

SUPPLEMENTAL PROCESSING INFORMATION

To: Section 42 Interested Parties

**From: David L. Evans
Assistant Executive Director**

The Agency has amended its year 2001 Tax Credit Allocation Plan to address certain changes in the tax credit program brought about by the passage of the Community Renewal Tax Relief Act of 2000 (HR #4577). We have also included revised pages to the Tax Credit and/or PennHOMES Application Checklists for Exhibits. The changes, mandated by federal law, became effective January 1, 2001 and will affect all projects which receive an allocation of year 2001 tax credits.

NEW SELECTION CRITERIA

The Allocation Plan has been amended to include several new Selection Criteria. Under the category of "Project Considerations", one point will now be available for developments located in a "qualified census tract" which contribute to a concerted community revitalization plan (as defined below) and one point will be now be available for projects that include the use of existing housing as part of a community revitalization plan. To qualify for consideration in these categories, the following documentation must be submitted to the Agency:

1. Community Revitalization Plan/Qualified Census Tract

Projects that are located in "Qualified Census Tracts" and the development of which contributes to a concerted community revitalization plan may request consideration for this criterion. To qualify for consideration, developer must submit evidence that all of the following are met: a.) the proposed project is located in a "qualified census tract" as established by HUD; b.) the proposed facility is located within an area for which the local jurisdiction has developed either a "neighborhood revitalization strategy" or a "community revitalization strategy" (as each term is defined in CPD Notice 96-01 or CPD Notice 97-01 pertaining to the Community Development Block Grant Program); c.) the jurisdiction has received HUD approval of such designation and has included such plan in their current Consolidated Plan; and d.) the proposed facility meets the goals and priorities set forth within the local strategy. HUD Notices 96-01 and 97-01 may be accessed at www.HUD.gov. (Project sponsors are advised to contact their local CDBG jurisdiction to determine if there is an approved neighborhood or community revitalization strategy designation in place for the project locale. Please note that the Agency does not have a complete list of approved areas.) This documentation should be submitted as Exhibit 44 in the application package.

2. Community Revitalization Plan/Existing Housing

Proposals that include the use of existing housing as part of a community revitalization plan may request consideration for this criterion. To qualify for consideration, the developer must submit evidence that all of the following are met: a.) the proposed project involves rehabilitation or preservation of facilities currently utilized as housing; b.) the proposed facility is located within an area for which the local jurisdiction has developed either a "neighborhood revitalization strategy" or a "community revitalization strategy" (as each term is defined in CPD Notice 96-01 or CPD Notice

97-01 pertaining to the Community Development Block Grant Program); c.) the jurisdiction has received HUD approval of such designation and has included such plan in their current Consolidated Plan; and d.) the proposed facility meets the goals and priorities set forth within the local strategy. HUD Notices 96-01 and 97-01 may be accessed at www.HUD.gov. (Project sponsors are advised to contact their local CDBG jurisdiction to determine if there is an approved neighborhood or community revitalization strategy designation in place for the project locale. Please note that the Agency does not have a complete list of approved areas.) This documentation should be submitted as Exhibit 45 in the application package.

Enclosed is an amended Page 14 of the Tax Credit Addendum to address the new selection criteria. **Please insert the amended Page 14 and submit with the application for Tax Credits.**

MARKET STUDY

Federal law now requires submission of an independent market study for all projects receiving an allocation of tax credits. There are no exceptions. (Projects with a reservation of tax credits from a previous year in which a market study was submitted at the time of the original reservation do not need to submit a new market study, BUT if a market study was not required at the time of the original reservation of Tax Credits, a market study must now be submitted.) **Please see the enclosed revised pages of the Tax Credit and/or PennHOMES Application Checklists for Exhibits for Market Study requirements.**

ADDITIONAL CONSIDERATIONS

In addition to the imposition of the above changes in the allocation process, the new legislation expanded certain other provisions of Section 42 which may affect your project.

1. "Eligible basis" Specifically, Section 42(d)(4) has been amended to address treatment of certain property located in a "qualified census tract" used to provide services for certain nontenants. In general, property used in providing any community service facility designed to service primarily individuals whose income is 60% or less of area median income may now be included for the purpose of determining adjusted basis. The adjusted basis of any building located in a qualified census tract shall be determined by taking into account the adjusted basis of property containing any community service facility; however, the increase may not exceed 10% of the eligible basis of the qualified low-income housing project of which it is a part. Projects which include a "community service facility" as defined in Section 42(d)(4)(C)(iii) may now qualify for an increase in eligible basis.

2. "Compliance monitoring" The required level and frequency of compliance monitoring reviews for all tax credit projects has been expanded. The Amended Allocation Plan outlines the Agency's compliance monitoring review guidelines.

3. "TAMs" Although not part of the December 21, 2001 federal legislation, the Internal Revenue Service recently released a series of Technical Advice Memoranda (Rulings 200043015, 200043016, 200043017, 200044004, and 200044005, issued July 14, 2000, and released October 27, 2000). These "TAMs" provide guidance on IRS audit treatment of several specific types of costs and outline criteria for eligibility of certain types of developer's fees, impact fees and land development items in tax credit projects. Developers and project sponsors are urged to consult with their counsel or accountants to ensure that 2001 tax credit applications treat costs and basis eligibility in a manner consistent with the TAMs.

2. Resident and Project Considerations

- g.** Proposals with a financially viable plan together with a qualified service provider organization to provide program support for low income residents affected by life changes associated with preparing for and retaining employment. See Program Guide for specific requirements which must be met to be eligible for these points.

If criterion is met, 4 points

Points 2g. _____

Note: Applicants requesting points under Part 2(h) are ineligible for these points.

- h.** Proposals with a financially viable plan that allows residents 62 years of age and older to maintain their independent lifestyle through the provision of appropriate supportive services. Note that the entire project must be occupied by tenants at or above age 62. See Program Guide for specific requirements which must be met to be eligible for these points.

If criterion is met, 4 points

Points 2h. _____

Note: Applicants requesting points under Part 2(g) are ineligible for these points.

- i.** Projects that are located in “qualified census tracts” and the development of which contributes to a concerted community revitalization plan. See Allocation Plan or Exhibit 44 of the Checklist of Exhibits for specific requirements which must be met to be eligible for this selection criteria.

If criterion is met, 1 point

Points 2i. _____

- j.** Proposals that include the use of existing housing as part of a community revitalization plan. See Allocation Plan or Exhibit 45 of the Checklist of Exhibits for specific requirements which must be met to be eligible for this selection criteria.

If criterion is met, 1 point

Points 2j. _____

Revised Checklist for Exhibits

Management Agent Experience” and “Certification of Developer Experience,” Exhibits J and K of the Core Application must be completed by the appropriate state housing agency and submitted as part of this exhibit.

For PennHOMES Applicants only, if the contractor or architect has been selected, include a completed “Contractor’s Qualification Statement” (A1A Document A305) and/or “Architect’s Qualified Statement” (A1A Document B431).

EXHIBIT 31. Woman's Business Enterprise/Minority Business Enterprise/Disabled Business Enterprise

If requesting points for WBE, MBE or DBE, who will materially participate in the development of the project, provide evidence of their designation. Designation must be current and may not be in the application stage. Development team members include the following: general partner(s), general contractor, supervising architect, design architect, attorney, management agent and housing consultant. Housing consultant will be considered only if general partner(s) is deemed to be inexperienced in the Tax Credit Program. Joint ventures, subcontractors, or joint fee arrangements will not be used to secure material participation, except in the case of legal counsel where the MBE/WBE or DBE firm is receiving more than 50 percent of the contract fee included in the project budget.

EXHIBIT 32. Local Tax Exempt Participation (Tax Credit Applicants Only)

An executed document between the general partner(s) and local tax exempt organization which clearly defines the role of the local tax exempt organization must be provided. The document must list the services to be provided to the project by the nonprofit from development through the compliance period. The services provided must enhance the project and may not be services that the general partner(s) is capable of providing. Evidence must also be provided of the entity's tax-exempt status. If the local tax exempt organization’s role is to provide supportive services for one of the selection criterion and the project does not receive points for that specific criterion, points will not be awarded for the local tax exempt organization.

EXHIBIT 33. Documentation of Need for the Proposed Project

In addition to the Market Study, applicant must provide the Housing Needs Assessment Form in the format required by the Agency, Exhibit G. For all projects this form must be completed by the market analyst. Include any necessary supporting documentation. The Needs Assessment must address the following criteria:

- The number of substandard housing units located in the project's primary market area;
- The number of cost-burdened households located in the project's primary market area;
- Size of the waiting list(s) in existing complexes;
- Vacancies in existing complexes;
- Affordable housing options in the primary market area;
- Rent pricing advantage of the proposed project rents compared to the market rents;
- Employment and population statistics;
- Large employers housing needs;
- Community documentation supporting the need for the proposed project;
- Impact on existing subsidized, affordable and low income tax credit housing developments; and
- Projects targeting a special needs group must include data on the targeted population.

EXHIBIT 34. Market Studies

The Agency requires all Cycle 2 applicants to submit a Market Study at the time of application to the Agency. Waived from the requirements are projects with a reservation of Tax Credits from a previous year in which a Market Study was submitted at the time of the original reservation. If a Market Study was not required at the time of the original reservation of Tax Credits, a Market Study must be submitted with the request for additional credits. The Market Study must be performed by an independent, professional market analyst specifically qualified in the affordable rental markets of Pennsylvania. The Market Study may be no more than one year old at the time of submission. The assumptions used in the Market Study (e.g. number of units, housing type, unit mix, projected rents, income targeting) must precisely reflect the information contained in the project’s Core Application and Tax Credit Addendum. Proposals that include a Market Study that is

inconsistent with or does not accurately reflect the information submitted in the Core Application and Tax Credit Addendum will be rejected. In all instances, the Agency reserves the right to order its own or an additional Market Study on all projects, regardless of size or housing type. Projects serving 100% special needs tenants should contact the Agency regarding required information.

(Please see Exhibit E of the Core Application for the Rental Housing Market Analysis Scope of Services for further details.)

The Market Study must comply with Exhibit E and at a minimum must provide:

- include a resume outlining professional qualification and specific competence of the market analyst. While the Agency will accept market analyses completed by professionals outside of the Commonwealth, the Agency will reject studies using data extrapolated from data sources outside the primary Pennsylvania market subject to the study;
- provide a description of the proposed site;
- provide demographic analysis of the number of households in the market area which are income eligible and can afford to pay the rent;
- provide geographic definition and analysis of the market area;
- provide a description of rent levels and vacancy and turnover rates of comparable properties;
- provide an analysis of expected market absorption on the proposed rental housing, including a description of the effect on the market area;
- identify other LIHTC properties and subsidized properties potentially affected by the proposed rental housing and their current rental history;
- provide a needs assessment addressing the specific features of the proposed rental housing which enhance its marketability, or the specific projected rental housing needs within the community which will be addressed by the proposed housing (including special needs population market assessment);
- specifically authorize the Agency to use and disseminate the information;
- address the “Need for the Project” by utilizing the concepts given in Exhibit 33 of this Checklist.

EXHIBIT 35. Rental Market Assessment – (Penn HOMES Applications Only)

Projects that are applying only for PennHOMES and are less than 20 units or are existing subsidized projects with stable occupancy and where a documented waiting list exists for at least 10% of the units, will be required to complete the Rental Market Assessment information pages included in the Core Application in lieu of submitting a Market Study. Please note that if in the Agency's review of the Rental Market Assessment information the capture rate is determined to be greater than 10%, the Agency will require a Market Study for the project.

Comparables (Similar rental properties should be located within the Primary Market Area; Do Not Use Rent Subsidized Projects). Two photos of each comparable are to be attached. A minimum of three comparables must be submitted. Use the Rental Market Assessment Form attached to the Multifamily Core Application.

EXHIBIT 36. Schematic Plans

Submit a site plan indicating the building, all site amenities, and the point of connection to existing water, sanitary sewer, electric and gas (if applicable) services. Also include building plans for each floor (including basement), typical unit plans (including accessible unit(s)), front elevation, and typical wall section. If the building has a condominium structure or includes commercial space, floor plans must include the location of each condominium or the commercial space. For tax credit applicants only, reduce the plans to 11” x 17” or an appropriate size for the application package.

NOTE: Applicants who are only requesting tax credits, skip to Exhibit 41.

EXHIBIT 37. Relocation Plan (PennHOMES Applications Only)

All projects must comply with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA). A summary of these requirements, as presented in the Federal HOME Program regulations at 24 CFR 92.353, is included in Exhibit R. Owners of occupied projects in non-participating jurisdictions submitting a PennHOMES Application must prepare a Plan along with the application submission. Refer to the Multifamily Loan Application Addendum and/or the Tax Credit Application Addendum for specific program requires.

EXHIBIT 38. Organizational Documents (PennHOMES Applicants Only)

Submit copies of the appropriate documents.

Partnership Organizational Documents - if available

- ___ Limited Partnership Agreement
- ___ Certificate of Limited Partnership (recorded with Secretary of State)

Or

Corporate Organizational Documents

- ___ Bylaws
- ___ Articles of Incorporation
- ___ Certificate of Incorporation
- ___ 501(c)3 determination (if applicable)

EXHIBIT 39. State Historic Preservation Office (SHPO) letter (PennHOMES Applicants Only)

All applicants must provide a letter from the Pennsylvania State Historic Preservation Office (SHPO) confirming consultation in accordance with 36 CFR Part 800.

EXHIBIT 40. Project Synopsis (PennHOMES Applicants Only)

(This document will be submitted to the PHFA Board of Directors when considering applications in conjunction with the feasibility analysis)

This is a one page narrative description of the project, including but not limited to, a summary of the need for the project, its impact on the community, and unique features.

EXHIBIT 41. Request for a Waiver of HUD 221(d) Limits (Tax Credit Applicants Only)

Applicants requesting a waiver of the HUD 221(d) limits must provide a written request stating their compelling circumstances and justification for seeking a waiver. The circumstances for requesting a waiver must be specific to those listed in the Allocation Plan. The request must include a detailed analysis comparing the estimated cost of the proposed project to a typical project without this cost. For those projects seeking to exceed limits based on excessive costs due to unsuitable subsoil conditions or costs associated with environmental remediation, developer must provide full explanation of all alternative site considerations and provide adequate justification of the need for the project at the identified location.

EXHIBIT 42. Displacement/Relocation of Existing Tenants

In the event the acquisition and/or rehabilitation of the project will result in the displacement of low-income residents, please provide satisfactory evidence to the Agency that the project either addresses overcrowding or, to the greatest extent feasible, offers the residents their choice to return to an appropriately sized, affordable unit in the development upon completion of the project or receive relocation benefits.

EXHIBIT 43. Preservation of Existing Projects

Preservation projects must include the following documents. Please refer to the Agency's Tax Credit or PennHOMES Program Guidelines for further guidance on this criterion and the set aside of tax credits for preservation projects.

All preservation projects must include in this Exhibit:

- Copy of Project Based Rental Assistance Contract
- Three years of the most recent audited financial statements.

For existing low income units with a likely conversion to market rate housing, this Exhibit must also include:

- Appropriate pages of the Market Study which confirms the project's likely conversion to market rate housing.

OR

Projects rehabilitating existing low income units must also provide in this Exhibit:

- Capital Needs Assessment completed by an independent third party. Assessment must be no more than one year old. Please refer to Exhibit L of the Core Application for specific guidelines on completing this Assessment.

For all preservation projects requesting consideration in ranking under special needs housing for an increase in accessible units, applicant must provide certification from the architect and owner that the project is increasing the accessible units by 5%.

Pursuant to the PennHOMES Program Guidelines, PennHOMES applicants only must also include the following: copy of the environmental investigation including all applicable test results; evidence that PennHOMES funding can be secured with a lien position; and verification of the mortgage servicing agent(s), mortgage holder(s) and related amortization schedule(s).

EXHIBIT 44. Community Revitalization Plan/Qualified Census Tract

Projects that are located in "qualified census tracts" and the development of which contributes to a concerted community revitalization plan may request consideration for this criterion. To qualify for consideration, developer must submit evidence that a.) the proposed project is located in a "qualified census tract" as established by HUD; b.) the proposed facility is located within an area for which the local jurisdiction has developed either a "neighborhood revitalization strategy" or a "community revitalization strategy" (as each term is defined in CPD Notice 96-01 or CPD Notice 97-01 pertaining to the Community Development Block Grant Program); c.) the jurisdiction has received HUD approval of such designation and has included such plan in their current Consolidated Plan; and d.) the proposed facility meets the goals and priorities set forth within the local strategy. HUD Notices 96-01 and 97-01 may be accessed at www.HUD.gov.

EXHIBIT 45. Community Revitalization Plan/Existing Housing

Proposals that include the use of existing housing as part of a community revitalization plan may request consideration for this criterion. To qualify for consideration, the developer must submit evidence that a.) the proposed project involves rehabilitation or preservation of facilities currently utilized as housing; b.) the proposed facility is located within an area for which the local jurisdiction has developed either a "neighborhood revitalization strategy" or a "community revitalization strategy" (as each term is defined in CPD Notice 96-01 or CPD Notice 97-01 pertaining to the Community Development Block Grant Program); c.) the jurisdiction has received HUD approval of such designation and has included such plan in their current Consolidated Plan; and d.) the proposed facility meets the goals and priorities set forth within the local strategy. HUD Notices 96-01 and 97-01 may be accessed at www.HUD.gov.

EXHIBIT 46. Additional Information

In addition to each of the above exhibits, the Agency reserves the right to require additional information or certifications including, for instance, appraisals, opinions of counsel, certifications of certified public accountants, invoices, etc. In order to evaluate any application.