

WASHINGTON STATE HOUSING FINANCE COMMISSION  
1000 Second Avenue, Suite 2700  
Seattle, WA 98104-1046

November 9, 2006

Eric Solomon, Assistant Secretary, Tax Policy and Regulatory Affairs  
Department of Treasury  
1500 Pennsylvania Avenue NW, Room 3120  
Washington, D.C. 20220

Re: Qualified Contract Price

Dear Mr. Solomon,

I understand that your office is currently working on guidance and clarification to the rules regarding the Qualified Contract Price (QCP) and procedures outlined in Section 42 of the IRS Code. As our first properties became eligible for the Option Year, we believed it was necessary to establish state guidance for owners who may wish to exercise their right to sell their property at the QCP. In 2004, our state was the first to establish procedures, subject to any further guidance from the IRS (recently revised version attached). Several other states have established similar guidance in the past two years.

Our legal counsel interpreted the Code language and helped us establish a spreadsheet for owners to input tax information and determine the QCP. Counsel informed us that in their opinion, the QCP may, in many cases, exceed the Fair Market Value (FMV) of a property. One reason this could occur is the calculation for "Adjusted Investor Equity" where owner investments are adjusted by a cost of living index such as the CPI, which, over fifteen years can add up to a substantial amount.

We are concerned that as other restrictions expire, owners will elect to exercise their Option Year and establish a legally allowed QCP that exceeds FMV. Therefore, we suggest that you consider placing a cap on the low-income portion of a property, which must not exceed the FMV for that portion, as determined by an independent licensed appraiser, approved by the state monitoring agency. We believe this would allow an owner to sell his or her property at a fair price to another owner who wishes to continue the low-income use of that property and would prevent the loss of low-income units due to an unrealistically high and financially infeasible sale price.

Please call or email me if you have any questions regarding this letter. I appreciate your consideration of this request. Thank you.

Sincerely,

Tim Sovold  
Director, Compliance & Preservation Division  
Washington State Housing Finance Commission  
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cc. Sharon Kay