WSHFC 9% Housing Credit Program

Clarifications to the 9% Competitive Housing Tax Credit Policy for 2015

The Washington State Housing Finance Commission is making no substantial policy changes for the 2015 Allocation round. However, we have clarified a number of sections of the policies. The relevant sections are copied below with additional clarification outlined in *[red italic brackets.]*

2.6 SELECTION OF TAX CREDIT FACTOR

The Applicant is responsible for providing the Commission with the Tax Credit Factor that the Applicant believes will be achieved when the Credit is sold. The Commission will establish a minimum Tax Credit Factor based on its evaluation of the equity market.

The Tax Credit Factor represents, on a percentage basis, the value of the Credit dollar amount available for the Total Project Costs (i.e., the amount paid by the investor for each one dollar of Credit). The Applicant's selection of the Tax Credit Factor in the Application establishes the absolute minimum Tax Credit Factor. *[The Tax Credit Factor must reflect an ownership percentage of 100%.]* Once selected, the Commission will use the Tax Credit Factor from then on when it calculates the Credit reservation and allocation to any building in a project, except as noted below. Consequently, the Applicant should be sure to research the market to determine an appropriate Tax Credit Factor.

If the proceeds from the sale of the Credit are more than projected in the Application, then, as provided in WAC 262-01-130(7), the Commission will reduce the Credit amount to the minimum amount necessary for the project to be financially feasible and viable as a qualified low-income housing project. In calculating the amount of Credit, if the actual Tax Credit Factor is higher, the Commission will use the actual Tax Credit Factor achieved from the sale of the Credit rather than the Tax Credit Factor in the Application. Consequently, the amount of Credit actually allocated to a building may be reduced below the amount initially reserved.

The Applicant should be aware that a final Tax Credit Factor that is lower than the figure included in the Application might result in a loss of Credit for the project. In that case, the Applicant must demonstrate that the project is both financially feasible and viable with the reduced amount of Credit. The Commission may disqualify the Project/Application and cancel the Credit reservation or allocation if the Applicant cannot do this. For example, the Applicant may have to provide evidence that it has secured other sources of funds to fill the remaining equity gap. Such alternative sources could also result in a decrease of Credit.

In characterizing the anticipated tax credit proceeds and the corresponding Tax Credit Factor listed in the application, Applicants may be asked to substantiate, to the satisfaction of the Commission, the projected tax credit pricing. If required, Applicants must provide evidence that the Tax Credit Factor listed in the Application has a reasonable likelihood of being achieved given the known conditions of the current equity market.

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[Note regarding this clarification:

WSHFC allocates credit to the entire ownership entity, regardless of the percentage of ownership between the investors and the general partner. Therefore, the Tax Credit Factor must reflect the per dollar price that the investor is paying for the credit that they will receive and should not be modified artificially to reflect an ownership percentage of less than 100%.]

3.2.3 Urban Type Projects in Clark, Spokane or Whatcom Counties

Projects located in Clark, Whatcom and Spokane that fit the definition of an Urban Project Type will be subject to the King-Pierce-Snohomish County TDC Limits. Urban Projects are defined as those that have two or more of the following:

- More than 4 stories
- An elevator
- Required structured parking †
- Located on an urban infill site defined as development on a vacant or underutilized site within an existing built up urban area.

Projects located in Clark, Spokane or Whatcom Counties that do not meet the above Urban Project Type qualifications and are not Supportive Housing are subject to the Balance of State Limits outlined below.

**Applicants should consult Commission staff if they are uncertain as to whether their project qualifies for the Urban Type Project determination.

[† Structured parking is defined as an above-grade or underground structure specifically designed for vehicle parking.]

3.2.5 Waiver of the Total Development Cost Limit

In setting this policy, the Commission acknowledges that some projects will not fit within these limits despite best efforts to do so. However, it is imperative that the tax credit resource be allocated to projects demonstrating prudence when making their funding proposals. While the TDC Limit policy sets distinct limits, discretion is a critical component of this policy. Through the waiver process, the Commission may consider a number of potential project characteristics that can create cost levels above the published limits.

These cost influences may include, but are not limited to:

- Construction type (e.g. high-rise elevator construction, structured parking)
- Density (e.g. units per acre)
- Costs related to stated program priorities (e.g. supportive housing, large family units)
- Multi-phased projects and large scale redevelopments
- Funded initiatives promoting design or development innovation

Clarifications to the 9% Competitive Housing Tax Credit Policy for 2015

Approval of the TDC waiver request is at the sole discretion of the Commission. The existence of the above factors should not to be construed as a guarantee of waiver approval.

Projects requesting a waiver of the Total Development Cost Limit must submit a TDC Limit Waiver Request Form with required attachments 60 days prior to submission of the Application. Applications submitted that exceed the Total Development Cost limit without an approved waiver will be disqualified and not considered further.

Waiver requests will be evaluated to determine whether additional costs are reasonable and justifiable under the circumstances, attributable to unique development characteristics, and consistent with the housing needs and priorities identified in the Policies.

[Total Development Cost Limit Waivers will remain valid only for the current year's application. In addition, should a Project receive a waiver under these policies but then subsequently reapply for credit under a different set of policies, then a new waiver must be requested. For example, a Project that receives a TDC Limit Waiver under these 9% policies but then reapplies for credit under the Commission's 4% tax credit/tax-exempt bond policies must apply for a new TDC Limit Waiver.]

If a Project exceeds the Total Development Cost Limit by 20% or less, the waiver is subject to the approval of the MHCF Director. If a Project exceeds the Limit by more than 20%, the waiver must be approved by the Executive Director prior to the submission of the Application.

3.6.5 Efficiency of Scale Demonstration: Projects in King County seeking 2016 Credit

Our analysis shows that the 10% Credit per Project Limit artificially constrains the scale of projects in King County to approximately 75 units per project. There is substantial anecdotal evidence that sites in King County are not being developed to their full capacity because of this limit or that projects are being unnecessarily developed in phases. In the late summer of 2015, the Commission will hold a competitive process for applicants to demonstrate the efficiencies that may be gained by developing at scale greater than 75 units per project.

At that time, applicants will be invited to submit a conceptual overview of their proposed project that demonstrates how it meets the following selection on the criteria:

- The Total Development Cost of the Project is less than its Total Development Cost Limit.
- The project is more than 100 units and *[is maximizing allowable density.]*
- The project is able to demonstrate the efficiency of developing a larger scale project in a single phase *[that may use a single or a mixed financing structures.]*

[Applicants should provide evidence that splitting the project into two separately-timed financings would be less cost-effective or that the project would less efficiently serve a mixed population or miss the development opportunity window.]

Clarifications to the 9% Competitive Housing Tax Credit Policy for 2015

Once approved by the MHCF Director, the selected project can proceed through the public funding cycle (if applicable) and apply for an allocation of Credit out of the King County Credit Pool in the 2016 round. Approval of a project to exceed the Credit per Project Limit is not a guaranteed allocation of Credit. The project must compete for credit in the round in which it applies.

Projects funded through this demonstration will remain subject the 15% Credit per Sponsor limit; so in effect, the maximum credit per project under this policy is 15% of the Available Annual Authority. Projects also remain subject to the Credit per Low-Income Unit policy.