

2012 APPLICATION PACKAGE INTRODUCTION

➤ **Statutory Authority/Overview**

The 1986 Tax Reform Act created the federal low-income housing tax credit (the "Credit") under Section 42 of the Internal Revenue Code (the "Code") to assist the development of low-income rental housing by providing qualified owners with Credit to offset their federal tax obligations. The Commission is the agency authorized to allocate Credit in the State of Washington. The Credit is available to owners of qualifying Buildings and projects that meet certain low-income occupancy and rent restrictions.

Section 42 of the Code provides that each state prepare a *Qualified Allocation Plan* to determine housing priorities and to give preference to projects serving the lowest income tenants and projects obligated to serve qualified tenants for the longest periods. The *Qualified Allocation Plan* must incorporate selection criteria, which includes project location, housing need characteristics, sponsor characteristics, and tenant populations with special housing needs,. The Commission's *Qualified Allocation Plan* is included as part of this Application Package.

The Code also requires the Commission to determine that the amount of Credit allocated to a project does not exceed the amount necessary for the financial feasibility of the project and its viability as a qualified low-income housing project throughout the Project Compliance Period. In making this determination, the Commission must consider the total financing planned for the project, the sources and uses of funds, all proceeds expected to be generated by the sale of the Credit, and the percentage of Credit used for project costs other than intermediary costs or reserves.

The Commission determines the Credit for a project using two methods. First, the maximum Credit amount is calculated based upon the project's Qualified Basis and Applicable Percentage. Second, the Commission analyzes the shortfall, or equity gap, between the project's sources and uses of funds. This shortfall is divided by the Tax Credit Factor and divided again by 10, resulting in the maximum annual Credit amount as determined by the equity gap calculation. The Commission will reserve and allocate the *lesser* amount of Credit from these two calculations.

➤ **Credit Available in 2012**

The Commission will allocate approximately \$14 million in per capita authority for the 2012 program year. In order to fund a greater number of projects, the Commission has established a number of program limits. At the time this 2012 Application packet was published the actual per capita authority for Washington State was not yet known. Please contact the tax credit staff for further direction if you are seeking the maximum allowable credit per project. Please refer to Program Limits, Chapter 3 of the *Policies* for a full discussion of all program limits.

➤ **Credit Set-Asides**

The Commission has established four Credit Set-Aside categories:

Qualified Nonprofit Organizations:	10%
HOPE VI	20%
Rural Housing projects	15%
Rural Development (RD) projects:	5%

All projects will be considered for the Credit Set-Aside category selected in the Application. With the exception of the HOPE VI Credit Set-Aside, if a project does not receive a Credit Reservation and Carryover Allocation Contract in the selected category, the project may still qualify based upon its ranking against other projects competing for the balance of Annual Authority.

➤ ***Prior to submitting your Application to the Commission:***

➤ **Read the entire Application Package carefully**

The materials in this Application Package assume you or your advisors have knowledge of: (i) low-income housing tax credits; (ii) whether your particular project may be eligible for Credit; and (iii) how to syndicate or otherwise utilize Credit to finance project costs. If you would like to receive a more basic summary of how tax credits work, please call (206) 464-7139 and ask to speak to a development analyst in the Tax Credit Division or refer to our website at www.wshfc.org/tax-credits.

The *Policies* describe the process and criteria used by Commission staff to evaluate and rank projects for recommendations for Credit Reservations and Carryover Allocations. The *Policies* also describe the conditions, limitations, and requirements that must be satisfied in order for your project to be eligible for a Credit Reservation and Carryover Allocation Contract, a final allocation, and how to maintain the reservation during the development and construction of the project. The *Policies* also set forth project transfer or assignment requirements, an overview of the project monitoring requirements during the operation of the project, the Commission's fee schedule, a description of the Commission's process for decisions and reviews, and the *Policies* applicable to qualified tax-exempt bond-financed projects.

The *Policies* include the Commission's interpretation of the requirements under Section 42 of the Code, as well as additional conditions established by the Commission. The *Policies* include a Glossary that defines technical terms, which are capitalized in the Application package.

➤ **Meet with your advisors**

Prior to submitting an Application, we recommend you consult with your tax advisor, legal counsel, and/or accountant to ensure that your project meets the requirements to participate in the tax credit program, especially the Minimum Threshold Requirements in Chapter 4 of the *Policies*. Be certain that you have the documentation to qualify for participation in any selected Credit Set-Aside or to support any selected Allocation Criteria. We also invite you to make an appointment to meet and discuss your proposal with tax credit staff prior to submitting an Application.

➤ **Submitting your Application:**

➤ **The Application**

Complete and sign the Application, and submit it with all required attachments and application fee to the Commission not later than the **Application deadline, Thursday, December 15, 2011 at 5:00 p.m.**

Please keep in mind that there are **three new pre-application approval requirements** in place for the 2012 round. If your project requires a Total Development Cost Limit Waiver, a Non-Rural State Designated Basis Boost, or would like to be awarded Community Revitalization Plan points, pre-application approval requests must be submitted **no later than 5:00 p.m. on Monday, October 17, 2011.**

➤ **Processing**

The Commission staff will first review your Application for completeness and will confirm that the project complies with the General Requirements and Disclosures, Program Limits, and Minimum Threshold Requirements as detailed in Chapters 2, 3 and 4, of the *Policies*. The staff will then review your supporting documentation to determine whether your project qualifies for the selected Credit Set-Aside and meets the conditions to receive any selected Allocation Criteria points. A five-day Correction Period allows you to provide missing information or clarify items for your project. Following the Correction Period, all projects are ranked for recommendations to receive Credit in each Credit Set-Aside category by the number of Allocation Criteria points scored. Please refer to Chapter 6 of the *Policies* for additional information regarding Allocation Criteria points. The Commission staff will also calculate the Credit amount needed for the project.

During this process, the Commission notifies the chief executive officer of the local jurisdiction where your project is located to provide an opportunity to comment on your project. The Commission also conducts a public hearing to receive comments from the general public regarding all the projects submitted in the Application round.

The Commission approves a list of the projects and authorizes the Executive Director to establish Credit Reservation and Carryover Allocation Contracts and other related documents for projects as appropriate. The Commission will make available Credit reservation and carryover allocations to qualified projects as outlined in more detail in Chapter 7 of the *Policies*. You will be notified by mail if your project qualifies for Credit.

If your project is selected for a Credit reservation and carryover allocation, you will be required to enter into a Credit Reservation and Carryover Allocation Contract. During the project's development process, you will also be required to enter into additional agreements with the Commission, such as a Regulatory Agreement, and meet certain development milestones, all of which are described in the *Policies*.

➤ **Project Milestones.**

Each project must meet the development milestones identified in the *Policies* and the project's Credit Reservation and Carryover Allocation Contract. The milestone dates are established in accordance with the development schedule for each project but cannot exceed certain stated deadlines depending on what calendar year your project is Placed-In-Service.

➤ **Application Schedule.**

Pre-application Approval Request Deadline: **Monday, October 17, 2011 at 5:00 p.m.**

Application Deadline: **Thursday, December 15, 2011 at 5:00 p.m.**

Tentative dates to keep in mind for 2012 Applications: estimated Commission approval of projects will begin in February 2012 and continue on a rolling basis at monthly Commission meetings.

➤ **Application and Credit Reservation and Carryover Allocation Fees.**

The Application fee is \$26.00 per Housing Unit, which includes both Low-Income Housing Units and market rate housing units, but excludes any common area units, with a minimum fee of \$1,265. The Application fee is nonrefundable and due with your Application.

The Credit Reservation and Carryover Allocation Fee is 9.50% of the annual Credit amount if you set aside at least 50% of the Housing Units in your project for Residents earning 50% or less of the area median gross income. Otherwise, the fee is 12.53% of the annual Credit amount. Regardless, the minimum credit reservation and carryover allocation fee is \$3,795. At least half of this fee is due at the time you enter into your Credit Reservation and Carryover Allocation Contract.

➤ **Sample Legal Documents.**

The Commission will provide, upon request, sample copies of the current version of its Credit Reservation and Carryover Allocation Contract, Regulatory Agreement, as well as the forms necessary to complete the Report on Carryover-Allocation Basis, Eligible and Qualified Basis and the Sources and Uses of Proceeds to be certified by an independent CPA. These documents are subject to change at any time. You must use the Commission's current legal documents, forms, and other materials. Samples of these documents and certifications may be found on the Commission's website at www.wshfc.org/tax-credits