WASHINGTON STATE
HOUSING FINANCE
COMMISSION

Ms. Karen Miller
Chair
Mr. Kim Herman
Executive Director

memorandum

To: WSHFC Commissioners

From: Steve Walker

CC: Kim Herman; Paul Edwards

Date: 9/10/09

Re: Proposed Revisions to LIHTC Program Policies for 2010 Program Year

The following represents proposed changes for the 2010 Tax Credit Program Policies. These changes are the byproduct of in-house staff discussions and individual and group stakeholder discussions as well as informal input received over the past year. All changes have been discussed at stakeholder public meetings held in Spokane and Seattle.

Revisions ratified by the Commission will be incorporated in the tax credit Policies and Application materials for the 2010 tax credit allocation cycle. Our preliminary estimate is that the application package would be ready for distribution in mid-October, assuming Commissioners take final action on the proposed changes on September 24th. The remainder of this memo summarizes each issue and the intent behind each proposal as well as the proposed new policy language.

1. Expiration of HOPE VI Credit Set-Aside – Policies Chapter 5

Issue: In 2005, the Commission adopted a temporary five-year (2005-2009), 20% credit set-aside for Hope VI projects (the Temporary HOPE VI Credit Set-Aside).

As part of this Commission action, the 15% Nonprofit Credit Set-Aside and the 15% For Profit Credit Set-Aside were both temporarily suspended. At the time the HOPE VI Credit Set-Aside was created, it was agreed that for the 2010 program year, absent alternative formal action by the Commission, the two suspended credit set-asides would be reinstated.

Proposed Change: Rather than reinstating the Nonprofit and For Profit Credit Set-Asides, allow the expiring HOPE VI 20% Credit Set-Aside to fold into the General Pool. Thus the proposed credit set-aside breakdown would be as follows:

Qualified Nonprofit	10%	(required by code)
Rural Housing	15%	
Rural Development	5%	
General Pool	70%	

2. Expanding the Authorized 130% Basis Boost Designation

Issue: For 9% credits, the HERA legislation of summer 2008 authorized allocating agencies to extend the extra 30% "basis boost" to buildings that the state designates as requiring an increase in the credit amount to be financially feasible, effective for buildings placed in service after date of enactment. Prior to HERA, only HUD designated DDA's and QCT's were eligible for the 30% "basis boost."

Under HERA, buildings in DDA's or QCT's that already qualify for the additional credits will not qualify for an additional state designated increase if they have already received the 130% increase.

For the 2009 program year, the Commission passed policy designating Rural Projects eligible for the State Authorized 130% eligible basis boost. This change was intended to assist projects located in rural areas of the state where local affordable housing resources are scarce. Given the shortness of time to consider this HERA authorization and given the 2009 program policy development timeline, the Commission committed to a broader discussion about the utilization of the "basis boost" for the 2010 program year.

Proposed Change: Beginning with the 2010 program year and running through the 2011 allocation round, the Commission proposes implementation of the following:

All projects applying for credit in the 2010 and 2011 competitive tax credit round are <u>eligible to receive</u> the 130% eligible basis increase.

Approval of this increase will be made on a case by at the sole discretion of the Commission. Such approval will be based upon a written case made by the Applicant, as part of their application, and conclusive findings made by the Commission that the "basis boost" is necessary for the project to be financially feasible.

Examples justifying the need for a basis boost may include:

- Projects located in rural areas where resources are most scarce,
- Projects located in high cost areas of the State,
- Infill projects with high land costs required structured parking, etc.

3. Two-Year Temporary Increase to the Credit Per Unit Limit

Issue: With the decline in equity pricing, it will take more credit to fill the gaps in capital, placing significant pressures on current credit per unit program limits. Given our policy priorities (e.g. lowest income, special needs populations, etc.) we cannot expect these gaps to be filled with debt. The tax credits are the primary source of project capital and increasing the current credit per unit program limit seems an appropriate response to help mitigate extraordinary decreases in equity pricing.

This proposed change is based on discussions with developers, syndicators and other program stakeholders. This recommendation is the result of a coordinated effort between other program funders and the program and policy strategies they are implementing.

Proposed Change:

Increase the current maximum allowed credit per unit limit by 10% for the upcoming 2010 and 2011 program years. Absent alternative formal action by the Commission, these limits will revert back to the published 2009 level for the 2012 program year.

The limits for 2010 and 2011 would be as follows:

- Per unit credit limit is ~~$14,440~~ $15,885 (10% increase) per low-income housing unit.

- For QCT, DDA and projects deemed eligible to receive the 130% eligible basis increase the maximum annual amount of Credit reserved or allocated is ~~$18,735~~ $20,610 (10% increase) per low-income housing unit.

NOTE: 1) This proposed 10% increase is intended to be inclusive of the annual adjustment tied to any annual per capital increase. 2) Other program limits (e.g. credit per project, credit per applicant, etc.) remain unchanged.

4. Limit Rural Housing Credit Set-Aside to Non-Farmworker Projects Only

Issue: Under our current allocation point system, significant priority is given to Farmworker projects (up to 35 points). At the request of our rural housing development stakeholders, we have analyzed the Rural Housing Credit Set-Aside and have determined that this set-aside is entirely or mostly filled by Farmworker projects, leaving Rural-non-farmworker projects unable to compete.

Proposed Change: Allow Farmworker projects to compete only outside the Rural Housing Credit Set-Aside.

5. New Allocation Point Criteria for Washington State Quality Award (WSQA)

Issue: The Commission agreed to a request by the State Legislature to incorporate into our resource allocation selection criteria this WSQA standard.

Proposed Change:

Quality Management Program (max 3 points)

a) For applicants who have completed the full examination Washington State Quality Award (WSQA) program, or comparable nationally-recognized program similar or equivalent to the Baldrige National Quality Program criteria, within the last three years.** (3 points)

Or

b) For applicants who have completed the WSQA's Lite Assessment within the last three years. (1 point)

** Evidence of WSQA award must be submitted with the application

For information on the WSQA program go to: http://www.wsqa.net/

6. Developer Fee for Rural Development (RD) Credit Set-Aside Projects

Issue: For a number of years program policy has incentivized limiting a project's Developer Fee to below 15% with allocation criteria points (up to 10 points for 10% limit). With the exception of the RD Credit Set-Aside, staff analysis suggests that to be competitive, developers are maximizing these Developer Fee Limit points and limiting their fee to 10%.

Program policy also sets a lower total minimum score for projects seeking to compete in the program's RD Credit Set-Aside than all other projects (95 vs. 130). This lower score was justified by a number of characteristics unique to RD projects. Sizing developer fees was not one of them. Therefore the benefit of a lower total minimum score offered to RD Credit Set-Aside projects should not be at the expense of comparatively higher developer fees than the rest of the program competition.

Proposed Change: Projects seeking to compete in the RD Credit Set-Aside, regardless of whether they receive a credit allocation from the set-aside, are limited to a 10% Developer Fee.