

**DRAFT Appendix I  
Threshold Criteria\***

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\* Applies to bond financed projects

## **Appendix I Threshold Criteria**

To be considered for an allocation of DCA resources, Applications must meet each of the Threshold requirements described below. Please note that DCA requires that Applications must be complete when submitted. Applicants cannot submit updated applications or new documents after Application Submission unless requested during the clarification process. Applications that contain a significant number of missing or incomplete documents will be returned to the Applicant and be deemed a threshold failure.

### **I. PROJECT FEASIBILITY, VIABILITY ANALYSIS AND CONFORMANCE WITH PLAN**

Section 42 requires that the housing credit dollar amount allocated to a project not exceed the amount that DCA determines is necessary for the financial feasibility of the project and its viability as a qualified low income housing project through the credit period. In making this determination, DCA must consider:

- the sources and uses and the total financing planned for the project
- any proceeds or receipts expected to be generated by reason of tax benefits
- the percentage of housing credit dollar amount used for project costs other than the cost of intermediaries and
- the reasonableness of the development and operational costs of the project

The ownership entity for the proposed project must be structured as a single purpose entity and must be able to clearly show that the project is financially sustainable based on income from operations. The sources and uses must be verifiable and available at the time of Application. Owner contributions outside of deferred developer fee will not be considered an allowable source.

#### **A. Feasibility Assumptions and Policies**

Applicants must use DCA's Underwriting assumptions and if applicable, DCA HOME Underwriting assumptions in the Submitted Application pro forma. DCA's 2015 underwriting assumptions can be found in Exhibit A attached to this Appendix I.

In addition, the following policies will be utilized in determining whether a project is feasible:

**1. *Certifications.*** The Applicant must certify to DCA the full extent of all federal, state, and local subsidies that apply (or which the applicant expects to apply) to the project. The Applicant must also certify to the Agency all other sources of funds and all development costs for the project.

**2. *Income.*** Only rental income plus up to a maximum of 2% of gross potential rents (GPR) in ancillary income will be used in the cash flow analysis. Tax abatements and exemptions, interest credit payments, and other documented sources of commonly

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accepted forms of expense off-sets will also be considered. However, income from commercial space, fees, charitable contributions or owner contributions will not be considered. Applicants must provide reasonable documentation of the source of the 2% of GPR that is utilized.

**3. Reasonableness of Development and Construction Costs.** In order to be eligible for selection, DCA must determine that proposed costs are reasonable based on an examination of all soft costs and hard costs listed in the application. DCA will thoroughly examine building construction, soft costs and land costs. It will also consider variations in costs due to project location, type of construction, and population served. Additionally, DCA will compare proposed project costs to other Applications submitted in the funding round, to certified cost data on existing Housing Credit developments in the State portfolio, as well as to the actual costs of other non-luxury multifamily housing located in the same geographic areas. Applications which do not demonstrate cost reasonableness will be ineligible for an allocation of credits.

DCA may request a breakdown of the hard construction cost line items in the event it determines that the proposed costs do not appear to be reasonable and consistent with the scope of work for the project. DCA reserves the right to obtain a review of costs from a qualified outside source. DCA will review land costs carefully to determine that there has been no unjust enrichment to any party and that the parties have not overpaid for proposed project site. During Application review, DCA may order an appraisal to determine the reasonableness of the contract price for land and/or buildings. DCA may require documentation not specifically included in the minimum documentation requirements to verify the reasonableness of development and operating costs.

**4. Reasonableness of Federal and State Equity Pricing.** The Code requires that allocation of credit may not exceed the amount necessary for the project financial feasibility and long term viability to support the extended low-income housing commitment. For projects where the developer/general partner or any other Project Team member does not go through the competitive process to raise the equity proceeds, DCA will evaluate the reasonableness of the applicable equity price with the information available and reserves the right to adjust the pricing to no less than the median price for the appropriate Flexible or Rural pool.

**4. Reasonableness of Operating Costs.** Applications must also reasonably estimate operating expenses for a submitted project. If insufficient documentation of the basis of real estate taxes is provided by the Applicant, DCA will utilize tax millage rates, construction costs and operating income to determine if real estate taxes are reasonably estimated. Applicants are encouraged to provide supporting documentation for their estimates of impact fees, taxes and property insurance for the proposed project. Projects that do not provide a reasonable estimate of operating costs may be determined to be infeasible. Annual operating expenses which differ significantly from average costs for the project area will require clear documentation of the basis for the deviation.

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**5. Rents.** Rent standards derived from the most recent AMI, HUD published rent, and applicable underwriting utility allowance must be used to determine project rents and rent restrictions. Please note that for purposes of determining the maximum allowable rent limits, regardless whether a property is considered Rural, the applicable HUD program rent limits must be used. Applicants are encouraged to underwrite projects at reasonable and achievable rents for low-income units.

- a) National Non-Metropolitan. Applicants cannot use the National Non-metropolitan Area Median Income Rents in their Submitted Applications. If selected, projects without HOME funding which are located in qualified USDA designated rural areas may utilize National Non-metropolitan Area Median Income Rents, if applicable.
- b) Tax Credit (only). Gross rents may not exceed 30% of 60% of the effective AMI table for the appropriate bedroom size. Applicants should assume 1.5 persons per bedroom
- c) HOME Rents with Tax Credits. For layered projects, the maximum allowable rents must be determined based on the regulations of each program, and the most restrictive rent calculation of the programs must be utilized.

Dwelling unit rents must conform to the LIHTC and/or the HOME regulation's gross rent (contract rent and tenant UA) restrictions. Tenant UA must conform to the requirements set forth in the Plan and the Manual. In the event Credit, HOME, or other funds are requested, the most restrictive gross rents will govern.

For Scattered Site projects, all units must meet gross rent and utility allowance restrictions.

### **6. Operating Utility Allowance (UA)**

**Applications submitted under the 2015 QAP for Tax Credits only must use the PHA utility allowance set forth in section a) in their pro forma.** Additionally, rents and Utility Allowances must be effective for the same year. Applicable rents and Utility Allowances, in effect one month prior to application submission must be utilized in the Application and market study.

On July 29, 2008, the IRS issued amendments to the utility allowance regulations. This regulation does not include Internet, cable and phone service under the definition of "utility". On May 5, 2009, the IRS released Notice 2009-44 to clarify that utility costs paid by a tenant based on actual consumption in a sub-metered rent-restricted unit are treated as paid directly by the tenant for purposes of IRC 42(g)(2)(B)(ii), which requires that the rent for low income units include a utility allowance if the tenant pays the utilities. Additional guidance may also be found in the "8823 Guide."

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Applicants must establish utility allowances for the property prior to placing the first building in service through the compliance period or through the period of affordability. In Georgia, the following methods will be used in the order listed:

- a) *USDA-Assisted Buildings*. If a building receives assistance from the USDA (formerly called the Farmers Home Administration, or FmHA), the USDA-prescribed utility allowance applies to all rent-restricted units in the building. The USDA-approved allowance applies even if the building is assisted by any other program or agency. Examples of USDA assistance include assistance provided under the USDA Section 515 rural rental loan program and USDA rental assistance. Projects funded with USDA 538 loan guarantee must use the DCA Utility allowance.
- b) *Buildings with USDA-Assisted Tenants*. If any resident of a building receives USDA rental assistance, the USDA-approved utility allowance applies to all rent-restricted units in the building. This is even the case if residents of some units receive rental assistance from the U.S. Department of Housing and Urban Development (HUD).\
- c) *HUD-Regulated Buildings*. If neither a building nor any resident in the building receives USDA assistance, and HUD annually reviews the rents and utility allowances for the property (such as for Section 8 and Section 236 projects), the HUD-prescribed utility allowance is used. This rule doesn't apply to buildings that have only FHA-insured mortgages.
- d) *Tax Credit Buildings*. The utility allowance established by the Public Housing Agency (PHA) that administers the Section 8 Program in the locality where the property is located, or *HUD Utility Schedule Model, or Local Utility Provider Estimates/Estimates Based on Actual Usage, or Energy Consumption and Analysis Model* (licensed engineer or qualified professionals providing this model must be approved by DCA prior to submission of the Model).
- e) *Tax Credit & HOME Assisted Buildings*. *HUD Utility Schedule Model, or Local Utility Provider Estimates/Estimates Based on Actual Usage, or Energy Consumption and Analysis Model* (licensed engineer or qualified professionals providing this model must be approved by DCA prior to submission of the Model).

### **Minimum Documentation:**

- Current applicable Utility Allowances.

## **7. PBRA/RAD**

Projects that have at least ten years remaining from the Application Submission deadline for PBRA will be underwritten utilizing Section 8 rents. Additionally, projects that have a renewal commitment assuring PBRA for at least 10 years from the Application Submission deadline will be underwritten utilizing Section 8 rents. However, projects with

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existing PBRA that has less than ten years remaining from application submission date, for which a renewed contract is not possible, will be underwritten within the maximum tax credit rents and/or HOME rents, as applicable.

### **Minimum Documentation:**

- PBRA agreement, including most recent rent and utility allowance adjustment

### **8. *Deferred Developer Fee.***

Any owner's equity shown in the Application, excluding the general partner's nominal contribution required by the Limited Partnership Agreement, will be included as a source of funding in the calculation of Credit. This policy will apply at application, carryover, and final allocation. A developer should either take the deferred Developer Fee in the form of a note, or incorporate the deferred Developer Fee into the limited partnership agreement along with a detailed repayment schedule and specific terms. Deferred Developer fee must be payable within fifteen years from available cash flow. The deferred portion cannot exceed 50% of the total amount of Developer Fee at initial application.

For purposes of calculating the project's annual debt service coverage ratio, the deferred Developer's Fee will not be included as debt service.

For purposes of calculation DCA will consider the terms and conditions contained in the debt and equity commitments in determining the project's debt service coverage and its ability to pay the deferred Developer's Fee within 15 years.

### **Minimum Documentation:**

- Draft note for Deferred Developer Fee

### **9. *Commitments***

- a) Original preliminary commitments for all financing must be submitted with the Application including, but not limited to, the following:
  - i. Construction financing
  - ii. Non-DCA permanent financing
  - iii. Bridge loans, if applicable
  - iv. Project Based Rental Assistance Agreements
  - v. Operating subsidy agreements
  - vi. Deferred Developer Fee
  - vii. Limited partner (Tax Credit) equity
  - viii. HUD letters by an authorized official from the Multifamily Housing Division stating that the application is under serious consideration and Lender Preliminary Commitments for HUD assisted projects under 221 (d)(3) or 221 (d)(4) program may be submitted with the Application but final MAP Invitations must be submitted

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- by the deadline noted on Exhibit A DCA Pre-application and Pre-Award Deadlines and Fee Schedule.
- ix. USDA Notice to Proceed (or equivalent) with Application Processing and Lender Preliminary Commitment are required for loans to be guaranteed under the USDA Section 538 Guaranteed Rural Rental Housing Program.
  - x. Any grants or other forms of assistance utilized during the construction period, or utilized as permanent financing must be documented.
  - xi. Applications that include cost associated with Pre-development Financing must provide copies of the loan documents (Note, Loan Agreement, Guarantees, Security Documents) if the loan has closed, or an original commitment from the proposed lender.
  - xii. Federal Home Loan AHP financing commitment from either the Federal Home Loan Bank to the non-profit entity or to the ownership entity is required. If the commitment is to the non-profit entity, then the non-profit should provide a preliminary commitment to the Ownership entity.
  - xiii. Projects proposing the utilization of Historic Tax Credits must provide documentation of the National Historic designation for the subject project.
- b) In the case of public financing which is under final consideration at the time of Application, but is not awarded funding, the Applicant may secure alternate financing provided related Application documents are submitted to DCA on or before the date noted on Exhibit A DCA Pre-application and Pre-Award Deadlines and Fee Schedule. Failure to provide the required documentation for USDA, FHLB-AHP, HUD alternative financing and/or the National Historic designation as stated above may render the application insufficient and the application may be subject to Threshold failure.
- c) The preliminary commitments must disclose, at minimum, the following:
- i. The purpose of the loan and use of proceeds,
  - ii. The property address,
  - iii. The loan amount,
  - iv. The interest rate applicable to the construction period. If the construction period rate is floating, the rate index, spread and the frequency of adjustment must be clearly identified,
  - v. The interest rate applicable to the permanent period. If the interest rate is to be fixed at the time of funding, the rate index and credit spread must be clearly identified and the indicative rate as of the date of the preliminary commitment must be provided,
  - vi. All “add-ons” to the base interest rate, including but not limited to MIP, USDA annual guarantee fee, servicing fees, Ginnie Mae guarantee fees, trustee fees, issuer fees, must be clearly identified in the commitment letter,
  - vii. The general and specific terms and conditions of the loan,
  - viii. The amortization period and term of the loan,

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- ix. All reserves by the lender/syndicator including, but not limited to, replacement reserve, operating deficit reserve, HUD required program reserves and USDA required program reserves,
- x. In the case of a preliminary commitment from a tax credit syndicator to provide equity: the amount of the asset management fee, and whether or not the asset management fee will be increased annually; if increased, the rate of increase and the priority of payment of the Asset Management Fee,
- xi. In the case of loans to be guaranteed under the USDA Section 538 Guaranteed Rural Rental Housing Program, the lender must specify if the annual USDA guarantee fee will be paid out of the Lenders principal and interest payments,
- xii. Applicants that propose financing structures with government programs loans are responsible for correctly reflecting the terms of the loan, and determining whether the funds were originally “federal funds”.

### **10. Assumption of Existing Debt.**

The supporting documentation must disclose, at minimum, the following:

- a) A letter signed by an officer of the lender whose debt is being assumed which certifies, as of May 15, 2015:
  - i. the original principal balance of the loan
  - ii. the current outstanding principal balance of the loan
  - iii. the current accrued and unpaid interest
  - iv. the current effective interest rate applicable to the loan
  - v. the original date of the loan
  - vi. the maturity date of the loan
  - vii. annual debt service
  - viii. the amortization period applicable to the original loan
  - ix. that the loan is not currently in default, or if there exists an event of default, or an event that with the passage of time will constitute an event of default, all of the factual data pertinent to said default or said potential default and
  - x. that the loan has, or has not, been modified (if said loan has been modified and/or restructured in any way, copies of said modification/restructure documents must be provided)
  - xi. the type and current balances of any outstanding reserve accounts
- b) A copy of the original Promissory Note and any amendments and/or modification to said Promissory Note
- c) A copy of the original Loan Agreement and any amendments and/or modification to said Loan Agreement
- d) A copy of the original Mortgage, Deed to Secure Debt, Deed of Trust or such other security instrument providing security for the loan, and any amendments and/or modification to said security instruments



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DCA requires that existing DCA HOME loans receiving 9% credits be paid in full.

For Scattered Site Projects, all units must be developed under one master plan of financing and considered as a single project by all funding sources. The requirements of this threshold category are applicable to the project as a whole.

### **B. DCA Analysis of Feasibility During the Competitive Round**

DCA may request Applicants to clarify issues related to project feasibility during its Threshold Review. In response to such clarification requests, the Applicant can only submit documents that were in existence prior to Application Submission day with the exception of final commitments for government sources under consideration at the time of Application Submission. Any clarification information or documentation will not be utilized for purposes of scoring points.

**1. Total development cost may be decreased or increased during DCA's review if it is determined that line items are not reasonable or do not accurately reflect the supporting documents.** Development budget adjustments during threshold review must be covered by deferred developer fee and not by new financing sources. Applicants may not request that one line item be reduced in order to increase or add an additional line item during the threshold clarification period. Credits will be adjusted accordingly for each adjustment.

- a) DCA may make minor adjustments to a Core Application to ensure consistency with DCA requirements and supporting documents.
- b) Total development cost may be increased or decreased by DCA during DCA's review if it is determined that line items are not reasonable, do not accurately reflect information contained in supporting documents or as a result of the Applicant's response to a clarification request.
- c) Development costs may not be increased by the Applicant during DCA's review.
- d) Minor adjustments in the development budget made by DCA which result in increases in line items may be allowed with commensurate decrease of developer's fee (i.e. only the developer fee may be utilized to cover increases in line item of development costs).
- e) Credits may be adjusted downward as a result of financial adjustment(s).
- f) Credits will not be increased above the amount requested in the Application.

**2. DCA will not make the following revisions during its analysis of feasibility:**

- a) Unit count and bedroom type.
- b) Rent structure (rents may be adjusted upward or downward by DCA to meet applicable program requirements but the number of 50%/60%/market units will not be adjusted). If rents are adjusted by DCA, the relevant debt coverage ratio and feasibility analysis must meet DCA's requirements after the adjustment.

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- c) Operating expenses proposed by the Applicant will not be decreased to make the project feasible.
- d) New financing sources cannot be added (with the exception of DDF to fund any financing gap). Minor clarification of submitted financing sources may be allowed but will be considered an adjustment.
- e) Submitted financing sources cannot be modified to cover gaps

### **II. COST LIMITS**

Regardless of the reasonableness of proposed project costs, DCA has determined that it will not fund projects that have costs that exceed DCA cost limits except under the limited circumstances described below. DCA has adopted cost limits are defined by the HUD PIH Office of Capital Improvements and published as the “HUD 2014 Unit Total Development Cost (TDC) Limits.” Find the cost limits by building design and geographic region

here: <http://portal.hud.gov/hudportal/documents/huddoc?id=2014TDCLimitsPub070814.pdf>.

The limit is based on the building design type (elevator, walk up, row house, detached/semi-detached), number of bedrooms and geographic location of the proposed property. The cost limits for 4+ bedroom units will be limited to the 3 bedroom per unit cost limits. Applications for properties located in the MSAs (Atlanta, Augusta, Brunswick, Macon, Rome, Savannah, and Valdosta) listed in the HUD 2014 Unit Total Development Cost Limits document must use the respective per unit cost limit. Any properties not located in an MSA or located in an MSA not listed, must use the cost limits per development type for the Valdosta MSA. The cost limits for Historic Rehabilitation projects that qualify for scoring points under Historic Designation will be limited to 110% of the applicable cost limits.

Single family styled units must meet the cost limits for each unit. Projects that propose a combination of new construction and rehab cannot average the costs of the rehab and new construction. The increased limits for historic rehabilitation projects will only be applicable to that portion of the project that qualifies as a historic development.

The total development cost for the project at the time of the Application cannot exceed the DCA per unit cost limitations unless the Applicant obtains funding from a foundation or other unrelated not-for-profit charitable organization in the amount equal to or greater than the development cost that exceeds DCA’s unit cost limitations. The funding commitment letter from such foundation or charitable organization must be included in the Application and such funds, which must be in the form of a grant or a cash flow loan, must be included as part of the project sources of funds in the Application and final cost certification. In calculating the maximum of credits which can be allocated to the project, DCA will not include these funds in the gap calculation.

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In limited circumstances, DCA will consider cost waiver requests for projects involving a significant economic barrier not typically seen in Georgia tax credit projects. Such requests must be submitted by the Pre-Application deadline.

### **III. TENANCY CHARACTERISTICS**

All Applicants must designate the proposed project as targeting one of the following tenancies:

**A. Family Project.** A Family project is designed to foster development of housing for families and to encourage community activities from within the neighborhood.

**B. Senior Project.** A Senior project meets one of the following requirements:

1. **Elderly:** Intended for, and solely occupied by, individuals 62 years of age or older; **or**
2. **Housing for Older Persons:** Intended and operated for occupancy by at least one individual 55 years of age or older per unit, where at least 80% of the total housing Units are occupied by at least one individual who is 55 years of age or older; and where the Owner publishes and adheres to policies and procedures which demonstrate an intent by the owner and manager to provide housing for individuals 55 years of age or older. Housing for Older Persons included HUD PHA properties that have a combined senior and disabled tenancy. (See DCA defined terms in Core).

**C. Other.** Projects that have funding from a program which has a different tenancy definition than those set forth above must contact DCA for instructions on this section no later than the Pre-Application deadline date. Projects that combine senior housing and special needs housing must meet all architectural requirements of senior housing.

### **IV. REQUIRED SERVICES**

**A. Categories.** All Family Projects must include at least one (1) ongoing service from the following categories and Senior Projects must include two (2) ongoing services from two different categories below:

1. Social and recreational programs planned and overseen by the project manager (semi-monthly birthday parties/holiday dinners or parties/potluck dinners, movie nights, bingo, etc.); or
2. Semi-monthly classes conducted on site (example: arts and crafts, computer tutoring, gardening, safety classes such as CPR and household safety);
3. Semi-monthly health classes conducted on site. (Examples: Nutrition, healthy cooking, asthma management classes and smoking cessation classes, exercise classes such as yoga, Pilates, strength training, group led aerobic classes, and/or personal fitness.

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4. Other services as approved by DCA.

Applications that will target populations with disabilities must also provide a memorandum of agreement with a behavioral health agency, continuum of care or service provider to ensure the appropriate provision of supportive services.

Applicants must certify at Application Submission that they will designate the specific services and meet the additional policies related to services. These required services must be identified in the Threshold Criteria Tab on the Core Application Form.

### **B. Additional Policies Related to Services**

A final, binding contract for all proposed services must be submitted to the DCA Compliance Manager before issuance of IRS form 8609.

1. Services must be committed for the Compliance Period or the Period of Affordability, whichever is greater.
2. Services may be provided at a charge sufficient to cover the cost of the supportive services only, but the services must be clearly optional to the tenants.
3. A full-time activities manager will be allowed in the operating budgets for those properties that are 100 units or more in size.
4. Temporary staffing during lease-up to handle activities set-up and sign-up will be considered on a case-by-case basis.
5. Part-time (on a proportional basis) activity managers will be allowed in the operating budgets for smaller projects.
6. Owners will be required to submit annual certifications and documentation regarding the ongoing provision of the supportive services.
7. For very small Rural projects, Applicants may request a waiver of service requirements if there is insufficient participation in a service.

### **V. MARKET FEASIBILITY (MARKET STUDY)**

Applicants must submit a market study in accordance with DCA requirements. The market study must be completed no more than 6 months prior to the Application Submission date. While DCA will use the conclusions of the analyst in determining whether the project is marketable, DCA will not be bound by the opinion or conclusions reached by the market analyst. DCA will review the market study, rent rolls and project data of similar projects located in close proximity to the proposed project in determining whether the project will be able to achieve the desired lease up to be feasible. The study must be prepared by a market analyst approved by DCA and clearly state that there is sufficient demand for the project and the project will stabilize within DCA requirements.

The market study must be prepared in accordance with DCA guidelines and must be in the format required by the DCA Market Study Manual. It is the Applicant's responsibility to

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ensure that the market study accurately reflects the rental structure and unit mix of the proposed project, as reflected in the Application, and meets all DCA requirements.

DCA will also carefully analyze existing DCA projects located in close proximity to the proposed project to determine if selection of the project will have significant adverse financial impact on existing affordable housing inventory. Except in the limited circumstances detailed below, DCA will not select a proposed Application for funding if the proposed site is in close proximity to a project which received an award of credits (9% and 4%) between 2012 and 2014. DCA defines “close proximity” as the 10-mile radius around each recently financed Rural development or a 2-mile radius around each recently financed non-Rural development. DCA will accept occupied rehabilitation projects with 100% PBRA as an exception to the close proximity rule.

DCA will consider exceptions including, but not limited to, the following:

- The Application proposes to serve a different tenancy (Senior vs. Family) than the tenancy served at the recently financed project.
- Applications in high income low poverty areas (15% or less poverty rate), and a high demand for tax credit units but few opportunities for affordability.
- Applications proposing occupied rehabilitations
- Applications located in close proximity to recently financed occupied rehabilitations.
- Documentation clearly demonstrating that the proposed project will not adversely affect the recently financed project, for example the availability of project rental assistance at one of the sites. Note that a strong market study does not warrant an exception.
- Phased developments.
- Applications in highly populated urban areas that have market studies that show very high demand rates well over the demand requirement in the Market Study manual.

The following factors will generally be considered by DCA to be indicative of Market feasibility for HOME, 4% tax exempt Bond projects, and 9% Tax Credit projects.

1. Market capture rates 30 percent or less for **all** 1 bedroom units, 30 percent or less for **all** 2 bedroom units, 40 percent or less for **all** 3 bedroom units and 50 percent or less for all 4 or more bedroom units in the project
2. In Rural areas (as defined), market capture rates of 35 percent or less for **all** 1 bedroom units, 35 percent or less for **all** 2 bedroom units, 40 percent or less for **all** 3 bedroom units and 50 percent or less for all 4 or more bedroom units in the project
3. The overall capture rate for **all** Tax Credit Units shall not exceed 30 percent for Urban Counties and 35 percent for Rural areas and the overall capture rate for **all** Market Rate Units shall not exceed 30% for Urban Counties and 35% for Rural areas
4. Market capture rates for each AMI market segment type (i.e. 30%, 50%, 60% & market) for each **bedroom type** shall not exceed 70% for **all** bedroom types proposed in each segment
5. An absorption period less than 24 months to reach stabilized occupancy
6. Stabilized occupancy rate of 93% or above

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7. Unit mixes or target populations supported by the market
8. No adverse impact to the occupancy and financial health of existing assisted rental housing properties in the market area. Assisted rental housing properties include those financed by Credits, USDA, HUD 202 or 811 (as appropriate), DCA or locally financed HOME properties, HTF, and HUD 221(d)(3) and 221 (d) (4) and other market rate FHA insured programs. DCA does not consider public housing properties in the adverse impact determination
9. Strong overall market occupancy (greater than 90%)
10. The minimum rent differential between proposed rents and market rate rents at nearby comparable properties must be 10%

For existing occupied properties that are going to be rehabilitated, market analysts shall consider retention of current occupants in their demand calculations. Retention is measured by the number of tenants that are not rent burdened or over-income that are projected to reside at the property during and after the proposed renovations.

For Senior projects, demand may include residents from outside the market area, converting from homeownership and seniors living with and/or supported by their children as documented by the market analyst. DCA, when necessary, may independently evaluate the demand for additional affordable rental housing in the geographic/market area.

DCA's judgment will be the final determination. All requests for a "DCA ordered" market study for 4% tax credits submitted in May through September will need to have all pending 9% tax credit applications considered in demand calculations.

DCA may retain the services of its own market analyst to review the conclusions of the market study submitted by the applicant. For scattered site projects, the market study requirements must be met for the project as a whole.

## **VI. APPRAISALS**

### **A. DCA Commissioned Appraisals**

For all projects awarded HOME Loans, DCA will commission an appraisal prepared in accordance with DCA policies. DCA may also commission an appraisal for a tax credit only project in order to confirm that the proposed purchase price is reasonable.

HOME Applicants will be charged a fee equal to the cost of the appraisal report. The fee will be due on the date specified in the HOME commitment letter. The commissioned appraisal reports shall include the "as is" value, "as built/as complete" (encumbered), "as built/ as complete " (unencumbered) values of the proposed subject property and, tax credit value. The "as is" value shall delineate the value of the land and building. The appraisal shall conform to USPAP standards. The appraisal will provide an estimate of

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the unrestricted market value (unencumbered) of the property at loan maturity. The total hard cost of any project may not exceed 90% of the as completed unencumbered appraised value of the property. Upon completion of the commissioned appraisal, any project found not to meet this requirement will have their funding award revoked.

The DCA appraisal may be assignable to other lenders. In instances where the senior lender obtains the appraisal, DCA will accept such appraisal as long as DCA's guideline requirements are met and DCA is given the right to rely on the appraisal by the appraiser.

### **B. Applicant Commissioned Appraisals**

The effective date of Applicant Commissioned Appraisals must be within 6 months of Application Submission.

- 1. Identity of Interest.** DCA policy requires that the Applicant obtain an appraisal of the value of a property if there is an identity of interest between the buyer and the seller. This appraisal must be submitted with the Application. DCA will carefully scrutinize the sales price of land between related parties to ensure that the value has not been inflated. While the appraisal will be an indication of fair market value, DCA will consider tax values as well as actual sales price established as indicative of the value of a property. All property values shall associate a land value as well as a value for the improvements. The appraisal shall conform to USPAP standards.

Properties which have been in the control of the Applicant or a related party for a period of three (3) years or less will generally be valued at the acquisition cost at the time the related party obtained initial site control. Properties that have been rezoned, subdivided or modified will not be deemed to be of higher value based on the actions taken by the Owner/ Applicant or any related party.

For Scattered Site Projects, an appraisal establishing "as-is" value will be required for each non-contiguous parcel where an identity of interest exist between the buyer and seller.

- 2. Selected Projects.** DCA may also require that all tax credit only projects selected for funding provide an appraisal commissioned by a lender or a DCA approved appraiser on or before closing. This appraisal must support the purchase price as well as the value of the property upon completion.

## **VII. ENVIRONMENTAL REQUIREMENTS**

Applicants should note that many of the environmental requirements from the QAP have been included in the Environmental Manual and are incorporated herein by reference.

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### **A. General**

On-site and off-site specific environmental concerns identified in an environmental study are to be considered in the context of the criticality of the housing to be provided. DCA shall consider the public benefits of the housing and then weigh the benefits against the costs to mitigate the hazard, the potential health risks, and other financial and public policy implications. The project will not pass Threshold until all environmental matters are resolved.

For Scattered Site Projects, the environmental requirements must be met for each noncontiguous parcel.

### **B. Environmental Study**

Applicants must include a Phase I and all required Phase II environmental studies in the Application. These studies must be prepared in accordance with the DCA 2015 Environmental Manual. The Applicant and the Qualified Environmental Professional must sign the environmental certification form and include it in the Application.

The Phase I Environmental Study must fully address all recommendations of the Qualified Environmental Professional. If a Phase II is recommended, all testing must be completed prior to Application Submission.

The Phase I (and Phase II when recommended by the Qualified Environmental Professional) Environmental Study must have been conducted within six (6) months of the Application Submission. If an Environmental Study was completed prior to this six-month period, a copy of this earlier Environmental Study (and any others that are available) must also be included in the Application along with a new Environmental Study.

**1. Additional Standards.** In addition to compliance with the standards developed by the American Society for Testing and Materials' ("ASTM") and set forth in the "Standard Practice for Environmental Site Assessments, Phase I Site Assessment Process", ASTM 1527-05, DCA requires the following non-scope items be investigated:

- a) Flood Plains/Floodways
- b) Wetlands
- c) State waters/streams/buffers & setbacks
- d) Lead based paint
- e) Asbestos containing materials
- f) Noise
- g) Water leaks, mold and lead in drinking water
- h) PCBs
- i) Radon
- j) Endangered species



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- k) Historic designation
- l) Vapor intrusion screening

**2. Additional Environmental Requirements for HOME/HUD funded Projects, including but not limited to PBRA.** All developments utilizing HOME or HUD funds are required to assess the environmental effects of that activity in accordance with the provisions of the National Environmental Policy Act of 1969 (NEPA) and HUD regulations at 24 CFR Part 58. DCA requires applicants to conduct various activities required for the environmental review process, including a Phase I Environmental Assessment (EA), as outlined in the Environmental Manual.

The Applicant, as outlined in the HOME/HUD Environmental Questionnaire, must complete additional requirements for HOME/HUD funded projects including, but not limited to, the Eight-Step process and HUD publication procedures. If applicable, evidence of the commencement of the Eight Step process must be submitted no later than the date noted in Exhibit A DCA Pre-application Deadlines and Fee Schedule.

**a) Eight-Step Process:** Projects located within a flood hazard area or designated wetland are subject to Executive Order 11988 (Floodplain Management) and Executive Order 11990 (Protection of Wetlands) respectively. HUD's implementing regulations at 24 CFR Part 55 -- "Floodplain Management" prescribe measures for protecting floodplains, and when amended, for protecting wetlands. Under the provisions of these Executive Orders, HUD must avoid financial support for covered activities, unless it can demonstrate that there are no practicable alternatives outside the floodplain or wetland. Therefore, if jurisdictional wetlands will be filled or impacted, and/or construction and landscaping activities will occupy or modify a floodplain/floodway, then documentation that the Eight-Step process has been followed as mandated by 24 C.F.R. §55.20 for wetlands and floodplains must be provided as a part of the HOME and HUD Environmental Questionnaire. The decision making process for compliance with this part contains eight steps, including public notices and an examination of practicable alternatives. The steps to be followed in the decision making process are outlined in the 2015 Environmental Manual. **Applicants should note that the 8-step process must be commenced prior to Application and completed no later than the date noted in Exhibit A DCA Pre-application Deadlines and Fee Schedule. The process also now has a new requirement regarding FEMA notification. Applicant is responsible for providing documentation to DCA upon completion of the process.**

**b) HUD Environmental Clearance & Publication Requirements:** DCA, as the responsible entity (RE) referred to in 24 CFR §58.43, Environmental Review Procedures for Entities Assuming HUD Responsibilities, is responsible for undertaking environmental reviews for proposed DCA HOME projects. In this capacity, DCA must ensure that the environmental review process is satisfied before certain HUD funds are committed to specific projects. Therefore, when initial awards of HOME funds are

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announced, DCA will publish notices of its intent to allocate HOME funds in local newspapers in the proposed project's areas. After comments, if any, have been received, HUD will review the comments to determine if there has been a finding. Once that process is complete and there has been no finding, DCA will seek HUD's approval of its commitment of HOME funds to the proposed project. In order to ensure that the environmental review process is not challenged, Owners and/or Developer of proposed projects must, once applications are submitted, refrain from undertaking activities that could have an adverse environmental impact prior to the receipt of an environmental clearance letter from DCA removing the stipulated conditions. Such activities include: acquiring, rehabilitating, converting, leasing, repairing, or constructing property. As a result, an Applicant cannot commit or expend HUD or non-federal funds until the environmental review process has been completed.

For Scattered Site Projects, the environmental requirements must be met for each noncontiguous parcel.

### **VIII. SITE CONTROL**

Site control must be in the form of (1) a warranty deed that conveys title to the subject property to the current General Partner or proposed LP or 2) a legally binding contract to purchase the proposed project site in the name of the General Partner or proposed LP (or which provides for an assignment to the General Partner or proposed LP), or (3) a binding long-term ground lease or an option for a binding long-term ground lease, with a minimum term of forty-five (45) years. For competitive applications, contracts must be executed prior to Application Submission deadline, must include a discernible contract price, must be signed by the purchaser and seller, must include a legal description of the property and must provide legal control of the site to the proposed General Partner or proposed LP at least through November 30, 2015. Site control must be in place through estimated bond closing date for a 4% tax credit project.

In the event the contract provides the Applicant with the option to renew the contract for specific periods of time, with the initial period ending prior to November 30, 2015, the renewal option in such contract must be enforceable by the Applicant until November 30, 2015. A copy of a recorded warranty deed or a fully executed contract must be submitted with the Application.

An Applicant may also show site control if selected through a federal government RFP process and can document that there is a reasonable certainty that the final site control documents will be finalized within a reasonable time after award.

For Scattered Site Projects, evidence of site control is required for each non-contiguous parcel.

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### **Minimum Documentation:**

- Warranty Deed, legally binding Contract, legally binding, long-term Ground Lease or Option
- Legal description

### **IX. SITE ACCESS**

All sites proposed for development must be legally accessible by paved roads. The Application must include the appropriate drawings, survey or other documentation that reflects such paved roads. If such paved roads are not in place at the time of the Application Submission, documentation evidencing a local government commitment for funding and the timetable for completion of such paved road must be included in the Application. This restriction does not apply to private driveways accessing only the proposed project through property that is not part of a proposed site. However, if the use of such a private drive is proposed, site control of the private drive must be documented by proof of ownership or by a properly executed easement on the private drive, and the plans for paving the private drive, including associated development costs, must be adequately addressed in the Application.

For Scattered Site projects, each non-contiguous parcel must meet the above criteria.

### **Minimum Documentation:**

- Drawings, survey or other documentation of legally accessible paved roads
- Commitment for funding
- Proof of ownership and easements.

### **X. SITE ZONING**

Zoning must be in place before the Application Submission deadline. Zoning of the development site must conform to the site development plan and must be confirmed, in writing, by the authorized Local Government official. The letter from the authorized Local Government official must be included in the Application. The letter must include the zoning and land use classification of the property and be accompanied by a clear explanation of the requirements (copy of the applicable sections of the zoning ordinance for the stated classification) and all conditions of these zoning and land use classifications. If the project is requesting HOME or HUD funds, the Local Government official must also comment on whether the project will include the development of prime or unique farmland (Please see the HOME and HUD Environmental Guidance for additional information). If the Local Government does not have or enforce a zoning ordinance, the Applicant must include a letter from a local government official to that effect.

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The Applicant must provide documentation that demonstrates that the site layout conforms to any moratoriums, density, setbacks, or other imposed requirements of the Local Government. This documentation must be demonstrated on the Architectural Site Conceptual Development Plan either graphically or in written form.

It is the responsibility of the Applicant to ensure that all issues and questions surrounding the zoning and land use classification of a proposed site are clearly defined prior to Application Submission. Any unclear or unresolved issues of zoning and land use could result in Threshold failure of the Application.

For Scattered Site Projects, site zoning requirements must be met for each noncontiguous parcel.

### **Minimum Documentation:**

- Written confirmation of zoning from local government official
- Explanation or copy of applicable zoning ordinance
- HOME funds: see HOME/HUD Environmental Guidance

## **XI. OPERATING UTILITIES**

Required project operating utilities (gas and electric service), as applicable, must be available to the proposed development site as of the Application Submission. To be considered "available" for the purposes of this section, all easements necessary for the utility providers to extend utilities to the property, and commitments from the utility providers to extend utilities to the property must be secured at the time of Application submission. Evidence of such easements and commitments from the utility provider must be included in the Application.

The Application must include a letter from the appropriate utility company confirming the availability and capacity of operating utilities at the proposed development site. The letters must be on letterhead and bear signatures from the appropriate utility companies. Any charges for the off-site extension of utility services are not eligible for funding as project costs under the funding resources in the Plan. The requirements for Operating Utilities must be met for each non-contiguous parcel or each non-contiguous multifamily property.

Operating utilities cannot be contingent on annexation of the property, improvement of infrastructure or funding to the utility provider from an outside source. Verification of the annexation and improvements must be submitted with the Application. Any unclear or unresolved issues regarding operating utilities may result in Threshold failure of the Application.

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For Scattered Site Projects, a single letter will be accepted if it clearly demonstrates that each noncontiguous parcel has met operating utilities requirements.

### **Minimum Documentation:**

- Letter from applicable utility authorities.

## **XII. PUBLIC WATER/SANITARY SEWER/STORM SEWER**

Public water and sewer service must be available at the proposed development site as of the Application Submission. To be considered "available" for the purposes of this section, all easements necessary for the water and sewer authorities to extend the existing water and sewer services to the project and commitments from the water and sewer authorities to extend the existing water and sewer services to the property must be secured at the time of Application Submission. Evidence of the easements and commitments from the water and sewer authorities must be included in the Application. A commitment can be subject only to conditions within the control of the Applicant. Letter(s) from the local public water and sewer authorities must document the availability and capacity of the existing public water and sewer service to the site. These letters from the appropriate public water and sewer authorities must be on letterhead and be included in the Application. Any charges for the extension of off-site services are not eligible for funding as project costs under the funding resources in the Plan. Public water and/or sewer availability cannot be contingent on the construction of a water/sewer system, annexation of the property or funding to the utility provider from an outside source. Verification of the annexation and improvements must be submitted with the Application. Any unclear or unresolved issues regarding the public water/sanitary sewer/storm sewer may result in threshold failure of the Application.

For Scattered Site Projects, a single letter will be accepted if it clearly demonstrates that each noncontiguous parcel has met the Public Water/Sanitary Sewer/Storm Sewer requirements.

### **Minimum Documentation:**

- Letter from applicable public water/sanitary sewer/storm sewer authority.

## **XIII. LOCAL GOVERNMENT SUPPORT AND COMMUNITY ENGAGEMENT**

No proposed project shall be entitled to receive a tax credit allocation unless the Local Government and residents of the surrounding community are notified and provided with a reasonable opportunity to comment on the proposed project. DCA will consider the response of the local government in determining whether there is sufficient local government support to ensure the success of the proposed project. Local governments that oppose the funding of a project should provide the specific basis for the opposition.

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Local Government opposition that appears to be discriminatory or violate fair housing laws will not be grounds for failure of this threshold requirement.

### **Minimum Documentation:**

- Public Notice of meetings
- Evidence of public meetings and presentations regarding the proposed project to local government and residents of the surrounding community
- Resolutions of support or letters of support from local government officials (may be included but are not required)

DCA will give each local government an opportunity to comment on the project during the formal review process.

## **XIV. REQUIRED AMENITIES**

### **A. Standard Site Amenities.**

All properties must include the following on-site amenities:

1. A community room or building,
2. An exterior gathering area such as a gazebo or exterior covered porch located in a central area,
3. An on-site laundry (1 washer and 1 dryer per every 25 units) or washers and dryers installed and maintained in every unit.

All the above amenities, with the exception of the on-site laundry, must be available to the tenants at no additional charge.

A Phased Tax Credit project with a previously funded phase should not share amenities.

### **B. Additional Site Amenities.**

Properties that have 125 units or less must include at least two Additional Site Amenities. Properties with more than 125 units must include at least four Additional Site Amenities.

All amenities must meet the criteria set forth in the Architectural Manual.

### ***Additional Amenity Pre-Approvals***

Additional amenities not contained in the Architectural Manual must be approved by DCA during Pre-Application. Applicants should submit a request for approval of additional amenities in accordance with **Exhibit A DCA Pre-Application Deadlines and Fee Schedule**. Requests for approval of additional amenities must include a detailed

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description of the amenity and must include justification of the appropriateness of the option for the targeted population.

### **C. Unit Amenities.**

All units must include the following:

1. HVAC systems
2. Energy Star refrigerators
3. Energy Star dishwashers (not required in senior USDA or HUD properties)
4. Stoves
5. Microwave ovens
6. Powder-based stovetop fire suppression canisters installed above the range cook top, or electronically controlled solid cover plates over stove top burners

### **D. Additional Requirements and Amenities for Senior and Special Needs Projects (Elderly and Housing for Older Persons)**

1. Elevators must be installed for access to all units above the ground floor;
2. Buildings with more than two story construction must have interior furnished gathering areas in several locations in the lobbies and/or corridors;
3. 100% of the units must be accessible and adaptable, as defined by the Fair Housing Amendments Act of 1988.

Applicants must enter all selections in the Threshold Criteria tab on the Application Form.

For Scattered Site Projects, required amenities must be met for each noncontiguous parcel unless a waiver is granted by DCA.

## **XV. REHABILITATION STANDARDS**

### **A. Rehabilitation Construction Hard Costs**

The Internal Revenue Code requires that all low-income units in a project receiving Credits remain rent-restricted and income-restricted for the 15-year Compliance Period and for 15 years after the close of the Compliance Period. Projects that propose rehabilitation must present a scope of work that will position the property to meet the entire extent of its statutory obligations. All work scopes will propose:

1. A minimum per unit hard cost budget of \$25,000, excluding the construction of new community buildings and community building additions.
2. The replacement of any component of the building or site with a Remaining Useful Life, according to Fannie Mae Expected Useful Life Table, of less than 15 years.

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3. The replacement of existing exterior stairs, breezeways, and handrails that have no roof cover with covered vertical circulation.
4. Compliance with the Georgia State Minimum Standard Codes and Life Safety Code for new construction regarding stairs, handrails, guardrails, smoke detectors, fire alarms, and unit fire separation (attic draft stops, fire separation, rated party walls and floor/ceiling components, and caulking of all penetrations in the fire assemblies). Life Safety items that do not meet current codes will not be 'grandfathered' in.
5. Substantially the same scope of work in all units.
6. Compliance with the Architectural Manual upon completion of work.
7. Compliance with all current building codes upon completion of work.
8. Compliance with all DCA accessibility requirements upon completion of work. DCA does not distinguish between new construction and rehabilitation in its accessibility requirements.
9. Compliance with UPCS upon completion of work.

DCA will review the type of construction and associated hard construction costs. Applications for the rehabilitation of a substandard property will not be funded if, in the opinion of DCA, the rehabilitation will not result in improved, safe and decent long-term housing, the proposed rehabilitation does not meet DCA standards, or if new construction would be more appropriate.

DCA may grant an architectural waiver to projects that will not meet the above requirements only if there is an overriding public policy or historic preservation need and the physical needs assessment clearly documents that the existing property does not require a comprehensive rehabilitation. A certification from the architect and, where applicable, the appropriately licensed project engineer (civil, structural, mechanical, plumbing, electrical) must also be provided documenting that the proposed work scope is sufficient to ensure that the completed project will be viable and meet the DCA useful life requirements. DCA may require as a condition of the waiver, that the financial pro forma clearly provide for the full funding of the capital replacement reserve. The capital reserve replacement must clearly schedule all component/system replacements required according to the Fannie Mae Expected Useful Life Table.

### **B. Physical Needs Assessment**

For rehabilitation projects, a Physical Needs Assessment (PNA), no more than 6 months old as of the date of the Application submission, and Capital Reserve Study completed by a DCA qualified consultant must be included in the Application, and prepared in accordance with instructions set forth in the Rehabilitation Guide in the Architectural Manual. Physical Needs Assessments are also required for adaptive reuse projects.

### **C. Rehabilitation Work Scope**



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DCA's Rehabilitation Work Scope form which requires a detailed construction budget with unit costs must be included in the same tab with the Physical Needs Assessment. DCA will not allow material changes in the scope of work after tax credit award. If awarded, final construction documents must be submitted to DCA in accordance with the timelines outlined in Exhibit A Post-Application and Post-Award Deadlines and Fee Schedule that confirm the scope of work submitted with the Application.

DCA must be able to determine that the work scope addresses:

1. All immediate needs identified in the PNA
2. All application threshold and scoring requirements
3. All applicable architectural and accessibility standards
4. All remediation issues identified in the Phase I Environmental Site Assessment

In the event DCA determines that the PNA or work scope fails to address a major structural, Building Code, health, safety, marketing, accessibility, storm water retention, crawl space moisture, or other building system issue the Application may fail this Threshold requirement.

For Scattered Site Projects, Physical Needs Assessment requirements must be met for each noncontiguous parcel.

### **Minimum Documentation:**

- Physical Needs Assessment
- DCA Rehabilitation Work Scope form.

## **XVI. SITE INFORMATION AND CONCEPTUAL SITE DEVELOPMENT PLAN**

A Conceptual Site Development Plan must be included in the Application, and prepared in accordance with instructions set forth in the Architectural Manual. The Conceptual Site Development Plan must be at least 11"x17" and include the following:

- A. Easements to be defined and indicated on plan;
- B. Topographic contours at appropriate vertical intervals;
- C. Finished floor elevations of each building;
- D. Wetlands, floodplains, and state waters located with areas of disturbance calculated for the Wetlands including required buffer zones clearly delineated to reflect how they will impact the development of the site;
- E. Use of all adjacent properties clearly defined both graphically and in written form;
- F. Zoning setbacks and restrictions graphically indicated;
- G. Indication of all existing structures, tanks, slabs and any other improvements existing on the property;

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- H. Indication of any other items, physical or otherwise that would affect the development of the subject property;
- I. Indication of the entrance access to the property and a layout of all buildings, roads, and parking areas defined all site development amenities;
- J. Location of all site amenities indicated in the Scoring Criteria on the Application Form; and,
- K. Defined areas of all tree and vegetation preservation.

DCA does not require an ALTA Survey for purposes of developing the conceptual site development plan. DCA may require a boundary survey if the precise location of the subject project is in question.

Waivers for variances from any architectural standard in the Architectural Manual must be submitted to DCA prior to the Application Submittal in accordance with Exhibit A DCA Pre-application and Pre-Award Deadlines and Fee Schedule.

For Scattered Site Projects, Site Information and Conceptual Site Development Plan requirements must be met for each noncontiguous parcel unless a waiver is granted by DCA.

### **Minimum Documentation:**

- Conceptual Site Development Plan.

## **XVII. BUILDING SUSTAINABILITY**

All completed properties must achieve a minimum standard for energy efficiency and sustainable building practices. At minimum, all units at all projects must comply with the following. (Historic properties may apply for an exemption when compliance means loss of historic character-defining features and finishes).

- A. **Compliance with Georgia State Minimum Standard Energy Code (International Energy Conservation Code with Georgia State Supplements and Amendments) in effect at the time of permit issuance.** Proof of compliance must be submitted prior to release of 8609s.
- B. **Measured duct and building envelope leakage.** Verification by certified HERS rater of an HVAC system duct leakage rate and dwelling unit air infiltration rate that meets or exceeds the Energy Star Qualified Homes, Version 3 National Program Requirements for the appropriate project specific climate zone (the duct leakage rate for all climate zones in Georgia is < 4 cfm/100 square feet; dwelling unit air infiltration rate to outdoors for climate zone 2 is an ACH 50 of 6 and for climate zones 3 and 4 is an ACH 50 of 5). Verification testing must follow the Energy Star testing protocol. If the project is not seeking a green building certification, test reports verifying compliance must be submitted at either the LIHTC final certification or HOME Loan

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final construction draw, whichever comes first. Projects that plan to utilize Packaged Terminal Air Conditioners (PTAC's) or ductless mini-splits for all units are exempt from the duct leakage requirement.

Rehab units are required to achieve a 20% improvement over existing conditions based upon pre-rehabilitation duct leakage and air dwelling unit air filtration rates. To arrive at the pre-rehabilitation leakage rates, a sampling of units, that includes one of each unit type in its various configurations within the property, must be have pre-rehabilitation duct leakage and dwelling unit air infiltration performance testing, utilizing RESNET approved performance testing methodologies, conducted upon them prior to the rehabilitation of the property. By conducting pre-rehabilitation performance testing in this manner, the tester will be able to arrive at an average pre-rehabilitation duct leakage and dwelling unit air infiltration rate for the entire project and thus set duct leakage and dwelling unit air infiltration requirements for the post rehabilitation property.

- C. Bathroom fans.** Comply with Energy Star specifications for sound level and minimum efficiency based on CFM size. Fans must be wired with a light and equipped with either a humidistat OR a timer that ensures that the fan operates for a minimum of 10 minutes once the light has been switched off.
- D. Lighting.** Install fluorescent lights for at least 80% (by fixture count) of the required lighting. Required lighting includes kitchens, dining rooms, living/family rooms, bathrooms, hallways, stairways, entrances/foyers, bedrooms, garages, utility rooms and outdoor fixtures mounted on the building.
- E. Plumbing fixtures.** In all units: shower heads <2.0 gpm, bathroom faucets < 1.5 gpm, kitchen faucets <2.0 gpm, toilets ≤ 1.28 gpf.
- F. Low VOC wall and floor finishes.** Maximum VOC levels of 50 grams/liter for wall and 100 grams/liter for floor finishes.
- G. Water heaters.** Comply with Energy Star Qualified Homes Version 3 National Program Requirements for Efficiency Factor.
- H. Energy Star appliances** (refrigerators, dishwashers, laundry machines) provided by owners in units and community laundries.

The final construction documents must clearly indicate all components of the building envelope and all materials and equipment that meet these requirements. Refer to the Architectural Manual for additional information on basic design, appliances, and equipment.

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**XVIII. ACCESSIBILITY STANDARDS**

**A. All projects funded under the Plan must meet the following accessibility standards at the time of project completion:**

1. All projects that receive allocations or funding under the Plan must comply with all applicable Federal and State accessibility laws including but not limited to: The Fair Housing Amendments Act of 1988, Americans with Disabilities Act, Section 504 of the Rehabilitation Act of 1973, Georgia Fair Housing Law and Georgia Access Law as set forth in the 2015 Accessibility Manual. When two or more accessibility standards apply, the applicant is required to follow and apply both standards so that a maximum accessibility is obtained, and
2. All applicable DCA accessibility requirements detailed in the 2015 Architectural and Accessibility Manuals.

**B. Regardless of whether a project anticipates using federal funds as a funding source, all proposed projects must include the following DCA requirements:**

1. At least 5% of the total units (but no less than one unit) must be equipped for the mobility disabled, including wheelchair restricted residents. Roll-in showers must be incorporated into 40% of the mobility equipped units (but no fewer than one unit); and
2. At least an additional 2% of the total units (but no less than one unit) must be equipped for hearing and sight-impaired residents.

Preservation of existing affordable housing that cannot be modified to meet accessibility requirements that are not required by law, may request a waiver.

The same unit cannot be used to satisfy the 5% and 2% requirement.

**C. Each project selected for allocation is required to retain a DCA qualified consultant to monitor the project for accessibility compliance.**

The consultants must perform a pre-construction plan review and inspect the project at least 2 times during construction to monitor grading operations, framing, and final compliance. DCA must be copied on all reviews/reports. The qualified consultant shall not have an identity of interest with any entity on the Part II Development Team tab in the core application.

Any exemptions to the applicable federal, state, and local accessibility laws must be supported by a legal opinion that supports such exemptions. In addition, DCA will review requests for exemptions from the DCA Accessibility Standards set forth in the Accessibility Standards section of the Application Manual.

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For Scattered Site Projects, the 5% and 2% requirements are applicable to the project as a whole; however, distribution of the units must be across the non-contiguous parcels.

### **XIX. ARCHITECTURAL DESIGN & QUALITY STANDARDS**

All applications must meet the Architectural Standards contained in the Architectural Manual for quality and longevity. The standards are intended to promote the integration of new construction/rehabilitation into the existing community and to promote sustainable design and the protection of resources. The marketability of the property and appearance of the site are important components in the final product.

#### **A. Constructed and Rehabilitation Construction Hard Costs**

DCA will review the type of construction and associated hard construction costs. Applications for the rehabilitation of a substandard property will not be funded if, in the opinion of DCA: the rehabilitation will not result in improved, safe and decent long-term housing; the proposed rehabilitation does not meet DCA standards; or if new construction would be more appropriate. A similar review of project financial feasibility and economic viability will be conducted for all Applications proposing new construction to ensure that each project's construction hard costs will produce high quality housing for the targeted tenant market.

#### **B. Standard Design Options for All Projects**

Projects must choose from the standard design options as detailed below and enter each selection in the Threshold Criteria tab of the Application.

##### ***1. Exterior Wall Finishes***

Select and enter in the Threshold Criteria tab of the Application **one** category from this list:

- a) Exterior wall faces must have an excess of 40% brick or stone on each of the total wall surfaces. This is applicable to all sides of the buildings including the front wall face, each side's wall face and the rear wall face of the buildings. On all exterior walls the brick/stone must extend to all areas of grass, landscaping and other areas of soil or mulch.
- b) For the rehabilitation of buildings that are eligible for historic preservation credits, maintain and if necessary replace with matching materials, the existing or original exterior finish surfaces including the front wall face, rear wall face and both side wall faces.
- c) For the rehabilitation of buildings that do not have existing brick or stone in excess of 40% (and are not eligible for historic credits), replace and upgrade the existing exterior

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finish surfaces on all wall faces including the front wall face, rear wall face and both side wall faces with brick or a product that provides a 40 year warranty.

- d) For single family units, the total building envelope shall have 35% minimum brick coverage; remaining 65% must be fiber cement siding or other 40 year warranty product.

### **2. Major Building Component Materials and Upgrades**

For all construction types major building component materials may be upgraded from the minimums as delineated in the Architectural Manual. Select **one** from the following list and enter in the Threshold Criteria tab of the Application:

- a) Fiber cement siding or other 30 year warranty product installed on all exterior wall surfaces not already required to be brick. (Rehabilitation projects that do not propose adding 40% brick or maintaining existing 40% brick are not eligible for this option.)
- b) Upgraded roofing shingles, or roofing materials (warranty 30 years or greater). Consideration will be given to additional design options not listed above if proposed by the Applicant prior to the Application Submittal in accordance with Exhibit A DCA Pre-application and Pre-Award Deadlines and Fee Schedule. Proposals must include a detailed description of the design option and justification of the appropriateness of the option for the targeted population.

## **XX. QUALIFICATIONS FOR PROJECT Participants (Performance)**

### **A. Overview of Qualification Requirements**

Each Project Team (general partner, developer, and the principal(s) thereof) must demonstrate the qualifications necessary to successfully own, develop and operate the proposed tax credit project. *Management companies must be approved by DCA portfolio management prior to the placed in service date.* DCA will undertake a comprehensive review of the proposed Project Team to determine that it has the financial capacity, credit history, technical skill, and performance history to successfully own and develop a tax credit project that receives an allocation of credits under the 2015 Qualified Allocation Plan.

For purposes of this section, **Principal** shall generally be defined as an individual who has at least a direct ownership interest in the general partner or developer entity and who materially participates in the ownership, development and operation of the project through regular, continuous and substantial involvement. For purposes of a non-profit entity, DCA will consider the executive director as a Principal.

While DCA recognizes the importance of developing capacity in the development community, current economic conditions require that a Project Team demonstrates

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proven ability to develop a project concept and financing structure, complete a competitive application for tax credits, obtain financing and syndicator commitments quickly, close on the financing, negotiate and contract with general contractors for the construction or rehabilitation of the project, oversee construction, comply with tax credit program regulations, meet statutory deadlines, and successfully lease up and operate the completed project.

DCA will review the experience and capacity of all proposed project team members to verify whether each has the qualifications necessary to perform all of these functions. A Project Team or member of the Project Team will be determined to be Qualified, Qualified with Conditions, Ineligible to Participate, Qualified under a Probationary Designation, or Not Qualified.

DCA will look beyond the submitted documentation to determine the real parties involved in the owner and development organizational entities for each proposed project.

### **1. Full Disclosure**

DCA requires full disclosure of all entities and individuals involved in a proposed tax credit development. The following are the rules of disclosures for this category.

- a) Each Project Team must include a statement in the Application concerning all criminal convictions, indictments, and pending criminal investigations of all members of the general partnership and development entities and must provide dates and details of each circumstance, unless otherwise prohibited by court order, statute or regulation. DCA may perform a full criminal, employment, and credit investigation of all Project Participants to verify credit and criminal history.
- b) DCA may require disclosure of all real estate loans for the Project Team through the submission of a complete and accurate real estate properties disclosure.
- c) Any relationship between individuals or entities of the Project Team that could constitute a conflict of interest or identity of interest between the parties must be disclosed.
- d) Complete organizational charts must be submitted for the Owner and Developer entity that clearly show all principals including individuals involved in the ownership and development of the project. Please note that no change to the project owner/developer structure can be made without the express written consent of DCA.
- e) **All** Development fee sharing arrangements must be disclosed. DCA considers all individuals or entities that receive a portion of the Development Fee to be part of the Developer structure.
- f) **All** guarantor agreements must be disclosed. DCA may determine that a Guarantor is actually a real party in interest to either the General Partner and/or Developer entities.
- g) **All** consulting agreements - direct or indirect, paid or unpaid - shall be disclosed. DCA will review the amount of consulting fee to determine if a consultant is a real party in interest to either the General Partner and/or Developer entities.

## **DRAFT Appendix I Threshold Criteria**

- h) Any Project Team member that has withdrawn or been involuntarily removed from a HOME or Tax Credit project must disclose this information to DCA as part of its eligibility submission.
- i) All pending litigation must be disclosed.
- j) Significant non-performance in a government or quasi government affordable housing program (including Fannie Mae, Freddie Mac, and Federal Home Loan Bank programs) must be disclosed.
- k) Disclosure of any Project Team member's adverse credit history including, but not limited to, a default in the payment of any commercial or personal loan or personal bankruptcy

### **2. Eligibility of Project Team**

In order to be eligible to receive tax credit resources under the 2015 QAP, the Project Team must meet the following minimum requirements:

- a) Receive a DCA qualification determination for the proposed Project.
- b) Current in all fees owed to DCA as of Application Submission date.
- c) Substantially compliant with DCA and Section 42 Program requirements and regulations. Project Team members that have experienced a Significant Adverse Event in the development and/or ownership of affordable multifamily programs may be deemed ineligible to participate. Section 3 below provides those events which are considered in the determination of eligibility.
- d) Financially solvent with the capacity to successfully complete the project, pay all costs associated with the development, and operate the property for the compliance period and extended use period. Any person (individual, corporation, partnership, association), or principal (officer, director, owner, partner) that is bankrupt, insolvent or in danger of insolvency is ineligible to receive an allocation of credits under the QAP. DCA may request information including but not limited to credit reports, financial statements, or other documentation relating to a participant's financial status. In making this determination, DCA will also review each Project Participant's portfolio and consider whether loans are in default, have a high percentage of payables, have high vacancy rates or other solvency issues that might impact the successful development and ownership of the proposed property.

### **3. Ineligibility Related to Significant Adverse Events**

A proposed Project Team will be ineligible to participate in the 2015 competitive round if the entity, its principals, officers, directors or agents incurred a Significant Adverse Event. A list of Significant Adverse Events and the period of time that DCA will look back from Application Submission is set forth in the chart below.

If DCA determines that an entity is ineligible to compete for DCA tax credit and HOME resources, the principals of that entity will also be considered ineligible.



**DRAFT Appendix I  
Threshold Criteria**

**Significant Adverse Events Impacting Eligibility**

<b>Significant Adverse Event</b>	<b>Look Back Period (From Application Submission Date)</b>
Financial Insolvency or Potential Insolvency of Project Team	Until insolvency is cured and all significant potential liabilities have been resolved
Debarment, proposed debarment, or suspension by a federal agency, state HFA, or quasi-governmental affordable housing program	Until debarment or suspension is terminated
Uncured Default in DCA HOME loan. (Formal default letter issued)	Until cured
Nonpayment of DCA Compliance Fee or DCA Tax Credit Allocation fee	Until Paid
Default in a loan which is secured by a tax credit property	1 Year
Foreclosure of a loan or deed in lieu of foreclosure, which is secured by a tax credit property after the credit period ended and resulting loss of affordability during the extended use period	3 Years
Foreclosure of a loan or deed in lieu of foreclosure, which is secured by a tax credit property before the credit period ended and resulting loss of affordability during the extended use period	5 Years
Default in a DCA HOME loan which results in a DCA foreclosure or deed in lieu of foreclosure and removal of the Owner and property retains affordability	5 Years
Failure to meet the federal placed in service deadline for a project that has been awarded tax credits resulting in the loss or significant recapture of credits	5 Years
Project Team Bankruptcy,	7 Years
The abandonment and/or closure of a tax credit or HOME funded property	8 Years
Senior Lender loan default or foreclosure which results in the extinguishment of a DCA HOME loan security interest and resulting loss of affordability during the extended use period	10 Years
Multiple project failures, and or determination of a pattern of willful noncompliance.	10 Years
Submission of fraudulent information to DCA or any other government entity	10 Years

**4. Waiver Request**

DCA will allow an entity or individual with a Significant Adverse Event, within the look-back

## **DRAFT Appendix I Threshold Criteria**

period, to submit a request to waive an eligibility determination for the 2015 competitive round if the requestor has a recent history of strong performance in the Tax Credit Program and can demonstrate that the event is an isolated incident or unavoidable event not related to the actions or negligence of the requestor.

This waiver request *must* be submitted during the Pre-Application Submission and will be considered only if the requestor can demonstrate the following minimum requirements:

- a) The entity or individual developed and currently owns and operates a minimum of ten (10) successful Tax Credit properties.
- b) The requestor demonstrates a strong performance history and is in material compliance with program regulations in the operation of its affordable housing portfolio.
- c) The requestor has documented its engagement in good faith efforts to remedy the adverse condition, including an explanation of why the condition could not be remedied.

Project Team members that have received a waiver per previous QAP requirements may request that the waiver be renewed for purposes of competing in the 2015 competitive round.

The granting of a waiver does not affect the Project Team's compliance score.

### **Minimum Documents for Waiver Request:**

- Narrative of basis for Request
- Documentation of successful Tax Credit development and ownership
- Documentation of resources expended, reports if available
- All documents related to adverse event
- Documentation of previous DCA waiver, if applicable.

### **5. Adverse Circumstances**

In the event DCA determines that there are adverse circumstances which may affect the capacity or qualifications of the Project Team members as a result of their credit history or past involvement in affordable housing multifamily development, DCA may determine that a Project Team is not qualified or should be limited in the amount or type of funding received. Adverse circumstances do not necessarily require a determination of ineligibility, but may be indicative of a Project Team's capacity to own and develop the proposed property. DCA will look back three years in determining whether the Project Team has an adverse circumstance.

*Examples of adverse circumstances.* The following are some, but not all, adverse circumstances that may affect the ability of a team to qualify for funding.

## **DRAFT Appendix I Threshold Criteria**

- a) Affordable Housing properties that do not meet program physical standards or have uncured 8823s outstanding.
- b) Pattern of noncompliance, failure to correct identified issues in a timely manner, repeated physical findings, or failure to comply with findings.
- c) Removal as General Partner or Managing General Partner of one or more properties.
- d) Project Team member has a bankruptcy, and/or multiple project failures.
- e) History of unpaid subcontractors during development of affordable housing properties.
- f) Significant unpaid receivables for one or more tax credit properties.
- g) Outstanding flags in HUD's 2530 National Participation system.
- h) Projects awarded tax credits in 2013 or earlier for which the construction financing or equity investment has not closed by the 2015 Application Submission deadline.
- i) Adverse credit history of the entity or principal.
- j) Mortgage default or arrearage of three months or more.

### **6. *Departure of Principal***

- a) A principal that resigns or leaves an existing entity may claim experience earned at that entity provided the entity has no adverse conditions at the time of the departure. The principal shall receive a compliance score based on the previous entity's performance for a period of three years following departure.
- b) A principal that has left an entity and does not want to have a compliance score based on the previous entity's performance cannot use experience gained at that entity to meet qualification requirements.
- c) A principal that departs from an existing entity that has significant adverse conditions will also be deemed ineligible to participate for the same period of time as the entity.

### **B. *Overview of Qualification Categories***

After analysis of all submitted information, DCA will make a determination that a Project Team falls within one of the following categories. (In the event a Project Team undergoes a personnel change which results in the departure of key experienced staff, DCA may determine that previous projects owned and developed under the direct supervision of the departed staff will not be considered in this analysis.)

#### **1. *Qualified without Conditions***

A Project Team that can conclusively demonstrate that they currently own and operate five (5) or more successful tax credit projects in or outside of Georgia in which they own a minimum 20% interest in the General Partner and Developer entities will be deemed Qualified without Conditions if DCA determines that no adverse conditions affect any of the team members. Only projects which have been completed (including permanent loan conversion) after January 1, 2006 and which are currently at least 90% occupied will be counted towards the requisite 5-project minimum. The Project Team must have been involved in each of the five projects from the initial allocation of credits.

## **DRAFT Appendix I Threshold Criteria**

### **2. *Qualified with Conditions***

A Project Team that cannot demonstrate that they meet the requirements to be deemed qualified without conditions (see above section) or has experienced a material change in their key staff, organization structure or financial status, may be deemed qualified but subject to one or more of the conditions as determined by DCA.

#### a) Categories.

Project teams that are deemed qualified to participate with conditions will generally fall within one of the following categories:

- i. The Project Team has successfully developed multiple tax credit projects in the past, but does not currently own or operate the requisite five projects.
- ii. The Project Team successfully developed and owns the requisite five (5) tax credit projects, but does not have the required 20% interest in those projects.
- iii. The Project team has demonstrated successful developer and ownership experience, but has one or more adverse circumstances that might but will not conclusively affect the ability of the Project Team to complete the proposed project.
- iv. The Project Team has demonstrated successful developer and ownership experience, but has a material change in its key personnel or organization.

Entities that are determined to be “qualified with conditions” may have one or more conditions of funding included in the qualification determination.

#### b) Conditions.

The following are examples of some, but not all, conditions that may be imposed:

- i. Additional third party oversight of certain functions such as construction management or historic rehabilitation
- ii. Front end analysis of proposed costs
- iii. Evidence that projects not completed are proceeding as scheduled
- iv. Reduced owner/developer caps
- v. Limitations on size of proposed projects
- vi. Limitations on ability to partner for purposes of meeting qualification requirements
- vii. Additional reporting requirements during construction
- viii. Consultant or Partnership Requirements

### **3. *Ineligible due to Significant Adverse Events***

A proposed Project Team may not be eligible to receive an award under this QAP as a result of significant adverse events.

## **DRAFT Appendix I Threshold Criteria**

### **4. Not Qualified**

A Project Team may not be qualified to participate in the Tax Credit Round. That determination may be based on the proposed Project Team's lack of capacity to successfully complete the proposed development due to the current condition or past performance of its portfolio of affordable housing projects. DCA may also consider projects in progress, prior performance in meeting construction commencement, projects with recaptured credits and completion deadlines, as well as the number of outstanding incomplete DCA-funded developments when determining qualifications and capacity. DCA may also determine that a proposed Project Team does not have sufficient credit history or financial strength to participate in the tax credit process.

### **C. Options for Not Qualified Entities**

#### **1. Partnering with a Qualified Entity**

DCA generally encourages entities that have insufficient technical expertise and/or experience to partner with qualified entities to gain experience and capacity in the tax credit program.

#### **2. Capacity Building for Industry Professionals (Probationary Participation)**

An Applicant that has extensive experience in the tax credit industry but who does not have the requisite successful tax credit ownership and/or development experience may also be deemed qualified under a probationary designation with conditions. An Applicant seeking a probationary designation must show the following:

- a) Evidence of full time employment in the tax credit industry for a minimum period of five years
- b) Evidence of material participation in the successful development of at least two tax credit projects during that period. (Ownership interest is not required)
- c) No participation in adverse development
- d) Resumes
- e) Completed release to allow DCA to perform a personal credit check and a criminal background check
- f) Business Plan which outlines how the proposed Project Team will address different areas required for successful development of tax credit project.
- g) Evidence of sufficient liquidity to attract syndication either through the assets of the Project Team or through a guarantor may also be required.
- h) Narrative of proposed project and organizational structure

If an Applicant granted probationary designation by DCA determines that a partner would increase the chance of project success, DCA may, but is not required to, grant a waiver of project cap limitations for the proposed partner.

## **DRAFT Appendix I Threshold Criteria**

### **XXI. COMPLIANCE HISTORY SUMMARY**

#### **A. Documentation.**

Each individual principal and entity of each General Partner and Developer in the proposed project team must submit a complete and correct DCA Performance Workbook, as required in the electronic core application. Each Compliance History Summary (CHS) form must list all projects in which an entity or principal has participated in the ownership and development.. The most recent Compliance audit information should be provided for each project.

#### **B. Additional Documentation.**

In addition, the following documentation must be included in the application as detailed in the Performance Workbook:

1. Completed Compliance Questionnaire for each General Partner and Developer.
2. Complete Organizational Chart
3. DCA Compliance history form executed by other State Housing Agencies pursuant to DCA instructions. In the event an Owner is unable to obtain documentation from another State Housing Agency, written documentation of the attempts should be submitted to DCA. DCA will contact the Agency directly to obtain the required information.
4. Supporting documentation related to foreclosures, suspension, or debarment by governmental or quasi-governmental entity, as well as any “yes” answers in the performance workbook.

In the event an Applicant fails to provide correct and complete information, DCA may request additional clarification. Clarifications may be utilized to decrease an Applicant’s Compliance History score, but will not be used to increase the score.

Note: Internal Revenue Service Form 8821 may be requested by DCA for any Project Participant listed on the Experience Summary or Organizational Chart at any time during DCA’s review of a Project Participant’s compliance history.

Owners/Developers of Tax Exempt Bond projects must also complete these forms.

DCA will score each entity in accordance with the scoring requirements set forth in Appendix II. Entities that do not meet DCA minimum scoring requirements will be deemed to have not met this Threshold requirement.

## **DRAFT Appendix I Threshold Criteria**

### **XXII. ELIGIBILITY FOR CREDIT UNDER THE NON-PROFIT SET ASIDE\***

To be eligible for Credit under the non-profit set aside:

- A. The organization must be a qualified non-profit, defined as a 501(c)(3) or 501(c)(4) organization, which is not affiliated with or controlled by a for-profit organization and has included the fostering of low income housing as one of its tax-exempt purposes.
- B. The qualified non-profit(s) must materially participate in the project as described in IRC Section 469(h).
- C. The qualified non-profit(s) must own at least 51% of the general partner's interest in the proposed project and be the managing general partner of the ownership entity.
- D. For purposes of this set aside, the term "qualified non-profit" includes any corporation if 100 percent of the stock of such corporation is held by one or more qualified non-profit organizations at all times during the period such corporation is in existence.
- E. The non-profit must receive a percentage of the Developer Fee greater than or equal to its percentage of its ownership interest.
- F. A copy of the general partnership joint venture agreement that indicates the non-profit's general partnership interest and Developer Fee amount must be included in the Application.

Non-profit organizations applying for Credit under the non-profit set aside must include in the Application an opinion of a third party attorney who specializes in tax law on the non-profit's current federal tax exempt qualification status in accordance with the prescribed format contained in the Manual. If such an opinion has been previously obtained, this requirement may be satisfied by submitting the opinion with documentation demonstrating that the non-profit's bylaws have not changed since the legal opinion was issued.

For Scattered Site projects, the eligibility for Non-profit Set aside requirements must be met by the project as a whole.

#### **Minimum Documentation:**

- An opinion of a third party attorney who specializes in tax law on the non-profit's current federal tax exempt qualification status in accordance with the prescribed format contained in the Manual. If such an opinion has been previously obtained, this requirement may be satisfied by submitting the opinion with documentation demonstrating that the non-profit's bylaws have not changed since the legal opinion was issued.
- If joint venture, copy of Agreement confirming interest and Developer Fee

### **XXIII. ELIGIBILITY FOR HOME LOANS UNDER THE CHDO SET ASIDE**

Projects applying under the CHDO set aside must have been pre-qualified by DCA as CHDOs and which have the capacity to own and/or develop multifamily housing. CHDOs

## **DRAFT Appendix I Threshold Criteria**

must have been granted a HOME consent.

The final 2013 HOME Rule contains new requirements for awarding HOME funds to CHDO Applicants. All provisions in the 2013 HOME Rule should be reviewed in detail by the Applicant contemplating the use of HOME funds.

For Scattered Site projects, the eligibility for HOME CHDO set aside requirements must be met by the project as a whole.

### **Minimum Documentation:**

- CHDO designation from DCA;
- List of key employees, resumes, contracts for any consultants or contractors

## **XXIV. REQUIRED LEGAL OPINIONS**

- A. A legal opinion regarding the acquisition Credit eligibility is required for projects involving acquisition and rehabilitation. If the project previously received Credits, the legal opinion should include sufficient documentation for DCA to confirm that the compliance period has ended.
- B. A legal opinion regarding Credit eligibility is required for projects operated as assisted living facilities.
- C. Non-profit organizations applying for Credit under the non-profit set aside must include in the Application an opinion of a third party attorney who specializes in tax law on the non-profit's current federal tax exempt qualification status in accordance with the prescribed format contained in the Manual. If such an opinion has been previously obtained, this requirement may be satisfied by submitting the opinion with documentation demonstrating that the non-profit's bylaws have not changed since the legal opinion was issued.
- D. A legal opinion is required for those projects involving scattered site developments. The legal opinion should address the proposed site plan and must be included as part of the opinion.

For Scattered Site Projects, the non-contiguous parcel for which this criterion is applicable must meet the legal opinion requirements.

## **XXV. RELOCATION AND DISPLACEMENT OF TENANTS**

All projects, new construction and rehabilitation, must submit a DCA relocation survey which specifically addresses the development history and occupancy of the proposed project. **Failure to complete and submit the survey with the Application submission will result in a Threshold failure.**



## **DRAFT Appendix I Threshold Criteria**

For all HOME Loan and Credits projects, the completed and executed tenant household data forms must be submitted with the Application for every unit in each building to be rehabilitated. The Applicant is responsible for the accuracy of the information on the data forms. Applications for HOME Loans that require relocation of existing tenants due to rehabilitation work will be accepted only with a relocation plan (including a sufficient budget) that in the opinion of DCA meets the requirements of the Uniform Relocation Act and any other applicable laws.

Funding sources other than the DCA HOME Loan must be used to finance the relocation costs. Applicants applying for Credits must disclose other funding sources (HOME, USDA 515, etc.) which may trigger URA or 104D requirements. When demolition of any structure occupied or vacant is involved it must be included as part of the relocation plan. For Credits projects, DCA will not allow permanent displacement of tenants, if avoidable. If the Applicant anticipates displacing tenants, the Applicant must include in the Application a detailed displacement plan, which sets forth the specifics of the displacement, including a projected budget, and an explanation of efforts planned by the Applicant to mitigate the impact of the displacement. Any displacement of tenants will be subject to DCA's prior written approval. In instances where tenants are temporarily relocated in areas with limited replacement housing the plan must give detailed phasing of the rehabilitation process, including projected start and end dates for each phase while detailing work to be performed on all units. Applicant must identify which units will require temporary relocation of more than 30 days and which units require relocation of less than 30 days.

If new projected rents create rent burden tenants, rents must remain affordable one year after cost certification submission.

Applicants must include all documentation required in the DCA Relocation Manual at the time of Application. All forms must be reflective of the current year version; previous years forms will not be accepted. DCA will review the development budget to insure that sufficient cost have been included for relocation expenditures.

In the event condemnation proceedings are pending against a proposed project, DCA's relocation policies are applicable to all tenants residing at the property at the time of application.

Properties that have HOPE VI or other master relocation plans must submit those plans with their Application.

### **Minimum Documentation:**

- Relocation Survey;
- If HOME funded, all completed and executed tenant household data forms;
- Displacement Plan, if applicable and unavoidable;
- All documents required in DCA Relocation Manual.

## **DRAFT Appendix I Threshold Criteria**

### **XXVI AFFIRMATIVELY FURTHERING FAIR HOUSING**

It is the policy of the Georgia Department of Community Affairs to administer the Low Income Housing Tax Credit Program affirmatively, as to achieve a condition in which individuals of similar income levels in the same housing market area have a like range of housing choices available to them regardless of their race, color, religion, sex, handicap, familial status or national origin. Each Applicant shall pursue affirmative fair housing marketing policies in soliciting tenants and outreaching to underserved populations and those least likely apply to reside in completed tax credit units.

Each project selected for an award of credits must prepare and submit an Affirmatively Furthering Fair Housing Marketing Plan outlining how the project will market units to underserved tenants including tenants with special needs. The Plan must be submitted prior to issuance of 8609s. At a minimum, Marketing Plans must include:

- A. Outreach efforts to each service provider, homeless shelter or local disability advocacy organization in the county in which the project is located.
- B. A strategy to affirmatively market to persons with disabilities and the homeless.
- C. A strategy to establish and maintain relationships between the management agent and community service providers.
- D. A referral and screening process that will be used to refer tenants to the projects, the screening criteria that will be used, and make reasonable accommodations to facilitate the admittance of persons with disabilities or the homeless into the project.
- E. Marketing of properties to underserved populations 2-4 months prior to occupancy
- F. Applications for affordable units shall be made available to public locations including at least one that has night hours.

The Applicant agrees to provide reasonable accommodation for these tenants in the Property Management's tenant application. The leasing criteria must clearly facilitate admission and inclusion of the targeted population tenants and must not violate federal or state fair housing laws.

### **XXVII. OPTIMAL UTILIZATION OF RESOURCES**

DCA is required to take any actions necessary or convenient to ensure the complete, effective, efficient, and lawful allocation and utilization of the low income housing credit program. It will not select projects that will result in a waste of DCA resources, have an inferior project design or site, or which result in the unjust enrichment of a Project Team member. DCA will also not select applications where a Project Team member has made conditional promises or financial commitments to a Local Government in order to obtain support. DCA may request additional documents or explanations in order to clarify or confirm information required for the appropriate analysis of the proposed property.

## **DRAFT Appendix I Threshold Criteria**

Examples of factors that will be considered include, but are not limited to:

- A. Property acquisition and rehabilitation cost versus the cost to demolish and build a similar property in the same market area
- B. Ratio of acquisition costs versus rehab hard costs
- C. Insufficient work scope for rehabs
- D. DCA resources allocated to develop each unit
- E. Effectiveness and aesthetics versus the cost of a mitigation plan
- F. Efficient and marketable use of the site, considering size and layout, to accommodate the number and type of units and amenities proposed
- G. Undue enrichment of any Project Participant or contractor particularly where there are identities of interest
- H. Impact on affordable housing stock
- I. Other uses proximate to the site
- J. Market information generated by or available to DCA
- K. Property is already affordable and not a priority for receipt of resources
- L. Transaction appears to be primarily driven by the transfer of the property
- M. Per unit costs not reasonable
- N. Excessive soft costs
- O. Oversized units
- P. Number of bedrooms high for proposed market
- Q. High acreage
- R. Other factors which are contrary to the policies and objectives of DCA.
- S. Applications that misrepresent sources of funds or attempt to conceal pertinent facts related to the proposed project

## State of Georgia Qualified Allocation Plan

### Exhibit A to Appendix I:

#### DCA UNDERWRITING POLICIES

1. **Annual Operating Expenses.** Annual budgeted operating expenses must be reasonable, excluding reserve contributions.

a) *Minimums.* Annual budgeted operating expenses must be no less than the following:

- i. Four thousand and five hundred dollars (\$4,500) per unit for projects within the City of Atlanta,
- ii. Four thousand dollars (\$4,000) per unit for projects located in a Metropolitan Statistical Area (MSA) other than the City of Atlanta,
- iii. Three thousand five hundred dollars (\$3,500) per unit for Rural projects in an MSA
- iv. Three thousand dollars (\$3,000) per unit for non-MSA Rural projects, and
- v. Three thousand dollars (\$3,000) per unit for projects that include 515 USDA loans as a funding source.

b) *Waiver Requests.* Applicants will not be allowed to decrease annual operating expenses after submission of an Application. Requests for a waiver of the minimum operating expense must be submitted at the Pre-Application deadline and will only be considered with the following minimum documentation:

- i. Documentation from the real estate taxing authority of its methodology for determining real estate taxes, and an estimate for the subject project.
- ii. For rehabs: detailed historic operating statements (must break out income, vacancy, other income, utilities, taxes, administration/payroll, maintenance, and insurance) from the proposed rehab project for the most recent 2 years. Audited statements must be provided, if available.
- iii. For new construction: audited operating statements (must break out income, vacancy, other income, utilities, taxes, administration/payroll, maintenance, and insurance) for at least two (2) other projects located in similar areas, with similar characteristics (Affordable, tenancy, building type) for the most recent 12 month period of stabilized operations. Please include the number of units. If comparable projects are not available in the same tax district, an adjustment for real estate tax expense will be made.
- iv. Rent projections must be at least 10% below the lower of market or tax credit maximum allowable limits.

2. **Assumptions for Building/Land Cost.** For purposes of underwriting, the building/land cost must be limited to the lesser of the sales price or the appraised value of the building(s) and/or land. Previous sales price as well as valuations may be considered. This applies to both the building/land cost and building eligible basis.

## State of Georgia Qualified Allocation Plan

**3. Builder Cost Limitations.** Builder Profit is limited to a maximum of 6% of the Contract Sum. Builder Overhead is limited to a maximum of 2% of the Contract Sum. General Requirements is limited to a maximum of 6% of the Contract Sum (each are exclusive of Contractor Services). These limits apply to both development costs and eligible basis.

a) **General Requirements are defined as job overhead and cover project-specific overhead expenses. This typically includes:**

- i. Supervision and job-site engineering;
- ii. On-site job office expenses directly related to the project;
- iii. Temporary buildings, tool sheds, shops, and toilets;
- iv. Temporary heat, water, light and power for construction;
- v. Temporary walkways, fences, roads, siding and docking facilities, sidewalk and street rental;
- vi. Construction equipment rental not included in trade item costs;
- vii. Clean-up and disposal of construction debris;
- viii. Medical and first aid supplies and temporary facilities;
- ix. General Liability and Builder's Risk Insurance.

b) **General Requirements do not include the following.**

- i. Payment and performance bonds, letter of credit fees, and fees associated with obtaining a construction loan in lieu of payment and performance bond or letter of credit;
- ii. Site and topographic surveys;
- iii. Subsurface exploration (test borings);
- iv. Soil tests, concrete tests, and other construction testing;
- v. Fees for utility taps and connections;
- vi. Building permits and licenses;
- vii. General Contractor's cost certification audit fee (if required).

**These will be costs outside of the construction contract and allocated to Soft Costs.**

**4. Construction Contingency.** For new construction, the construction contingency is limited to the lesser of a maximum of 5% of the total construction hard costs or \$500,000. For rehabilitation, the construction contingency is limited to the lesser of a maximum of 7% of the total construction hard costs or \$500,000.

The construction contingency is meant to cover unforeseen circumstances encountered during construction. In the absence of unforeseen circumstances, a change order may be submitted for approval of the following:

a) Amenities designed to enhance the quality of life of the residents

## State of Georgia Qualified Allocation Plan

- b) Amenities that provide security such as lighting, fencing, and life safety monitoring systems
- c) Product upgrades that increase durability and decrease maintenance costs
- d) Product upgrades or scope additions that increase energy efficiency and decrease operational costs

DCA will not approve change orders requesting that contingency funds be used for luxury items including, but not limited to, crown moldings, granite countertops or decorative interior items.

The Applicant may elect whether to include the construction contingency in eligible basis for the purpose of the credit calculation.

**5. Debt Coverage Ratio (DCR).** As part of its financial feasibility analysis, DCA will require that projects with tangible debt meet, at a minimum, a 1.20 debt coverage ratio for each year of the compliance period for new construction and 1.25 for projects involving rehabilitation. For purposes of determining the debt coverage ratio, deferred Developer Fee will not be considered tangible debt. Amounts set aside in a reserve funded in one year may not be withdrawn and treated as a gross receipt in a subsequent year to satisfy the debt service coverage ratio in the subsequent year. Amounts received in one year that exceed the debt service coverage target for that year will not be credited to another year. For purposes of this test, each year will stand alone. The debt coverage ratio cannot drop below 1.20 for new construction (1.25 for rehabilitation) during the 15-year Compliance Period, DCA HOME Loan term (if applicable) or Affordability Period, whichever is longer. DCA will review each project carefully to determine whether a project is over subsidized and whether the amount of HOME funds and/or credits is the best use of DCA resources. While DCA does not have a cap on the DCR, Rural projects that have DCRs that exceed 1.50, urban projects that have DCRs that exceed 1.40, or any project with significant net cash flow, may be subject to additional scrutiny to ensure they are not over subsidized. DCA does recognize that Rural deals will typically have higher debt coverage at the beginning of the Compliance Period in order to remain feasible over the fifteen years. Documentation to support these higher debt coverage ratios should be provided. DCA may waive its minimum debt coverage ratio for USDA 515 projects that clearly demonstrate feasibility, or reduce it to match other government program funding requirements provided that confirmation from the agency of the required DCR is included in their funding commitment.

No-debt deals are allowed but will be subject to additional scrutiny from DCA. Projects submitted with no debt will not have a DCR but will be required to undergo a subsidy layering review. This will be determined by a ratio of Effective Gross Income to Total Annual Expenses (including reserve for replacement). A ratio of 1.10 for new construction (1.15 for projects involving rehabilitation) shall be the minimum required to be considered feasible by DCA in Years 1-15.

**6. Development Costs.** These are costs shown in the development budget and include, but are not limited to, the cost for land, on-site improvements, on-site development,

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construction cost, financing cost, professional fees, and mandatory reserve accounts. Development costs are limited to on-site development activities.

DCA will conduct a line by line review of development costs to determine the reasonableness of each estimate. Applicants are encouraged to utilize accurate estimating data in determining this budget and to provide supporting documentation when available. DCA may require that development costs be reviewed by a third party consultant approved by DCA as a condition of funding.

**7. Developer Fee.** The sum of the Developer's overhead and Developer's profit. Consulting fees and guarantor fees are also considered part of the total Developer Fee calculation.

**8. Developer Fee Limitation.** This limitation applies to both development costs and eligible basis at all stages (application, carryover and Final Allocation). DCA restricts the maximum Developer Fee as follows:

- a) For new construction projects, the Developer fee will be limited to 15% of Total Development Costs less the budgeted Developer Fee, any demolition cost and the underwritten cost of Land.
- b) For acquisition/rehabilitation projects that are eligible for acquisition credits, the Developer Fee on the acquisition portion will be limited to 15% of the Existing Structures acquisition cost (including Acquisition Legal Fees at the "4%" applicable credit percentage). The rehabilitation portion will be limited to 15% of Total Development Costs less the budgeted Developer Fee, the underwritten cost of Land, Acquisition Legal Fees, and Existing Structures.
- c) For rehab projects that are not eligible for acquisition credits, the Developer Fee will be limited to 15% of Total Development Costs less the budgeted Developer Fee, the underwritten cost of Land, Acquisition Legal Fees and Existing Structures. However, if the Development Agreement specifically states that a portion of the Developer Fee is attributable to the building acquisition, then the Developer Fee will be limited to 15% of Total Development Costs less the budgeted Developer Fee, and the underwritten cost of Land.

When an Identity of Interest exists between the Developer and the General Contractor, the maximum Developer Fee is restricted to 15% of the Total Development Cost less the underwritten cost of the Land, the budgeted Developer Fee, and the Builder Profit. If the Application budgets a Developer Fee of less than 15%, the percentage proposed will be substituted for 15% in determining the maximum Developer Fee.

The Developer Fee will be calculated using the allowable total development cost limited by the DCA Base Unit Cost Limits. The Developer Fee for Applications for additional Credits (in the year the project is placed in service), shall be limited to the original approved Developer Fee.

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Deferred Developer Fee must be payable within fifteen (15) years from available cash flow. The deferred portion cannot exceed 50% of the total amount of Developer Fee at initial application.

**Notwithstanding anything contained herein to the contrary, the Developer Fee will be limited to a maximum of \$1,800,000. DCA may grant waivers of this cap for tax exempt bond applications up to \$2,000,000. The number of units will not be a consideration in the waiver analysis.**

#### **9. Distribution Across Unit / Bedroom Sizes.**

- a) *Rent.* Projects with a multi-tiered rent structure must distribute the rents across unit sizes, unit types and buildings. These units need not be fixed, but may float in the same way high HOME rent and low HOME rent units may float within a project.
- b) *Accessibility.* To the maximum extent feasible, accessible units must be distributed across unit sizes, unit types and buildings so as not to limit choice.

#### **10. Identity of Interest.**

**Contractor.** If there is an Identity of Interest between any participant in the Ownership entity and the contractor or the Developer and the contractor, a third party front-end analysis of the construction costs must be conducted. For HOME projects, the third-party review will be commissioned by DCA during the DCA underwriting period. For tax credit only projects, the qualifications of the proposed third-party reviewer must be submitted to DCA and approved before the review is conducted. Additionally, industry standards for such Owner-provided construction services shall be used to determine reasonableness for the services. DCA will require that a contractor cost certification be submitted where there is an identity of interest between any Project Participant and the General Contractor. The cost certification shall be prepared in accordance with the standards set forth for a HOME contractor cost certification.

**Subcontractor / Materialmen.** Any Identity of Interest between any Project Participant or General Contractor and any subcontractors, other provider of service, materials, or supplies must be disclosed. Additional scrutiny will be given to subcontractor/materialmen costs where there is an identity of interest.

**Lenders.** If there is an identity of interest between any Project Participant and construction/permanent lenders, such financial structure requires financing terms and conditions which are reasonable, customary and consistent with industry standards.

**Land/Building Purchase.** For Applications where there is an Identity of Interest between the buyer and the seller for any site within the project, an appraisal no more than 6 months old and prepared by a certified appraiser must be submitted with the Application as a basis for the determination of the appropriate sales price. The



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appraisal must be prepared in accordance with DCA Appraisal Guide, meet USPAP standards, and must provide separate valuations for the land and existing buildings.

DCA will carefully scrutinize the sales price of land between related parties to ensure that the value has not been inflated. While the appraisal will be an indication of fair market value, DCA will consider tax values as well as actual sales price established as indicative of the value of a property. All property values shall associate a land value as well as a value for the improvements.

Properties which have been in the control of the Applicant or a related party for a period of three (3) years or less will generally be valued at the acquisition cost at the time the related party obtained initial site control. Properties that have been rezoned, subdivided or modified will not be deemed to be of higher value based on the actions taken by the Owner/ Applicant or any related party.

- 11. Local Government Fees.** The development budget must include all **documented** water tap, sewer tap, impact and building permit fees. **(These local government fees cannot be part of General Requirements.)** Applicants that include fees that are not required by the local government at the time of application will be subject to a loss of points.
- 12. Management Fee.** The operating budget should specify a reasonable management fee. A management fee is required for all projects. DCA will review carefully the terms of the management agreement if the property is self-managed or if there is a related party relationship between the Owner/Developer and the Management Company. DCA reserves the right to limit or adjust management fees which appear to be excessive or which appear to be inadequate.
- 13. Operating Deficit Reserve.** All developments must budget for and fund an operating deficit reserve in an amount of not less than six times the secured monthly debt service to lenders plus no less than six months projected operating expenses. The funding of the operating deficit reserve must be completed at or before Conversion. The operating deficit reserve must be held for the Compliance Period. For underwriting purposes, DCA will generally use six months of operating expenses plus six months of debt service. However, DCA reserves the right to evaluate the reasonableness of the proposed amount and may make appropriate adjustments.
- 14. Permanent Debt Financing.** Permanent debt financing shall have a minimum term of 10 years.
- 15. Preliminary Financing Commitment Letters.** DCA will generally evaluate financial feasibility for all applications (other than those with an assumption of existing fixed rate debt and federal and state equity) using an interest rate specified in the preliminary commitment letter. If the interest rate is based upon a spread over an index rate, both the underlying index to be used and the spread should be identified in the preliminary commitment letter. Any other fees or premiums included in the “all-

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in” interest rate should also be clearly disclosed. DCA will utilize the applicable rate effective as of May 1, 2015. DCA reserves the right to evaluate the reasonableness of the interest rate and adjust it based on the market information available to DCA.

For noncompetitive projects, the effective date of the applicable rate will be the first business day of the full month preceding the Application Submission date. The Applicant must include documentation of the applicable index rate with the commitment letter. In the event that DCA determines that continued volatility in the market makes the interest rate expressed in the preliminary commitment submitted at Application Submission unreasonable, DCA may request that the proposed lender provide an updated interest rate during Application review.

Preliminary Equity Commitment Letter or Letters of Interest are required to contain as much detail as possible. At a minimum, each commitment should include the equity pricing, total capital contribution amount, estimated pay-in schedule, and any reserve requirement. DCA will use reasonable equity pricing information provided in the equity commitment letter for underwriting. However, if the combined federal and state equity price is significantly higher or lower than the median price based on the applications received, DCA reserves the right to adjust the equity price, taking into consideration project characteristics.

**16. Rehabilitation Hard Costs.** Average per unit rehabilitation hard costs must equal or exceed \$25,000. The costs of the rehabilitation or new construction of community buildings and common area amenities are not included in these amounts.

**17. Rent-Up Reserves.** A reasonable rent-up reserve (excluding marketing costs) is required for all projects based on the estimated projected lease up deficit. Absent information to the contrary, DCA will assume that three months of projected operating expenses constitutes a reasonable reserve. After lease-up, any funds remaining in this reserve will be transferred to the ODR or will be utilized to pay any deferred Developer Fee.

**18. Replacement Reserve.** A Replacement Reserve based on a Replacement Plan, is required for all projects awarded funding under the Plan and must be included in the operating budget. Contributions must be made to the reserve account, starting at or before the conversion date of the construction loan to permanent loan and must be funded for the longer of the term of the HOME loan, Period of Affordability or the Compliance Period in accordance with the Replacement Plan. The following **minimum** contributions must be used:

(a) Rehabilitation:	\$350 per unit per year
(b) New Construction:	\$250 per unit per year
(c) Single Family Units/Duplexes:	\$420 per unit per year
(d) Historic Rehabilitation	\$420 per unit per year

Replacement Reserve funds may be used only for Capital Improvements (substantial improvements to the real estate such as re-roofing, structural repairs, or major

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projects to replace or upgrade existing furnishings, but not including replacement of individual appliances or minor repairs) and must **not** be used for general maintenance expenses. Less restrictive provisions required by Lenders should be approved by DCA.

Replacement Reserves must escalate at a rate of 3% per year. If the Replacement Plan indicates that an amount greater than the minimum reserve outlined above is necessary, then this greater amount will be required and must be escalated at a rate of 3% per year. For Rehabilitation Projects, the physical needs assessment will also be reviewed in determining whether sufficient reserves have been established. DCA will adjust the Replacement Reserve to reflect reasonable and customary capital and replacement expenditures, and will continue to do so during the term of the DCA funding, if necessary.

**19. Revenue, Vacancy, and Expense Trends.** Revenue should be trended at 2% per year, operating expenses at 3%. Vacancy and collection loss will be underwritten at the higher of 7% or a percentage that DCA determines is appropriate based on market and historical information for the proposed project area.

**20. Soft Cost Contingency.** “Soft cost” or “total project” contingency, over and above the allowed construction contingency, will not be permitted as a budgeted line item.

**21. State Tax Credit.** DCA will not allocate state tax credits to a project that shows a price less than the reasonable fair market price for credits. Applicants that indicate intent to purchase state tax credits for themselves will be required to provide additional information as to the use of the credit and the basis for the price.

**22. Tax Credit Percentages.** During the competitive round, for the purpose of the application review, the Applicable Credit Percentage for the month preceding the Application Submission deadline should be utilized. DCA will issue further guidance in the event that a credit percentage floor is authorized.

For 4% Credits (tax-exempt bond financing), the Applicable Credit Percentage for the month preceding the submission of the application for tax credits should be utilized for the Application.

### **ADDITIONAL DCA POLICIES RELATED TO THE FUNDING OF DCA HOME LOANS**

**1. Assumptions for Land Purchase.** Once a project has been selected and the appraisal received, the building cost assumed for acquisition of land and existing buildings will be limited to the lesser of the sales price or the appraised “as-is” value.

**2. Contractor Change Orders.** All changes to the approved scope of work and/or construction contract must be approved by DCA in advance of proceeding with the work.

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- 3. Contractor Construction Cost Certifications.** Certifications audited by an independent certified public accountant must be submitted with the request for final draw for all projects funded with DCA HOME. All certifications must be prepared in accordance with DCA requirements.
- 4. Construction Commencement.** All HOME projects must be able to commence construction within nine (9) months of commitment.
- 5. Construction Contingency.** Any unused balance in the construction contingency at the time of Conversion must be used to reduce the principal amount of the HOME Loan or the senior lender loan as appropriate, with the monthly principal and interest payments adjusted accordingly.
- 6. Construction Hard Cost Financing.** HOME Loan funds must be used to finance only construction hard costs, which include site development, unit/building construction, and Contractor Services which include General Requirements (exclusive of payment and performance bonds), Builders Overhead and Builder's Profit. Soft costs, acquisition costs and other project costs must be financed by other financing sources. (Not applicable to HOME CHDO Predevelopment Loans.)
- 7. Construction Loan Recourse.** All construction loans will be full recourse against the borrower and/or the principals of the ownership entity until Conversion. DCA may require that one or more Principals of the Owner or Developer guarantee the completion of construction and payment of the HOME Loan until Conversion.
- 8. Conversion.** Projects receiving HOME Loans must be scheduled to convert within twenty four-months of the HOME construction loan closing. Extension of conversion deadlines must be approved by DCA.
- 9. Developer Fee Disbursement Limitations.** The maximum amount of the Developer's and Consultant's Fee (if applicable) that can be drawn before Conversion must not exceed the total Developer Fee requested less any portion being deferred times 50%. None of the Developer's profit will be disbursed until Conversion. These disbursement conditions will be reflected in the HOME Loan documents and in an agreement with any other funding source(s) that will be funding these line items.
- 10. Draws.** HOME Construction Loan proceeds will be disbursed on a draw basis during the construction period. The HOME loan documents will describe the policies and procedures for obtaining a draw.
- 11. Fixed or Floating Unit Designation.** When HOME assisted units are "fixed", those units are subject to specific HOME rent and occupancy requirements and will never change. When HOME assisted units are "floating", the units that are designated as 50% or 60% AMI units may change over time as long as the total number of those units in the project remains constant. If the Applicant fails to make such an election at the

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time of loan commitment, it will be deemed that the Applicant has elected to treat the HOME assisted units as "floating". This will be reflected in the closing documents

- 12. General Contractor.** DCA must approve the General Contractor prior to commencing work on any HOME project. DCA may request to approve the General Contractor prior to commencing work on any tax credit only project if the capacity or qualifications of the Contractor to perform the work are in question.

Request for approval of a General Contractor shall include the following:

- a) A resume on the General Contractor's Construction Experience that demonstrates a history of having performed work of the scope and type required for the development (number of projects, number of units, location of projects, capacity of involvement);
- b) Three (3) letters of reference with contact information (name, address, email, phone and facsimile numbers);
- c) Affidavit that the Contractor is not on the U.S. Department of Housing and Urban Development (HUD) list of contractors debarred or not approvable for prior noncompliance with HUD or DCA requirements;
- d) A statement as to whether the General Contractor has any lawsuits pending, has ever declared bankruptcy or has any pending unresolved claims;
- e) A statement as to whether the General Contractor has been bonded within the last three (3) years; if bonded, include amount and by what entity.
- f) The General Contractor's Schedule of Work in Progress which details current projects under construction and estimated timeline for completion;
- g) General Contractor's Estimate of Construction Time for the project;
- h) Evidence of the extent to which the General Contractor is bondable.
- i) A complete AIA A305 General Contractor Qualification statement;
- j) A positive Dun & Bradstreet Report ordered by DCA. (The contractor will be invoiced for the fee); and
- k) Evidence that the General Contractor carries Comprehensive General Liability and Worker's Compensation insurance in the amounts specified in the Construction Contract or the DCA Insurance Manual, whichever is the most restrictive.
- l) A statement identifying all identities of interest with Project Participants and subcontractors/vendors where the value of the work subcontracted or purchased is expected to exceed \$50,000.

Requests should be submitted to DCA in accordance with Exhibit A DCA Post Award Deadlines and Fee Schedule.

- 13. Guarantees.** Guarantees will be required by the Developer entity as well as the individual principals of that entity for the period from the loan closing until conversion.

- 15. Intercreditor Agreements.** When GHFA is not the only construction lender on a project, an intercreditor agreement shall be executed with the other lenders to ensure

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DCA's required involvement in all significant aspects of the administration of the construction loans. At a minimum, the intercreditor agreement should contain at least the following essential elements:

- a) A development cost budget approved by all lenders indicating the source(s) of funding for each line item;
- b) A process and timetable for reviewing and approving change orders to the construction contract;
- c) A process and timetable for reviewing and approving draw requests, including site inspection and documentation standards;
- d) A process and timetable for amending the approved development cost budget;
- e) Limitations on disbursements for Developer Fee (Owner's profit and risk) and Consultant fees; and,
- f) Other matters, such as priority of each lender's interest in the collateral for the loans.

**16. Loan Documents.** Written agreements shall be entered into between GHFA and the borrower evidencing, securing, and setting forth all of the terms and conditions of the HOME Loan. The Project Owner will also be required to execute all other closing or loan documents DCA deems necessary or desirable to document the HOME Loan satisfactorily.

**17. Loan Terms.** The principal amount of the HOME construction loan and HOME permanent loan for a project will be the same. No interest will be charged during the construction loan period. The interest rate on the permanent loan is generally no less than 1% for the full loan term.

The interest rate on loans to finance projects located in areas designated as Rural pursuant to the definitions in the QAP may be less than 1% in years 8 through 15 **only** if required to ensure project feasibility. In no case may such interest rate fall below 0.50%. In years 16 through maturity, such interest rates shall not fall below 0.25%. DCA may adjust this rate during underwriting congruent with more detailed information. Construction loan terms will be based upon the projected construction and lease-up schedule, as determined from the Application and DCA's underwriting. In general, permanent HOME Loans will be fully amortizing, with maturity and amortization periods ranging from 15 to 35 years.

**18. Non-Fully Amortizing Loans.** Non-fully amortizing Balloon Loans are available for projects in Rural areas. In such cases the term will be set by DCA with monthly payment and interest payments determined by DCA's underwriting projections and a balloon payment due at maturity. In the case of non-fully amortizing HOME Loans, the outstanding interest and a portion of the principal must be paid every year (no negative amortization).

**19. Excess Cash Flow Reserve.** For all permanent non-fully amortizing HOME Loans, in which the monthly installments of principal and interest are not sufficient to pay the HOME Loan in full over the loan term (a "non-amortizing HOME Loan") the borrower will

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deposit one-half of the cash flow from the project (after payment of third party secured debt service and investor asset management fees) into an interest bearing reserve account. The holder of the reserve account and the terms under which it will be held must be approved by DCA.

Funds held in the reserve account will be used only for principal reduction of the HOME Loan or Capital Improvements, but only if such use is approved by GHFA in advance. Funds in the reserve account (with the exception of those approved by GHFA for Capital Improvements) must remain in the reserve account until the HOME Loan is repaid.

- 20. *Future Market Value.*** In the case of a non-fully amortizing HOME Loan, DCA will require a projection from the appraiser of the future unrestricted market value of the property at the maturity of the HOME Loan, assuming it is no sooner than the expiration of the compliance period or Period of Affordability. This value will be used by DCA to determine the likelihood of retirement of the outstanding balance by refinance or resale of the property. The future market value of the property must be greater than the projected outstanding DCA HOME Loan balance at maturity in order for the HOME Loan to be considered financially feasible.
- 21. *Owner/Developer Financial and Credit Qualifications.*** The financial status and capacity of the owner and/or developer as well as their current credit rating will be reviewed by DCA at the time of underwriting. The results of these analyses may indicate the requirement for additional guarantors and/or partners, reserve accounts, and/or repayment term adjustments. Additional review of capacity based on staffing may be required in accordance with the 2013 HOME Rule.
- 22. *Operating Deficit Reserve.*** The operating deficit reserve for HOME loans must be held by DCA or the senior lender and must remain in place for the term of the HOME Loan or the Period of Affordability, whichever is longer. With the exception of instances in which Fannie Mae is the sole senior lender, if DCA is a subordinate lender, but makes a HOME Loan in an amount greater than the senior lender, DCA must hold the reserves. All withdrawals from the operating deficit reserve must be requested in writing and approved in advance by DCA. Interest earned on the operating deficit reserve account shall be added to the account as an additional contribution and will not be credited against the required monthly cash contributions. If drawn upon, no further distribution to Owners will be authorized until such time as the operating deficit reserve is restored to full funding.
- 23. *Over-Income Tenant Restrictions.*** When DCA HOME Loans are used, additional over-income restrictions shall apply. Upon re-certification of a previously eligible tenant, if it is determined that the tenant's income exceeds 60% of AMI, then the tenant's rent must be increased to the lesser of: 30% of the tenant's adjusted annual income, HUD's fair market rent limitations, or the maximum amount allowable by the Code, not to exceed limitations set by state or local laws (if any) or to be decreased under the established rent floor.

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- 24. Owner-Contractor Agreements.** If the Owner is not also the General Contractor, all developments financed in whole or in part with a HOME Loan for construction must use an AIA Standard Form Agreement between Owner and contractor, with Standard Form Terms and Conditions. The contract can either be stipulated sum or cost plus a fee with a maximum.
- 25. Partnership Agreements.** The partnership agreement and any amendments must be fully executed prior to the HOME Loan closing. The Partnership Agreement and any amendments must reflect the terms of the HOME Loan transaction on all material points. If the Owner is a limited liability company, an operating agreement in a form satisfactory to DCA must be fully executed before the HOME loan closing. After the HOME loan closing, the partnership agreement or the operating agreement (as the case may be) may not be further amended without GHFA's prior approval.
- 26. Payment and Performance Bonds.** A 100% payment and performance bond will be required for all developments funded with HOME Loans. The issuer of the bonds and the terms of the bonds must be approved by DCA.

When an Identity of Interest exists and the contractor cannot obtain a payment and performance bond, a waiver of the requirement for payment and performance bonds may be granted if a letter of credit or construction loan is utilized in lieu of the payment and performance bond waiver must be submitted at pre-application.

A waiver will not be considered unless:

- a) The Owner agrees to provide a construction completion guaranty and payment guarantee, secured by a letter of credit from a federally-insured institution with a value of at least 50% of the total construction cost, including profit and overhead; or
- b) The Owner agrees to secure a construction loan with private financing. GHFA will disburse funds during the construction period, in an amount not to exceed \$10,000 per construction draw.
- c) No more than 10 months can elapse between disbursements of HOME funds.

**27. Refinancing.** DCA HOME loans cannot be used to refinance or payoff an existing loan. Proceeds from permanent HOME loans can be used to pay off construction, bridge and predevelopment loans provided that the HOME assistance is part of the original financing package.

**28. Repayment.** Repayment schedules will vary depending upon projected economics of the development, but are essentially determined by analyzing available projected cash flow of the project at Application Submission and again during HOME Underwriting. In the event DCA determines that the project is experiencing feasibility problems related to increases in real estate taxes, increases in property insurance, increases in utility



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allowances or decreases in fair market rents, the repayment schedule may be modified by DCA.

**29. Replacement Reserve Withdrawals.** All withdrawals from the Replacement Reserve account must be approved by DCA in advance. The senior lender must maintain the Replacement Reserve account in an FDIC insured financial institution. Interest earned on the Replacement Reserve account shall be added to the account as an additional contribution and will not be credited against the required monthly cash contributions. Replacement Reserves are to be used only for capital expenditures and not to handle operating deficits.

**30. Retainage.** The loan agreement between the Project Owner and GHFA will provide that GHFA will retain the greater of 5% of the original GC contract amount until the conditions of the final draw are met.

In addition, the contractor is required to show retainage on the AIA G702/703 as follows:

- a) If the project completion is between 0-50% of the General Contractor's contract sum, the AIA G702/703 must show at least 10% retainage on the entire contract sum. No portion of the contract sum shall be exempt (Examples of items that are not exempt: stored materials, performance and payment bonds, insurance, general conditions). Adjustments will be made in the disbursement of HOME funds if the AIA G702/703 does not reflect 10% retainage.
- b) If the project completion is 50.1-100% of the General Contractor's contract sum, the AIA G702/703 must show at least 5% retainage on the entire contract sum.

The construction contract must provide and the contractor must acknowledge that GHFA has the right to withhold such retainage and that the retainage will not be disbursed until full and final completion of the construction.

**31. Rural Projects.** DCA recognizes that rural projects may involve greater financial risk than non-Rural projects. While a sufficient economic base to support a proposed Rural project may exist at the time of Application, the loss of a predominant industry or employer, or other extenuating circumstances out of the control of the Applicant could result in a major economic impact on the project. To mitigate this increased financial risk, DCA will consider loan modifications during the course of the HOME Loan for projects which have suffered a demonstrated major economic impact as a result of the loss of a predominate industry or employer or other extenuating circumstances. The loan modification may be structured to allow the Owners to maintain Ownership and control of the property and to continue providing affordable housing to the extent it is needed in the community.

**32. Stored Materials.** HOME funds will not be used to fund the cost of stored materials without the prior consent of DCA. Stored materials are considered to be materials that

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will not be incorporated into the construction within the subsequent thirty (30) days from the date of any draw request.

- 33. *Subsidy Layering Review.*** DCA will perform subsidy-layering analysis for HOME funded projects prior to the time of preliminary commitment for projects receiving tax credits from the state's low income housing tax credit allocation. In cases where the results of a DCA subsidy layering review indicated that there would be excess assistance, DCA will reduce the amount of the HOME loan to eliminate the excess. In addition, a subsidy layering review is also conducted during HOME loan underwriting prior to the closing of the HOME loan.
- 34. *Subordination.*** The decision whether to subordinate DCA's regulatory agreement and/or lien position to a private lender's security deed will be made only after DCA considers the individual circumstances of each HOME Loan. Factors that will be considered include, but are not limited to, the senior loan amount, DCA's HOME Loan amount, debt coverage ratio, private lender's interest rates, loan maturity, type of loan, etc. In no instance will DCA subordinate to a public entity's loan.
- 35. *Syndicator Asset Management Fee.*** Syndicator asset management fees will be paid from the "after debt service" cash flow less the cash flow payments to DCA on the HOME permanent loans.
- 36. *Tri Party Agreements.*** A Tri Party Agreement will be required for all DCA HOME Loan transactions involving another permanent lender that is not financing construction costs. The Tri Party Agreement must clearly state, at a minimum, that the permanent lender has reviewed and approved the DCA HOME Loan documents, plans and specifications, development budget, tenant lease, environmental assessment, construction contract, title exception legal description, management agreement, partnership agreement, borrower's certificate of limited partnership, survey, appraisal, form of subordination agreement, and items necessary to satisfy the permanent commitment regarding completion of construction of the improvements of the collateral property.
- 37. *Inspections.*** All costs incurred by DCA for DCA HOME property inspections will be the responsibility of the Borrower – including, but not limited to, inspections at Draws and Final Draw and other inspections required if a property is improperly maintained.