

# The 2000 Low Income Housing Tax Credit Qualified Allocation Plan for the State of North Carolina

## I. INTRODUCTION

The Qualified Allocation Plan (the "Plan") has been developed by the North Carolina Housing Finance Agency (the "Agency") as administrative agent for the North Carolina Federal Tax Reform Allocation Committee (the "Committee") in compliance with Section 42 of the Internal Revenue Code of 1986, as amended (the "Code", refer to Appendix T).

The Plan was reviewed in two public hearings held in compliance with the Code, prior to final adoption by the Committee. The staff of the Agency was present at the hearings to take comments and answer questions.

For taxable years beginning on or after January 1, 2000 a North Carolina state tax credit is available for any project that receives an allocation of tax credits under section 42(h)(1) of the Code. The amount of the state credit must be calculated and presented as a source of equity in all applications submitted under the Plan unless the project formally declines or is ineligible for the state credit. Information concerning the state credit can be found in Appendix S.

Any owner planning to use tax-exempt financing with four percent (4%) housing tax credits must meet all of the requirements outlined in Appendix U. They should also carefully read the Plan, as the Code requires they be in compliance with the Plan to receive four percent (4%) tax credits. The application, deadlines, and fees are the same for developers applying for four percent (4%) tax credits with bond financing, as those applying for the nine percent (9%) credits.

Owners financing more than 50% of their project with tax-exempt bond proceeds and not seeking a low-income housing tax credit allocation from the Committee must complete a separate application and are not required to fully comply with the Plan as explained in Appendix V.

The Committee will only allocate low-income housing tax credits in compliance with the Plan. The Code requires that the Plan contain certain elements. In general, these elements and others added by the Committee are:

- A. Description of the project selection criteria to be used in determining housing priorities appropriate for local conditions.
- B. Criteria which give preference to projects:
  - 1. Project location and site suitability.
  - 2. Evidence of sufficient market demand and other characteristics such as local housing needs and priorities.
  - 3. Serving the lowest income tenants.
  - 4. Serving qualified tenants for the longest periods.
  - 5. Project characteristics including design and quality of construction, bedroom mix, supportive service plans and amenities packages.
  - 6. Soundness of the proposed financial structure.
  - 7. Principal(s) characteristics, quality and quantity of development and management experience, and the ability to maintain regulatory compliance.
  - 8. Participation of local tax-exempt non-profit organizations.
  - 9. Tenant populations with special housing needs, and
  - 10. Willingness to solicit referrals from public housing waiting lists.
- C. A description of the Agency's compliance monitoring program, including a description of procedures to notify the Internal Revenue Service of noncompliance with the requirements of the program.

The following sections of the Plan contain these requirements. If you have questions, please contact:  
Rental Investment Group of the North Carolina Housing Finance Agency  
P.O. Box 28066  
Raleigh, NC 27611-8066, phone: (919) 877-5700

## II. SET-ASIDE PROCEDURES

The total volume cap of federal low-income housing tax credits available to North Carolina is \$1.25 per person living in the state plus any unused carryover from the previous year and any surrendered credits from the previous two years. For 2000, the population allocation is estimated to be \$9,153,750. The Committee reserves the right to revise the available credits in each set-aside, prorated from any new population volume cap and made available by issuance by the IRS of carryforward rules, regulations, or guidelines.

In order to ensure that the tax credits are distributed geographically and to projects of different sizes, the Committee has established certain set-asides. These set-asides will apply to the ranking and selection of all projects. If there is insufficient demand by eligible projects in any geographic area, funds will be transferred to other areas and projects will be awarded in descending order of the project point rankings.

No county or project will be awarded tax credits exceeding \$1,500,000 unless it is necessary to meet another set-aside requirement of this Plan or to completely fund a project request. At its sole discretion, the Agency may waive this limit for proposals utilizing HOPE VI financing or for other large scale revitalization efforts characterized by a high degree of committed public subsidies or in order to implement a disaster relief plan.

During the calendar year, any ownership principal will be limited to an award of not more than 10% of the total tax credits available to the state. This will be verified at carryover with the submission of the filed Certificate of Limited Partnership or Certificate of Organization. At that time, if the 10% limit is exceeded the Tax Credits will be revoked or the owner required to withdraw.

The following set-asides apply for calendar year 2000.

### 2000 Tax Credit Set Asides

<b>TOTAL</b>	<b>WEST (15%)</b>	<b>CENTRAL (50%)</b>	<b>EAST (35%)</b>
\$9,153,750	\$1,373,062	\$4,576,875	\$3,203,813

The distribution to geographic regions is based primarily on population and follows the State's Consolidated Plan. Appendix O lists the counties by region. Congress mandates that 10% of the state's volume cap must be set aside for projects involving nonprofit entities. The Committee has set aside an additional 10%. Any of the 10% non-profit set-aside by the Committee that is not reserved by June 30 may be transferred to use by for profit developers. A qualified nonprofit is a community based 501 (c)(3) or 501 (c)(4) nonprofit in existence in North Carolina for at least 12 months and specifically chartered to develop affordable housing. They must have material participation in the development, ownership and management of the proposed project throughout the entire 15-year compliance period. The non-profit cannot be controlled by or affiliated with or have an identity of interest with the for-profit organization.

Twenty percent (20%) of the total tax credits will be set-aside for non-profit principals and non-profits that participate in joint venture partnerships demonstrating material participation. Credits will be awarded within the geographic region where the project is located to eligible projects in descending order of their point ranking. These projects will take precedence over other projects until the nonprofit set-aside is exhausted. Any nonprofit applications left after the 20% set-aside must compete equally with all other applications in the region. Please note that, regardless of the measure against the 20% set-aside, every application the Agency receives that chooses the nonprofit applicant designation will be required to comply with the material participation standards stated in the Code.

## HURRICANE FLOYD DISASTER RELIEF

Recognizing the need to address the loss of safe, decent and affordable housing in the state's East region due to the effects of Hurricane Floyd, the Committee reserves the right, at its sole discretion and timing, to allocate up to 25% of the available state allocation of housing credits to proposed developments it deems necessary and appropriate to alleviate housing needs in the impacted counties.

### III. APPLICATION PROCEDURES

A. The following schedule will apply to the application process for 2000.

<u>November 1, 15, &amp; December 6 1999</u>	NCHFAs meetings with market analysts at 11:00 AM Call to RSVP at 919-877-5712.
<u>January 28, 2000</u>	Preliminary applications requiring site and market information for all applicants including those using tax-exempt bond financing with tax credits will be accepted by the Agency until 4:30 p.m.
<u>March 17, 2000</u>	Agency will notify owners of their eligibility to submit a full tax credit application.
<u>April 21, 2000</u>	Deadline to submit a full application for tax credits, RPP funds and a tax-exempt bond allocation to be used with 4% tax credits.
<u>June 22, 2000</u>	Staff recommendations for RPP funds go to the Agency's Board of Directors.
<u>July 27, 2000</u>	Staff recommendations for RPP funds go to the Agency's Board of Directors.
<u>July 28, 2000</u>	Staff recommendations for tax credit and tax-exempt bond allocation requests go to the Committee. Awards will be announced immediately thereafter.
<u>November 15, 2000</u>	Cost Certifications are due for projects receiving allocations to be placed in service in 2000. For projects with reserved tax credits not placed in service by the end of 2000. Carryover allocation agreements along with third party certification of costs expended on Appendix X are due to the Agency by 4:30 p.m.

B. Page 2 of Application Part A lists the Exhibits required to be submitted with each application and identifies minimum threshold requirements for submission and eligibility to be considered for project selection.

C. Processing, application and reservation fees for tax credits are due at the time full applications are submitted as follows:

1. All owners are required to pay a nonrefundable processing fee of \$500 at the submission of the preliminary application requiring site and market information.
2. At the time of submitting a full application, for-profit principals are required to pay 5% of a single year's tax credits, calculated using the full 9% and/or 4% AFR, less the \$500 processing fee. This requirement also applies to applicants seeking 4% housing credits with tax-exempt bond financing.
3. At the time of submitting a full application, nonprofit principals are not required to pay an additional fee. If reserved tax credits, the nonprofit principal must pay 5% of a single year's tax credits, calculated using the full 9% and/or 4% AFR, at the time of reservation less the \$500 processing fee.
4. If tax credits are reserved for a project, the reservation fee is considered earned and will be retained by the Agency whether the credits are used or not. If tax credits are not reserved to a project, the Agency will refund the reservation fee less \$500 for processing.

5. If expenditures of legal services are incurred by the Committee or Agency to correct mistakes of the Owner which jeopardize use of the tax credits, such legal costs will be paid by the Owner in the amount charged to the Agency or the Committee.

D. Applications will be ranked based on the information submitted by application deadlines.

E. Applications should be mailed to: Or delivered to:

N.C. Housing Finance Agency  
Rental Investment Group  
P.O. Box 28066  
Raleigh, NC 27611-8066

N.C. Housing Finance Agency  
Rental Investment Group  
3508 Bush Street  
Raleigh, NC 27609

#### IV. PROJECT SELECTION CRITERIA USED TO DETERMINE HOUSING PRIORITIES

To meet the statutory requirements of Code Section 42, which defines basic requirements for the Allocation Plan, and to provide a reasonable selection process, the following point ranking system will be used to prioritize projects. Each project will be ranked by awarding points under sections A, B, C, D, E, F and G. Preliminary applications will be evaluated first on the suitability of the chosen site and market for affordable housing (see the threshold requirements described in the General Requirements and Appendix A for market study requirements). If the site and market do not meet all of the site thresholds outlined in the General Requirements, the project will not be invited to submit a full application.

Full applications will be considered based on their site and market, rent affordability, financial structure, development team, design quality, creation of affordable units, geographic distribution, supportive services and targeted populations. Proposals must meet all thresholds requirements described in Section IV of the General Requirements to be considered for award and funding. Further, full applications must receive at least 265 points to receive a reservation. Points received in the earlier site and market analysis (Section A below) will be added to points received in Sections B, C, D, E, F and G.

An allocation of tax credits by the Committee for any specific project does not constitute an endorsement of the owner being able to use the tax credits according to Section 42 of the Code.

Any misrepresentation, false information in the application document, or omission that is material (in the sole discretion of the Committee or Agency) will result in disqualification of the application for the year. This may further result in disqualification of the owner and/or principal(s) for future consideration for tax credits or revocation of the allocation in North Carolina. See definition of principal in the General Requirements.

A. SITE AND MARKET EVALUATION (MAXIMUM 215 POINTS)

1. SITE EVALUATION (MAXIMUM 140 POINTS)

The following evaluation will be based upon a preliminary application submitted to the Agency prior to the submission of the full application. The Agency will evaluate the site's existing conditions and the effects of known future planned adjacent land uses. Example of future uses may include road, public utility, commercial, institutional, or industrial projects. (Agency reserves the right to assess negative points).

(a) NEIGHBORHOOD CHARACTERISTICS (MAXIMUM 80 POINTS) This category focuses on how the neighborhood will affect the proposed development. "Neighborhood" is defined as the areas within a one-half mile radius of subject property. Revitalization plans will be considered only if public funds are already committed for comprehensive revitalization.

(1) Physical conditions of buildings and grounds in the neighborhood, whether commercial, industrial, multi-family or residential are acceptable (no noticeable deterioration).

(2) Existing neighborhood and surrounding land uses are compatible with proposed development. The ideal neighborhood should be primarily residential and have a **balance**

of other land uses, including non-competing multi-family and single family dwelling units, recreational facilities, schools, churches, shopping and services

- (3) For new construction projects, there are no other competitive multifamily publicly assisted rental developments in less than very good condition (including tax credit developments) within ½ mile of the proposed project. Existing publicly assisted developments within a ½ mile of proposed projects must be in very good physical condition and have no vacancy problems. At the Agency's discretion this restriction may be waived for small municipalities where the ½ mile distance is impractical. (For phase two projects, phase one developments will not be considered to violate the ½ mile distance requirement).

(b) SITE SUITABILITY (MAXIMUM 40 POINTS)

- (1) Street and/or access road serving the proposed project has adequate capacity for the volume of new traffic.
- (2) Site is free from excessive traffic and noise, including that from cars, trains and airplanes, per HUD regulation 24 CFR Part 51 (Appendix P). The Agency reserves the right to request an engineer's noise study at the owner's expense. Sites adjacent to existing or proposed beltlines, interstate highways and multilane thoroughfares will be required to submit an engineer's noise study. The Agency will consider noise mitigation proposals. The proposals must be incorporated in the preliminary and full application, architectural plans and project specifications.
- (3) Site does not enter or exit onto a major high-volume traffic artery. The speed limit and the number of travel lanes in each direction will also be considered. If adverse conditions exist, a traffic study may be required.
- (4) No obvious physical barriers to development. Examples include steep slopes, deep ravines, marshes, wetlands, and excessive overhead utilities.

(c) DEVELOPMENT COMPATIBILITY (MAXIMUM 20 POINTS)

This category focuses on how the proposed development affects the existing neighborhood.

New Construction Projects:

- (1) Proposed development is compatible in use, scale, and aesthetics with adjacent property and land uses.
- (2) Proposed development does not add to an existing preponderance of assisted or subsidized units as determined by the Agency. .

Rehab/Adaptive Reuse Projects:

- (1) Development/building is compatible in use and scale with existing neighborhood.
- (2) Physical condition of the building is acceptable.
- (3) Building is suitable for residential use considering proposed floor plans, size, parking, structure and scale.

2. MARKET ANALYSIS

(MAXIMUM 75 POINTS)

No more than 15 market studies will be accepted from any one-market analysis firm. It is the responsibility of the market analysis firm and owner to ensure that this limit is not exceeded. (Note that an update of a previously prepared study is counted in this limit). The Agency at its sole discretion may allow a market analysis firm to submit more than 15 market studies, subject to the substantiation of sufficient production capacity to the Agency's satisfaction.

All market studies **MUST** be prepared in strict accordance with Appendix A, "Market Study Requirements for Rental Housing". Market studies that are missing information outlined in Appendix A will lose points. All projects must have an appropriate market area size and configuration that is justified by the market analyst's methodology.

Every market analysis firm submitting a market study must attend 1 of 3 NCHFA meetings scheduled for **November 1, 15 and December 6** in order for the study to be accepted by the Agency. Meetings will be held at 11:00 AM at the Agency's new location, 3508 Bush Street, Raleigh. Call to reserve a seat at 919-877-5712.

Market studies will be scored based on the following criteria:

A comprehensive and integrated review of low capture rate based on need and demand analysis, low vacancy rates of comparable units in market area and market methodology and completeness of study - conformance to Appendix A. (Up to 75 points)

B. RENT AFFORDABILITY

(MAXIMUM 95 POINTS)

1. Federal Rent Subsidies

(Maximum 20 points)

- (a) A maximum of 15 points will be awarded for a firm commitment that provides project-based rental subsidies. Committed subsidies for 100% of the units earn 15 points; committed subsidies for at least 60% of the units earns 10 points. If assistance is for fewer than five years, to receive points, owners must submit a letter from the issuing Agency committing to renew the subsidy contract for as long as possible subject to Congressional funding.
- (b) Five (5) points will be awarded for a written agreement between the owner and a public housing authority (PHA). The agreement must commit (i) the PHA to include the development in any listing of housing opportunities where households with tenant-based subsidies are welcome and (ii) the project's management agent to actively seek referrals from the PHA to apply for units at the proposed development. This agreement should be in the form of a letter submitted to and signed by both the owner and the PHA following the format in Appendix H. If the PHA refuses to cooperate for any reason, a copy of the PHA declination letter must be submitted as well as a statement of commitment by the applicant to seek referrals from the PHA.

2. Mortgage Subsidies

(Maximum 40 points)

Sources of mortgage subsidies include the Federal Home Loan Bank Affordable Housing Program, the Division of Community Assistance, a Public Housing Authority, local Community Development Block Grant funds, other local development funds and Rural Development. Other sources of public funding may qualify provided they are approved in writing in advance by the Agency.

Uncommitted RPP funds will not be considered in the calculation.

Only loans from established lenders or foundations will be considered a subsidy.

The resulting percentages will earn points as described below:

Forty (40) points will be awarded for any firm mortgage subsidy commitment that will reduce the debt service by 25% or more. Twenty (20) points will be awarded for any firm mortgage subsidy commitment that will reduce the project debt service by more than 10% but less than 25%.

Reduction in project debt service will be measured in the following way:

(Projected debt service taking into account the subsidized debt terms) - DIVIDED BY - (Debt service if all debt were amortized at the same terms as the market rate debt)

3. Tenant Rent Levels (Maximum 20 points)

(PROJECTS WILL BE MONITORED FOR RENT RESTRICTIONS FOR THE GREATER OF THE PERIOD INDICATED IN THE EXTENDED USE AGREEMENT OR 15 YEARS, SUBJECT TO THE CODE.)

The owner may earn points under one of the following scenarios:

**If the project is in a high-income county:**

- (a) Fifteen (15) points will be awarded for projects in which 100% of qualified units will be rent restricted and affordable to households with incomes less than 50% of county median income adjusted for family size.
- (b) Five (5) points will be awarded for projects in which at least 50% of qualified units will be rent restricted and affordable to households with incomes less than 50% of county median income adjusted for family size. The remaining units must be rent restricted and occupied by households with incomes less than 60% of the county median income adjusted for family size.

**If the project is in a low-income county:**

- (a) Twenty (20) points will be awarded for projects in which at least 50% of qualified units will be rent restricted and affordable to households with incomes less than 50% of county median income adjusted for family size. The remaining units must be rent restricted for households with incomes less than 60% of the county area median adjusted for household size.
- (b) Fifteen (15) points will be awarded for projects in which at least 40% of qualified units will be rent restricted and affordable to households with incomes less than 50% of county median income adjusted for family size. The remaining units must be rent restricted for households with incomes less than 60% of the county area median adjusted for household size.
- (c) Five (5) points will be awarded for projects in which 100% of qualified units will be rent restricted and occupied by households with incomes less than 60% of county median income adjusted for family size.

If an owner is planning a mixed income project, they will receive the points described above based on the total number of qualified units for which tax credits are proposed and how deeply rents for these units are targeted. Market rate units will not be considered in the calculation.

4. Commitment to Extend Low-income Occupancy (Maximum 15 points)

Fifteen (15) points will be awarded for projects based on a binding commitment to extend the low-income occupancy requirement beyond the 15-year compliance period. Points will be added at 1 point for each additional year beyond 15 years up to 30 years. To receive these points, an owner must sign an Declaration of Land Use Restrictive Covenants for Low-Income Housing Tax Credits (aka: extended use agreement) that will be recorded with the register of deeds in the county the property is located. In doing so, the owner binds the project to maintain affordable units for low-income occupancy as proposed in the application and extended use agreement

C. FINANCIAL STRUCTURE

(ONLY NEGATIVE POINTS AVAILABLE)

Program Requirements describe how the Agency will underwrite each project. Below are areas where projects will lose points due to costs determined to be higher than typically warranted.

1. While the Agency uses both “per unit” and “per square foot” standards to evaluate costs, we also recognize that a single standard cannot fairly measure every one of a wide array of project types. In order to more equitably compare costs between different development types, the Agency will apply either the following “per unit” or “per square foot” standard, whichever is less. The following points will be deducted for projects where the total development cost less land and reserves are above \$68,000 per unit or \$68 per square foot and up to the following levels:

\$69,000 per unit	<b>or</b>	\$69 per square foot	(-2)
\$70,000		\$70	(-4)
\$71,000		\$71	(-6)
\$72,000		\$72	(-8)
\$73,000		\$73	(-10)
\$74,000		\$74	(-15)
\$75,000		\$75	(-20)
\$76,000		\$76	(-35)
\$77,000		\$77	(-50)
\$80,000		\$80	(-75)
\$83,000+		\$83	(-100)

One hundred (100) points will be deducted where total development costs are greater than \$83,000 per unit or \$83 per square foot. The equity raised from state or federal historic preservation tax credits will be subtracted from the total development cost before this calculation is made.

D. CAPABILITY OF THE PROJECT TEAM

(MAXIMUM 60 POINTS)

A maximum of 30 points total will be awarded for projects based on the experience of the principal in successfully developing, placing in service, operating, and maintaining compliance in low-income rental and/or conventional market rate rental housing **during the past 10 years**. The Agency will score either in-state **or** out-of-state experience, not both, in order to derive the maximum potential points under this section must complete the form in Appendix C.

The Agency will consider evaluations by HUD through the Public Housing Assessment System (PHAS) process to evaluate the performance of local housing authority applicants and sponsors. Authorities with a PHAS score of less than 90 will not receive points in this section, unless they partner with an experienced developer eligible to earn points in this section. Authorities with scores over 90 are eligible to receive points. They will be scored according to the number of units they have developed in the past 10 years.

1. Owner Experience: (Maximum 30 points)
  - (a) **In-State** Development Experience (Maximum 30 Points)
    - At least three (3) projects totaling at least 72 units developed and operating in compliance with applicable codes and regulations earns 15 points.
    - Five (5) or more projects totaling at least 120 units developed and operating in compliance with applicable codes and regulations earns 30 points.
  - (b) **Out-of-State** Development Experience (Maximum 15 Points)
    - At least three (3) projects totaling at least 72 units developed and operating in compliance with applicable codes and regulations earns 8 points.
    - Five (5) or more projects totaling at least 120 units developed and operating in compliance with applicable codes and regulations earns 15 points.

- (c) Each project found with uncorrected noncompliance, in poor physical condition, or with a history of financial problems will be assessed negative five (-5) points per project.

The Agency reserves the right to determine the capacity of a principal(s) to undertake a project that is significantly different than anything successfully completed previously. The Agency also may request individual and/or corporate credit reports.

2. Management Experience: (Maximum 30 points)

The Agency will score either in-state **or** out-of-state experience, not both, in order to derive the maximum potential points under this section. Projects found out of compliance, in poor physical condition or with a history of financial problems will not be counted in awarding points.

The management agent listed on application must be used by the owner of the development for at least two years after project completion, unless the agent is guilty of specific nonperformance of duties. **Upon notification to the Agency, a substitution of management agent prior to the end of the 2 year period will be allowed if the replacement agent would score at least as many experience points as the agent listed in the application.**

The Agency will look favorably on entities subcontracting with established management companies to supplement their management capacity.

(a) **In-State** Management Experience ( Maximum 20 Points)

A maximum of 20 points will be awarded for projects based on the experience of the management agent to manage and maintain compliance of **low-income housing tax credit units in North Carolina during the past 10 years**

- 20 to 100 units managed earns 5 points;
- 101 to 250 units managed earns 10 points;
- 251 to 500 units managed earns 15 points; and
- 501 or more units managed earns 20 points.

**OR**

- Management companies managing over 500 units of other kinds of multifamily housing in compliance with applicable income restrictions will earn 10 points.

(b) **Out-of-State** Management Experience ( Maximum 10 Points)

A maximum of 10 points will be awarded for projects based on the experience of the management agent to manage and maintain compliance of **low-income housing tax credit units outside North Carolina during the past 10 years.**

In order to be eligible to receive points under this section, the applicant must supply to the Agency, as part of the full application, letters from each appropriate state housing agency or designated monitoring agent from the state in which management experience is being claimed. Such letters must be on state housing agency letterhead, clearly identify each project name, the number of low income units as well as the number of total units. The letters must also verify that each development being proposed for consideration has no outstanding uncorrected significant noncompliance conditions. See the definition in the General Requirements for a description of Significant Noncompliance.

- 101 to 250 units managed earns 5 points;
- 251 to 500 units managed earn 8 points; and
- 501 or more units managed earn 10 points.

**OR**

- Management companies managing over 500 units of other kinds of multifamily housing in compliance with applicable income restrictions will earn 5 points.

(c) **Management Questionnaire**

A maximum of 10 points will be awarded for the satisfactory completion of the Management Questionnaire (Appendix C) to operate and maintain compliance at the proposed development.

(d) **Each project found with uncorrected noncompliance, in poor physical condition, or with a history of financial problems attributable to the agent will be assessed negative five (-5) points per project.**

3. Project Team Negative Assessments and Restrictions:

Any principal or management agent that has been debarred or received a limited denial of participation in the past 10 years by any federal or state agency will be barred from participating in any Agency multifamily rental development program.

- (a) Twenty (20) points will be subtracted from projects based on the participation within the past ten years of a principal or the management agent in a bankruptcy, an adverse fair housing settlement, an adverse civil rights settlement, or an adverse federal or state government proceeding and settlement.

At its sole discretion, the Agency may waive this penalty against a management agent if it is only the experience of an individual principal of a jointly owned management agent that is otherwise found to qualify under this section. The intent is to avoid penalizing other principals of such a jointly-owned management agent whose experience does not qualify under this section, and in such cases where the Agency determines that performance of the management agent is not compromised by the negative experience of an individual principal.

- (b) Twenty (20) points will be subtracted from projects based on the participation of a principal in a mortgage default or arrearage of 3 months or more within the last 5 years on an FHA-insured project, an RD funded rental project, a tax-exempt bond funded mortgage, or any other publicly subsidized project. Resolution of all outstanding Agency concerns regarding the default or arrearage may be considered in assessing penalty points.

- (c) Twenty (20) points will be subtracted from projects based on the participation of a principal in a project which previously received an allocation of tax credits but failed to meet compliance standards of the tax credit allocation. This includes returning a reservation of tax credits to the Agency after the carryover agreement has been signed. At its sole discretion, the Agency may also impose the penalty under this section against a third-party entity other than a principal, if staff can reasonably determine that the third party entity, acting in a contract developer role, was directly responsible for the failure to meet allocation compliance standards.

- (d) Twenty (20) points will be subtracted from projects based on previous significant noncompliance with the low-income housing tax credits or any other NCHFA, federal or state rental program on the part of any principal of the ownership entity or the management company. All projects will be disqualified that are proposed by principals with existing Significant Noncompliance finding(s) for any tax credit project in which they have an interest. See the definitions in the Program Requirements for a description of Significant Noncompliance.

E. CREATION OF AFFORDABLE UNITS (MAXIMUM 10 POINTS)

1. Ten (10) points will be awarded for new construction projects.
2. Ten (10) points will be awarded for the substantial rehabilitation of a vacant building or the conversion of a vacant building to housing.
3. Ten (10) points will be awarded for the substantial rehabilitation of occupied low-income rental housing in which hard construction costs exceed \$10 ,000 per unit. These costs will be calculated using lines 2 through 7 in the Project Development Cost Description in Part A of the application and certified at final cost certification.

4. Five (5) points will be awarded for the acquisition and substantial rehabilitation of a project to preserve low-income rental housing which might otherwise be converted from low-income tenancy, including Section 8 projects with expiring contracts.
5. Fifteen (15) points will be subtracted from any non-elderly, new construction project with more than 76 qualified units but less than 101 qualified units. Thirty-five (35) points will be subtracted from any non-elderly, new construction project with 101 or more qualified units or more but less than 125 qualified units and 50 points will be subtracted from any non-elderly, new construction project with 125 qualified units or more. The Agency reserves the right to waive the penalties in this section for HOPE VI proposals which foster overall low income and minority de-concentration through mixed income and mixed use strategies.

F. BONUS POINTS (MAXIMUM 40 POINTS)

1. Economically Distressed Counties: (See Appendix N) Ten (10) points will be awarded for projects that are developed Tier One counties. Five (5) points will be awarded for projects that are developed in Tier Two counties. These designations are based on standards compiled by the N.C. Department of Commerce.
2. Rural Development Financing and Project-Based Rental Assistance: Fifteen (15) points will be awarded to projects in rural areas that have an obligation of funds from the U.S. Department of Agriculture, Rural Development (RD), including Rental Assistance (RA) appropriate for the project.
3. Special Populations: Fifteen (15) points will be awarded for projects that are developed to give priority to assist special populations where the developer can show a **clear demand (a low capture rate and low vacancy rates in potentially competing projects) for such housing in the market study**. These populations include:
  - Elderly (ensure compliance with definition of elderly in General Requirements)
  - Mobility impaired handicapped (i.e., at least 25% or more of the units are fully handicap accessible)
  - Large families (at least 25% of units have 3 and/or 4 bedrooms)
  - Persons with any other disabilities recognized by MHDDASAS (at least 10% of units)
  - Other special needs target populations such as farm workers and homeless persons (at least 25% of units)

**SUPPORT SERVICE PLANS ARE REQUIRED IN ALL PROJECTS THAT SPECIFICALLY TARGET THESE SPECIAL POPULATIONS.**

**NO POINTS WILL BE AWARDED WHERE A CLEAR DEMAND IS NOT SHOWN IN THE MARKET STUDY FOR THESE SPECIFIC POPULATIONS.**

4. Supportive Services Plan: Ten (10) points will be awarded to projects that **do not** target a special population but which **do** provide a Supportive Services Plan for their residents. Points will be given to projects with service plans which are well targeted, carefully accounting for what the population of the proposed development will likely be, and their needs for supportive services, as well as a budget supporting such activities.
  - The Agency reserves the right to require revisions to the applicant's Supportive Services Plan if it is deemed unsatisfactory.
  - An unsatisfactory Support Services Plan will result in no points being awarded either for targeting the Special Populations or for the Plan itself.
  - All Supportive Services Plans must follow the outline in Appendix D.

(a) The following criteria for Supportive Service Plans must be met:

- (1) Appropriately targeted supportive services plan including general descriptions showing quality and depth of services to meet established goals.
  - (2) Staffing plan: Commitment of personnel office space, supplies, and/or contracted services;
  - (3) Community space: that meets the needs of the residents, community agencies providing services, and the supportive services coordinator.
  - (4) A sources and uses budget; identifying and committing resources required to implement appropriate plan for the residents
  - (5) Community support: evidence of commitment and strong integration of available and specific services to be utilized in the plan. Note: General letters of community support do not constitute service commitments.
- (b) Service coordinators for projects that receive points for planning services are required to attend educational workshops sponsored by the Agency. They include:
- (1) In the first year, service coordinators should attend a two-day basic training workshop. They will receive a certificate and will not be required to attend this workshop again.
  - (2) In the first year and every year after through the compliance period, service coordinators should attend two specialized Agency workshops on service provision. Four are held annually by the Agency.

Failure to follow through on previous Supportive Service Plan commitments will result in negative points for supportive service proposals in subsequent years.

#### G. DESIGN STANDARDS

(MAXIMUM 100 POINTS)

All proposed measures must be shown on the plans or in specifications in the application in order to receive points.

1. New and Adaptive Re-use Construction: A maximum of 100 points will be awarded for projects based on evaluation of the site plan design and layout, building and floor plan design and construction characteristics as they relate to the development cost per unit. Design standards are found in Appendix B and must be used for all projects receiving low-income housing tax credits and/or RPP funding or points may be deducted for non-compliance. .

- (a) Site plan considerations: A maximum of 25 points will be given for projects which
  - Propose an attractive, scattered building layout focusing on visual appeal and privacy;
  - Propose site amenities, including playgrounds, gazebos, garden spots, walking trails, picnic areas, ball fields, basketball/tennis courts, exercise rooms and swimming pools, have natural areas with trees between buildings (for new construction);create accessible walks linking buildings to each other, to common areas and to parking; have large open spaces for recreational activities, have a well-designed entry to the site with attractive signage, lighting and landscaping.

In order to receive points, the items listed above must be clearly indicated on the site drawings.

- (b) Building and floor plan design: A maximum of 45 points will be given for project which
  - Propose creative and versatile architectural designs. Examples of exterior building designs include broken roof lines, front gables, dormers or front extended facades, wide banding and vertical and horizontal siding applications, some brick veneer, front porches and attractive deck rail patterns.

- Propose open, flowing floor plans. Examples include spacious kitchens, bathrooms, living rooms and dining rooms, dwelling units that exceed minimum square footages, bedrooms that exceed minimum square footages, bathrooms that are large with vanities and open floor spaces, kitchens that provides an abundance of counter top working space and cabinets, availability of storage space other than bedroom closets, and the adequacy of closet space, including large walk-in closets.

(c) Construction characteristics: A maximum of 30 points will be given to projects which

- Propose low maintenance, high durability energy efficient products and quality components. Examples include: High-grade vinyl or VC tile in kitchens, bathrooms, entryways, and laundry areas.
- Propose energy efficient components that exceed Agency and/or building code minimum standards.
- Propose measures to provide good attic and roof ventilation, use vinyl or aluminum windows and steel insulated exterior doors.
- Propose to use quality exterior siding, such as vinyl, hardiplank, or brick veneer and have pre-finished aluminum exterior trim, including fascia, soffit, and porch posts.

## 2. Substantial Renovation Projects

A maximum of 100 points will be given to projects which:

- Propose making some existing “common areas” that are handicap accessible, spending additional money on landscaping/fencing, creating or improving sidewalks, improving quality and durability of exterior by installing vinyl or hardiplank siding, installing new roof shingles, adding gutters, sealing brick veneers, applying exterior paint, and resurfacing or re-paving parking areas.
- Propose to improve site lighting and exterior dwelling lighting.
- Propose to make the exterior of buildings more aesthetically pleasing by adding gables, porches, dormers or roof sheds.
- Propose to use energy-efficient related products to replace inferior ones, including insulated windows and doors, and increasing insulation values by adding additional insulation.
- Propose to improve heating and cooling units in dwelling units, improving plumbing fixtures, water heaters, toilets, sinks, faucets and tub/shower units.
- Propose to improve quality of interior conditions and fixtures, including carpet, vinyl, interior doors, painting, drywall repairs, cabinets, appliances, light fixtures and mini-blinds.
- Propose a scope of rehabilitation that is reflected in the Physical Needs Assessment.

## V. PROJECT ANALYSIS

- A. The Agency staff will first conduct an analysis of the preliminary application to evaluate the site appropriateness and market feasibility of each project. See Site Appropriateness and Market Study Analysis under "Project Selection" for scoring criteria. Projects must, **at a minimum, meet all Agency threshold requirements** to be invited to submit a full application.
- B. Upon submission of a full application, the Agency will use a computer spreadsheet program to perform a standard financial analysis of projects and to determine the appropriate tax credit amount. No project will receive an applicable percentage exceeding 9% for non-federally subsidized projects and 4% for qualifying acquisition costs or projects that are federally subsidized. (The actual percentage will be set as described in Section IV of the General Requirements. ) The Agency will decrease the percentage where the tax credit amount is deemed to be excessive. Projects in qualified census tracts or difficult to develop areas are eligible for up to a 30% increase in the calculation of the basis. Such increases will only be permitted when shown to be critical to the feasibility of the project. QCT's and DDA's are found in Appendix L.

The analysis of projects will generally use a three-step procedure to define the appropriate tax credit amount.

The first step will establish and evaluate total development cost (i.e., land, construction and soft costs), eligible basis and rents that will be charged to tenants based on the application submitted.

The second step will establish and evaluate the project's operating expenses and debt service costs based on projected commitments for financing.

The third step will establish and use a pro forma financial analysis of the project's total costs, net operating income and projected total sources and uses of funding (See Appendix G). All projects must meet the underwriting requirements and the affordability windows described in General Requirements. The maximum tax credit award will be determined using the total anticipated qualified basis amount multiplied by an AFR halfway between April 2000 AFR and the maximum of 4% or 9%, or the annual credit amount necessary to ensure project financial feasibility and viability throughout the credit period. This is the amount of tax credits which will be reserved for a project (if it is approved for credits) to allow the Committee flexibility in allocating credits if the applicable percentage (based on the AFR) changes.

Project owners will be required to furnish cost certifications on completion of the project. These actual costs will be used in the same three-step process to determine if the tax credit amount provided at the reservation stage should be modified. Any material changes from the approved application may result in cancellation by the Committee of the tax credit reservation or adjustment of the tax credit amount.

Federal form 8609 will not be issued until the owner and/or management company produces evidence of attending a low-income housing tax credit compliance seminar sponsored either by the Agency or a sponsor acceptable to the Agency within the last 12 months. In addition, 8609s will not be issued until the Agency confirms that project has adhered to the design elements represented in the application and that landscaping and other amenities (play equipment, etc.) have been installed as per the applicant's site/landscaping plan. The Agency will exercise reasonable judgement in withholding the issuance of the 8609 considering the imposition of factors outside the developer's control, such as adverse seasonal and/or climatic conditions. Evidence of escrowed funds to complete landscaping may be required.

## VI. COMPLIANCE MONITORING

The Code requires the Committee to develop and implement a compliance monitoring program for completed projects that have received an allocation of low-income housing tax credits. A procedural manual has been developed and it will be distributed to the owners of projects. Compliance monitoring is required for a minimum of 15 years after receipt of an allocation.

Owners will be required to submit a quarterly report to the Agency for the first four full quarters after placement in service for any project. At that time, if the project is determined to be in compliance with the Code, reports may be required only on an annual basis. Owners will also be required to submit to the Agency a copy of the IRS form 8609 and Schedule A filed with the IRS for the first year and each year thereafter.

The Agency will annually conduct on-site inspections and desk audits of at least 20% of the projects under the Committee's jurisdiction. If projects are determined to be in noncompliance, monitoring may occur more often. Each inspection will include a project review of the following:

- Low-income certifications
- Supporting income documentation
- Leases
- Rent record (including utility documentation)
- Compliance with supportive services commitments
- Inspection for Housing Quality Standards for tenants in at least 20% of the project's low-income units

All projects, at a minimum are expected to meet HUD's Section 8 Housing Quality Standards and comply with local and state health and building codes throughout the compliance period. A Memorandum of Understanding (MOU) has been executed with Rural Development (RD) to accept their physical inspections in lieu of performing the inspection. The Agency will use discretion in determining when to utilize the MOU. In any event, the Agency will continue to monitor compliance documentation.

The Agency will be monitoring rent levels relative to current median income levels. The Agency requires a window of affordability in calculating rents such that rents cannot exceed 90 percent of the Maximum Housing Expense for high-income counties and 95 percent of the Maximum Housing Expense for low-income counties.

The county designation will be reviewed on an annual basis and published each year in the QAP. Tenant rents can not exceed the initial "window of affordability" from the original underwriting for the property without written permission of the Agency. In the event the county designation changes from low to high or high to low, requiring a change in the window of affordability, changes to the rent level will be handled as follows:

The Agency will not require a reduction in the existing rent structure because of a change in county designation. However, rent increases can only be implemented to the extent that they comply with the current required calculation, using the window of affordability that currently applies to the project. The Agency may waive this restriction if the owner submits a written request and documentation demonstrating that the property will be financially jeopardized, and that it is unable to pay its operating expenses and debt service requirements while maintaining at least a 1.15 debt coverage ratio.

In mixed-use properties, 100% of the units may be monitored in any building receiving an allocation of tax credits.

The Agency will be monitoring projects to insure the required monthly deposits to reserve for replacement accounts are made in accordance with the General Requirements.

During the compliance period the Committee and Agency reserve the right, under the provisions of Section 42 of the Code, to perform an audit of any project that has received an allocation of tax credits. This audit will include an inspection of all buildings, and a review of all tenant records and certifications, and documents supporting items for which the owner received points (or avoided point deductions) in the application for an allocation of credits.

Each owner has chosen to utilize low-income housing tax credits to take advantage of the tax benefits provided. In exchange for these tax benefits, certain requirements must be met so that the project will benefit low-income tenants.

Under the provisions of the tax credits, the owner of a low-income housing project will be required to keep records (as defined below) for each building within a particular development. These records must be retained by the owner for a minimum of six (6) years beyond the owner's income tax filing date for that year. However, first year project records must be maintained for six (6) years beyond the tax filing date of the final year of the project's compliance period for 21 years because those records are needed to prove the project's eligibility for tax credits. The owner must annually report to the Agency and maintain records for each qualified low-income building in the project showing:

- Total number of residential rental units in the building; (including the number of bedrooms and the size in square feet of each such unit)
- Percentage of residential rental units in the building that are low-income units
- Rent charged on each residential rental unit in the building (including utility allowances)
- Low-income unit vacancies in the building and documentation of when and to whom, the next available units were rented
- Income certification and student status of each low-income tenant
- Documentation to support each low-income tenant's income certification
- Character and use of the nonresidential portion of each building included in the building's eligible basis (this includes separate facilities such as clubhouses or swimming pools whose eligible basis is allocated to each building)

Failure to report annually to the Agency is deemed as noncompliance and is reportable to the IRS.

It is the responsibility of the project owner to certify annually to the Agency that the project meets the requirements of whichever set-aside of Section 42 is applicable to the project. Failure to certify is deemed as noncompliance and reportable to the IRS. This annual certification requires that the project owner certify that:

- There was no change in the applicable fraction of the building that qualifies as low-income use, or if there has been a change, a description of the change.
- An annual low-income certification has been received from each low-income tenant and documentation is available to support that certification.
- Each low-income unit is rent restricted under Section 42 of the Code.
- Subject to the income restrictions placed on the project, all units in the project are for use by the general public and are used on a non-transient basis.
- Each building within the project is suitable for occupancy, taking into account local health, safety, and building codes.
- There has been no change in any building's eligible basis under Section 42 of the Code, or if there has been a change, adequate explanation of the nature of the change has been given.
- All tenant facilities included in the eligible basis of any building in the project are provided on a comparable basis without a separate fee to all tenants in the building.
- If a low-income unit in the project becomes vacant during the year, reasonable attempts were/are made to rent that unit to tenants having a qualifying income. Further, while the unit is vacant no units of comparable or smaller size were/will be rented to tenants not having a qualifying income.
- If the income of tenants of low-income units increases above 140% of the applicable income limit allowed in Section 42 of the Code, the next available unit of comparable or smaller size in a building will be leased to tenants having a qualifying income.
- An extended low-income housing commitment as required by Section 42 of the Code was in effect.

Projects which have 50% or more of the aggregate basis financed with the proceeds from the sale of tax-exempt bonds may, if approved by the Agency and Committee, also be exempt from many of the certification and review provisions outlined within Section VI of this document. The monitoring and certification guidelines for these projects must be pursuant to a written agreement between the Committee and the bond issuer and must be in a form that will satisfy those agencies issuing the bonds and the Agency. The monitoring procedures must, at a minimum, satisfy the compliance guidelines set forth by Section 42 of the Code.

The owner of any exempted project must certify to the Agency on an annual basis that the project is in compliance with the requirements for RD assistance or the tax-exempt bond financing guidelines, as applicable, and that all requirements of Section 42 of the Code are also being met. The owner must inform the Agency of any noncompliance or if the owner is unable to make one or more of the required certifications.

The Agency may elect to subcontract the monitoring procedure to other agents. In doing so, the Agency would designate the subcontractor as the compliance monitoring agent who would perform the Committee's function.

In the event that any noncompliance with Section 42 of the Code is identified, a discrepancy letter detailing the noncompliance will be forwarded to the owner and management company of the project.

The owner must then respond in writing to the Agency within thirty (30) days after receipt of the discrepancy letter when noncompliance has been determined. The response must address all discrepancies individually and must indicate the manner in which corrections will be made. The owner will then have a cure period of sixty (60) days from the date of the discrepancy letter to correct the noncompliance detected and to provide the Agency with any documentation or certification found to be missing during the annual management review. The cure period may be extended for periods of up to six (6) months. Extensions will be based on a determination by the Agency that there is good cause for granting the extension.

The Agency will notify the Internal Revenue Service within forty-five (45) days after the expiration of the cure period of any noncompliance that has been detected. All corrections made by the owner within the cure period will be acknowledged within this notice. A copy of the owner's response to the noncompliance will accompany the notice to the IRS.

If a potential noncompliance is discovered during a compliance monitoring review, the owner will be required to have its managing agent attend a compliance training session within two months following the compliance monitoring review.

#### Monitoring Fees

In order to reimburse the Agency for the 15-year cost of the compliance monitoring program, the following fee must be paid prior to the issuance of federal form 8609:

For projects financed under the Section 515 Program of the Rural Housing Service	\$200/unit
For other projects where all units are rent restricted, including projects using tax-exempt bond financing and 4% credits	\$375/unit

This fee is applied to all units in a project, including units reserved for managers or other personnel. For mixed income developments, a monitoring fee of \$375 per unit will be charged for 100% of the units in each building receiving an allocation of low-income housing tax credits. For all projects receiving an Agency RPP loan, \$375 per unit will be charged for 100% of the units in the development regardless of RD participation.