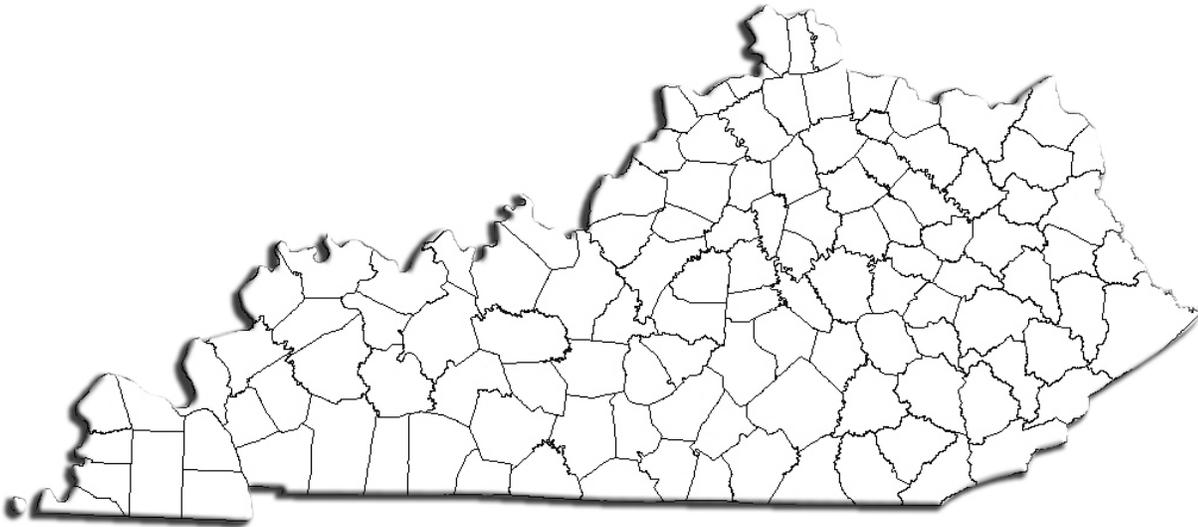


Draft 9-13-2004

# STATE ALLOCATION PLAN

## FOR THE HOUSING CREDIT PROGRAM

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Effective for allocations made after December 31, 2004  
until December 31, 2006, unless earlier amended.



**Kentucky Housing**  
*Corporation*  
*Pathways Home*

## SUMMARY

- STATUTORY AUTHORITY**  **Section 42 of the Internal Revenue Code (IRC) of 1986, as amended**
- STATE HOUSING CREDIT AGENCY**  **Kentucky Housing Corporation (KHC)**
- ANNUAL CREDIT AVAILABLE**  **Approximately \$7.4 million in 2005 and 2006, including annual adjustments for inflation and unused and returned Housing Credit from prior years, if any.**
- SET-ASIDES/POOLS**  **It is anticipated Housing Credit will be allocated through the following Set-asides and pools:**
- - **Approximately \$1,000,000 for projects with qualified nonprofit participants.**
  - - **\$150,000 for projects financed by the Rural Housing Services (RHS) Section 515 Program.**
  - - **Approximately \$3,250,000 for projects serving populations with special needs**
  - - **Approximately \$1,000,000 to projects funded through KHC's Risk Sharing loan program**
  - - **The remaining \$2,000,000 will be divided between the competitive urban and rural pool**
- COMPLIANCE MONITORING**  **KHC will monitor projects throughout the 15-year compliance period and 15-year or longer extended-use period (affordability period) to ensure adherence to low-income restrictions, Housing Credit Program regulations and project selection criteria.**

# INTRODUCTION

## ***Legislative Background***

The Low Income Housing Tax Credit (Housing Credit) Program was created by the Tax Reform Act of 1986. The Housing Credit is one of the last remaining tax incentives for the construction, rehabilitation and preservation of low-cost rental housing. Investors in low-cost housing can claim Housing Credit against their federal income tax liability for ten years.

The 1986 Tax Act required that state Housing Credit agencies administer the Housing Credit Program. Kentucky Housing Corporation (KHC) administers the program for Kentucky.

In 1989, Congress passed the Omnibus Budget Reconciliation Act, which produced significant changes in the Housing Credit Program. Among the changes were the requirements that the Housing Credit agency provide only enough Housing Credit to make projects feasible and that Housing Credit be allocated according to a plan that addresses the rental housing needs of low-income households.

In 1993, Congress enacted legislation which again brought change to the Housing Credit Program. Along with permanent extension of the program, the act included the use of the 70 percent present value credit with HOME funds, clarification of student tenancy rules, prohibition of discrimination against rental assistance recipients and the requirement that Housing Credit agencies consider the reasonableness of the developmental and operational costs in making determinations of the proper amount of Housing Credit to allocate to a project.

In 2001, Congress passed legislation which increased the annual per capita credit to \$1.50 in 2001, and \$1.75 in 2002, with annual adjustments for inflation thereafter, in accordance with the Consumer Price Index (CPI).

The 2001 Act extends the credit to that portion of a building used as a community service facility, not in excess of 10 percent of the total eligible basis. This provision is limited to buildings located in Qualified Census Tracts (QCT). A community service facility is defined as any facility designed to serve primarily individuals whose income is 60 percent or less of area median income.

The Act also expands the definition of QCTs to include census tracts with a poverty rate of 25 percent or greater.

## THE ALLOCATION PLAN

### ***Tax Law Requirements for the Allocation Plan***

Section 42(m) of the IRC requires KHC to allocate Housing Credit according to a plan. The following must be included in the plan:

- A description of the project selection criteria to be used in determining priorities
- Criteria which give preference to projects:
  - serving the lowest-income tenants
  - serving qualified tenants for the longest periods
  - contributing to a concerted community revitalization development plan
- A description of the procedure for notifying the Internal Revenue Service of noncompliance with the requirements of the program

- Other elements to be considered in the selection criteria:
  - project location
  - housing needs characteristics
  - project characteristics
  - sponsor characteristics
  - tenant populations with special housing needs
  - tenant populations of individuals with children
  - projects intended for eventual tenant ownership
  - public housing waiting lists

The State Allocation Plan is subject to approval by KHC's board of directors and the governor of the Commonwealth of Kentucky.

## ***Project Selection***

### **Project Selection Criteria**

Project Selection Criteria are established with consideration to the tax law requirements stipulated by Section 42(m) of the IRC, the strategic objectives of KHC as set forth in Kentucky Revised Statutes 198(A) and specific housing needs and trends identified within the Commonwealth. These criteria are reviewed and amended as necessary during the formulation of the Qualified Allocation Plan.

The current QAP puts significant emphasis on special needs populations by directing a substantial amount of Housing Credit to projects combining housing with comprehensive results-based services. Specifically, this portion of Housing Credit will be allocated to projects that demonstrate a comprehensive plan to deal with:

Alcohol and drug addiction  
Chronic Homelessness  
Severe mental illness or mental retardation  
Single parents (18 and older) attending school with minor children

The need for appropriate housing and treatment services for persons dealing with these issues has grown while appropriate housing options have remained limited. As such, addressing this housing shortage has become a programmatic objective of both the Commonwealth of Kentucky through the KHC

### **Project Selection Process**

Projects are selected on the basis of set-asides and pools. The pools are open window and competitive.

**NOTE: Incomplete applications will be returned to the applicant.**

### **Competitive Application Process**

Applications for allocation, through the competitive process are assigned a numerical score in accordance with the project selection criteria (Appendix A). All elements of the application that constitute project selection criteria must be specific. Projects are scored on the basis of the documentation contained within the application. All proposals received will be ranked according to the score assigned. Projects with the greater number of points will receive priority in selection.

Projects selected that receive a partial award of Housing Credit, due to limited availability, will have priority in subsequent years in order to fully award the amount of Housing Credit necessary.

Ties in scoring will be resolved by considering additional project attributes in accordance with the following priorities:

1. Lower project cost per unit (excluding land cost)
2. Smaller projects
3. County of lower median income

## **Open Window Application Process**

Applications for allocation through the open window process are evaluated through specific criteria defined in the open window application. Although not subject to a competitive process, these projects must achieve a minimum threshold score.

## **Set-Asides**

### **Nonprofit Set-Aside**

The IRC requires that 10 percent of the total Housing Credit ceiling amount be available only to projects with qualified nonprofit participants and owners. KHC will allocate up to 15 percent of the total Housing Credit ceiling amount to nonprofit applicants. In addition to the requirements of IRC Section 42(h)(5), a nonprofit must be the developer and general partner of the project. Applicants must indicate that they are applying for credit from the nonprofit set-aside. A nonprofit applicant may submit an application to be considered in the nonprofit set-aside and/or an application that competes in their respective urban/rural pool. Two separate applications and application fees must be submitted.

### **RHS Section 515 Program**

A Housing Credit amount of \$150,000 at the 30 percent present value rate (four percent) is reserved for projects that have received a funding obligation from RHS.

## **Pools**

All remaining Housing Credit, after set-asides described above, will be allocated through three pools (open window, competitive urban and competitive rural). Upon determination that any Housing Credit set-aside or pool, other than nonprofit, is not needed for the intended category of projects, such amount of Housing Credit will be transferred to other pools. This transfer of credit will occur after July 30 of the calendar year.

Only two applications for the same project will be accepted in the competitive round. Open window applications for projects that have also applied in the competitive round will only be considered after the competitive round has been announced. All allocation and compliance monitoring fees apply to all Housing Credit projects.

### **Open Window Pool**

Approximately \$1.0 million will be utilized for projects that use KHC's Risk Sharing loan program for permanent financing.

\$3.25 million will be utilized for special needs projects. Special needs projects are defined as projects that serve chemically dependent individuals or other special needs individuals including those that are chronically homeless, severely mentally ill or mentally retarded or single parents (18 and older) attending school with minor children. A need for these type of projects have been demonstrated across the state. In order to encourage statewide development and limit concentration, KHC reserves the right to limit the number of projects in any one congressional district.

Special needs projects must provide an appropriate type and intensity of supportive, results-based services. Special needs projects eligible for Housing Credit do not include nursing homes, treatment facilities, or any facility that must be approved under the state's certificate of need process or licensed by the state.

If a project is requesting multiple KHC resources, an original and five copies of an open window application must be submitted. The application will be evaluated using the open window funding process criteria. In addition, all open window applications must score a minimum of 55 points under the project selection criteria in the State Allocation Plan. This minimum score must include points in Sections A, B, C and D with no compliance issues in Section E. If requesting Housing Credit only, the Housing Credit application is completed.

There may be open window Housing Credit projects with full applications previously approved in prior years funding. These projects met the open window pool requirements established in 2004 and must meet requirements in the 2005/2006 State Allocation Plan.

Notwithstanding the above, KHC reserves the right to reject any application not meeting programmatic objectives.

## Competitive Pools

### Urban

The urban pool of approximately \$1,000,000 is 50 percent of the remaining credit after set-asides and the open window pool are deducted. For the Housing Credit Program, the following 11 counties are considered urban:

Boone	Daviess	Kenton
Boyd	Fayette	McCracken
Campbell	Henderson	Warren
Christian	Jefferson	

### Rural

The rural pool of approximately \$1,000,000 is 50 percent of the remaining credit after set-asides and the open window pool are deducted. Kentucky's remaining 109 counties are classified as rural.

## Annual Selection Schedule

At the beginning of the allocation year, KHC will schedule one application round for projects requesting competitive Housing Credit. This schedule will indicate the Housing Credit amount available and submission/notification date for the round. Applicants who want to access the open window pool through KHC's Center for Affordable Housing Finance must complete an open window funding process rental application unless Housing Credit only is requested. Under these circumstances only a Housing Credit application must be completed. A second competitive round will be held if KHC determines it is necessary.

<b>Competitive (not open window) Proposed Submission Deadline</b>	<b>Competitive Award Notification</b>	<b>Credit Available (adjusted for previously mentioned set- asides and open window pool)</b>
March 1, 2005 and March 1, 2006	May 2, 2005 and May 1, 2006	100% of Ceiling 50% Urban 50% Rural

Open window applications will be formally accepted beginning on October 15, 2004 for 2005 Housing Credit and October 14, 2005 for 2006 Housing Credit. Housing Credit that is not awarded through the open window process prior to a date to be determined and announced by KHC will be divided between the competitive urban and rural pools and awarded to the next highest scoring projects.

## **Recapture of Housing Credit Under Reservation**

To ensure the efficient use of the Housing Credit in Kentucky, KHC requires projects receiving Housing Credit reservations to confirm eligibility for allocation by incurring more than 10 percent of project costs by the end of the calendar year.

Any Credit returned before September 30 will be divided between the urban and rural pools and allocated to the next highest scoring project(s) in each pool. Credit returned after September 30 will be allocated to partial projects or carried into the next year.

## **Minimum Requirements**

If a minimum threshold standard is not met, the application will not be considered for Housing Credit and will be returned to the applicant. Minimum standards and requirements may vary for projects serving special needs due to their unique nature. All projects will be subject to the following threshold requirements:

1. Demonstration of site control is required. An option to purchase, purchase contract, recorded deed, an option to lease or lease agreement for the entire extended use agreement period and vacancy decontrol period are acceptable forms of site control. Site control must be valid for at least 60 days from receipt of application. However, open window pool applicants may need site control for a longer period of time.
2. Applicants for credit through the competitive process must provide evidence of construction and permanent financing commitments with no contingencies except on receiving a reservation of Housing Credit. Projects financed under the RHS Section 515 Program must submit a Multiple Family Housing Obligation-Fund Analysis, Form FmHA 1944-51. Applicants who have been awarded other KHC funds must submit evidence of that commitment with the credit application. Projects are not eligible to receive other KHC resources after an award of Housing Credit. Applications submitted under open window pool may be granted additional time to provide this documentation.
3. The Housing Credit subsidy allocated will be limited to \$9,200 per Housing Credit unit. Adaptive Reuse projects may receive up to \$10,200. Total project costs will be reviewed for reasonableness and limited to KHC's cost containment guidelines. Hard and soft costs including legal, architectural and syndication fees will be reviewed for reasonableness. KHC reserves the right to reduce eligible basis and the amount of credit if costs appear excessive. Housing Credit projects utilizing a community service facility described under IRS Revenue Ruling 2003-77 may be entitled to an additional allocation of credit not to exceed \$500.
4. Demonstration of adequate capacity of the developer/development team to construct, maintain and manage the proposed project must be provided. The developer must include a list of all projects completed indicating the type of development and number of units. A list of all projects that are under construction and the expected completion date must also be submitted. If any portion of the developer fee is deferred, a repayment schedule must be included and will be reviewed for reasonableness. Special needs projects will undergo additional review to verify that adequate supportive services and experience requirements are documented and must meet KHC's minimum outcome measures for permanent housing stability.
5. Projects must demonstrate that energy-efficient design and construction practices will be utilized. Projects could be subject to inspections to ensure that energy-efficient design and construction practices are being utilized. A statement from the project's architect describing the energy-efficient design and construction practices must be submitted with the application.
6. All projects must have a letter of support from the chief executive officer (or the equivalent) of the jurisdiction where the project is located. This letter must be a letter of support, not just a letter recognizing the project. Letters of support relating to special needs projects should verify and support this type of project and recognize that service providers will be necessary.

7. Projects (except for special needs projects) receiving an initial reservation letter of Housing Credit must submit a market study performed by an independent professional market study provider supporting the need for the proposed development at the time of reservation. The market study should be prepared using the market study requirements in Appendix B; market studies that do not conform to the requirements will be subject to further review and possibly not accepted. Applicants are responsible for fees for such studies. The market study should reflect adequate need for units for the tenant population indicated in the application. The market study should also designate all other affordable housing projects that would be in direct competition. In the event the analysis does not support the proposed project, KHC reserves the right to reject or seek modification of the proposal. Small supportive housing projects may utilize special market studies, as required, subject to KHC's review and acceptance. Special needs projects must provide a needs assessment study indicating that there are adequate service providers and that services are present to fulfill the needs of the tenants.
8. All selected projects involving substantial rehabilitation of existing buildings receiving an initial reservation letter must provide a capital needs assessment. The needs assessment must be performed by an independent qualified architectural or engineering firm to determine whether the proposed existing building(s) and rehabilitation activities are sufficient to ensure that the building(s) and improvements have a useful life of at least 30 years. Applicants are responsible for fees for such assessments. In the event the analysis does not support the proposed project, KHC reserves the right to reject or seek modification of the proposal.
9. Projects eligible for Housing Credit based on the acquisition of existing buildings must provide an appraisal supporting the building basis for the Housing Credit requested.
10. All buildings must comply with all state and local building codes including accessibility standards, applicable federal accessibility laws (including Fair Housing Accessibility Guidelines) and the Americans with Disabilities Act Accessibility Guidelines. Failure to comply may result in negative points. Documentation must be from the project engineer or architect. KHC also reserves the right to selectively visit projects during the construction period without prior notice to project owners or developers.
11. Tax-exempt bond-financed projects eligible for Housing Credit outside of the state Housing Credit ceiling are subject to all provisions of this State Allocation Plan except the competitive selection process.
12. Prior to issuance of IRS Form(s) 8609, all owners must execute and record land use restrictive covenants (Extended Use Agreement). The Extended Use Agreement will incorporate all project characteristics and attributes represented and pledged in the project application and considered in project selection.
13. Prior to issuance of IRS Form(s) 8609, all projects will be subject to a site visit by compliance monitoring staff for the purpose of determining whether the completed improvements are consistent with representations made in the application.
14. Prior to issuance of IRS Form(s) 8609, owners must submit a signed Form 8821, Tax Information Authorization to the IRS with a copy to KHC.
15. Within 30 days after the certificate of occupancy for the last building in the project, the owner must notify KHC and submit a certificate of occupancy for each building in the project.
16. Cost certifications including a Sources and Uses of Funds statement for all projects must be audited by an independent certified public accountant and must meet the requirements of a HUD cost certification. The cost certification including a Sources and Uses of Funds statement and all other required documentation must be submitted within 60 days after placement in service.

17. The cost certifications will limit certain costs to six percent for general requirements, two percent for builder's overhead, six percent for builder's profit and a five percent developer fee.
18. All projects must have a minimum 30 year affordability period.
19. No more than \$675,000 of Housing Credit per calendar year will be awarded to the same developer or to projects where the developer has an identity of interest with the development team. This ceiling includes Housing Credit allocated through both the competitive round and open window pool.

### ***Project Design Requirements***

1. All new construction projects must implement KHC's tier one universal design standards. Rehabilitation projects are encouraged to incorporate KHC's tier one universal design standards when it is feasible.
2. All new construction projects must implement KHC's Minimum and Preferred Design Standards for Newly Constructed Housing Developments.
3. The minimum heated and cooled net square footage for new construction projects are:

Single Room Occupancy (SRO) unit – 150 net square feet  
Efficiency Apartment – 400 net square feet  
One-bedroom unit – 600 net square feet  
Two-bedroom unit – 800 net square feet  
Three-bedroom unit – 1,000 net square feet  
Four-bedroom unit – 1,100 net square feet

Rehabilitation projects are encouraged to meet the minimum heated and cooled net square footage if appropriate.

4. Projects which display superior building techniques such as the use of brick veneer or stone covering constructing exterior walls, covering exterior wood surfaces with protective material such as vinyl or metal, attractively covering exposed foundations with protective material, using diverse house plans for single-family projects, enhancement of existing historic aesthetic features and other building enhancement design criteria will receive preferential treatment in the allocation plan (see Project Selection Criteria).
5. Amenities must be clearly defined in the application.
6. KHC reserves the right to inspect all projects. A minimum of three construction inspections may occur.
7. Diverse house plans are encouraged in single-family developments. Demonstrating a variety of rooflines, elevations or varying styles is encouraged.
8. Plans and specifications must be submitted at the reservation stage. Plans and specifications will be reviewed and approved by KHC's Design and Construction Department to ensure that KHC's Minimum Design Standards and Tier One Universal Design requirements are met. All change orders to the approved plans and specifications must be submitted to KHC for review. A description of landscaping must be submitted with the plans and specifications. Landscaping must be maintained throughout the compliance period. A site plan indicating the location of all buildings in the project must be submitted with the plans and specifications. If the completed project is different from the plans and specifications and/or the application, Housing Credit may be recaptured.

## **Compliance Monitoring Procedure**

KHC has adopted a compliance monitoring procedure in accordance with IRC Section 42(m)(1)(B)(iii). The compliance monitoring procedure is detailed in KHC's Housing Credit Compliance Guide and includes:

1. The record keeping and record retention provisions of IRS Final Regulation Section 1.42-5(b).
2. The owner's annual certification requirement of Regulation Section 1.42-5(c)(1).
3. The on-site review of certifications and support documentation for at least 20 percent of the low-income units in each property at least once every three years in accordance with Regulation Section 1.42-5(c).
4. The on-site inspection provision of Regulation Section 1.42-5(d).
5. The notification of noncompliance provisions of Regulation Section 1.42-5(e), whereby notice is made to owners and the IRS regarding events of noncompliance.

The compliance monitoring procedure applies to all projects that receive or have received an allocation of Housing Credit and will continue throughout the 15-year compliance and extended use period.

## **Fee Schedule**

**Fees apply to all projects that receive Housing Credit.**

### **Allocation Fees**

**Application Fee:** \$500 for exclusively nonprofit applicants and \$1,000 for all other applicants. This nonrefundable fee must accompany each project application submitted for Housing Credit. Application fees will not be returned for incomplete applications or applications that do not meet minimum threshold requirements.

**Housing Credit Reservation Fee:** A nonrefundable reservation fee of five percent of the amount of Housing Credit reserved for a project will be charged. Payment of the five percent reservation fee is due prior to the issuance of the reservation certificate.

### **Compliance Monitoring Fees**

**Annual Report Fee:** An annual fee will be assessed for the compliance monitoring program. Applicable fees must be submitted with the annual report. The annual fee for projects to be examined by KHC is \$25 per low-income unit. Projects financed under the RHS Section 515 Program, pursuant to a Memorandum of Agreement between KHC and RHS, as long as such agreement exists, will be assessed a fee of \$5 per low-income unit per year except for the first year when the fee will be \$25 per low-income unit. A late filing fee will be assessed as specified in KHC's Housing Credit Compliance Manual.

**Recertification Waiver Fee:** For eligible projects requesting the Waiver of Recertification in 100 percent low-income buildings, there will be a one-time additional charge of \$25 per unit for each request.

**Compliance monitoring fees** are subject to periodic adjustment. Such adjustments will apply to all projects participating in the Housing Credit Program.

## **Effective Date**

This State Allocation Plan is effective for allocations of Housing Credit made after December 31, 2004 and will remain in effect until December 31, 2006 unless earlier amended. Amendments to the Internal Revenue Code and Regulations may necessitate conforming amendments to this plan.

## **NOTICE TO APPLICANTS**

**Incomplete applications will be returned to the applicant.**

It is the applicant's responsibility to submit adequate documentation to support their score. An applicant's consistent failure to provide complete and/or accurate information during the application process, failure to pay compliance fees, failure to live up to attributes pledged on the original applications or any other KHC programs may impact scoring or result in rejection of application and being barred from further participation in the Housing Credit Program. Failure to follow all required procedures throughout the allocation process could jeopardize the final allocation or result in Housing Credit being recaptured. As a condition of receiving a Housing Credit allocation, an applicant agrees to furnish to KHC a copy of Form 8609 with Part II completed at the end of the first period for which Housing Credit is claimed for each building in the Housing Credit Program. Additionally, any new applicant must receive compliance monitoring training by KHC staff prior to receiving Form 8609.

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## **DISCLAIMER**

**As the state Housing Credit agency, KHC will evaluate and select projects to receive an allocation of Housing Credit pursuant to this State Allocation Plan. KHC will determine the appropriate amount of Housing Credit required by each project through an underwriting process.**

**These decisions in no way warrant or represent to any sponsor, investor, lender or other that a project is, in fact, viable. KHC makes no representations to the owner or anyone else regarding adherence to the Internal Revenue Code, Treasury Regulations or any other laws or regulations governing the Housing Credit Program.**

**No member, officer, agent or employee of KHC shall be held personally liable concerning any matters arising out of, or in relation to, the allocation of Housing Credit.**

## PROJECT SELECTION CRITERIA

A. Housing Needs Characteristics	% of applicable limit	Points	Score
1. Project will charge rents less than the Applicable rent limit.	95-99%	3	_____
	90-94%	5	_____
	85-89%	7	_____
	84% or less	10	_____
2. a. Owner will elect to restrict all Housing Credit units to the 50 percent income and rent limits. The 20/50 minimum set-aside must be elected on the Form 8609 that is filed with the IRS.			20
			_____
<b>OR</b>			
b. Owner will elect to restrict half of the Housing Credit units to the 50 percent income and rent limits. The 40/60 minimum set-aside must be elected on the Form 8609 that is filed with the IRS.			15
			_____
<b>OR</b>			
c. Owner will elect to restrict 20 percent of the Housing Credit units to the 50 percent income and rent limits. The 40/60 minimum set-aside must be elected on the Form 8609 that is filed with the IRS.			10
			_____

## B. Project Characteristics

	Number of Housing Credit units	Points	Score
1. Small Project.	24 or fewer	10	_____
	25-34	7	_____
	35-48	5	_____

**NOTE: Scattered site projects will only be awarded small project points to one scattered-site project located in the same county and submitted by the same developer per allocation year including open window pool applications.**

2. Project located in a distressed Appalachian county (as designated by the Appalachian Regional Commission) or in a county with a median income that is below the statewide nonmetropolitan median income.	20	_____
3. Project is <b>not</b> located in a qualified census tract as designated by the Secretary of Housing and Urban Development.	10	_____

- |   |    |       |
|---|----|-------|
| 4. Project is financed by United States Department of Agriculture Rural Development Section 538 funds.  | 10 | _____ |
| 5. Project displays superior building techniques.   |    |       |
| a. Brick or stone covering 50 percent or more of total exterior walls.  | 10 | _____ |
| b. Other building enhancements outlined in application, such as using steel framing or roofing material in new construction projects or enhancements of existing historic aesthetics in Certified Historic rehabilitation projects. | 5  | _____ |

**NOTE: Application must clearly outline design features of project to qualify for these points. Applications will be scored as they are submitted.**

**C. Sponsor Characteristics/Participation of Tax-Exempt Organizations and/or Governmental Entities**

- |   |    |       |
|---|----|-------|
| 1. Project is exclusively developed by qualified minority or female owned and managed for-profit development entity. This entity must also receive at least 51 percent of the developer fee.  | 15 | _____ |
| 2. Project has tenant-based or management services provided by an experienced, qualified nonprofit organization (excluding applications from the nonprofit set-aside). The nonprofit organization’s IRS letter of determination, articles of incorporation and a letter outlining the services they will be providing must be submitted with the application to be considered for these points. | 10 | _____ |
| 3. a. Project involves the acquisition and rehabilitation or rehabilitation of a project to prevent foreclosure and/or loss of the project for use by low-income households. This can be defined as those projects eligible for waiver under IRC Section 42(d)(6), or projects that have previously received Housing Credit and the compliance period has ended.                                | 15 | _____ |
| <b>OR</b>   |    |       |
| b. Preservation (excluding acquisition only projects) of other existing housing stock.  | 15 | _____ |
| 4. Hope VI projects.  | 15 | _____ |

**D. Tenant Populations with Special Housing Needs**

1. a. The entire project will be restricted for use by persons 62 or older. All occupants must be 62 or older even if they are the spouse of someone 62 or older. 10 \_\_\_\_\_

**OR**

b. Eighty percent of the units in the project are occupied by at least one person who is 55 years of age or older. The project must publish and adhere to a policy that demonstrates an intent to house persons who are 55 or older.

**OR**

2. The entire project is restricted for use by persons with a physical or mental impairment that substantially limits one or more of the major life activities of the individual. Tenants must have a record of such impairment and/or be regarded as having the impairment. This includes population groups defined earlier as special needs. 20 \_\_\_\_\_

**E. Compliance**

1. Developer, owner or general partner has identity of interest with other Housing Credit projects or other KHC-administered programs that have outstanding unresolved issues of noncompliance and/or unresolved code violations **as of the date of the application.** -20 \_\_\_\_\_

2. Developer, owner or general partner has returned credit on two or more projects in any year. Penalty will be imposed for 24 months beginning with date of application. -20 \_\_\_\_\_

KHC  
Market Study Requirements  
Rental Housing

***Overview and Background***

Rental housing projects funded by Kentucky Housing Corporation (KHC) will serve low- to moderate-income tenants. It is the utmost importance that KHC be assured that a demand exists for rental units financed by KHC and there is no adverse affect on other viable affordable rental projects in the target market area.

***Requirements***

The marketing research firms will be required to complete marketing demand studies that will ascertain the need and demand for rental housing units. The study must contain a statement by the analyst that the report was written according to KHC's market study requirements.

The market study is a narrative report with appropriate charts and graphs. The feasibility analysis will utilize well tested methodologies and principals that have industry acceptance and lead to logical conclusions that are well supported.

**Site Evaluation:**

This section must include a detailed description of the project's site, any improvements and the surrounding area. The analyst must:

1. Physically visit the site and the market area in general.
2. Describe the physical features of the site and adjacent parcels. Discuss both positive and negative attributes of the site in relation to their possible impact on the overall market demand. Some of the items to discuss are the curb appeal, surrounding land uses, the physical relationship of the site to the surrounding roads, amenities, employment, services, etc.
3. Include pictures of the site.
4. Include a map clearly identifying the site and surrounding amenities such as schools, shopping, medical facilities, employment centers, etc.
5. Include a map clearly identifying existing subsidized low-income housing within the market area that could impact the lease-up of the proposed project. Indicate in miles, the proximity of these projects.
6. Describe all developments on either side of the property as well as the front and back of the site and their present condition.

**Target Market Area**

The target market area (TMA) is defined as the primary market area and the secondary market area. The analyst will describe a basis for defining the boundaries of the TMA. Use of geographic boundaries such as roads, rivers, and residential districts are encouraged. The primary market area is the most likely geographic area from which a property would draw its tenants. Secondary market area is the portion of a market area that supplies additional tenants to a project beyond that provided by the primary market area. The study should include the basis for considering the secondary market area.

The economy of the target market area should be addressed with a minimum of the following information:

- ✓ Employment by industry
- ✓ The major current employers and any anticipated expansions, closures or any new employment planned for the market area.
- ✓ Unemployment trends for the market area and, where possible, the county total workforce figures and number and percentage unemployed.
- ✓ A map of the area indicating the site and location of major employment concentrations.
- ✓ A narrative analysis of data provided with conclusions that relate the data to any potential impact it will have on the housing demand.

**Demographic Data**

The purpose of this section is to identify the number of potential households within the Target Market Area (TMA) that should be considered as renters for the proposed project.

Provide the following demographic information for the TMA, giving historical data as well as current data. Include data on population and households projecting five years out. Projections must be prepared by a reputable source. U.S. Census data prior to the 2000 census is only acceptable as historical data and trending. Please include a narrative description of the data presented including overall conclusions.

1. Population Trends

- ✓ Total population
- ✓ Population by age group
- ✓ Number of elderly and non-elderly (for elderly projects)
- ✓ If a special population is proposed for the project, provide additional information on population growth patterns specifically related to this population.

2. Households Trends

- ✓ Total number of households and average household size
- ✓ Household by tenure (i.e. the number of owner and renter households including the ratio of owner to renter households)
- ✓ Households by income. Elderly proposals should reflect the income distribution of elderly households only
- ✓ Average household size
- ✓ Renter households by number of persons in household

**Competitiveness and Comparability**

The analyst should supply descriptions and occupancy levels of other existing affordable rental projects that would be direct competition for the proposed project, along with those under development and those in the pipeline to be constructed which would be direct competition for the proposed project and serving the same income group. The following information should be included for these projects:

1. Name, address and phone number of the comparable project
2. Photograph
3. Breakdown of unit sizes by bedroom count
4. Square footage of each comparable unit type
5. Monthly rents and what utilities are included in the rent, if any
6. Project age
7. Description of amenities such as washer/dryer hookups, laundry facilities, community room, etc.
8. Number of units receiving rental assistance and description of assistance as project or tenant based.
9. In areas lacking sufficient three and four bedroom rental comparables, provide data on three and four bedroom single-family rentals or provide information on other rental options in the community in order to try to identify where potential tenants are currently living.
10. A map showing the comparables in relation to the proposed project.
11. For developments in the planning or construction stage, provide the name, address/location, number of units, unit configuration, rent structure, estimated date of market entry and any other data considered relevant. If there are no projects in the planning stages or under construction, a statement to that effect must be provided.
12. A discussion should be provided that addresses the impact the proposed project will have on the occupancy of other competitive projects in the area. The analyst shall examine whether the proposed property will significantly reduce the tenancy of such established properties.

**Demand Analysis**

Use the applicable incomes and rents in the project's application. Analysts must take the income restrictions designated in the application into account when estimating demand. The study should include data for each income group targeted by the project as described in the application. For example, if the project targets families of various income groups, demand projections using the above methodology should be provided for each group and bedroom size.

Analysts should assume no family households are able to pay more than 35 percent of gross income towards total housing expense and than no elderly households are able to pay more than 40 percent of gross income towards total housing expenses. The demand analysis should clearly indicate the minimum income and maximum income range for each targeted group. For projects with project based rental assistance, (Section 8, Rural Development, etc.) two separate demand analyses must be shown: one with the rental assistance, thereby allowing \$0 for the minimum income, and one without the rental assistance. For projects with market rate units, the analyst must make some reasonable determination of a maximum income level beyond which a household would not likely be a participant in the rental market. The analyst should clearly state the assumptions used in making this determination.

**Demand should be derived from the following sources:**

**Demand from new households:**

New units required in the market area due to projected household growth should be determined. This should be determined using 2000 census data and projecting forward to the anticipated lease up date of the project using a growth rate established from a reputable source. The population projected must be limited to the age and income group being targeted by the project. Projections should be projected for a five-year period. If the number of proposed units exceeds the growth, the analyst must provide additional documentation of demand that does not include cannibalization of existing affordable projects.

**Demand from existing households:**

**Rent over-burdened households**, if any, within the age group, income groups and tenure (renters) targeted for the proposed development. This calculation must exclude households that would be rent over-burdened in the proposed project (i.e. paying more than 35 percent of their income toward rent)

**Households living in substandard housing.** Substandard housing is defined as units that lack complete plumbing or kitchen facilities, have no source of heat and were built prior to 1940. Households in substandard housing should be adjusted for age, income range and tenure as applicable.

If the proposed project is a rehabilitation of an existing occupied project, then the market study must indicate the anticipated number of existing tenants who meet the program requirements and will elect to remain at the project through the rehabilitation.

The analyst should use their own knowledge of the market area and project to determine if households from substandard housing and rent over-burdened households would be a realistic source of demand. A reasonable capture rate for these groups should be used when calculating the total demand. No more than 10 percent of turnover from existing households that are not from the two segments mentioned above should be considered in the total demand calculation. If the analyst believes there are other indicators that are not considered in the methods above, they can be considered if the analyst can justify the reason. Any such additional indicators should be calculated separately and be easily added or subtracted from the demand analysis described above.

**Elderly homeowners likely to convert to renter-ship**

Due to the difficulty of extrapolating elderly owner households from elderly renter households, analysts may use the total figure for elderly households in the appropriate income group in order to derive this demand figure. **Interviews with property managers of active projects regarding renters who have come from homeownership should be used to refine the analysis.**

**Capture rate**

The two overall demand components (new households and existing households) added together should represent the total demand for the project. Comparable units constructed since the base year of projection must be subtracted to calculate net demand. Capture rates should be calculated by dividing the number of units in the project by the net demand. Demand and capture rate analysis must be completed for targeted income groups and each bedroom size proposed as well as for the project overall. Please include a narrative on what the capture rate means for the proposed project given the market area.

**Absorption rate**

Absorption rates should be provided in the market study which give an estimation of the time required for the property to reach sustaining occupancy or at least 93 percent occupancy. The absorption period is considered to start as soon as the first units are released for occupancy.

**Conclusion and Recommendation**

- The analyst should state his/her professional opinion regarding the subject project's feasibility from a market perspective and what effect the subject project's units would have on the existing market.
- The analyst must specify the absorption period and the time needed to reach sustained occupancy.
- The analyst should point out any other information believed to be important to the overall market demand for the TMA, including commenting on the appropriateness of the unit mix and proposed rents.

**Certification**

The analyst must provide a certification stating:

- There is no identity of interest with the developer of the project.
- The results, recommendations and conclusions stated in the study are based solely on professional opinion and reliable data.