2013 PROPOSED CHANGES TO QUALIFIED ALLOCATION PLAN

Recommendation: Add a new section following the Introduction entitled Procedure for 2013 and reading as follows: Applications in this round will be underwritten with the fixed 9% credit rate. If the fixed rate is not extended, the floating rate will apply under the rules that govern the locking of this rate. An applicant with a reservation based on the 9% fixed rate will be expected to fill the financing gap with other funds or return the credit if the fixed rate is not extended.

Explanation: This will provide clarity to applicants when they prepare their applications for the next round.

Recommendation: On the first page, second paragraph add a sentence: In 2013 reservations will be made from the 2014 authority.

Explanation: This is to make it clear that reservations will be forward commitments from the 2014 authority. There is no remaining uncommitted 2013 authority.

Recommendation: Add criteria (e) under Priority Housing Needs on page 2 as follows: any development in a market area that is experiencing job growth and economic development and documented with letters from employers/city officials/economic development representatives/government officials, newspaper articles or studies.

Explanation: Shortage of housing in communities experiencing job growth and communities that have an opportunity for economic development but are having difficulty moving forward as a result of the housing concerns is a big issue in the state and should be given a greater priority in the tax credit program even though tax credit units cannot address all of the housing needs.

Recommendation: Under Threshold Requirements on page 2 eliminate "and the KHRC Architectural Procedures and Minimum Development Standards for the total development" under sub paragraph 5.

Explanation: This is an oversight from changes last year when the Architectural Procedures and Minimum Development Standards were removed as a requirement. These Procedures and Standards are still a recommended best practice.

Recommendation: Under Fee Guidelines on pages 5 and 6 eliminate the fee limits for 1-24 units.

Explanation: More liberal fee guidelines were established in 1996 for small developments in an effort to encourage developers to work in small rural communities. Higher developer fees were allowed to generate greater credit and more tax credit equity in order to fill significant funding gaps. It was also expected that significant developer fee would be deferred and become a source of funding because the gaps were so large. Since 1996 there has much development in rural areas but concerns and problems associated with deferred fees and the more recent 9%fixed credit rate along with the discretionary ability to allow for a 30% boost of basis has generally reduced or entirely eliminated the deferred fees. At the same time development costs have skyrocketed causing widespread concern about the public perception of the tax credit program. Kansas is one of only a couple of states that allow for such generous fees on small developments. Eliminating these higher fees is a step towards greater control over developer fees and development costs.

<u>Recommendation:</u> Under Evaluation Process on page 9 in the second paragraph after the long first sentence add "This includes comparing total cost per unit and total cost per square foot with data taken from similar applications in terms of type, size and targeting in the current round and for the last three years. Applications that exceed these averages will be given less consideration regardless of their overall ranking under the Development Selection Criteria."

<u>Explanation:</u> Development costs are dramatically increasing even though the overall economy is sluggish. The various states, industry participants and advocates are concerned about the public perception of these ever increasing costs and believe that it is crucial to control costs at a time when tax reform is imminent and the overall program is potentially on the chopping block. KHRC has compiled average costs over the past several years from submitted applications, approved developments and final cost certifications. It is believed that more emphasis should be placed on limiting overall costs at the discretion of KHRC taking into consideration developer history, long term condition and viability of properties constructed by specific developers, and overall developer performance.

<u>Recommendation:</u> Under Selection Criteria on page 10 at the bottom of the paragraph add the following, "The point system and ranking of applications are key indicators of proposed developments and not a sole determinant for approving applications."

<u>Explanation:</u> This language is added to provide more authority for KHRC to use its discretion in identifying and selecting the best applications for funding. While the selection criteria identifies the desired characteristics for housing developments they do not always identify the best applications that meet the needs of the state.

<u>Recommendation:</u> Under the Selection Criteria under Development Characteristics on page 12, subparagraph 5 at the end of the sentence add "or developments that are eligible for a real estate tax exemption based on state statute or local ordinance.

<u>Explanation:</u> This is intended to establish a level of fairness for developments that are not located in revitalization or historic areas but are eligible to receive a tax exemption, such as properties designed to serve people with disabilities.

Recommendation: Under Qualified Contract Procedure on page 19 eliminate subparagraph (e) that requires a capital needs assessment and add "A statement from a Certified Public Accountant regarding the accuracy of the computation of the contract price based on the requirement in the IRC."

Explanation: Requiring a capital needs assessment is costly considering that the formula price is proving to be far in excess of market value in all properties reviewed under this process thus far resulting in no sales under the qualified contract provisions. And it has been argued that such a study is more the responsibility of the purchaser than the seller. The CPA opinion is important as an added assurance that the formula pricing components have been computed correctly.

Update 221 (d)(3) limits at Exhibit J.

Update Fair Market Rent schedule at Exhibit N.

At Exhibit P delete (5 points for each service) under supportive services on page 72.