SECOND WORKING DRAFT OF PROPOSED CHANGES FOR THE
2012 HOUSING TAX CREDIT PROGRAM POLICIES
As of 8/3/2011

The following represents a second draft of Policy changes being considered. These policy changes are intended to go into effect for the 2012 allocation round unless noted otherwise.

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

Issue: For funding from non public sources, current fully funded policy requires a lender ordered appraisal at the 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. In addition, 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). So this policy can 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:

- To be considered Fully Funded, all necessary public resources and any source of funds that is allocated on a competitive basis (eg. FHLB AHP funds) must be fully committed at the time of application. Applications must include documentation of the committed funds.
- For any private debt sources a letter of interest from the expected lender must be provided. Eliminate the lender-ordered appraisal requirement
- 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 points excluding Housing Needs points.

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

Issue: Total development cost limits have always been a part of program policy. To date, the HUD 221(d)(3) Mortgage Limits have served as cost limits 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:

Similar to the current development cost limit policy, this new proposal imposes a Total Development Cost limit calculated using cost per unit limits differentiated by the “Unit Type” (defined as the number of bedrooms in a unit).

This new proposal is based on analysis of in-house cost data. Staff has complied cost data using the last 2 years of competitive 9% applications and recent (within 18 months) project final cost certifications for both competitive 9% and bond /tax credit deals. New project cost numbers will be added to this data set on an ongoing basis.

This new Total Development Cost Policy includes the following elements:

- Total Development Cost = Total Project Cost excluding the cost of land and capitalized reserves.
- All units (including common area units) are included in the calculation
- Supportive Housing projects (e.g. 75% Homeless) will use the King County limit schedule regardless of location.

Applicants will multiply the total number of units of each Unit Type by the respective Unit Type cost limit to determine the project’s total development cost limit. Unlike the current policy, there will not be any escalation factors applied to these limits. The policy does differentiate between developing in King County from the balance of the state.

Limit Schedule

	Studio	One Bedroom	Two Bedroom	Three Bedroom	Four+ Bedroom
King County	$195,000	$220,000	$260,000	$315,000	$347,000
Balance of State	$135,000	$152,000	$184,000	$239,000	$263,000

Waiver of the Total Development Cost Limit

A waiver of the Total Development Cost Limit must be requested and approved in writing <u>60 days prior to submission of the Application</u>. Applications submitted that exceed the Total Development Cost limit without an approved waiver will be disqualified and not considered further.

If a Project exceeds the Total Development Cost Limit by 20% or less, the waiver is subject to the approval of the Tax Credit Program Director. If a Project exceeds the Limit by more than 20%, the waiver must be approved by the Executive Director prior to the submission of the Application.

Changes in Total Development Costs

The intent of this policy is to encourage the communication of any unanticipated changes in project costs. In order for any increases in TDC to be recognized in the Maximum Developer Fee calculation, such increases must be proactively communicated and approved by the Tax Credit Director. The Commission retains the right to disallow any development cost.

Any costs in excess of the Total Development Cost Limit reflected in the Final Cost Certification that have not been approved in advance by the Tax Credit Director, will not be recognized for the purposes of calculating the Maximum Developer Fee.

Cost Containment Incentive
It is the intention of staff to add a cost containment incentive in the form of Allocation Criterion points to the Policies for the 2013 tax credit allocation round.

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 temporarily increased limits revert back to the published 2009 level (escalating as prescribed under policy by any increases to the per capita authority rate) 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:

- Per unit credit limit is **$14,784*** per low-income housing unit.
- Per units credit limit for projects located in a QCT, DDA or deemed Eligible for the State Designated Boost is **$19,181*** per low-income housing unit.

*These limits include a 2.38% increase over the 2009 limits to account for the 2011 increase in the per capita authority rate ($2.10 to $2.15). Should the 2012 per capita rate be greater than $2.15, these limits will be adjusted accordingly. The per capita authority rate is typically published in December.

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? How might a targeted area policy be enhanced?

The Commission is interested in researching and preparing a more comprehensive Targeted Area policy for implementation beginning in 2013. To initiate this process, we propose phasing out prioritizing QCTs as a targeted area.

Proposed Changes:

- Require requests for Community Revitalization Plan (CRP) points to be submitted 60 days in advance of application deadline for preapproval [Beginning in the 2012 Allocation Round].

- Eliminate QCT from the list of areas eligible for Targeted Area points [Beginning in the 2013 Allocation Round].

- Enhance targeted area policy including incorporation of CRP [Beginning in the 2013 Allocation Round].

5. Sustainable Development Standards

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. Additionally, the Department of Commerce has recently updated ESDS with version 2.0.

Proposed Changes:

- Projects applying after January 1, 2012 must comply with ESDS v2.0. Projects applying prior to January 1, 2012 are subject to ESDS v1.0.

- 4% tax credit/tax exempt bond deals only - Recognize the existence of acceptable sustainable development standards comparable to the ESDS. 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 non-rural applicants seeking a state designated basis increase, the 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: Projects outside of Rural areas must submit a request for the State Designated Basis boost 60 days in advance of the application deadline. Rural projects remain automatically eligible and do not need to submit anything in advance of the application.

7. Tax Credit Regulatory Agreements

Notice: The Commission is in the process of changing the Regulatory Agreement recording process. Beginning in 2012, the Tax Credit Regulatory Agreement will be recorded as part of the equity closing process.