



Iowa Finance Authority
INVESTING IN HOME AND COMMUNITY

2009 LIHTC Developer Training

QAP Overview

September 11, 2008



Welcome

- Today's schedule
 - Overview of the Qualified Allocation Plan
 - Step-by-Step of the Application – Cynthia Thompson
 - Application Exhibits – Connie Dippel
 - Special Needs & Relocation Plans – Terri Rosonke
 - Energy Efficiency – Mike Willis, The Energy Group
 - Construction Considerations
 - IFA Loan Funds – Craig Johnson
 - Overview of the HOME Program – Terry Vestal



Timeline

- 2009 Draft QAP submitted to IFA Board: May 2008
- Public hearing and solicitation of comments: June 2008
- Final adoption of 2009 QAP by IFA Board: July 2008
- 2009 First Amended QAP adopted by IFA Board in August 2008
- 2009 First Amended QAP is final: September 3, 2008



Schedule

- **3-Part Application Process**

Pre-Application Market Study: Deadline date was September 3, 2008; 33 Pre-Applications received

Threshold Application: Due 3:00 p.m. on October 31, 2008

Scoring Application: Due 3:00 p.m. on January 23, 2009

Tax Credits Awards announced on March 4, 2009

Exception: Disaster Relief Set-Aside



Communication with IFA

- Before October 31, 2008:
 - If Applicant has a question regarding an interpretation or clarification of the QAP, IFA policies, procedures or rules, the question must be submitted to the Tax Credit Manager.
 - Responses to questions will be placed on the IFA website each Friday for all to have access
- IFA is not bound by any oral or written response other than those posted on the IFA website



Communication with IFA

- After October 31, 2008:
 - Generally, don't call us, we'll call you
 - If you or a person on your behalf, talks to, calls or emails any IFA staff person or board member about the application under review, your project will be IMMEDIATELY disqualified
 - Unless, you contact the Tax Credit Manager:
 - about the scoring criteria or Scoring Application; or
 - if you are seeking clarification related to the deficiency notice (during the Correction Period)



New Developer

- A new developer in Iowa shall meet with the tax credit manager to review the QAP and the application process.
- A first time tax credit recipient must complete at least one LIHTC project in which all LIHTC units have been leased at least once, in Iowa or any other state, before being allowed to submit a subsequent application.



2009 First Amended QAP

- Available at www.iowafinanceauthority.gov
- Establishes the allocation plan for the 2009 round
- Became final on September 3, 2008
- 2009 QAP was amended in August 2009 by IFA board to address significant housing loss in disaster-hit counties, and implement select provisions of the Housing and Recovery Act of 2008



Set-Asides

- Affordable Preservation: 10%
 - Qualifying federally assisted housing units
 - HUD
 - USDA-RD
 - Allocated 9% credits in 1991 or earlier
- Underserved Area: 10%
 - See Appendix E for list of counties
- Nonprofit: 10%
 - Federally mandated
- Disaster Relief: 40%



Disaster Relief Set-Aside

- 7 counties: Linn, Louisa, Black Hawk, Johnson, Muscatine, Butler, Bremer
- 60% of set-aside for Linn County
- Applicant can request 30% boost in eligible basis
- Applicant can request to exceed the unit cost cap
- If Applicant did not submit a Pre-Application for Market Study, Applicant can submit the Market Study Application on October 31, 2008



Disaster Relief Set-Aside

- Pre-Application for Market Study, Threshold and Scoring Application are all due by 3:00 p.m. on October 31, 2008
- No correction period allowed
- Must meet all threshold items, without correction, to be considered for the set-aside
- Disaster Relief Set-Aside awards to be announced on January 7, 2009



Disaster Relief Set-Aside

- Applicants that submit an application for this set-aside, but do not receive an award on January 7:
 - Have an opportunity to correct threshold items
 - Can compete in other set-asides
 - If the Applicant meets the threshold requirements, will compete against all other projects in the final ranking



Tax Credit Cap

- The maximum Tax Credit that will be awarded to any one Project is \$780,000.
- IFA will not allocate more than \$950,000 of the annual State Ceiling to a single Developer with one or more Projects;
- Exception: Applicants that receive a Tax Credit reservation through the Disaster Relief set-aside for more than one project may exceed the Tax Credit cap for a single Developer by \$475,000.



Disaster Relief Set-Aside

- If a Project is awarded under the Disaster Relief Set-Aside, then the Developer may exceed the Tax Credit Cap for a Single Developer
- Total Tax Credit Cap allowed is:
 - $\$950,000 + \$475,000 = \$1,425,000$
- Additional projects can be awarded within the Disaster Relief Set-Aside, and other set-asides or general pool
- Even if eligible for Disaster Relief Set-Aside, unless your project receives an award in the Disaster Relief Set-Aside, you will not receive the increased tax credit cap for a single developer



Application Process

- All proposed projects will complete a pre-application market study and analysis.
- Correct fees must be submitted.
- Attach check to Applicant Fee Remittance Form.
- Can arrange a money transfer.
- If Applicant withdraws the Threshold Application within 3 business days, the Application fee will be reimbursed.



Underwriting

- IRS requires that IFA determine that “the housing credit dollar amount allocated to the development does not exceed the amount the housing credit agency determines is necessary for the financial feasibility of the development and its viability as a qualified low-income housing project through the credit period.”



Underwriting

- Credit amount is the least amount calculated using (Section 17-Application)
 - Unit Cost Cap method
 - Equity Gap method
 - Eligible Basis method
- Regardless of method, maximum credit amount is \$780,000



Underwriting

- Threshold Requirement
- If a gap in financing is discovered after underwriting the Project, the gap may be filled from the Developer's fee if the fee is sufficient not to exceed fifty percent (50%) of the fee. No other fee will be used to fill a gap in financing.



Underwriting

- The Applicant must provide information regarding loans, grants, equity contributions, the anticipated value received from syndicators, equity partners or private funding sources for the Tax Credits, Property tax abatements, tax increment financing, enterprise zone benefits, rebates, gifts, and any other type of financing or contributions that are relevant to the economic feasibility of the Project and are available to the Project.



Underwriting

- State tax credits may be used provided that the Applicant can demonstrate that the credits will be available to the project.
- Debt Service Coverage Ratio between 1.15 and 1.40; if DSCR falls outside range anytime in the first 15 years, Applicant must provide a narrative to justify the deviation
- IFA is not likely to accept a justification for DSCR below 1.15



Underwriting

- Minimum income escalator: 2%
- Minimum expense escalator: 3%
- Minimum spread between income and expense is 1% higher for expense
- 7-10% vacancy rate, except for projects qualified for Affordable Preservation Set-Aside
- Projects with less than 20 units must show a \$150 per unit per year net cash flow



Operating Expenses

- Housing for Older Persons: \$2,500 per unit per year
- Housing for Families: \$3,000 per unit per year



Reserves

- Operating Reserves
 - \$1,500 per unit OR
 - 6 months debt service and operating expenses
 - WHICHEVER is greater
- Replacement Reserves
 - Family projects: \$400 per unit per year
 - Older Persons projects: \$300 per unit per year



Deferred Developer Fee

- Cannot exceed 50% of total amount
- Entire amount must be paid within 15 years to remain in basis
- Paid from net cash flow
- Not calculated into the minimum DSCR



Financing Commitment

- For all sources, except state HOME funds, a commitment for funding must be made in advance
- Includes any other grants, loans, tax credits, etc.
- Application may only include one set of proposed funding sources **EXCEPT** if applying for a loan from IFA



Developer/Builder Fees

- Developer's fee calculated as a percentage of Total Project Costs minus land, developer's fee, developer's overhead and profit, consultant fees, and project reserves
- New Construction: not to exceed 15%
- All other projects: not to exceed 17%
- Builder and contractor fees: not to exceed 14%
- If fees exceed allowed amounts, IFA will reduce amounts in underwriting evaluation



Unit Cost Cap

- Total development cost for entire project cannot exceed HUD 221(d)4 Mortgage Insurance limits plus an automatic 25% increase
- Appendix D
- Every county is assigned to an applicable MSA



Exceptions to Unit Cost Cap

- Applicant **MUST** request exception to unit cost cap (Section 14-Application)
- Cost of energy efficiency measures exceed minimum construction characteristics
 - Applicant must provide adequate test results, engineering plans, estimates of energy cost savings, and comprehensive cost estimates
- Historic rehabilitation tax credits (federal or state)
- All units in project located in a QCT
- HUD promulgated preservation initiative
- All units are located in a county specified as eligible for the Disaster Relief Set-Aside
- Cannot exceed project cap of \$780,000



Rehabilitation Expenditures

- The greater of:
 - 20% of the expected adjusted basis of the building (20% x Line 13.23 of Application); or
 - \$10,000 Rehabilitation Expenditure limited to Hard Construction Costs per Low-Income Unit



Scattered Site

- Submit a composite Threshold Application reflecting the total of all sites
- Also submit scattered site addendum for each scattered site location



Scattered Site

- Multiple buildings with similar units are not located in proximity to one another, but are owned by the same party and financed under the same agreements(s).
- “Similar” means same occupancy type, same special needs type, and same unit and project amenities.
- Must be located within a 15-mile radius.
- May be new construction, acquisition, rehabilitation or a combination of these types.



Scoring Criteria

- Establishes criteria for Applicants to compete
- Allows IFA to establish preferences for certain aspects or elements
- Section 6 of the QAP
- Application for Scoring and Scoring Exhibits



Scoring Criteria

- Resident Profile:
 - Category 1. Serves Lowest Income Residents; up to 20% of project serves tenants with incomes at or below 40% AMGI; rent restricted to 40% AMGI
 - Category 2: Mixed Income Incentive: up to 20% market rate units
 - Category 3: Resident Populations with Special Needs
 - Category 4: Provides an Opportunity for Homeownership: Iowa Rent to Ownership Savings (ROSE) program
 - Category 6: Rent Reasonableness: 100% of low-income units at 100% of Fair Market Rent



Scoring Criteria

- Location:
 - Category 1: Location Near Services: Within 1 mile using existing roads
 - Category 2: Great Places: Department of Cultural Affairs
 - Category 3: Local Government Contribution
 - Category 4: Disaster Response



Local Government Contribution

- Points for up to 10% of total project costs from city or county
- 1% can come from a source that is Federal in nature (HOME, CDBG): 5 points
- 10% can come from a source that is local in nature (not from a Federal source): 5 points for each 1%
- Contribution can come from a certified Local Housing Trust Fund if Applicants provides documentation from LHTF that city or county has contributed equal amount to LHTF within current fiscal year



Scoring Criteria

- Building Characteristics
 - Category 1: Market Appeal
 - Category 2: Projects with Historical Significance
 - Category 3: Projects that are Subsidized Project-Based Rental Assistance Projects; not less than 50% of units covered by a PRAC
 - Category 4: Construction/Unit Characteristics
 - Category 5: Fully Handicapped Accessible; 100% of units are fully accessible



Scoring Criteria

- Building Characteristics
 - Category 6: Readiness to Proceed
 - Applicant submits Capital Needs Assessment (rehab only)
 - Building permit issued by applicable government entity. Permit must allow for framing of the building.
 - Utilities are available at the site – no extensions required.
 - Project has direct access to an existing paved road.
 - Project is properly zoned for its proposed use, on the day of application.



Scoring Criteria

- Building Characteristics
 - Category 7: Impact on the Environment
 - No irrigation system
 - All paints and primers comply with Green Seal standards for low VOC
 - Adhesives, caulks, and sealants meet standards
 - Building is “no smoking” including apartments
 - Use 25% reclaimed materials
 - Energy efficient water heaters
 - Water conserving measures
 - Heat recovery ventilation system



Scoring Criteria

- Other
 - Category 1: Title Guaranty
 - Category 2: Web-based registration of vacant units; www.housinginiowa.org



Qualified Census Tracts

- Entire project must be located in a QCT
- 30% boost in eligible basis applies
- Portion of eligible basis used to fund Community Service Facility cannot exceed 10% of total Eligible Basis
 - Community Service Facility must serve tenants and residents of surrounding community whose income is 60% AMGI or less



Release of Information

- No information will be released about the LIHTC applications until final awards are made on March 4, 2009
- NO list of pre-application market study applicants
- NO Market Study results
- NO List of Applicants or locations
- NO copies of applications
- NO working papers or draft documents

- Aggregate numbers will be posted on the website



4% Tax Credits

- **Part B: Sections 9 through 12**
- **Part C: Terms & Conditions; applies to all applicants**
- **Appendix 1: Threshold Requirements for Building, Construction, Site and Rehabilitation**



Building Requirements

- **Appendix 1**
- Documents must be prepared by an engineer or architect licensed to do business in Iowa
- Once final plans and specs are completed, must be submitted to IFA. IFA must approve before starting site work or construction.
- Submit preliminary site plan and floor plans with Threshold Application. Make sure they are legible. If not, submit larger copies or a CD.



Minimum Development Characteristics

- Each project must have a computer learning center OR a computer can be provided and maintained in each unit
- Each bedroom must have a closet with a door
- New energy efficiency standards



Minimum Development Characteristics

- Window coverings are required
- A common laundry room facility on site or a washer and dryer in each unit
- At least 5% of units must be fully handicapped accessible (round up if a fraction) + 2% of units must be accessible for hearing and/or vision impairments



Energy Efficiency Minimums

- New construction 3 stories or less: HERS index of 80 or less; verified following completion of construction
- New construction 4 stories or more: exceed ASHRAE 90.1 Appendix G-2004 by at least 15%; documentation by an independent engineer
- Rehab: Energy audit performed prior to preparation of final work rehabilitation order; Owner, energy rater, and IFA must meet prior to start of rehab; IFA must approve energy efficiency items that are put into work order; testing must verify that rehab work meets standards