LISTING AND EXPLANATION OF MAJOR REVISIONS
DRAFT 2010 QUALIFIED ALLOCATION PLAN
POSTED AUGUST 18, 2009

The listing below is generally in order of appearance in the draft Qualified Allocation Plan ("QAP") and does not include all material changes. The entire draft QAP is preliminary and subject to further revision; nothing is final at this point.

Credit Recycling (page 5)
The provision allowing owners to return past allocations for a new award was part of the Agency's response to the sudden difficulty securing equity last fall. While the recession is not over, the Section 1602 exchange program covers 2007 and 2008 projects without an investor. Therefore the Agency anticipates recycling allocations will no longer be necessary.

Rehabilitation Set-Aside (page 5)
The draft QAP clarifies that proposals to substantially re-configure residential units will be treated as new construction applications.

New Construction Geographic Set-Asides (pages 5-6)
Percentages for the Central, East, Metro, and West reflect the per-capita share of the counties within each region. For example, together the seven counties in the Metro have 36% of the state's population.

CHDO Set-Aside (pages 6-7 and 31)
Applicants qualify for the Community Housing Development Organizations (CHDOs) set-aside because of HOME being the source of the RPP loan. Since HUD environmental clearance review is necessary to be eligible for federal funds, applicants must not undertake any choice-limiting activity prior to successful completion. The limitation begins with the full application deadline. There is a QAP definition for the term "choice-limiting activity".

Principal Limit (page 7)
In 2003 the Agency awarded $15 million in 9% tax credits to 50 projects. For 2009 there was $17 million for 24 projects, meaning North Carolina had half as many awards this year despite more resources being available. The main reasons are:
1) projects contain more units, and
2) the amount of tax credits per unit has increased.
These trends are almost certain to continue.

Because the continued viability of some development groups depends on receiving an allocation periodically, the Agency proposes to reduce the amount of 9% awards per Principal by making the $1.5 million maximum (increased from $1.3M) a "hard cap". This means there would be no ability to receive more than $1.5M to complete last award. The alternative maximum is three awards, including no more than one per geographic set-aside.

Joint Venture Projects (page 7)
The Agency does not encourage development capacity building through the QAP; as indicated above North Carolina has adequate competition. However, organizations may form mutually beneficial partnerships, which usually involve sharing a project's benefits. The draft QAP recognizes this by counting only half of one joint venture allocation towards the Principal limit.

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Agency-Designated Basis Boost (page 7)
The Housing and Economic Recovery Act of 2008 allows tax credit allocating agencies to designate projects as receiving an increase in eligible basis of up to 30%. Applicants in the last cycle could request an increase for expensive land, off-site requirements, or on-site costs not part of eligible basis. The last of these was the exception among requests and not well understood. Also, recently the IRS released a private letter ruling allowing many off-site costs to be included in eligible basis. Therefore the draft only includes land as a reason for a boost.

Difficult Development Areas (page 8)
Unlike Qualified Census Tracts, the methodology for determining Difficult Development Areas (DDAs) does not carry out Congressional intent. A county becomes a DDA not because of development difficulties but rather based on how the following ratio compares to other counties:

- HUD's Fair Market Rents, divided by
- the tax credit "income-based rent limit".

(This description is a summary; for more information click here.)

As a result, projects in DDAs may be eligible for a basis boost for reasons unrelated to feasibility. Because of this disconnect, the draft proposes to not recognize DDAs. The IRS acknowledges tax credit allocating agencies' ability to do so in the Form 8609 instructions for Line 3b. Instead the Agency proposes to boost eligible basis as described in the previous section.

County Award Limits (page 8)
The reduced limit of $2 million is more than any county's per-capita share of 9% tax credits.

Loan Closing Fees (page 10)
Each year the Rental Investment Group closes at least 40 loans for 9% tax credit projects. Doing this work without compensation is no longer cost-justified as a self-supporting agency. The amounts proposed ($1,500 for STC, $2,000 for RPP) are less than the Agency's actual expenses. These fees will be allowed project costs.

Site Suitability and Building Location (page 12)
The evaluation criteria are the same but the draft has possible negative points. The reason is because simply scoring 0 out of 10 may not reflect a proposed site's problematic circumstances relative to others in its region.

Project Development Costs (page 15)
The negative point calculation includes the line-item for accessory buildings.

Section 1602 Exchange Projects (page 20)
In response to a provision in the initial draft criteria for implementing the Exchange program, several developers proposed negative points for noncompliance as an alternative.

Rehabilitation Evaluation Criteria (page 23)
The most important factor has been proposals to "rehabilitate the state's most distressed existing housing". The draft proposes to focus this consideration to "federally subsidized" distressed housing, which includes those with project-based assistance and tax credits.

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