



To: VHFA Board of Commissioners

From: Bill Schrecker, Development Underwriter
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Date: February 1, 2021

Re: 2022 – 2023 Qualified Allocation Plan

Based on written public feedback, four information sessions with the public, and three Joint Committee on Tax Credits public hearings in October, November and January revisions to the 2022-2023 QAP have been proposed. These changes to the QAP are summarized below in the order in which they appear in the QAP. A copy of this memo, the updated draft of the QAP, public comments received, and staff responses can be found at <https://www.vhfa.org/rentalhousing/qualified-allocation-plan-qap>

1. Program Guidance and Priorities (Section 1)

- A. 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)

Language was added to broaden the VHFA Board’s authority to make exceptions for high-impact projects in making its final decision for the award of Housing Credits. (Section 1.2)

- B. Per project limit –Staff recommends removing the language in the existing QAP, which references projects “of significant statewide significance” as guidance for this consideration. The proposed language in this section still acknowledges instances of inaction which might result in the loss of federal funding, displacement of households, or continued health hazards. These references remain in the QAP language, as such scenarios would be undesirable and worthy of consideration regardless of the statewide significance of the project in question. (Section 1.3(1))
- C. Senior Housing – The QAP has, for a number of years, effectively limited the amount of Housing Credit that could be awarded to age-specific projects. Staff recommends increasing the maximum award from 25% to 30% of the total ceiling pool for age-specific housing to align this maximum award percentage with the per-project limit for all project types. In evaluating competing age-specific projects, VHFA will also

seek input from the Agency of Human Services (AHS) as to which proposals will have the most benefits and support AHS's long term care goals. (Section 1.3(2))

- D. 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. Staff proposes changing this figure to 15% of the Housing Credit units for projects to receive the basis boost. This change better aligns the percentage level (15%) and the universe of units measured (a subtotal of Housing Credit Units) with other supportive housing benchmarks in the QAP and Executive Order 3-73. There was also a basis boost option for one mixed-use project that utilized historic tax credit and was located in a designated downtown or village center. That option has been broadened by removing the mixed-use requirement. (Section 1.3 (3))
- E. The use of the term “Permanent Supportive Housing” was revised throughout the document to now read as “Housing with Services for the Homeless” (Housing with Services) to disambiguate from other formal definitions of Permanent Supportive Housing. The definition of the term remains the same in both the proposed draft and the current QAP despite the name change. (Sections 1.3.3.b; Section 2.4, Section 3.7, Section 4.2.3, Section 5.1, Section 6.3.9, and Definitions Section)
- F. Supplemental Enhancement Pool – In past practice, Staff have awarded 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 for the Board to create a pool of credits annually to be set aside for 5% increases. (Section 1.3(4))
- G. Communications & Transparency – Staff have proposed new language to encourage applicants and related parties to contact Staff directly with questions, letters of support and other information related to proposed projects. (Section 1.5)

2. Application Process (Section 2)

- A. 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)
- B. 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. (Section 2.5)

3. Thresholds – Staff recommends reordering the thresholds for readability. (Section 3)

- A. Historic Settlement Patterns – Staff recommends incorporating a more robust description of Historic Settlement Pattern in the threshold. (Section 3.1)

- B. Housing People Experiencing Homelessness – Language was added to have applicants submit the DHCD’s current Homeless Access Reporting Tool with the Housing Credit application. (Section 3.6)
- C. Previous Loss of Affordable Housing – Staff added language to expand disqualification of applicants if applicant was involved in litigation focused on the transfer of ownership or transfer of interest of affordable housing.
- D. Limitation on Housing with Services for the Homeless and Transitional Housing for Homeless – This new threshold in the proposed QAP states that Transitional Housing be limited to housing used as recovery residences, for relief from intimate partner violence, for at-risk youth households, or for 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.
- E. HUD SLR standards and Safe Harbor limits – Staff are required to vet projects as part of the subsidy layering review HUD 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 project-based rental assistance (PBRA). These limits also create transparency and allow VHFA to communicate with other soft lenders that projects are comparatively similar.
 - i. Yield – The limit for the yield is “market rate” with a floor of \$0.81. (Section 3.9)
 - ii. Developer Fee – The limit for developer fee is a floor of 12%, with a ceiling of 15%. (Section 3.16)
- F. Universal Design – Staff recommends incorporating Universal Design into the threshold regarding Adaptable and Visitable Housing and strengthening the language. (Section 3.13)
- G. 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 and the new High Performance Home Standards of Efficiency Vermont. The new Building Design Standards recommend that all projects will be constructed to the High Performance Home standard.

A statement has been added to this section which encourages developers to take into account residential and employment trends when designing living spaces, including design features which more easily allow residents to work from home. (Section 3.14)
- H. Cost – Staff added a project development cost analysis to the threshold requirements. Staff does not recommend any specific metrics or limits around costs for either evaluation criteria or threshold requirements, but will be analyzing costs as a comparative analysis tool. (Section 3.15)

- I. Developer Fees – The entire section was reformatted for readability, and example charts were added for clarity. Additionally, Staff propose increasing the maximum cash portion of developer fees to \$1,500,000 for “Hybrid” projects (where 9% credit and 4% credits are both utilized) as well as for “Bond” projects. (Section 3.16)

4. Evaluation Criteria (Section 4.2)

- A. Site Location (Section 4.2 (1)). Projects can receive a maximum of 4 checkmarks based on the criteria below.

- i. Projects will receive four checkmarks based on location in:
 - a. Downtowns or Village Centers,
 - b. support of a Downtown or Village Center by virtue of their location (i.e., that are within a 0.5-mile walking distance from these areas), or
 - c. Neighborhood Development Areas or Growth Centers associated with a Downtown or Village Center.

This proposal is a reduction from the current QAP, wherein projects receive five checkmarks for being located in Designated Downtowns, Village Centers, or Neighborhood Development Areas currently. Growth Areas associated with a Downtown or Village Center are now proposed to be included in this criterion.

- ii. Projects will receive three checkmarks based on location in:
 - a. New Town Centers,
 - b. Growth Centers not associated with a Downtown or Village Center, or
 - c. Neighborhood Development Areas associated with a New Town Center or Growth Center

New Town Centers, additional Growth Centers, and additional Neighborhood Development Areas are included in the proposed changes, while the current QAP lacks such specificity.

- iii. Projects will receive two checkmarks based on location in:
 - a. Dense Infill Sites

Dense infill sites remain the same as the previous QAP.

- B. Project Tenancy and Services (Section 4.2 (2))

- i. Staff proposes removing 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.
- ii. Staff does not recommend any changes to age-specific housing checkmarks, leaving the range of one to three based on the robustness of the service packages offered.

- iii. Staff proposes amending the criteria as follows to now include service provision as a component for evaluation:
 - 1. Projects may receive an **additional 2 checkmarks** when sponsors demonstrate:
 - a. The proposed project includes a service plan which includes a Resident Service Coordinator and/or programming that focuses on housing retention that effectively reduces the risk of eviction; and
 - b. Sponsor must demonstrate a history of providing housing occupied by households that have experienced homelessness or were at risk of homelessness and the capacity to provide a range of programming and services that focus on housing retention and preventing homelessness.

Housing retention and eviction prevention services could include one-on-one or group services available on demand to all residents of a project. Strategies may include classes, financial coaching, and early intervention strategies with mediation and conflict resolution strategies. This level of service provision is likely to include brief intervention strategies with screening and referral.

C. Housing with Services for the Homeless (Section 4.2 (3)) –

- i. Staff recommends maintaining the 4 checkmarks for projects that commit to 25% of the Tax Credit Units in the project as Housing with Services for the Homeless or At-Risk. The proposal to increase the ranges of checkmarks available in other criteria provides additional balancing to this criteria.
- ii. Staff also clarified that the project sponsor can satisfy those units within their “owned portfolio”. This requires a detailed portfolio submission that demonstrates the units are additive to the supply of PSH units in a portfolio.
- iii. This section had previously been titled “Supportive Housing” and was renamed for clarify and consistency with other proposed changes.

D. Affordability (Section 4.2 (4)) – Staff created new criteria that provides checkmarks to projects reaching deeper affordability, with a maximum of 3 checkmarks awarded for this criteria. Units must be properly identified in the project budget as “affordable to residents at” the specified AMI below and be supported by a market study.

- i. For projects with the following percentage of units at or below 30% AMI:
 - a. 20% to 24.99% of Tax Credit Units will receive two checkmarks
 - c. 25% or more of Tax Credit Units will receive three checkmarks
- ii. For projects with the following percentage of units at or below 50% AMI:
 - b. 30% to 39.99% of Tax Credit Units will receive two checkmarks

c. 40% or more of Tax Credit Units will receive three checkmarks

- E. Income Diversity (Section 4.2 (5)) – This criteria was previously called mixed-income. For projects of fewer than 20 units, the number of unrestricted units required to receive two checkmarks has increased from one to two.
- F. Permanent Debt (Section 4.2 (6)) - Staff recommends a new evaluation criteria, awarding one to two checkmarks for projects that carry amortizing permanent debt as a target percentage of their overall funding stack. Figures are based on project data from 2015-2020.
- i. Projects in Chittenden County that use amortizing permanent debt for at least 18% of the total development cost of the project will receive two checkmarks
 - ii. Projects outside of the Chittenden County that use amortizing permanent debt for at least 3.5% of the total development cost of the project will receive two checkmarks
 - iii. Projects in Chittenden County that use amortizing permanent debt for at least 9% of the total development cost of the project will receive one checkmark
 - iv. Projects outside of the Chittenden County that use amortizing permanent debt for at least 1.75% of the total development cost of the project will receive one checkmark

Data revealed that 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. Therefore the debt percentages are adjusted to vary regionally, as shown above. Additional debt for projects will relieve pressure on secondary funding sources while ensuring projects maintain appropriate levels of subsidy.

- G. Access to public transportation (Section 4.2 (7)) – Transportation criteria was updated to reflect differences between the quality of public transportation available to projects. New language more closely aligns with the various services available to communities.
- i. Public Transportation – This definition did not change and will continue to receive two checkmarks.
 - ii. Commuter, regional/interregional, limited transportation was also added as a specified public transportation service type will receive one checkmark.
 - iii. Demand Response or specialized transportation– This definition has been added to acknowledge groups like CIDER or SSTA and will be awarded one checkmark.
- H. Property Remediation (Section 4.2 (8)) - 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, as currently defined.
 - ii. Vacant lot infill projects will receive one checkmark, as a new definition in this evaluation criteria.
- I. Community Development Experience of Sponsor (Section 4.2 (15)) – Staff added a new evaluation criteria:
Projects sponsored by an entity with a demonstrated history or current proposed project that achieves broad community development outcomes as defined below shall earn **up to 1 checkmark**.
- a. Demonstrate a history of previous projects, or a current project, that will redevelop historically neglected or complex properties that have significance to the community or neighborhood; and
 - b. Demonstrate a history of continued reinvestment and recapitalization within the sponsor’s existing affordable housing portfolio, including a commitment to long-term and perpetual affordability when appropriate; and
 - c. Demonstrate that the entity has used resources generated from their housing portfolio to create additional affordable housing, and/or increases the affordability of housing within their portfolio; and
 - d. Document a planned approach to continually identifying and addressing racial inequities within the sponsor’s organization, housing portfolio, or broader community investments.

Staff will consider an entity’s previous opportunities for participation in affordable housing development. For example, entities owned or directed by women, black, indigenous, and people of color without extensive opportunities to participate in community development in Vermont will not be limited from being considered for this checkmark.

- J. Staff recommends a general condition for all projects. “Projects with significant changes post-award, which do not achieve the proposed evaluation criteria for which they have received checkmarks may be subject to a reduction or cancelation of a tax credit award. Further, project sponsors may jeopardize their future ability to apply for tax credits. “

5. Vermont Affordable Housing Tax Credits (Section 5)

- A. Rental Housing Tax Credits (Section 5.1) – Staff recommends changes to the prioritization of awards
- i. Staff recommends changing the number of units designated as Housing with Services to 15% of Tax Credit units instead of 10% of total units.

- ii. Staff recommends adding a priority for new Housing Credit units in growing communities (as determined by recent Census data).
 - iii. Staff recommends adding a third priority for projects “demonstrating innovation in cost and scarce resource efficiencies”.
 - iv. Staff recommends adding the fourth priority, “the degree to which a project satisfies or exceeds thresholds.
 - v. Finally, Staff recommends adding a priority for rehabilitation of existing affordable housing.
- B. Homeownership Tax Credits(Section 5.2) – Staff recommends changes to the prioritization of awards.
- i. Staff propose that new construction be targeted in growing communities as determined by recent Census data or Housing Needs Assessment and that rehabilitation of existing housing be targeted in all other communities.
 - ii. Staff deleted project site prioritization because we want to encourage the rehabilitation of existing housing stock.
6. Compliance – Staff has changed the references to the Housing Subsidy Covenant (HSC) to an Extended Use Agreement (EUA) throughout the document. (Section 6)
7. Definitions (Section 7) 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 (AHS).
 - 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.
 - F. “Resident Service Coordinator” was added
 - G. Replacement of the term “Permanent Supportive Housing” with “Supportive Housing for the Homeless (Supportive Housing)”

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.

Finally, a copy of this memo, the most recently updated draft QAP, comments received, and staff responses can be found at <https://www.vhfa.org/rentalhousing/qualified-allocation-plan-qap>.