Explanation of Changes to Qualified Allocation Plan
for
2005 Housing Tax Credit Program

Recommendation

Under Identification of Housing Needs on page one add “family” to the list of high priority rural housing in the second sentence.

Discussion

In most rural areas of the state housing needs for families are as great as for the elderly and people with special needs.

Recommendation

Under Application Process on page 4 in the third paragraph change the language to state that unsuccessful applicants may resubmit an application in the next cycle and delete the requirement to submit a written request to KHRC within 10 days and delete the language, “If this option is chosen, no additional application fee is required. If an applicant chooses to submit a revised application…” A new application fee will be required for any resubmitted application.

Discussion

Applicants always have the option of resubmitting applications in the next cycle and generally the notification process has not been observed or enforced. Resubmissions of applications in the second round after not being approved in the first round have not required a new fee unless changes have been made. This has made it easy for unsuccessful applicants to keep their application under review even if we don’t like the proposal. Charging a new fee will put more burden on them as to whether or not they want to keep resubmitting their application.

Recommendation

Under Fee Schedules on page 4 add a $100 fee for any change order that isn’t the result of a mistake made by KHRC. Under application fee delete the maximum fee of $500. The fee would be $10 per unit.

Discussion

We have been bombarded the last couple of years with changes that people want on reservation agreements, covenants and other documents. Many times this is a result of final underwriting by lenders and investors, but, nonetheless, results in additional work and further review to make sure the changes do not materially alter our original analysis.

Several states have similar fees. Removing the $500 limit to the application fee would raise additional revenue for applications that exceed 50 units.

Recommendation

Under Fee Guidelines on page 5 lower the consulting fees for nonprofit applicants from 4% to 3% for 25-49 units and from 6% to 4% for 1-24 units.

Discussion

We have seen the maximum consultant fees charged for very inadequate applications. There frequently appears to be no relationship between the fees being charged for consultants and the quality of applications.

Recommendation

In the energy efficiency section on page 7 change the number of units that need to be rated from at least five with different floor plans and orientations for complexes up to 50 units and 5% or a maximum of ten units in complexes over 50 units to "up to five and up to 5%". This would apply to plan review and rating of completed construction.

Discussion

The change allows for more flexibility on very small developments and developments with the same floor plan and little variance on the orientation.

Recommendation

In the Selection Criteria under Housing Needs Characteristics No. 4 on page 12 add "or building." Also increase the points from 10 to 20 points. Decrease points from 15 to 5 for No 2.

Discussion

Currently reusable buildings that have not been previously used as housing do not receive these points. Providing more incentive to reuse these type of buildings might increase rehabilitation of old buildings. Decreasing points for the homeless unit is warranted as we have about 100 of these units in tax credit properties around the state. The total number of points for this category remains the same.

Recommendation

In the Selection Criteria under Development Characteristics No. 1 on page 12 add "Points will be deducted on sliding scale beginning with 6% of total costs."

Discussion

Intermediary costs have grown significantly over the years. It appears that there is no restraint when fees are charged for architects, attorneys, engineers, and other services provided for fees. This change will reward those who attempt to keep intermediary costs under control. The statute creating the program is very specific about the desire to reward projects that have the lowest intermediary fees. Proposals with the lowest intermediaries are not always synonymous with good projects, but this change should be an encouragement for applicants to keep these costs reasonable.

Recommendation

In the Selection Criteria under Development Characteristics No. 2 on page 13 rearrange the specific amenities point level by moving, common laundry room, carport, and security fencing from level one to level two. Move playground/tot lot, washer/dryer in unit and safe room to level three. Move organized recreational activities to level one. Add security landscaping and bike rack to level one. Add basketball court to level two. Delete detached garage from level two. Refer to attached garages as garages in level three.

Discussion

These changes will more closely align the amenities and the cost of providing them with the number of points they receive, while adding additional items that are frequently provided in applications.

Recommendation

In the Selection Criteria under Development Characteristics No. 3 on page 13 add "or related party" to the end of the criteria.

Discussion

This will give points to applications where a deed has been filed in the name of a person or entity that is closely aligned with the project but not necessarily a general partner and recognize that this factor will aid the readiness to proceed.

Recommendation

In the Selection Criteria under Development Characteristics No. 5 on page 14 delete "existing" from the criteria.

Discussion

This change will allow new housing in a revitalization area to receive points. We have many applications for new housing that are located in revitalization areas. New housing can be just as important as revitalized housing in terms of helping uplift neighborhoods.

Recommendations

Under Market Studies on page 16 insert a sentence, "Market studies showing a capture rate of over 15% in metropolitan areas will disqualify an application from further consideration."

Discussion

As markets become more saturated with tax credit housing, it is vital that we do not over build and undermine properties already in existence. A high capture rate basically means that the market will come from other properties. Many analysts say that a capture rate of over 10% is not advisable. There can be exceptions to these rules of thumb such as an elderly project where we know that there could be an undefined market outside of the market area. We want to leave greater flexibility for the rural areas where population density is much lower and can skew the capture rate, particularly in markets with substandard housing conditions.