

Summary of Questions and Answers provided through November 5, 2004

QAP Sections and Application sections are provided as examples.

Week 1 (September 24, 2004)

Qualified Allocation Plan

4.1 Project financial information.

Q. If a project is located in an enterprise zone; must the enterprise zone application process be completed for the November 22, 2004 application?

A. No, the enterprise zone process does not have to be completed prior to the November 22, 2004 deadline. However, as accurate as possible figures should be provided in the application as required under section 4.1 of the QAP.

5.7 Market Study

Q. If a project contains a community service facility, would Section 42 require the market study to reflect the benefit and/or need of the community service facility. Is this something we would need to request of the IFA selected market analyst, or should we hire another market analyst? Would this additional market information be an additional fee? Would this need to be done prior to November 22, 2004, or is this something you can consider as part of the regular application process and timeline?

A. Yes, the market study should reflect the need/benefit of the community service facility. This should be requested of the IFA commissioned market study and is part of the market study information form (including during the pre-application, Section B). If the information was not provided during pre-application, it should be provided as soon as possible through IFA. This will need to be done prior to the November 22, 2004 deadline in any case.

Week 2 (October 1, 2004)

Section 2.4 Tax Credit Cap for Single Developer/Consultant

This year we are applying for credits for two Section 42 projects (Project #1 and Project #2), that will, if both allocated Section 42 credits, cause us to exceed the Developer/Consultant cost cap. This has caused us to evaluate what could be a best case scenario (i.e. both projects receive an allocation), and determine the

responsibilities, roles, and duties, of our company's role in the development team of each of the projects. Since Section 42 tax credits are actually allocated to the entity that owns the tax credit project, we are trying to interpret how QAP Section 2.4 applies to our potential tax credit applications. Both projects, (Project #1 and Project #2) will each be owned by a separate Limited Liability Limited Partnership (respectively, LLLP #1 and LLLP #2). Our Development Company is the Developer of Project #1, and a related entity will be the single-purpose General Partner (GP #1). A related entity to the principals of our Development Company is likely to be the single-purpose General Partner of LLLP #2 as well.

Q. Knowing that the single-purpose General Partner entities of LLLP #1 and LLLP #2 will have a .01% ownership interest of the respective LLLPs, must this .01% ownership interest be considered when calculating the percentage of the tax credit allocation for purposes of QAP Section 2.4 since those single-purpose General Partnership entities will actually receive a portion of the Section 42 allocation?

A. For 2.4 purposes, 100% of the Tax Credits will be allocated to you as Developer.

Q. Project #2 is being implemented under the direction of a County Wide Economic Development Entity (CWEDE) that is acting in cooperation with the City in which the project is located and a local Foundation that has contributed money to purchase/clear/demo/grade the proposed project site. CWEDE could be the Developer or could be the Consultant to Project #2. Both projects are located in QCT's – so our Developer/Consultant cap max would be \$910,000.00 (i.e. \$700,000.00 X 130% = \$910,000.00). Let's assume, for purposes of these questions, that Project #1 would receive the maximum single project allocation amount of \$650,000.00 (i.e. \$500,000.00 X 130% = \$650,000.00) leaving \$260,000.00 of the Developer/Consultant Cap remaining for Project #2 (i.e. \$910,000.00 - \$650,000.00 = \$260,000.00). Let's also assume, the tax credit allocation for Project #2 is \$520,000.00 and has a maximum developer fee of \$700,000.00. So, per QAP Section 2.4, our company, as consultant, would be eligible for 50% of the tax credit allocation (i.e. \$260,000.00 / \$520,000.00 = 50.00%, and thus eligible for 50% of the \$700,000.00 maximum developer fee (i.e. \$350,000.00). Is this calculation correct?

A. Yes. Assuming that the CWEDE is the Developer and your entity (or a related party) is the consultant and is not serving another role such as General Partner. Please reference 5.5 of the QAP which defines Qualified Development Team, which is a threshold requirement.

- Q. Is the QAP Section 2.4 calculation, affected by the fact that our company, or a related entity thereof, would be the single-purpose General Partner of the LLLP#2 ownership entity?**
- A. Yes. Your related entity would be subject to the Developer/Consultant cap as the Developer. As the Developer, 100% of the Tax Credits would be counted against the cap.**
- Q. Must our Development Company only be a Consultant to be eligible to participate in Project #2 (and be eligible for 50% of the Developer Fee)? Or can our Development Company be the Developer of record and receive the same 50% of the Developer Fee and have CWEDE be the consultant?**
- A. Yes, your company must only be the consultant to be eligible for 50% of the fee on Project #2. If your company is the Developer, all the tax credits awarded would go against the Developers/Consultant cap limitation.**
- Q. Then also, how is the 50% amount (i.e. \$350,000.00 of the developer fee) affected if the maximum developer fee is reduced to an actual developer fee of \$400,000.00 to allow the \$300,000.00 difference to be allocated to increased construction costs? Is the fee received by Development Company limited to 50% of the \$400,000?**
- A. Yes. If the Development Company as consultant gets 50% of the actual total fee, then 50% of the credits will count against the Developers cap in 2.4. The draft Application is available on the website to test different scenarios.**
- Q. Is it allowed, and how will IFA calculate the percentage, if Development Company and CWEDE enter into a co-developer role?**
- A. Section 2.4 of the QAP sets a cap for the allocation of Tax Credits for a single Developer/Consultant. In the case of co-developers, each would have 100% of the Tax Credits counted against their cap.**
- Q. Another part of the Project #2 structure is that CWEDE desires Development Company to be responsible for a maximum amount of the development risk of Project #2 (and said risk proportion is based on the maximum percentage participation of Development Company allowed under QAP Section 2.4). Would the language in the development agreements for each project need to reflect the dynamic that could ultimately reduce or increase the allowed percentage of Project #2 relative to the actual allocation of Project #1 (if awarded), and then also the potential of change in final allocation of tax credits to Projects #1 and Project #2, thus eliminating the ability to enter into a fixed price developer fee for both Project #1 and Project #2?**

- A. Both projects will be considered independent of the other and must stand alone.**
- Q. Will then the final determination and/or allocation of Developer/Consultant fees be based on the 8609's for the projects (if both awarded credits)?**
- A. The determination will be made based on information provided in the application. At Carryover and 8609, IFA will review information submitted to ensure it is consistent with information submitted with the Application.**
- Q. Then, in another scenario, will it be allowed to make Development Company the sole Developer/Consultant for Project #2 if Project #1 failed to be allocated tax credits but Project #2 was successful?**
- A. No, the Application cannot be changed once it has been received by IFA.**
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Week 3 (October 8, 2004)

Application

Q. When will the final version of the Application documents not labeled "Draft" be available?

A. The Administrative rules which govern the QAP are not final until the governor has signed them. We anticipate sometime in late October. The web page will be updated when the Application is official.

Q. When will you know what Applicable Percentage to use at 10.24 of the Application?

A. See the footnotes at the bottom of pages 8, 9 and 10 of the Application.

4.8 Per Unit Cost Cap

Q. Do you anticipate that the HUD cost caps now labeled "DRAFT" will change before the Applications are due in November?

A. No.

4.5 Debt Service Coverage Ratio

Q. Rural Development (RD) adjusts their rents each year (and their rental assistance) to just cover the operational costs, payment to reserves, debt service

and a small return to owner. As these items go up and down and the rents are adjusted accordingly. The result is that RD's budgeting process does not allow for a debt service coverage even close to 1.15. The QAP requires DSC of 1.15 or greater. Does this mean a RD application will be rejected?

A. Please refer to Section 4.5 of the QAP for IFA requirements which provides that a narrative is to be provided to IFA if the Debt Service Coverage Ratio falls outside the limits. If the justification is acceptable, the Project may not be rejected.

Application

Q. Similarly, when preparing the Cash Flow projection in the application there is no way to accurately forecast what will happen on an RD project over the 15 year period since rents are adjusted annually to just cover expenses. There is no way to enter the data since annual increases for income and expenses as a percentage will distort the projections. How should we submit this portion of the Application given RD's procedures? RD procedures do not apply to the Application of Tax Credits. The Application for Tax Credits must be submitted using IFA requirements. Would it be permissible for RD projects to submit a 15 year cash flow on our own spread sheet set up for RD's budgeting requirements?

A. The additional spreadsheet may be submitted but IFA's proforma must also be used.

4.2, 4.3 Replacement and Operating reserves

Q. RD requires that annual payments to reserves equal 1% of the original RD loan on the Project. (We are referring to an existing acquisition and rehab where the loan was placed on the project over 10 years ago) If this amount is less than the required \$300 per unit as per the QAP, will IFA waive this requirement?

A. Projects awarded under the 2005 QAP will be required to begin reserving the \$300 per unit per annum for acquisition and rehabilitation Projects after they are placed in service. Please refer to Section 4.2.

Scoring; Tenant Related Category

Q. 6.3.1.5 allows 30 points for special needs populations. Item 71 of the Glossary; "Tenants with Special Housing Needs", includes housing for large families. Attachment C makes no mention of large families. Will points be awarded in this section to Projects serving large families as a special needs population?

A. Special needs for this group could include Families in Organized Program(s) to Achieve Economic Self-Sufficiency.

Application

Q. Where and how would IFA like us to show the cost and eligible basis of a Community Service Facility that is part of our tax credit project?

A. It can be shown under accessory buildings on the Application.

4.8 Per Unit Cost Cap

Q. Will you also provide a methodology to allow the additional adjusted basis (up to 10% of the eligible basis of the Building per Section 42) to generate the tax credits that would be allowed by Section 42?

A. No, there is no exception for this under the Per Unit Cost Cap in Section 4.8.

Glossary #15

Q. Based on Q-2 of the IRS Revenue Ruling 2004-82 (wherein is described a Facility that the police department leases a unit in the Building) does IFA agree that rent can be charged for the Facility portion and that the Facility is not treated as commercial space?

A. Yes, however, all requirements of the Community Service Facility must be met. Please reference Glossary #15 in the QAP.

Application, Per Unit Cost Cap

Q. My project is a straight senior Project in a QCT. In Section 11.04 Total A is above Total B. Is my project dead in the water? Does the 105% of the 221(d)(3) limit count here?

A. A Project cannot exceed the cost caps except in the cases specified in 4.8. The 105% of the 221(d)(3) limits does apply.

Glossary #50

Q. Would a household with a disabled child, as determined by a qualified professional, qualify as a "Person with Disability" under the 2005 QAP for purposes of qualifying for a unit set aside for "Persons with Disabilities" in a Service Enriched Housing Project?

A. Yes, however, the family would have to be income qualified for the unit.

Week #4 (October 15, 2004)

4.8 Per Unit Cost Caps

Q. Bridge loan interest is allowed to be subtracted from the total development costs in calculating cost caps. What is the definition of a Bridge Loan?

A. A bridge loan is a loan that is used for a short duration of time until permanent financing is put in place. Examples of this would be construction loans and gap loans until equity from tax credits are received.

6.3.4.3 Projects that are subsidized Preservation Projects.

Q. One of the criteria for getting points in this category is “in need of repair”. What documentation is required with the Application to show a USDA Section 515 is in need of repair?

A. Photographs of the Project and a narrative describing the necessary repairs.