

Explanation of Proposed Changes to Qualified Allocation Plan for 2006 Housing Tax Credit Program

Recommendation

On page 1 of the QAP change the section **Identification of Housing Needs** with the following:

Priority Housing Needs

KHRC has identified the following housing needs as priorities for the tax credit program in 2006:

- (a) any development in a community with less than 5,000 population;
- (b) preservation of housing with a HUD Section 8 or USDA Housing Assistance Payment contract;
- (c) any development for special need populations including homeless families and individuals or persons with disabilities;
- (d) any development that offers gross rent for all units at a rate that is below the fair market rent for the area in which the property is located.

Coupled with this change in the identification of priority housing needs the language in the **Selection Criteria** under G. 1 on page 15 shall be changed to the following:

Developments that address the priority housing needs shown on page 1 herein.	15 points
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Discussion

KHRC's strategic planning process has identified a need to increase the scoring for these types of developments in order to serve the housing needs of the most vulnerable and underserved populations. Giving more points to priority housing needs will enhance the applications that endeavor to address these needs and make it more likely that they will be approved for tax credit financing.

Recommendation

Under **Fee Schedules** at page 4 add:

Interest: Any fee not paid within 30 days following the fee due date as prescribed in the fee schedules shall accrue interest at the rate of 5% per annum.

Discussion

This was a recommendation from the strategic planning process as a way to generate more income. With an increase of fees in 2003 there have been more incidents of inability to pay the fees until there is a closing. Internal accounting procedures have changed the way we track and account for the fees and suggests that we should be charging interest for unpaid accounts.

Recommendation

Expand the internet access under the point criteria for amenities on page 13 as follows:

Level One

Free dial up internet/computers in office

Level Two

Free high speed internet/computers in office

Level Three

Free wireless internet for whole complex

Discussion

This clarifies that an owner has to provide more than a phone line in order to obtain these points and addresses the growing interest in providing renters greater access to high speed and wireless internet access.

Recommendation

On page 16 replace the Market Studies section with the following:

Market Studies

Market studies on all developments are required. A market analyst unaffiliated with the developer, the development or the city where the development is located, who has experience with multifamily rental housing, must prepare the study. All income levels targeted in the application must be addressed in the study. The market study must include information in the following format:

- (a) An Executive Summary of no more than one page that highlights the significant findings of the study, including the calculated capture rate and

estimated absorption period. A table of contents must be provided with page references to the key topics outlined below.

- (b) A description of the proposed development that identifies the targeted population, the number and size of both tax credit and market rate units, the proposed rents and utility allowances, the amenities and other relevant information.
- (c) A description of the proposed site, the surrounding land, and the neighborhood. Photographs of the site and neighborhood, and a map clearly identifying the location of the development and its distance to jobs, shopping centers, medical services, places of worship, schools, day care, libraries, senior centers, recreation and transportation linkages must be provided.
- (d) Definition and location of the primary and secondary market areas must be reasonably drawn, delineated on a map, and justified by an adequate explanation that is supported by the demographics and economics of the area. No points will be assigned to studies with unreasonably large market areas.
- (e) Economic analysis of the market area. Emphasis should be placed on recent and projected job growth and development, level of wages and salaries being paid, the historical and current unemployment rate, and the commuting patterns of workers.
- (f) Analysis of household numbers, sizes and types in the market area, including a breakout of family, elderly, and persons with disabilities households, along with owner occupied and renter occupied households.
- (g) Specification of the number of income eligible households who can afford to pay the rent proposed by the development in question. Eligible households should be identified according to the income stratifications shown on the most recent KHRC income and rent qualification chart. An affordability factor of 30% should be used in all analysis. points will be assigned to studies that use an affordability factor in excess of 30%.
- (h) A description of rent levels, operating expenses, turnover rates and vacancy rates of comparable properties in the market area.
- (i) Expected market absorption of the proposed development, including capture rate, lease up period, and the effect on other comparable properties in the market area.
- (j) Communication with the KHRC to discuss appropriate market areas, comparable properties, and competing properties in the development and construction stage is required. Inquiries should be directed to the Director of Rental Housing.

- (k) A certification from the market analyst indicating the methodology, objectives and data sources for the study as well as the qualifications, assignments and accomplishments of the analyst.

No points will be assigned to studies that do not address the categories and topic outlined above.

Discussion

A better explanation and greater guidance on what we want in the market studies should create more uniform market studies with the information we need to adequately assess the markets. A reference to negative points for broad market areas, greater than 30% affordability factors, and failure to address all topics requested should help identify the strongest markets.

Recommendation

Under **Final Allocation** on page 18 change existing K. to J. and add K. Certification of Rents and Basis (KHRC form).

Discussion

This adjusts a formatting error and adds a certification form that states there are no amenities included in basis that any additional fee is being charged. The compliance group has requested this documentation in order to determine that fees are not being charged for items that haven't been included in basis, which is a regulatory requirement.

Recommendation

Increase the minimum equity factor on credit pricing from \$.75 to \$.80 as shown under **Determination of Tax Credit Amount** on page 20.

Discussion

Pricing has continued in an upward spiral. Some investors are paying in excess of \$.90 for the credit dollar and most pricing exceeds \$.85. It is not a uniform market however and pricing depends on a number of factors, including size, type and location of development, pay in strategies, and rate of return. A minimum of \$.80 provides allowance for smaller, rural developments and investors who are not in the main stream.

Recommendation

In the **Compliance Monitoring** section under B. Certification on page 22 add:

15. Owner acknowledgement that the Extended Use Agreement binds the property for 30 years and prohibits the eviction of any income qualified tenant, other than for good cause, and prohibits any increase in the gross rent with respect to the low income unit not otherwise permitted under Section 42 during the 30 year term.

16. Owner certification that during the preceding 12 months no tenants in low income units were evicted or had their tenancies terminated other than for good cause and that no tenants had an increase in the gross rent with respect to the low income unit not otherwise permitted under Section 42.

Discussion

These are new IRS requirements as contained in Revenue Ruling 2004-82 and Revenue Procedure 2005-37.