displacement of households or continue health hazards would be undesirable regardless. (Section 1.3(1))
4. Senior Housing – The QAP has, for a number of years, effectively limited the amount of Housing Credit that could be awarded to age-restricted projects. Staff supports keeping this

limit on the number of age-restricted projects to one per year, as in past practice, while calling out this limit in more specific terms. Staff did receive two public comments regarding the importance of new senior housing for Vermont's aging population. Staff recommends maintaining a maximum of 30% of the ceiling for senior housing. (Section 1.3(2))

5. Supplemental Enhancement Pool – In practice, Staff can award a 5% increase to previously approved projects informally. To make this process more transparent, Staff recommends acknowledging the process in the QAP and adding the option of creating a pool of credits annually to be set aside for 5% increases. (Section 1.3(4))
6. Anti-Lobbying – Staff recommends creating an anti-lobbying clause in the QAP, which discourages applicants, related parties, and persons acting on their behalf from unduly influencing members of the Board. This will allow the Board to make decisions based on the QAP and other underwriting policies without outside influence. The clause includes language encouraging these parties to contact Staff instead. (Section 1.5)
7. Pre-Application Meeting – The proposed changes in this section are mostly for readability. Staff recommends putting a deadline of at least 90 days prior to application for the meeting to take place. (Section 2.1)
8. Advanced Binding Commitment – Staff recommends adding the Advanced Binding Commitment to the list of potential documents issued once conditions in the Letter of Intent are met.
9. Thresholds – Staff recommends reordering the thresholds for readability. (Section 3)
10. Historic Settlement Patterns – Staff recommends incorporating a more robust description of Historic Settlement Pattern in the threshold. (Section 3.1)
11. Permanent Supportive Housing (PSH) – Clarify was added that PSH units should be in owned properties. (Section 3.6)
12. Transitional Housing for Homeless – This is a new threshold. The 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. The QAP closely aligns the definition of Transitional Housing to IRS Section 42 Code, which focuses on Homelessness. (Section 3.8)
13. HUD SLR standards and Safe Harbor limits – Staff are required to vet projects as part of the subsidy layering review delegated process. It makes sense to incorporate these benchmarks during the application period and in the QAP prior to and in preparation for any potential award of PBRA. These limits also create transparency and allow VHFA to communicate with other soft lenders that projects are comparatively similar.
 - a. Yield – The limit for the yield is “market rate” with a floor of \$0.81. (Section 3.10)

- b. Developer Fee – The limit for developer fee is 12%, with a ceiling of 15%. (Section 3.17)
- 14. Universal Design – Staff recommends incorporating Universal Design into the threshold regarding Adaptable and Visitable Housing and strengthening the language. (Section 3.14)
- 15. VHCB/VHFA Building Design Standards – Staff participated in a working group to develop a new policy around green building and design. The new standards take into account the new Residential Building Energy Standards implemented by the State. (Section 3.15)

CHT / HVT requests that VHFA remove Net Zero and Passive Housing from evaluation criteria. Staff does not recommend removing the checkmark for Passive House or Net-Zero. (Section 4.2(10))

- 16. Cost – Staff added a project development cost analysis to the threshold requirements. Staff does not recommend any checkmarks or threshold requirements around cost or cost considerations at this time. (Section 3.16)
- 17. Developer Fees – The entire section was reformatted to make it more readable and example charts were added for clarity. Additionally, Staff recommends increasing the maximum cash portion of developer fees to \$1,500,000 for “Hybrid” or “Bond” projects. (Section 3.17)
- 18. Evaluation Criteria (Section 4.2)

- a. Site location (section 4.2 #1) - HVT / CHT requests that Growth Centers and New Town Centers receive equal checkmarks as downtowns and village centers.

Statute establishes that designated downtowns and village centers should have greater priority for state funding and programs than new town centers and growth centers. (24 V.S.A. Chapter 76A). Staff believes that the criteria intended to acknowledge development in Historic Development Patterns, i.e., areas served by existing infrastructure, including water/sewer, sidewalks, public transportation, walkable services, etc. Growth Centers and New Town Centers sometimes do not have this level of infrastructure initially in place. While Dense Infill Sites do meet this definition.

VHFA’s alignment with ConPlan includes seeking to prioritize community development patterns. We have adjusted QAP to value each statewide designation.

- b. Project Tenancy Type (section 4.2 #2) – Remove priority for majority 2-bedroom General Occupancy projects. For several years, Staff has received proposed projects with a majority of units of one-bedroom or less. These have been supported by market studies as well as VHFA’s research. Staff recommends removing the checkmarks for the majority larger units to reflect the changing need in the state.
- c. Permanent Supportive Housing (section 4.2 #3) – CHT / HVT requests that only two checkmarks be awarded for 25% Supportive Housing.

- i. Staff does not recommend reducing the checkmarks for this evaluation criteria. 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. The redistribution and increase of other checkmarks better balances this criteria.
 - ii. Staff also 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.
- d. Affordability (section 4.2 #4 & Appendix 5) – Staff agrees with the comments received from the public and recommends a checkmark for deeper affordability with both PBRA or unassisted units at lower AMIs. CHT, HVT, TPHT asked for criteria based on the depth of affordability and 30% of units to be at or below the 50% AMI or an undetermined number at both 50% and 30% AMI. Staff created new criteria that provides checkmarks to projects reaching deeper affordability.
- e. Permanent Debt (section 4.2 #5) - Staff recommends awarding two checkmarks for projects that carry debt that is equivalent to the 60th percentile of project data between 2015-2020 as a target percentage of their overall funding stack.

Projects in Chittenden County that uses permanent debt for at least 18% of the total development cost or, any project outside of the Chittenden County that uses permanent debt for at least 3.5% of the total development cost. 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.

Additional debt for projects will relieve pressure on secondary funding sources while ensuring projects maintain appropriate levels of subsidy.

- f. Access to public transportation (section 4.2 #6) – Transportation criteria to reflect difference between the quality of public transportation available to projects. New Language more closely aligns to the various services available to communities.
 - i. Public Transportation – This definition did not change and will continue to receive two checkmarks.
 - ii. Demand Response or specialized transportation contracted through a general public transportation provider – This has been added to acknowledge groups like CIDER or SSTA. One checkmark.
 - iii. Commuter, regional/interregional, limited transportation. One checkmark.
- g. Property Remediation (section 4.2 #7) - Staff recommends removing “blight” from the QAP. The term blight has negative connotations and can be used in a discriminatory way. Understanding that neglected buildings, brownfields, and vacant lots still need to be addressed. Staff recommends the following:
 - i. Building or site remediation will receive two checkmarks
 - ii. Vacant lot infill projects will receive one checkmark.

19. State credit priorities (Section 5.1) -
 - a. Staff recommends increasing the number of permanent supportive housing units to 15% of total units instead of 10%.
 - b. Staff recommends adding a priority for new Housing Credit units in growing communities (as determined by recent Census data).
 - c. Staff recommends adding a third priority, “the degree to which a project satisfies or exceeds thresholds.

20. Homeownership (Section 5.2) – Staff recommends changes to the prioritization of Homeownership Housing Tax Credits.
 - a. Staff 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.
 - b. Staff deleted project site prioritization because we want to encourage rehabilitation of existing housing stock which may not always be in village centers.

21. Compliance – Staff has changed the references to the Housing Subsidy Covenant to an Extended Use Agreement. (Throughout document)

22. Definitions that were changed were:
 - a. Removal of blight and addition of property remediation
 - b. Removal of HSC and addition of EUA
 - c. Staff updated the Homeless definition and confirmed that the At-Risk of Homelessness definition was current as recommended by Sarah Phillips.
 - d. Staff also updated the Transitional Housing definition to be in line with Section 42.
 - e. Add definitions for New Town Center and Growth Center.

Those are the proposed changes to the QAP. Staff is also recommending an update to the Green Building and Design Standards, which is now called the VHCB/VHFA Building Design Standards. A draft of this policy can be found at https://www.vhfa.org/documents/developers/vhcb-vhfa_building_design_standards.pdf.

More broadly, Staff is considering moving the award round for Ceiling Credits to the fall instead of March/April. Staff would welcome feedback on the impact of this change to the development cycle and how developers would feel about a gradual shift (e.g., over a few years) versus a faster shift with a longer period between award cycles.