

## **MEMORANDUM**

**TO:** Joint Committee on Tax Credits, Other Interested Parties

**FROM:** Joshua Slade, Development Officer  
Joe Erdelyi, Director of Development  
Cynthia Reid, Senior Development Underwriter

**RE:** 2010-2011 Qualified Allocation Plan Proposed Changes

**DATE:** January 07, 2011

This memo outlines proposed changes to the 2010-2011 Qualified Allocation Plan. There will be a meeting for the Joint Committee on Tax Credits, which is also a public hearing, on:

**Wednesday, January 19, 2011**  
**9:30 am**  
**VHFA Board Room, 164 St. Paul Street, Burlington**

### **ATTACHMENTS**

- Draft Evaluation Checklist (located at [http://www.vhfa.org/documents/developers/lihtc\\_changes/checklist\\_2011.pdf](http://www.vhfa.org/documents/developers/lihtc_changes/checklist_2011.pdf))
- Draft Qualified Allocation Plan (located at [http://www.vhfa.org/documents/developers/lihtc\\_changes/qap\\_redline\\_2011.pdf](http://www.vhfa.org/documents/developers/lihtc_changes/qap_redline_2011.pdf))

### **OUTLINE SUMMARY OF MEMO CONTENTS**

#### Qualified Allocation Plan Changes

- Green Building and Design Standards
- Secondary Growth Centers
- Smoke-Free Housing
- 130% Basis Boost
- Other Technical Changes and Corrections

#### Other Public Comments Received

- Higher Developer Fee Limit for “Revisit” Projects
- Safety cook range tops
- Bedbugs

### **QUALIFIED ALLOCATION PLAN (QAP) PROPOSED CHANGES**

**Green Building and Design Standards page 14**

Since their adoption the Green Building and Design Standards have been optional, and staff wanted to obtain feedback from developers on the cost and challenges of implementing them. Since then, energy efficiency has taken on an even higher priority, with new stimulus funding also being sought by the same developments which often requires an even higher standard. Developer feedback to date has not caused staff to lessen the measures in the Green Building and Design Standards, and staff are recommending they become a threshold for all developments. Currently the 130% basis boost can be obtained by fully complying with the Green Building Standards, and staff are proposing removing that basis adjustment factor. All projects are required to meet applicable State building codes.

**“Secondary” Growth Centers / Neighborhood Activity Centers page 21**

Staff have seen a number of proposals from locations that are not in a designated downtown or village center, or in a compact village or urban center, or within reasonable walking distance of one. Nevertheless, some of those proposals are in relatively high-density areas that are proximate to and established outgrowths of such higher density areas. Burlington’s New North End and the Town Center in Essex are two recent examples. While it seems unlikely many residents of these areas will walk to the Five Corners or to downtown Burlington for goods or services, it does seem that many goods and services are available at those locations themselves. Plus, they are areas where higher density development can happen and is happening, and areas where public transportation serves, or will serve. Staff propose that these areas be given the same weight in the threshold and evaluation criteria that compact village and urban centers, and designated downtowns and village centers, are given.

**Smoke Free Housing page 17**

For many years there has been a coordinated national campaign to make housing smoke-free. In Vermont, VHFA has received letters from the Vermont Public Health Association, the Coalition for a Tobacco Free Vermont, the Vermont Medical Society, the American Lung Association, and the American Cancer Society, all encouraging a change to the QAP that would make a “top-tier priority” that all buildings with tax credit units be 100% smoke-free. Some property owners and managers already voluntarily implement a 100% smoke-free building policy. Staff recommend a threshold criterion for all new developments receiving tax credits beginning in CY 2011, that the buildings be 100% smoke-free.

**130% Basis Boost page 13**

As mentioned earlier, staff recommend that full compliance with the Green Building and Design Standards be a threshold criterion, and therefore be removed as a factor that earns the 130% basis boost. The other factor that earns this boost is a deeper mixed-income targeting (i.e. 20% of the units market-rate). In the time that this has been in effect, no developers have proposed this structure, in order to receive this boost. Doing mixed-income housing is a challenge on the development side for raising equity, and many states tried to implement mixed-income and then reverted to no requirement. (Vermont is one of few states that still promote mixed-income housing.) Staff propose removing the 130% basis boost for higher mixed-income targeting, since keeping it in place would

apparently only reward projects that can meet this factor just by some circumstance or coincidence, and not as part of implementing a policy to promote mixed income housing.

Staff have considered a policy that 10% of all units, on a project-by-project basis, be set aside for households at risk of becoming homeless, or that are homeless. This was discussed at a past public hearing and not adopted. Since that discussion the homeless population in Vermont has continued to grow, and there are proven public savings in housing people who are homeless. Staff recommend implementing this change on a voluntary basis by providing the 130% basis boost for projects that meet this criterion.

Staff have received a comment that developers submit detail on the building envelope to be constructed with regards to energy efficiency. Staff support and recommend this change. Additionally, staff are aware that a building practice of constructing the envelope to a “20/40/60” standard (i.e. R-20 in the slab, R-40 in the walls, R-60 in the ceiling) is a sound one that promotes low energy usage and generally makes sense from a cost-benefit standpoint. Staff recommend allowing a 130% basis boost to projects that voluntarily build to that standard.

### **Other Technical Changes and Corrections (throughout)**

A variety of other changes are proposed for the QAP including:

- The 10% boost that states had received for two years to their annual credit ceilings is now gone, so references to it are being removed;
- Corrections to the description of the members of the Joint Committee on Tax Credits;
- Removal of time references (VHFA updates the QAP as needed, but no less often than once every two years – removing specific year references will make coordination of changes easier);
- Updates to the Table of Contents;
- Reference to Asset Management functions VHFA is required to do on projects that received TCAP and 1602 Exchange funds, under the Compliance section of the QAP;
- Language on VHFA’s Appraisal Policy has been added;
- Reference to the Common Tenant Application / Universal Application has been added (State agencies are working on this and when it is in effect, should be used by tax credit owners and managers); and
- Language added on reporting to VHFA for purposes of maintaining a common database of multifamily projects in conjunction with VHCB and DHCA.

### **OTHER PUBLIC COMMENTS RECEIVED**

Staff have received other comments from the public and are not recommending action on them at this time. Those comments include:

- Higher fees for “revisit” projects (some developers have commented that the amount of work done on re-capitalizing and preserving projects is as substantial as for developing new projects, and therefore should be able to earn the same developer’s fees).
- Bedbugs (in order to qualify for tax credits, units must be suitable for occupancy – some states are wrestling with how to combat the growing bedbug problem, and are considering QAP language that makes any bedbug presence a unit that is defined as not suitable for occupancy).

- Safety Cook Range Tops (a manufacturer of this product claims it can reduce the risk of fires and suggests states make the installation or retrofit of these range tops a requirement of the QAP).