Module 3:
Deal Structure, Deal Cycle & Participants
Qualified Allocation Plans
LIHTC Calculations
State Determination Letters

Module 3 Materials

Qualified Allocation Plan Article

Letter of Determination

Data needed to calculate Acquisition and Rehab Credits

Excert from Restoration LP - the Credit Calculation

Qualified Allocation Plan

By Ed Gramlich, Director of Regulatory Affairs, National Low Income Housing Coalition

Administering Agency: The Internal Revenue Service (IRS) of the Department of the Treasury
Year program started: 1986
Number of households served: 53,048 in 2011, the latest data available
Population targeted: Households with incomes either below 60% of area median income (AMI) or 50% AMI
Also see: *Low Income Housing Tax Credit*

The federal Low Income Housing Tax Credit program requires each state agency that allocates tax credits, generally called a housing finance agency, to have a Qualified Allocation Plan (QAP). The QAP sets out the state's eligibility priorities and criteria for awarding federal tax credits to housing properties. In some states, the QAP also sets out threshold criteria for noncompetitive 4% tax credits and any state low income housing tax credits.

The QAP is a tool advocates can use to influence how their state's share of annual low income housing tax credits is allocated to affordable housing properties. Advocates can use the public hearing and comment requirements to convince their housing finance agency to better target tax credits to properties that house people with extremely low incomes, locate projects in priority areas, and preserve the existing stock of affordable housing.

SUMMARY

The QAP is a document that states, and a few local agencies, must develop in order to distribute federal Low Income Housing Tax Credits (LIHTCs), which can be awarded only to a building that fits the QAP's priorities and criteria. Each QAP must spell out a housing finance agency's (HFA's) priorities and specify the criteria it will use to select projects competing for tax credits. The priorities must be appropriate to local conditions.

The QAP must also give preference to projects:

- Serving residents with the lowest income;
- Serving income-eligible residents for the longest period of time; and,
- Located in qualified census tracts (QCTs) or difficult development areas (DDAs), as long as the project contributes to a concerted community revitalization plan. QCTs are census tracts with a poverty rate of 25% or in which 50% of the households have incomes below 60% of the area median income (AMI). DDAs are areas in which construction, land, and utility costs are high relative to incomes.

The QAP selection criteria must address 10 items: (1) location; (2) housing needs; (3) public housing waiting lists; (4) individuals with children; (5) special needs populations; (6) whether a project includes the use of existing housing as part of a community revitalization plan; (7) project sponsor characteristics; (8) projects intended for eventual tenant ownership; (9) energy efficiency; and (10) historic nature. These requirements are minimums; states can adopt more rigorous criteria that target advocates' priority populations and locations. Most states establish detailed QAP selection criteria and set-asides based on the characteristics of their state's needs.

HFAs can target tax credits several ways:

- The QAP selection process can give preferences, in the form of extra points, to encourage developers to submit projects more likely to serve particular populations or locations; for example, by awarding 10 points to projects that set aside 20% of the units for special needs populations.
- The QAP can establish a set-aside, reserving a specific percentage or dollar amount of any given year's tax credit allocation for projects more likely to serve particular populations or locations; for example, a $2 million set-aside for rural projects.
- The QAP can establish thresholds, minimum requirements that projects must meet simply to get in the game, thus improving targeting to particular populations or locations; for example, requiring a 50-year income-eligible compliance period.

FORECAST FOR 2014

Because preservation and rehabilitation of existing properties is often more efficient, the Administration's FY15 budget request proposes adding preservation of federally assisted affordable housing to the current list of ten selection criteria that every QAP must include.

TIPS FOR LOCAL SUCCESS

Because each state receives a new allocation of LIHTCs each year, QAPs are usually drafted annually. This gives advocates regularly scheduled opportunities to influence QAP priorities. LIHTCs are often in high demand among developers; therefore, developers propose projects that address the priorities set forth in the QAP to give themselves an advantage in the selection process.

Advocates should assess the QAP. If it only has a general statement of goals, advocates can work to get very specific set-asides or preference points for their priorities. If the QAP has too many priorities, this will render individual priorities less meaningful. Advocates should work to narrow the number of priorities or work to establish relative priorities so their priorities can compete more effectively.

If there are types of assisted housing that should be at the top of the priority list, advocates should work to ensure that they are positioned to better compete. For example, if there is a great need for units with more than two bedrooms, advocates might promote a QAP policy offering bonus points for projects providing units with two or more bedrooms for at least 10% of all low income units. To facilitate rural projects, advocates might try to secure QAP policies that give points to projects with fewer than 50 units in rural areas.

Advocates can also argue for features that protect tenants, for example a QAP policy precluding tax credit assistance for projects that do not provide one-for-one replacement of units lost through redevelopment. Advocates should review the QAP to find out how long targeted units must serve people with lower incomes. If the QAP only requires the basic 15 years, plus and extended use period of another 15 years, advocates should try to get the compliance period lengthened as a threshold issue, or try to get point preferences or set-asides for projects that voluntarily agree to a longer compliance period.

All states are required to have a public hearing about their proposed QAP before it is approved by the unit of government overseeing the HFA, but there are no specific requirements for the public hearing. Although not required, most states also provide for a public review and comment period for a proposed QAP.

Advocates should contact the HFA early to learn about its annual QAP process and build this into their work plan for the year. In addition, advocates should be sure to get on any notification list the HFA might have about the QAP and public hearing. Advocates should also develop relationships with the HFA's governing board and communicate the advocate's priorities throughout the year. Not all communication has to take place in the context of the formal QAP process. Informal contacts can be used effectively to advance an advocate's priorities. In fact, the most effective means of advocating for any particular priority is to be in contact with the HFA long before a draft QAP is publicly released.

Once an HFA decides to award tax credits to a building, it must notify the chief executive officer of the local jurisdiction where the building is located, such as the mayor or county executive. That official must have a reasonable opportunity to comment on the project. Advocates should ask the executive's office and any relevant housing department at the locality to notify them as soon as the HFA contacts the executive about a proposed project. Even better, advocates should seek a local policy requiring public notice and comment, along with public hearings, about a proposed project.

Before tax credits are allocated, there must be a comprehensive market study of the housing needs of low income people in the area a project is to serve. The project developer must hire a disinterested third party approved by the HFA to conduct the market study.

If a building that does not fit the QAP's priorities is to get tax credits, the HFA must provide a written explanation and make it available to the public.

Most states post a list of properties that have won tax credits after each round of competition. These lists can often be found on an HFA's website.

FOR MORE INFORMATION

- National Low Income Housing Coalition, 202-662-1530, www.nlihc.org
- List of state HFAs, http://bit.ly/XoOL2b
- State QAPs, http://bit.ly/W2dvjX

Commonwealth of Massachusetts

DEPARTMENT OF HOUSING & COMMUNITY DEVELOPMENT

Charles D. Baker, Governor ◆ Karyn E. Polito, Lt. Governor ◆ Chrystal Kornegay, Undersecretary

LETTER OF DETERMINATION

Project Owner/Applicant:	RTH Restoration Housing Limited Partnership
Contact Address:	New Whitney Street
City, State, Zip:	Boston, MA 02115
Project Name:	RTH Restoration Housing
Project Number:	______________
Project Address:	24 Saint Albans Road 24, 30, 32, 36, 40, 44, 50, 51, 52, 53, 54, 55, 56, 57 Fenwood Road 36 & 52 Francis Street
City, State, Zip:	Boston, MA 02115
Type of Development:	Multifamily Rental Apartments (Acquisition/Rehabilitation)
Tax-exempt Bond Issuer:	Massachusetts Development Finance Agency
Allowable Annual Federal Credit Amount:	$886,025
Date of Determination Letter:	August 26, 2015

The Department of Housing and Community Development of The Commonwealth of Massachusetts ("DHCD") has received an application for a determination of credit eligibility under the 2015 Qualified Allocation Plan ("QAP") promulgated by The Commonwealth of Massachusetts (the "Commonwealth"), acting by and through DHCD, for the above Project, as required by Section 42(m)(1)(D) of the Internal Revenue Code of 1986, as amended (the "Code"). The Project Owner has also requested a preliminary determination that the application meets the financial feasibility requirement pursuant to Section 42(m)(2)(D).

The Project Owner has represented to DHCD that the development of the Project will be financed by a tax-exempt obligation of the type described in Section 42(h)(4) of the Code by the issuer named above. The Project Owner has also represented that such tax-exempt obligation will finance 50 percent or more of the aggregate basis of the land and building(s) of the Project. As such, the Project may be eligible for low income housing tax credits with respect to its qualified basis without receiving an allocation of credits from the Commonwealth's housing credit ceiling if the Project satisfies all applicable requirements for an allocation of Federal housing credits under the QAP.

Based upon its review of the application, and subject to the assumptions and conditions set forth herein, DHCD has determined that the Project satisfies all applicable requirements for an allocation of Federal housing credits (including, without limitation the requirements for an allocation under the QAP). However, the determination is contingent upon the following:

- Construction and/or rehabilitation of the Project in accordance with the application submitted to DHCD, the applicable requirements of the Fair Housing Act, the Americans with Disabilities Act and the DHCD accessibility requirements, particularly those provisions related to site and unit accessibility.

In issuing this Letter of Determination, DHCD has relied on the information submitted by the Project Owner and has assumed that such information is accurate and complete in all material respects. DHCD reserves the right to revoke this Letter of Determination if DHCD discovers that the Project Owner has provided erroneous or fraudulent information in connection with its application for this Letter of Determination.

As any project is an ongoing process, the Project Owner may be asked to submit additional information or to clarify certain matters during this process. Any changes from the initial tax credit application must receive prior written approval by DHCD and remain consistent with the QAP, the Code, and all applicable regulations.

Upon completion of the Project, the Project Owner must submit an application for Final Credit Allocation in the form prescribed by DHCD. The processing of this Final Credit Allocation application will include physical inspections of the property, compliance review, review of the final cost certification, and underwriting of the Federal credits. The actual amount of the Low-Income Credits authorized to be used in connection with the Project will be determined upon the issuance by DHCD of IRS Form 8609 and will depend in part upon the Borrower's satisfaction of the terms and provisions of Section 42 of the Code and the regulations thereunder applicable to the Project, including satisfaction of the so-called "50% test" under Section 42(h)(4)(B) of the Code. Furthermore, DHCD will not issue IRS Form 8609 unless and until MassDevelopment has made the determination required by Section 42(m)(2)(D) of the Code as of the date the Project is placed in service.

This Letter of Determination is contingent upon execution and recordation of a Tax Credit Regulatory Agreement and Declaration of Restrictive Covenants (the "Regulatory Agreement") on the Project no later than the date that the bonds are issued. The original recorded Regulatory Agreement must be returned to DHCD within 60 days of bond issuance. All construction and/or permanent financing for the Project must be subordinate to the recorded Regulatory Agreement.

Executed this 26 day of August, 2015.

OWNER:

I hereby acknowledge and agree to abide by all terms and conditions stated in this Letter of Determination and any referenced documentation contained herein. I understand that failure to comply with the terms and conditions in said Letter of Determination, the QAP, the Code, and applicable Federal and State requirements may result in a refusal of the Department of Housing and Community Development of the Commonwealth of Massachusetts to issue IRS Form(s) 8609 as well as its exercise of other remedies, including revocation of the Letter of Determination.

RTH Restoration Housing Limited Partnership

By RTH Restoration Housing GP, Inc.
its ____________

Calculation of the Estimated Credit for Restoration Housing LP

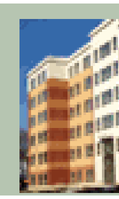
Data Needed to Calculate the Estimated Max Credits for both the Acquisition and Rehab basis of the project

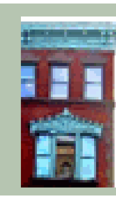
Acquisition Credit

Projected Eligible Basis = 12,095,000
Qualified Occupancy = 100%
Credit % = 3.23 (determined monthly by the federal government)

Rehab Credit

Projected Eligible Basis = 11,858,054
Qualified Occupancy = 100%
High Cost of Development Multiplier = 130%
Credit % = 3.23 (determined monthly by the federal government)





Eligible Basis, Calculation of Maximum Credit

		Total Residental (a)	Percentage of Costs Not in Depreciable Basis (b)	Not In Basis ($) (c)	In Basis ($) (d)	Acquisition Credit Basis (e)	Rehabilitation Credit Basis (f)
1024.	Acquisition: Land	$3,050,992.00	100.00%	$3,050,992.00	$0		$0
1025.	Acquisition:Building	$11,849,008.00	0%	$0	$11,849,008.00	$11,650,000.00	$199,008.00
1026.	**Acquisition Subtotal**	$14,900,000.00	20.48%	$3,050,992.00	$11,849,008.00	$11,650,000.00	$199,008.00
1027.	Direct Construction Budget	$9,732,954.00	5%	$486,647.70	$9,246,306.30		$9,246,306.30
1028.	Construction Contingency	$973,295.40	%	$0	$973,295.40		$973,295.40
1029.	**Subtotal: Construction**	$10,706,249.40	4.55%	$486,647.70	$10,219,601.70	$0	$10,219,601.70

General Development Costs:

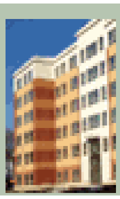
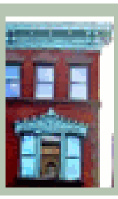
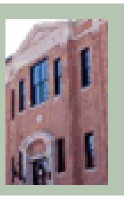
		(a)	(b)	(c)	(d)	(e)	(f)
1030.	Architecture	$493,150.00	%	$0	$493,150.00		$493,150.00
1031.	Survey and Permits	$40,650.00	%	$0	$40,650.00	$5,000.00	$35,650.00
1032.	Clerk of the Works	$64,000.00	%	$0	$64,000.00		$64,000.00
1033.	Environmental Engineer	$30,000.00	%	$0	$30,000.00		$30,000.00
1034.	FF&E	$75,000.00	100%	$75,000.00	$0		$0
1035.	Bond Premium	$398,839.11	%	$0	$398,839.11		$398,839.11
1036.	Legal*	$271,250.00	%	$0	$271,250.00	$25,000.00	$246,250.00
1037.	TItle and Recording	$36,000.00	%	$0	$36,000.00		$36,000.00
1038.	Accounting & Cost Certification	$37,500.00	%	$0	$37,500.00	$5,000.00	$32,500.00
1039.	Marketing and Rent Up*	$0	100.00%	$0	$0		$0
1040.	Real Estate Taxes*	$0	%	$0	$0		$0
1041.	Insurance	$30,000.00	%	$0	$30,000.00		$30,000.00
1042.	Relocation	$250,000.00	100%	$250,000.00	$0		$0
1043.	Appraisal	$16,000.00	%	$0	$16,000.00		$16,000.00
1044.	Security	$0	%	$0	$0		$0

Mass OneStop+

Rental OneStop - Restoration Housing LP

Eligible Basis, Calculation of Maximum Credit

1045.	Construction Loan*		$535,500.00	25%	$133,875.00	$401,625.00		$401,625.00
1046.	Inspecting Engineer		$16,500.00	%	$0	$16,500.00		$16,500.00
1047.	Fee to: *	0	$250,000.00	100%	$250,000.00	$0		$0
1048.	Fee to:*	0	$0	%	$0	$0		$0
1050.	LIHTC Fees:		$38,590.44	100.00%	$38,590.44	$0		$0
1051.	Mortgage Insurance Premium		$0	%	$0	$0		$0
1052.	Credit Enhancement Fees		$0	%	$0	$0		$0
1053.	Letter of Credit Fees*		$0	%	$0	$0		$0
1054.	On-Budget Syndication Costs*		$0	%	$0	$0		$0
1055.	Development Consultant		$250,000.00	%	$0	$250,000.00	$10,000.00	$240,000.00
1056.	Other Consulting Fees:*	0	$0	%	$0	$0		$0
1057.	Other Consulting Fees:*	0	$0	%	$0	$0		$0
1058.	Other Consulting Fees:*	0	$0	%	$0	$0		$0
1059.	Other Consulting Fees:*	0	$0	%	$0	$0		$0
1060.	Other non-consulting fees*	0		%	$0	$0		$0
1061.	Other non-consulting fees*	0	$0	%	$0	$0		$0
1062.	Other non-consulting fees*	0	$0	%	$0	$0		$0
1063.	Other non-consulting fees*	0	$0	%	$0	$0		$0
1064.	Soft Cost Contingency*		$259,657.80	%	$0	$259,657.80		$259,657.80
1065.	**Subtotal: Gen. Dev.**		$3,092,637.35	24.17%	$747,465.44	$2,345,171.91	$45,000.00	$2,300,171.91
1066.	**Subtotal: Acquis., Const., and Ge**		$28,698,886.76	14.93%	$4,285,105.14	$24,413,781.61	$11,695,000.00	$12,718,781.61
1067.	Capitalized Reserves		$1,189,577.25	100.00%	$1,189,577.25	$0		$0
1068.	Developer Overhead		$1,011,288.00	%	$0	$1,011,288.00	$200,000.00	$811,288.00
1069.	Developer Fee		$1,011,288.00	%	$0	$1,011,288.00	$200,000.00	$811,288.00
1070.	**Total Residential Development C**		$31,911,040.00	17.16%	$5,474,682.39	$26,436,357.61	$12,095,000.00	$14,341,357.61
			(a)	(b)	(c)	(d)	(e)	(f)
1071.	**Residential TDC per unit**		$393,963.46	17.16%	$67,588.67	$326,374.79	$149,320.99	$177,053.80
1072.	**Consultant Fee as % of TDC**		0.01%	0.00%	0.00%	0.01%	0.00%	0.00%

Eligible Basis, Calculation of Maximum Credit

1073.	**Residential TDC Net per unit**	$374,678.55	0.00%	$52,902.53	$326,374.79	$149,320.99	$177,053.80
1074.	**TDC Net**	$30,348,962.76	0.00%	$4,285,105.14	$26,436,357.61	$12,095,000.00	$14,341,357.61

*Some or all of these costs will typically be allocated to intangible assets or expensed.

Calculation of Maximum Tax Credit Amount

		Acquisition Credit (a)	Credit Amounts (b)	Rehabilitation Credit (c)
1075.	Total Eligible Development Costs	$12,095,000.00		$14,341,357.61
1076.	Less: Portions of Grant Allocated to Basis	$0		$0
1077.	Less: 20% Historic Rehab Credit Basis Reduction			$498,041.72
1078.	Less: Nonqualified source of financing	$0		$1,985,261.60
1079.	Subtotal: Eligible Basis	$12,095,000.00		$11,858,054.29
1080.	Difficult to Development Area/QCT Basis Boost	100.00		130.0000
1081.	Applicable Fraction	100.00		100.00
1082.	Applicable Percentage (issued monthly by IRS)	3.23%		3.23%
1083.	IRS Maximum Annual LIH Tax Credit Amount	$390,668.50		$497,919.70
1084.	Total IRS Maximum Annual LIH Tax Credit Amount		$888,588.20	
1085.	Amount of Annual Federal LIH Tax Credit Requested		$857,565.34	
1086.	Maximum Annual Federal Tax Credit Per Project Limit for 9% LIHTC Projects		$1,000,000.00	
1087.	Maximum Annual Federal Tax Credit Amount based of per LIHTC Unit limit for 9% Credit Projects		$1,260,000.00	
1088.	Maximum Annual Federal Tax Credit Amount for this project, if requesting 9% credits		$1,000,000.00	

		(a)	(b)	(c)
1089.	Estimated Net Federal LIHTC Syndication Yield	$1.0900	rate / $	$9,347,462.24
1090.	Est. Net Federal Historic Tax Credit Syndication Yield	$0.9500	rate / $	$473,139.64
1091.	Total Estimated Net Federal Tax Credit Syndication Yield (based on above)			$9,820,601.87
1092.	Applicant's Estimate of Federal Net Tax Credit Equity			$11,923,911.33