FIRST WORKING DRAFT OF PROPOSED CHANGES FOR THE
2012 HOUSING TAX CREDIT PROGRAM POLICIES
As of 5/26/2011

Policy changes being considered are summarized below. Unless noted otherwise these policy changes are intend to go into effect for the 2012 allocation round.

1. Modify Fully Funded Policy and Eliminate the Readiness Score – Chapter 5

Issue: For funding from non public sources, current policy requires a lender ordered appraisal at time of application. This policy has worked well for its objective of creating a comparable standard to being "approved" for funding by a public funding process. However, it has also contributed to some unintended consequences. Specifically, the appraisal requirement tacitly commits the borrower to the lender before having a credit allocation. This in turn may inhibit the borrower's ability to strategically and competitively package construction lending with their equity.

Furthermore, given current FIRREA regulations (Financial Institutions Reform, Recovery, and Enforcement Act of 1989), appraisals may only have a 6 month shelf life (6 months to close); thus this policy could unintentionally require a needless 2nd Appraisal.

The Fully Funded Readiness Score is no longer necessary given the current number of allocation point criteria and the current level of competition.

Proposed Change:

- Modify Fully Funded policy to eliminate the appraisal requirement and apply Fully Funded commitment only to Public Resources.
- Eliminate Readiness Score; Change Application Point Minimum to a minimum of 132 points excluding Housing Needs points. Change the Rural Development Set-Aside minimum to 105.

2. Replace current 221(d)(3)Total Development Cost Limit policy with an alternative cost containment policy –Chapter 3

Issue: Total development cost limits have always been a part of program policy. The HUD 221(d)(3) Mortgage Limits have always served as arbiter for this policy. These HUD limits are not a very precise indicator nor are they sufficiently maintained. Over the years the policy has used various escalation factors of these HUD limits in efforts to mitigate deficiencies. While our policy objective of cost containment remains unchanged, we want to implement a better cost gauge than the HUD 221(d)(3) Mortgage Limits.

Proposed Changes:

1. New Total Development Cost (TDC) Limits

a. The Maximum Total Development Cost per Unit is **$240,000.**

b. The Maximum Total Development Cost per Square Foot is **$300.**
c. TDC for the purpose of this policy excludes capitalized reserves.
d. Cost per Unit is based on the total units including CAU, low-income and market rate.
e. Cost per Square Foot is based on Gross Residential Square Footage including common area, structured parking, hallways, etc. It excludes any square footage allocated to commercial space.
f. Pre-application Waiver :
    i. If a Project exceeds just one of the limits, or if the Project exceeds both limits each by less than 20%, the waiver is subject to the approval of the Tax Credit Program Director.
    ii. If a Project exceeds both limits, one by more than 20%, the waiver must be approved by the Executive Director.
    iii. 9% projects must submit request for waiver in writing 60 days prior to application deadline. 4%/Bond projects can submit anytime in advance of application.
g. Enforcement in Final Cost Certification:
    i. Costs in excess of the Maximum TDC/SF or the Maximum TDC/Unit reflected in the Final Cost Certification will not be recognized for the purposes of calculating eligible basis or determining the Equity Gap unless a waiver has been granted. However, the Sources used to cover excess costs will be included in the Equity Gap calculation.
    ii. Costs in excess of the Maximum TDC/SF or the Maximum TDC/Unit reflected will not be recognized for the purposes of calculating the Maximum Developer Fee.

2. Total Development Cost per Unit Allocation Point Criterion for 9% Projects (0-2 points)

a. Competing Applications will be ranked in order of TDC/Unit and divided into three tiers: a Lowest Cost Tier, an Average Cost Tier and a Highest Cost Tier.
b. TDC for the purpose of this policy excludes capitalized reserves.
c. Cost per Unit is based on the total units including CAU, low-income and market rate.
d. Calculating the tiers: The range of values assigned to each tier will be determined using the average TDC/Unit calculated using all of the applications received in any one round excluding any applications that received a waiver of the TDC/Unit Limit. The range of values contained in the Average Cost Tier will be calculated by adding one standard deviation to the average to determine the high end and subtracting one standard deviation from the average to determine the low end. If in any one round, the data clusters around the average resulting in a standard deviation of less than $25,000, a range of the average plus and minus $25,000 will be used to determine the Average Cost Tier.
e. The Lowest Cost Tier will contain projects whose TDC/Unit is less those contained in the Average Cost Tier; these projects will receive 2 points.
f. The Highest Cost Tier will contain projects whose TDC/unit is greater than those contained in the Average Cost Tier; these projects will receive 0 points.

g. Projects in the Average Cost Tier will receive 1 point.
h. Projects receiving a waiver of the Maximum TDC/Unit Limit will not be eligible for the Cost per Unit points.
i. Projects facing unforeseen increases in TDC may have a new budget approved under limited circumstances.
j. In the event final Project costs exceed the TDC in the approved budget, the developer fee will be reduced by TBD amount.

3. Total Development Cost per Square Foot Allocation Point Criterion for 9% Projects (0-2 points)

a. The same approach will be taken as in #2 above using the TDC/SF. Cost per Square Foot is based on Gross Residential Square Footage including common area, structured parking, hallways, etc. It excludes any square footage allocated to commercial space.
b. If in any one round, the data clusters around the average resulting in a standard deviation of less than $30, a range of the average plus and minus $30 will be used to determine the Average Cost Tier.

3. Credit Per Unit Limits – Chapter 3

Issue: In 2009, as a response to coinciding increases in the cost of construction and significant decreases in credit investment pricing, the WSHFC passed a temporary (applicable to the 2010 and 2011 housing credit allocation rounds) increase to the program's credit per unit policy. As a part of that 2009 policy action, these temporally increased limits revert back to the published 2009 level (escalating as prescribed under policy by any increases to the per capita figure) for the 2012 program year.

Proposed Change: Reset Credit Per Unit Limits according to the 2009 policy.

The new Credit Per Unit Limits for 2012 are as follows and will be adjusted according to policy should there be an increase in the per capita credit figure:

- Per unit credit limit is **$14,784*** per low-income housing unit.
- For projects located in a QCT, DDA or deemed Eligible for the State Designated Boost the maximum annual amount of Credit reserved or allocated is **$19,181*** per low-income housing unit.

  * While there was a per capita increase in 2011 (2.38%), it will not be known until late in 2011 whether there will be an additional increase to the 2012 per capita credit figure (currently at $2.15).

4. Targeted Area Points and Community Revitalization Plan Points – Chapter 6

Issue: Current policy awards 5 allocation points for projects located in one of four areas-

1. A qualified census tract (QCT)
2. A difficult development area (DDA)
3. Area targeted by the local jurisdiction
4. Eligible Tribal Area

QCTs are those census tracts in which 50% or more of the households are income eligible (i.e. 60% AMGI or below) and the population of all census tracts that satisfy this criterion does not exceed 20% of the total population of the respective area. In areas where more than 20% of the population qualifies, census tracts are ordered from the highest percentage of eligible households to the lowest. QCTs are often the poorest census tracts in a jurisdiction.

DDAs are areas (generally Counties) designated by HUD with high construction, land, and utility costs relative to its AMGI.

In the context of providing incentives to projects located in certain geographic areas, do projects located in Qualified Census Tract (QCT) alone meet a public purpose?

Rather than award allocation priority "points" for projects located in QCTs, are there better policy approaches to address local affordable housing needs without indiscriminately contributing to concentrations of poverty?

Might current program policy regarding project location be improved by rewarding proposals that are in direct response to local affordable housing project location policies, or community revitalization efforts including economic development and transportation planning?

Perhaps incorporation of Community Revitalization Plan policy into the targeted area point criterion fosters a more comprehensive public policy?

Proposed Change:

- Require CRP points to be submitted 60 days in advance of application deadline for preapproval.
- Eliminate QCT from Targeted Area points [Beginning in the 2013 Allocation Round].
- Enhance targeted area policy including incorporation of CRP [Beginning in the 2013 Allocation Round].

5. Evergreen Sustainable Development Standard (ESDS) – other standards acceptable?

Issue: Current Policy requires all tax credit projects comply with the ESDS. The ESDS is required by legislative mandate of all Housing Trust Fund Projects. In a spirit of concurrence, the Commission followed suit with its own ESDS requirement. At that time, there was not clear evidence of other comparable sustainable development standards and the WSHFC determined that ESDS was most appropriate. Since that time, other national recognized standards have evolved.

Proposed Change: In recognition that alternative sustainable development standards comparable to the ESDS exist, this policy recommendation recognizes other standards may be acceptable alternatives to the ESDS. ESDS is intended to be a minimum standard and therefore applicants proposing to use an alternative standard must gain approval by the Commission prior to submitting an application.

6. State Designated Basis Boost

Issue: Under current policy Rural projects are automatically eligible for this State designated eligible basis increase while all other requests are considered as part of the application review process. For these non-rural applicants seeking a state designated basis increase, this current process creates uncertainty. By implementing a pre-application approval process, applicants will have a response to their request and can structure their application accordingly.

Proposed Change: Require State Designated Basis Boost as a pre-application determination with request submitted 60 days in advance of application deadline.