

MEMORANDUM

TO: VHFA Board of Commissioners

FROM: Joe Erdelyi, Director of Development
Joshua Slade, Development Officer

RE: 2018 Qualified Allocation Plan

DATE: January 9, 2017

Recommended Action: That the Board adopt the attached Qualified Allocation Plan (QAP) for 2018 for the State of Vermont and authorize Staff to send the QAP on to the Governor for signature.

QUALIFIED ALLOCATION PLAN

The Joint Committee on Tax Credits (JCTC, Committee) met starting in August to kick off the process of revising the QAP for 2018. The QAP as a whole was badly in need of being reformatted as it had been added to piecemeal over the years. Staff had been asked to do this in plenty of time so that developers could adjust anything in their future pipeline if priorities changed. The Staff convened four meetings (in August, November, and December 2016) with the JCTC and interested members of the general public and the development community. As a result of these meetings the JCTC (which serves in an advisory policy function to the VHFA Board regarding the allocation of Housing Credits) is recommending the VHFA Board adopt the attached QAP.

There was a lot of valuable discussion and input, and a general compromise/consensus resulted from these meetings. Over the course of the four meetings Staff reviewed several drafts of the QAP, with Staff making changes from the original proposal based on comments from the public and the JCTC. The JCTC considered many factors in deciding upon their recommended ‘application thresholds’ and ‘evaluation criteria’ including: the IRS Code Section 42; the NCSHA ‘Best Practices’ list for Housing Credit administration; GAO studies and findings on the program; the State of Vermont’s Consolidated Housing Plan (ConPlan); and feedback from housing developers, program users, and other interested parties.

As mentioned the 2018 Qualified Allocation Plan is a “from the ground up” re-write of the previous QAP, as opposed to prior year-to-year changes which were just incremental additions or deletions to a long-standing central document. There really were not many substantive changes in policy or procedure and those changes or additions are noted in

the following sections. One main objective of the 2018 QAP revisions was to make the document more user-friendly and make our goals, policies and procedures easier to identify and follow. As usual smaller technical edits were made through-out (e.g. defined words were capitalized; and elements included in 'definitions' were relocated into policy appendices). Other main objectives of the 2018 re-write included: dealing with awarded projects that later encounter delays (due to permit appeals and the like) but that are still otherwise projects worthy of ongoing program support; recognizing 'readiness to proceed to construction' as an element to be considered; and having all the elements listed in the QAP (whether 'evaluation criteria' or 'upper tier' or 'lower tier' priorities) get some defined consideration by Staff in making their award recommendations to the Board.

Below are the major QAP sections and a summary of changes or new elements. To see a compilation of all public comments received and prior JCTC mailings please go to <http://www.vhfa.org/rentalhousing/qualified-allocation-plan-qap>

Introduction and Summary: This section provides some context and history on the Tax Credit program. It summarizes the State priorities in both the QAP and the ConPlan. The 2018 QAP has two new initiatives which first appear in the "Additional Program Guidance on QAP Priorities".

1. **Delayed Project Set-Aside:** "A set-aside of Ceiling Credits for projects that had been awarded Ceiling Credits but had to return those credits due to factors beyond the control of development team, and those factors caused lengthy delays and did not allow the project to move forward on the timelines as described in the application materials and/or the credit award documentation. Those factors include but are not limited to permit appeals, lawsuits, and unforeseen physical impediments to construction commencement. This set-aside is not intended to cover long timelines needed to assemble financing. The purpose of this set-aside is to show programmatic support for projects that were evaluated by the VHFA Staff and Board and received an award of Housing Credits but then faced prolonged timelines and delays due to some form of opposition to the project (from neighbors, local community members, municipalities, etc.) and had to return those Housing Credits due to those delays. Staff will use discretion in determining which projects are eligible to receive credits from this set-aside. Any unused credits from this set-aside as of time of the annual allocation meeting will be released from it and will be available to all applicants." This concept appears throughout the QAP as the QAP describes a delayed project's process from application to interruption to 8609.
2. **Basis Boost:** Including projects that are mixed-use (i.e., a combination of multifamily rental units and a more-than-de minimis amount of commercial space, such as a ground floor of commercial space with apartments above) that are located in Downtowns or Village Centers, and use the Historic Rehabilitation Tax Credit as described in the Internal Revenue Code Section 47(a)(2) as eligible projects for the Basis Boost. The Basis Boost for these types of project will be limited to one (1) project per year.

Application Process: No major changes to the application process were made to the 2018 QAP except for the addition of the Delayed Project Set-Aside process as described above. The Committee did change the thresholds slightly by:

1. Requiring new construction be in a market area with a vacancy rate of 5% or less as demonstrated by a market study; and
2. Requiring an appraisal that conforms to the VHFA Appraisal Policy be submitted with the full application; and
3. Requiring all projects and units meet the Vermont Access Rules for being “adaptable” and “visitable” where possible; and all projects provide as many elements of Universal Design (UD) as possible, or demonstrate some financial or physical hardship (e.g. structural rehab constraints) in achieving those goals. Where “adaptable” and “visitable” functions are not possible (primarily no step entrances and toilet facilities for ground level units) developers are asked to give other consideration for those using walkers or canes or who may have some other mobility impairment.

Evaluation Criteria: In the current and previous QAPs there are five main evaluation criteria that are mentioned. Of these only one has been the primary focus of the Staff in doing its ‘ranking’ evaluation and forming recommendations to VHFA Board of Commissioners. In the current QAP, within the first evaluation criterion a project receives one or two checkmarks for each ‘priority’ it meets. The proposed 2018 QAP now lists all these priorities as individual evaluation criteria, and it eliminates a few which were universally met (and instead now requires they be met as thresholds). It creates a greater range of ‘checkmarks’ (up to five, for some single evaluation criteria). The criteria have not otherwise been substantially changed, except two notable differences from previous years.

1. For a number of years developers have requested VHFA Staff to move away from a specific preference of “family housing” (which is mentioned in Section 42) to either smaller general occupancy units where we see a lot of demand or senior housing. The changing need for various housing types requires more variation and levels than that which previously existed. This criterion now reflects a variety of possible housing types.
2. Previously projects that met the LEED, Enterprise Green Communities, or National Green Building Standard met a (non-‘scoring’) evaluation criterion. In lieu of these the JCTC has proposed a checkmark for projects that were built (and certified) to meet either Passive House or Net-Zero construction standards.

Compliance: Some minor definition references were added. The only major change in this section was that all Housing Credit projects are now going to submit annual operating cost information to VHFA (as they currently do to their equity partners).

Vermont Affordable Housing Tax Credits: The Committee recommended that preference for the rental credits be given to rental projects that use 4% tax credits (which was the original intent), with additional preference to projects that target a minimum of 10% to households who are Homeless or At Risk of Homelessness, and/or agree to a

perpetual Housing Subsidy Covenant. This additional information about the Rental Housing Tax Credits and the VHFA Down Payment Assistance Tax Credits was included in the QAP as it had not been included in this section previously.

Definitions: New definitions were added for Net-Zero, Passive House and Delayed Project Set-Aside. Many things that formerly lived in the definitions section have been moved into appendices, with other policies.

Disclaimers: Two additional disclaimers were added to reference state and federal law, rules and requirements as well as to acknowledge that the content in linked in the appendices is subject to change outside of the QAP process.

Appendices: A more readable and comprehensive list of relevant policies with links to the locations of those was added. The major policy change was in the area of Universal Design, which previously was broad and unspecific (i.e. there were many UD *elements* but no hard-and-fast UD *requirements*; the 2018 QAP adds more specificity around what Staff seek from sponsors).

UNIVERSAL DESIGN POLICY

In addition to the QAP you have also received a copy of the proposed Universal Design Policy which includes a checklist adapted from AARP Livable Communities Checklist. Staff proposed this policy in order to provide guidance to Sponsors on how to meet the new threshold requirement that all units not only meet Vermont Access Rules for being “adaptable” and “visitable” but also incorporate as many Universal Design elements as possible. The JCTC recommended this policy. Ms. Carpenter agreed that staff will work with key partners and will try to refine the Universal Design policy checklist before the VHFA Board meeting. That group is scheduled to meet January 6th and staff plans to bring a final version of the UD checklist to the Board meeting.