# 2000 QUALIFIED ALLOCATION PLAN

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# 2000 QUALIFIED ALLOCATION PLAN
# STATE of MICHIGAN
# LOW INCOME HOUSING TAX CREDIT PROGRAM

## I. Approval of Qualified Allocation Plan

Pursuant to Section 42(m)(1)(A) of the Internal Revenue Code of 1986, as amended, and Section 22b(4) of Public Act 346 of 1966, of the State of Michigan, as amended, the Qualified Allocation Plan shall be prepared by the Authority, submitted to the legislature, and approved by the Governor after notice to the public and public hearing. Notice of the public hearing shall be published in four newspapers of general circulation throughout the state at least fourteen days prior to the public hearing. Comments received shall be taken into consideration and a written summary of such comments shall be provided to the Governor of the state together with the request for approval of the Plan. Low income housing tax credit dollars shall be allocated in accordance with this Plan, or any amendments thereto.

## II. Compliance Monitoring and Notification of Noncompliance

Owners receiving a tax credit allocation shall be required to follow the requirements outlined in the Authority's Requirements and Procedures for Monitoring Compliance.

### A. Owner Responsibilities

Owners must keep records on file for six years after the due date (with extensions) for filing the federal income tax return for that year. The records for the first year of the credit period must be kept for six years after the due date (with extensions) for filing the federal income tax return for the last year of the compliance period. These records must include: the total number of residential rental units in the building (including the number of bedrooms and the size in square feet of each unit); the percentage of residential rental units in the buildings that are low-income units; the rent charged on each residential rental unit in the building; the number of occupants in each low-income unit if rent is determined by the number of occupants in each unit; the low-income unit vacancies in the building and information that shows when and to whom the next available units were rented; income certifications of each low-income tenant and the documentation to support the certification; the eligible basis and qualified basis of the building at the end of the first year of the credit period; and the character and use of the nonresidential portion of any building included in the project's eligible basis.

Owners must submit to the Authority on an annual basis the following: an Owner Certification Form certifying that for the preceding twelve month period the project met certain conditions outlined in Section 42; a Tenant Income and Rent Report stating the number of qualifying units; information on each low-income tenant, the number of bedrooms in each unit, the rent charged for each unit, and any other information as set forth on the form.

B. Authority Responsibilities

Each year the Authority will review the Owner Certification Forms and Tenant Income and Rent Reports for compliance with program requirements.

The Authority will inspect at least 20% of the tax credit projects each year, and will inspect the low-income certification, the documentation the owner has received to support that certification, and the rent record for each low-income tenant in at least 20% of the low-income units in those projects.

The Authority retains the right to perform an on-site inspection of any low-income building at any time during the compliance period for low-income housing tax credit.

The Authority shall retain records of noncompliance or failure to certify for six years after its filing of a Form 8823. The Authority shall retain all certifications and records for not less than three years from the end of the calendar year in which they are received.

C. Notification of Noncompliance

Should any of the submissions required herein, including the Owner Certification, the Tenant Income and Rent Report, and/or income certifications, supporting documentation, and rent records, not be submitted in a timely fashion, or should there be omissions, the Authority shall, within 45 working days, notify the owner in writing, requesting such information. The owner will have 20 working days in which to provide the information, after which the Authority shall notify the Internal Revenue Service of the owner's failure to provide the required information.

Should the Authority discover, as a result of an inspection or review, or in any other manner, that the project is not in compliance with Section 42, or that credit has been claimed or will be claimed for units which are ineligible, the Authority shall notify the owner within 45 working days. The owner will have 20 working days in which to commence appropriate action to cure such noncompliance. The owner shall have a maximum of 90 days from the date of notice to the owner to cure the noncompliance. The Authority shall notify the Internal Revenue Service, utilizing Form 8823, no later than 45 days after the end of the correction period, and no earlier than the end of the correction period, of the nature of the noncompliance and will indicate to the Service whether or not the owner has made appropriate corrections. In extraordinary circumstances, and only if the Authority determines that there is good cause, an extension of up to six months to complete a cure for noncompliance may be granted.

## III. Statutory Set-Asides

The legislature of the State of Michigan has statutorily created certain "set-asides" (see Section 22b(5) of P.A. 346 of 1966, as amended), based on housing needs within the state. The following set-aside percentages of the state's total credit ceiling for a calendar year have been established:

**Qualified nonprofit organization pursuant to**
**Section 42 of the Internal Revenue Code ---------- not less than 10%**
**Rural Housing Service Projects** (Defined as projects that: 1) will be located in an area other than a metropolitan county; 2) will be funded by a federal program for the development of rural housing; and 3) will be financed by loans that are guaranteed by Rural Housing Services or a successor agency. RHS 515 projects will be awarded credit before projects with RHS 538 loan guarantees) **---------- not less than 10%**
**Housing projects in eligible distressed areas---------- not less than 30%**
**Housing projects for the elderly---------- not less than 10%**
(Defined as projects in which 100% of the units will be occupied by a single person who is 55 years of age or older or a household in which at least one member is 55 years of age or older and all other members are 50 years of age or older)

All set-asides will be met on a round by round basis. With the exception of the nonprofit set-aside, if the amount of low income housing tax credit dollars set aside in these categories has not been allocated before October 1 of the year in which that credit amount is authorized, the Authority may reapportion unallocated credit amounts thereafter. For purposes of meeting these set-asides, projects will be counted in only one category.

Applications, when received, will be placed into the appropriate set-aside categories, if applicable, for scoring in accordance with the selection criteria set forth in the Plan.

## IV. Funding Rounds and Availability of Credit

There will be two funding rounds with the percentage of tax credit dollars available to be reserved as follows:

| Application Due Date | Expected Award Date | Percentage of Tax Credits Available |
|---|---|---|
| March 15 | May 1 | 50% |
| July 15 | September 1 | 40% |

Applications must be received in the Authority's Lansing office no later than 5:00 p.m. on the application due date of the funding round. In the event that date falls on a Saturday, Sunday, or a public holiday, applications will be due the next work day.

To the extent that there is available tax credit after September 1, Reservations and Carryover Allocations may be awarded to projects that have been determined in a previous funding round to be eligible for credit, but for which no credit was previously available. If there are no such projects, or if sufficient credit is or becomes available, a funding round will be held no later than November 1 for projects that demonstrate ability to obtain a Carryover Allocation no later than December 31 of the calendar year.

The remaining 10% of credit shall be available until September 15 for projects of eleven units or less that meet the requirements for allocation under this Plan or for increases in eligible basis not in excess of 5% beyond those amounts initially reserved. These projects will not be subject to funding rounds; however, credit must be requested prior to September 15. Projects of 12 or more units may not be purposely divided to qualify under the hold back.

Generally, no more than 10% of the state's annual credit ceiling shall be allocated to acquisition and rehabilitation of already existing non "troubled" low income units.

## V. Eligibility Requirements

When an application is received, it shall first be reviewed for eligibility to be scored and ranked. In order to be eligible for scoring and ranking, the application must be on a completed form prescribed by the Authority, and must include the following: mandatory exhibits as prescribed in the application, in tabs as outlined therein:

1) Evidence of site control and ability to keep same for the shorter of 120 days from the date of application submission or until December 31.
2) Evidence from the municipality of the property's current zoning designation and what, if any, steps are in process to obtain proper zoning for the proposed development; evidence from the municipality and/or utility companies regarding the availability of utilities.
3) Level I environmental review in accordance with ASTM standards or, if determined by the Level I or the Authority, a Level II together with remediation plan if necessary, costed in detail and accounted for in the sources and uses Statement. Projects will be rejected if the Level I does not meet ASTM standards or if the Authority determines that additional testing is necessary.
4) Evidence of submission of application(s) to a mortgage lender(s): in the case of a RHS project, the completed AD 622 form or a letter signed by an official of RHS stating the amount of the loan, term, and interest rate; in the case of conventional financing, documentation from the lender(s) stating that a formal application for construction and permanent financing has been submitted and is under serious consideration; and in the case of an Authority financed project, evidence that the project has passed initial determination.
5) For projects of over 30 units, a market study completed in accordance with the Authority's guidelines. For projects of 6 to 30 units, rent comparables and an analysis which relates to the project application. In all cases, the market analysis must be acceptable to the Authority. This may result in adjusted rents for purposes of feasibility. Projects will be rejected if the market study is deemed insufficient by the Authority.
6) Pro forma financial projections.
7) Sources and uses of funds Statement.
8) Title Insurance Commitment dated within six months of the date of the application submission.
9) Documentation of federal tax-exempt status, if applying under the non-profit set-aside.
10) Executed agreement between the sponsor and the non-profit if applicable and, if applying under the non-profit set-aside, or for points.
11) A narrative description of the project which includes the type of project; location; type of financing; tenants served, bedroom mix; local, federal or state subsidies; and any other relevant descriptive information.
12) for acquisition/rehabilitation projects of existing low income units financed by HUD, RHS, or MSHDA, an application for transfer of physical assets must have been submitted to the financing agency, and accompany the tax credit application.

Less than complete applications may be deemed ineligible and may be returned to the applicant without being ranked or scored. The Authority may request additional material if a project scoring within funding range faces possible rejection because of an oversight. Requested material must be submitted within ten days. Under no circumstances will it be used to change a project score.

## VI. Selection Criteria

### A. Project Location

The legislature of the State of Michigan has statutorily created two "set-aside" categories for use of the tax credit based on a project's location. These are the 5% Rural Housing Service set-aside, and the 30% set-aside for projects located in "eligible distressed areas" as defined in P.A. 346 of 1966, as amended. The purpose of these set-asides is to assure that the low income housing tax credit will be used to create and to preserve affordable housing opportunities for both urban and non-urban citizens of the State. Additionally, the "housing needs score" (see below) takes into account project location. Consequently, no specific points are awarded hereunder for geographic area.

### B. Housing Needs Characteristics

All applications will be scored for housing needs characteristics with a maximum of 35 points. Utilizing specific measurable and objective factors, need will be measured both on a census tract level with a maximum of 20 points, and on a county wide level, with a maximum of ten points. Projects located in central cities will receive 5 points.

### C. Locality/Neighborhood

A project application which submits evidence of local support in the form of tax abatement may receive from 1 to 5 points for an elderly project and from 1 to 10 points for a family/handicapped/transitional and/or/homeless project. These points will be available only to projects that have not previously had the benefits of tax abatement (i.e. no points will be awarded under this category to acquisition and/or rehabilitation projects for which tax abatement has previously been in place.)

The following points will be awarded under the highest applicable category, not under multiple categories.

| | Elderly Project | Family/handicapped/ transitional/ and/or homeless Project |
|---|---|---|
| Letter of support from local municipality | **1 Point** | **2 Points** |
| Letter from municipality stating the steps that have been undertaken in PILOT approval process, and the date that the PILOT is expected to be approved (must be for at least 15 years and on approving body's agenda to receive points) | **3 Points** | **4 Points** |

To receive any points for tax abatement, any ordinance or resolution submitted with an application must meet authority requirements and must state the length of time the PILOT will be in effect. Projects located in the City of Detroit must submit the project specific tax abatement resolution or a copy of the Detroit tax abatement ordinance, and a letter from the City of Detroit stating that the project is eligible for tax abatement.

| | | |
|---|---|---|
| Project specific tax abatement ordinance in place for at least 15 years | **5 Points** | **10 Points** |

An application for a project that is to be located within the boundaries of an Empowerment Zone or Enterprise Community . . .

**20 Points**

An application for a project that is to be located within the boundaries of a renaissance zone . . .

**20 Points**

A maximum of 50% of the annual tax credit authority will be reserved for these projects in any calendar year.

An application for a project located in a county that currently has fewer than 100 tax credit units that have been allocated. . .

**10 Points**

D. Project Characteristics

Preference will be given to projects serving the lowest income tenants and projects obligated to serve qualified tenants for the longest time periods. Additionally, the creation of additional low income units within the State is the highest priority in Michigan, while the preservation of existing low income units which are in need of significant repair in order to achieve or maintain the habitability of the units, or projects which have a high probability of being converted to market rate units, is another stated priority in Michigan. Therefore, project applications will be given points for the following:

Projects creating additional low income units, both newly constructed units and the addition of units to low income stock through rehabilitation where units have been unavailable for low income occupancy for at least one year . . .

**20 Points**

The preservation of already existing low income units which are within two years of any permitted prepayment or equivalent loss of low income use restrictions and which will remain low income for the longer of fifteen years or the length of the mortgage . . .

**15 Points**

**-OR-**

The preservation of already existing low income units provided the rehabilitation will repair or replace components that are i) in immediate need of repair or replacement or ii) substantially functionally obsolete or will provide modifications or betterments consistent with new code requirements or the Authority's design requirements . . .

**15 Points**

ACQUISITION CREDIT WILL ONLY BE ALLOCATED TO PROJECTS WHICH MEET ONE OF THE TWO PRESERVATION CATEGORIES DESCRIBED ABOVE.

Use of financing or contributions from federal, state, or local sources where the credit is needed to make a project feasible or to serve very low income families (e.g., HOME, CDBG, etc.). Evidence of the financing must be submitted with the application and will be compared to other applications utilizing similar financing types . . .

Projects utilizing federal, state, or local financing for 10% - 40% of the project costs . . .

**5 Points**

Projects utilizing federal, state, or local financing for more than 40% of the project costs . . .

**10 Points**

Projects designed to meet large, low income family needs by having units of three bedrooms or more for at least 10% of the project will receive 5 points. These points will not be available to projects serving the elderly.

**5 Points**

Projects serving the elderly, that qualify for the elderly set-aside, will receive 5 points for providing community space for use by tenants. To receive points, the community room must, at a minimum, be sized at 15 square feet per residential unit. It may be used for activities such as dining, crafts, exercise, medical clinic, socializing, or any other activity or use that may benefit elderly tenants.

**5 Points**

The maximum permitted number of total units in any project is 150, except for rehabilitation projects utilizing already existing structures. Sponsors may submit only one application per phase per calendar year if the combined total number of units is more than 150.

E. Sponsor Characteristics

No one sponsor will be eligible to receive Reservations for more than an aggregate of 20% of the annual per capita tax credit dollars in a calendar year.

No one sponsor will be allowed to submit more than five new applications in either funding round.

Previous successful participation by a general partner or member of a limited liability company in the proposed development and that has a general partner interest in a development utilizing the Low Income Housing Tax Credit Program or other programs producing low-income housing will receive the following points under the highest applicable category **not** under multiple categories.

Projects of 6 units or less placed in service for 3 years in states other than Michigan . . .

**1 Point**

Projects of 6 units or less placed in service for 3 years in Michigan . . .

**2 Points**

Projects over 6 units placed in service for 1 - 3 years in states other than Michigan . . .

**3 Points**

Projects over 6 units placed in service for 1 - 3 years in Michigan . . .

**5 Points**

Projects over 6 units placed in service for 3 years in states other than Michigan . . .

**7 Points**

Projects over 6 units placed in service for 3 years in Michigan . . .

**10 Points**

Previous successful participation by management agent in managing low-income housing tax credit projects, with at least three years of experience. Points will be awarded only if the date in which management began of such project(s) is included in the application, and will be awarded under the highest applicable category, not under multiple categories.

Management of projects of 6 units or less for at least 3 years . . .

**1 Point**

Management of projects over 6 units for at least 3 years in states other than Michigan . . .

**3 Points**

Management of projects over 6 units for at least 3 years in Michigan . . .

**5 Points**

Poor previous participation on the part of the sponsor. This includes, but is not limited to, failure to utilize a Commitment or Allocation of credit, failure to meet requirements necessary to obtain a Carryover Allocation after notification has been provided to the Authority that the requirements would be met, inability to complete a previous project within three years of first submission, failure to submit Owner's Certification and monitoring information, repeated failure to submit required documentation in a timely manner, or serious and repeated violation of program requirements as determined by the Authority. **This will be in effect for a two year time period. . .**

**20 Negative Points**

Projects submitted from sponsors that currently have projects that are out of compliance will not be accepted until the non-compliance is corrected.

Each sponsor must submit a signed affidavit stating that neither it nor any affiliated company is banned or involved in litigation with any other allocating agency at the time of application, or if one of the above is true, stating the details of the banning or litigation. A sponsor that is banned from participation in the tax credit program in another state will be banned from submitting an application for the same period of time. Involvement in litigation will not automatically result in a returned application, but the Authority will review the facts and circumstances surrounding the litigation.

Misrepresentation of this or of a sponsor's or management company's previous experience with low income housing will result in a rejected application.

Prior to the issuance of IRS Form(s) 8609, owners must sign IRS Form 8821, Tax Information Authorization, authorizing the Internal Revenue Service to provide the Authority with information pertaining to the project.

Poor previous participation on the part of the management agent. This may include, but is not limited to, failure to provide correct information on monitoring reports, failure to verify and/or calculate tenant income and rents in accordance with federal regulations, or serious and repeated violation of program requirements as determined by the Authority. **This will be in effect for a two year time period. . .**

**10 Negative Points**

Affirmative Fair Housing Marketing Plan

The Fair Housing Act prohibits discrimination in the sale, rental, financing, or other services related to housing on the basis of race, color, religion, sex, handicap, familial status, or national origin. Under the act, the Authority has a duty to administer programs which affirmatively advance fair housing. To assist the Authority in this duty, applications that include a formal Affirmative Fair Housing Marketing Plan may be eligible to receive points. This plan is designed to assure that persons who are members of racial or ethnic groups (who would not otherwise apply for occupancy in a housing project because of existing neighborhood racial or ethnic patterns, site locations, or other factors) are made aware of the available housing, feel welcome to apply for the housing, and have the opportunity to rent the housing.

The Affirmative Fair Housing Marketing Plan (AFHMP) shall at a minimum address the following issues:

Identification of the target population (racial or ethnic group(s)) least likely to apply to the project within the market area.

Identification of concrete and credible outreach efforts including a budget designed to carry out the AFHMP.

Identification of what positions within the management company will carry the responsibility to implement the AFHMP.

Description of the level of minority employment within the management agency and what are the company's fair housing, equal employment policies.

Description of what the management company's previous experience has been in implementing AFHMPs . . .

**1 - 5 Points**

F. Participation of Nonprofit Organizations

Projects involving nonprofit ownership will receive 5 points if **all** of the following criteria are met:

1. The nonprofit must be a 501(c)(3) or 501(c)(4) entity.

2. The nonprofit must be a local, community based organization with representation on its governing board from the local community in which the project is to be located, or representatives of the population which it serves.

3. The nonprofit must be organized in the State of Michigan, and must be in good standing.

4. The nonprofit must not be affiliated with or controlled by any for-profit organization.

5. No individuals or entities involved with or related to any potential for-profit participant in the development may be involved with or related to the creation or management of the nonprofit.

6. The nonprofit must have been engaged in the business of fostering low-income housing in its geographic area of operation, or fostering housing for the population which it serves, for a minimum of one year.

7. The nonprofit must have more than a 50% general partner interest in the proposed project, have a concomitant interest in the developer fee, and must be the managing general partner of the project.

8. The nonprofit must be actively involved with the local community in which the project is located.

G. Tenant Populations with Special Housing Needs

Projects specifically and entirely designed to serve persons with special needs who receive substantial support services as a result of a contract (or equivalent relationship) with a local service provider which are new construction of 30 or fewer units, or are rehabilitation projects regardless of the number of units, may receive 25 points.

Projects not specifically and entirely designed to serve persons with special needs, but that agree to set aside units according to the following table, for tenants with special needs receiving substantial services as a result of a contract (or equivalent relationship) with a local service provider, may receive 10 points:

| | | |
|---|---|---|
| 30 or fewer total project units | - | 2 units |
| 31-50 total project units | - | 3 units |
| 51-100 total project units | - | 5 units |
| over 100 total project units | - | 7 units |

To receive points under this category, an applicant must submit documentation at application, including a plan outlining the services to be provided, a budget to support the plan, and such other items as are required.

H. Bonus Points

Bonus points for projects creating additional low income units may be awarded for a project's Readiness to Proceed as evidenced by submission at application stage of all of the following: firm commitment and certification of all federal, state, and local financing or contributions which will apply to the project; firm commitment for construction and permanent financing; (for RHS projects, the 1944-51 or a letter signed by an official of RHS which commits funds to the project; for conventional construction and permanent financing, letters of commitment from the lender which are accepted by the sponsor, or signed mortgage documents; for authority financing, a copy of the Mortgage Loan Feasibility Resolution; all necessary local approvals, including zoning, (for rehabilitation projects a letter from the municipality must be submitted, stating that the zoning is compatible with the proposed use of the buildings as a tax credit project); the project specific tax abatement ordinance or an area-wide tax abatement ordinance with a qualifying resolution which meet authority requirements, (for projects located in the City of Detroit, the project specific tax abatement resolution, or the Detroit tax abatement ordinance and a letter from the City of Detroit stating that the project is eligible for tax abatement; and final site plan approval (for rehabilitation projects, a letter from the municipality indicating that the relevant board or commission of the municipality has reviewed the proposal, including the level of rehabilitation work to be completed, the site, and that no further plan approvals are necessary), and formation of ownership entity (documentation submitted to the Corporation, Securities and Land Development Bureau, where applicable). Projects receiving points under this category will be required to proceed to closing and disbursement of the construction loan or equity syndication proceeds and, within 120 days of the issuance of the Reservation by the Authority, to provide the Authority with: i) a copy of the final executed partnership agreement if syndication has occurred, ii) a record of the disbursement of the equity or construction loan, iii) a copy of the recorded notice of commencement (or evidence that the notice has been received for recording), iv) a copy of the recorded deed to the property (or evidence that the deed has been received for recording), v) a copy of all building permits necessary to begin construction, or a letter from the municipality stating that the permits will be issued upon payment of fees; and for rehabilitation projects, vi) a copy of the appraisal, and vii) a copy of the capital needs assessment. In the event no construction financing is to be involved, construction must begin within 120 days. Failure to close within this time period will result in forfeiture of the Reservation.

**25 Points**

If a project does not have all items required for readiness points, it may receive points for the following; however, a project receiving readiness points will **not** be awarded additional points under these categories:

Projects that have obtained a firm commitment for construction financing which is accepted by the sponsor (for Authority financing, a copy of the Mortgage Loan Feasibility Resolution) will receive the following points. . .

**5 Points**

A project application that includes evidence from the municipality that the proposed site is already properly zoned for the intended use . . .
These points will be available for rehabilitation projects only if a letter from the municipality is submitted with the application stating that the zoning is compatible with the proposed use of the building(s) as a tax credit project.

**5 Points**

A project application that includes evidence from the municipality that the proposed site has received site plan approval . . .
These points will be available for rehabilitation projects only upon submission at application of a letter from the municipality indicating that the relevant board or commission of the municipality has reviewed the proposal, including the level of rehabilitation work to be completed, the site, and that no further plan approvals are necessary.

**5 Points**

I. Preference Points

Once a project application has been scored according to the above Selection Criteria, additional preference points will be awarded based on the statutory preferences of Section 42 of the Internal Revenue Code. The following preference points will be available, it being understood that the sponsor must demonstrate that the project will be financially feasible at the levels chosen:

For each year beyond the initial fifteen years that the owner agrees, through the vehicle of a recorded use restriction, to serve qualified low income tenants in at least the original minimum set aside percentage, the application will receive 1 point, up to a maximum of 30 points for 45 years, or 35 points if in perpetuity.

Preference points for projects will be awarded to projects according to the table below insofar as the owner also agrees to restrict rents for those tenants to 30% of the applicable imputed household income for the applicable bedroom size. **Both income and rents for these purposes will be based on statewide median income. No points will be awarded for units serving tenants at income and rent levels higher than 50% of statewide median (in no event can credit be awarded to units where income and rent levels exceed 60% of area median).** The lower rent targeting must be evenly distributed among bedroom types. A project may receive up to 50 points for this category.

PERCENT OF MEDIAN INCOME

| PERCENT OF LOW INCOME TENANTS TO TOTAL UNITS | 50 | 45 | 40 | 35 | 30 | 25 | 20 |
|---|---|---|---|---|---|---|---|
| 50 | 25 | 27.5 | 30 | 32.5 | 35 | 37.5 | 40 |
| 45 | 22.5 | 25 | 27.5 | 30 | 32.5 | 35 | 37.5 |
| 40 | 20 | 22.5 | 25 | 27.5 | 30 | 32.5 | 35 |
| 35 | 17.5 | 20 | 22.5 | 25 | 27.5 | 30 | 32.5 |
| 30 | 15 | 17.5 | 20 | 22.5 | 25 | 27.5 | 30 |
| 25 | 12.5 | 15 | 17.5 | 20 | 22.5 | 25 | 27.5 |
| 20 | 10 | 12.5 | 15 | 17.5 | 20 | 22.5 | 25 |
| 15 | 7.5 | 10 | 12.5 | 15 | 17.5 | 20 | 22.5 |
| 10 | 5 | 7.5 | 10 | 12.5 | 15 | 17.5 | 20 |
| 5 | 2.5 | 5 | 7.5 | 10 | 12.5 | 15 | 17.5 |

Points will not be adjusted upward for income and rent restrictions that fall between the percentages outlined on the table.

Projects promoting economic integration by serving market rate tenants (non tax credit units) will be awarded points as follows:

At least 20% market-rate units..... **5 Points**

The market rate units must be evenly distributed among bedroom types and buildings, except for elderly projects.

## VII. Underwriting Standards

The Authority will perform an evaluation of the project costs to determine reasonableness as compared to other projects in similar areas. Generally, costs in excess of 110% of the Department of Housing and Urban Development's 221(d)(3) Mortgage Limit for the area will not be permitted to be included in basis (although such costs are not prohibited). However, in unusual and well documented cases, costs in excess of these limits may be included in eligible basis. Unusual cases may include, but are not limited to, small size projects, projects located in qualified census tracts or in an Empowerment Zone, Enterprise Community locations, projects with deep rent targeting, projects sponsored by local nonprofit organizations, or difficult substantial rehabilitation projects. However, in all cases, costs includable in eligible basis shall not exceed the greater of 110% of the HUD 221(D)(3) Mortgage Limit or $87,000 per unit.

In conducting its evaluations, the Authority will apply the following reasonableness standards in regard to fees:

Consultant Fees (excluding "consultants" normally used in the development process, such as market analysts, environmental consultants, etc) - Must be included in and paid from the developer fee.

Developer Fees -The combined total of the developer fee, developer overhead, and any consultant fees will be limited to 15% of total development cost, not to exceed **$1,000,000**. This is calculated as 15% of the total development cost minus the developer fee, developer overhead, and consultant fees.

For projects involving acquisition and rehabilitation, an amount equal to at least 5% of the acquisition cost must be allocated to acquisition for purposes of attribution to the developer fee.

A maximum of 70% of the developer fee can be used for project costs.

General Requirements - 6% of construction contract, exclusive of builder profit, builder overhead, and general requirements.

For projects involving rehabilitation, the hard construction costs for the rehabilitation must not be less than $5,000 per unit.

Builder Overhead - 2% of construction contract, exclusive of builder profit and builder overhead.

Builder Profit - 6% of construction contract, exclusive of builder profit.

Identity of Interest - If an identity of interest exists between the sponsor and the general contractor, incentive fees may only be paid to the extent that they are included in the above mentioned fee limitations. A general contractor may act as a subcontractor and may be entitled to additional overhead and profit otherwise payable to an independent subcontractor. However, the general contractor's overhead, profit, and general requirements that may be included as allowable project costs are limited to the percentages noted above.

In determining the feasibility of a project over the compliance period, the Authority has established minimum and maximum standards for operating expenses, vacancy rates, increases in operating costs and expenses, project income, debt service coverage ratio, operating reserves, and replacement reserves.

## VIII. First Evaluation and Award of Reservations

Project applications which include all required information and documentation in a form and manner acceptable to the Authority, and receive a score of at least 50 points will be eligible to be evaluated for receipt of a Reservation of tax credit. Prior to this evaluation, the preferences set forth at Section 42(m)(1)(B)(iii), namely projects serving the lowest income tenants, and projects obligated to serve qualified tenants for the longest periods will be considered. Project applications will then be evaluated and the highest priority for Reservation of tax credit will be given to those projects as to which the highest percentage of the housing credit dollar amount is to be used for project costs other than the cost of intermediaries, unless granting such a priority would impede the development of projects in hard-to-develop areas.

Projects receiving the same score will be ranked according to the following criteria: 1) if the entire amount in the non-profit set-aside has not been awarded, a project that meets the non-profit criteria; 2) a project receiving readiness to proceed points; 3) a project serving the largest percentage of tenants with incomes at or below 40% of the statewide median income; 4) a project's needs score; and 5) a project which will be located in a distressed area.

The evaluation will consider the project's economic feasibility and financial viability over the credit period and will consider project costs and expenses. If the project is not feasible over the fifteen year credit period, the project will be rejected. An equity gap calculation will also be performed to ensure that only the amount of credit necessary to make the project feasible will be awarded. The equity gap is determined by subtracting the syndication costs, all permanent financing amounts, and any other applicable amounts from the total development cost (after deductions are made for excess fees). This total is then compared to the value of the credit that the project is eligible to receive based on its qualified basis. The amount of credit awarded will be that for which the value is the lesser of the two.

Once the Authority has conducted the evaluation and determined the amount of tax credit to be reserved, it will issue a Reservation on its prescribed form to the applicant.

Reservations issued in the March and July funding rounds shall be valid for 120 days from the date of issuance by the Authority, at which time all documentation required for a Commitment will be submitted to the Authority. All projects with a valid Reservation or Commitment will be required to obtain a Placed-In-Service or Carryover Allocation no later than December 31 of the same calendar year.

The Authority, at the time it issues the Reservation, shall notify the chief executive officer of the locality in which the project is to be located of the proposal, and shall give reasonable opportunity for comment by that chief executive officer.

Reservations, Commitments, and/or Carryover Allocations are non-transferable either to another entity or within the same entity where there is a change in control or general partner interests, except with the express written consent of the Authority, it being the explicit intention of this plan to prevent one party from obtaining such a Reservation, Commitment, and/or Carryover Allocation in order to sell or "broker" its interest in the proposal (except for syndication purposes). Because all representations made with respect to the sponsor, its experience and previous participation are material to the evaluation made by the Authority, it is not expected that the Authority's consent will be granted for such transfers unless a new application is submitted and scores no less than the original application.

## IX. Evaluation of Developments Subject to Subsidy Layering

The Authority, as Michigan's sole housing credit agency for administration of the low income housing tax credit, has accepted the delegation of Section 911 subsidy layering reviews of projects receiving tax credit and "assistance" from HUD'S Office of Housing. Until such time as guidelines are published and the Authority accepts such delegation, the Authority will not be performing subsidy layering reviews for projects receiving assistance under HUD'S Offices of Public and Indian Housing and Office of Special Needs Assistance Programs.

In connection with the subsidy layering evaluations performed by the Authority as the housing credit agency, the following standards will be applied:

1. Builder's Profit - (All percentages relate to the construction contract amount, excluding overhead and profit) The Authority may evaluate using up to 6% builder's profit, 2% builder's overhead, and 6% general requirements.

2. Sponsor Profit/Developer Fee - (Percentages relate to the total development cost as defined by the Authority) The Authority may evaluate using 10% of the project's total development costs, or, where it makes a finding that certain special market or risk factors enumerated below are applicable to the project and justify a higher developer fee, it may evaluate reflecting a developer fee of 10%-15% of total development cost. Special market or risk factors which may be considered by the Authority in conducting such evaluations include, but are not limited to, small size projects, projects located in qualified census tracts or in an Empowerment Zone, Enterprise Community locations, projects with deep rent targeting, projects sponsored by local non-profit organizations, or difficult substantial rehabilitation projects.

3. Syndication Expenses - The total expenses, excluding bridge loan costs, incurred by the sponsor in obtaining cash from the sale of project interest to investors through public offerings will generally be evaluated as not exceeding 15% of gross syndication proceeds but may, in the event that the Authority determines special market or risk factors to be involved, be evaluated up to 24% of gross syndication proceeds. Similarly, the Authority will generally evaluate private offering expenses at 10% of gross syndication proceeds, excluding bridge loan costs, but may use a figure of up to 15%.

4. The Authority will, in its evaluation, apply an applicable market rate, expressed in cents netted per dollar of credit as of the project's placed in service date, in calculating maximum low income housing tax credit, and valuing all payments, whether by installment or in one lump sum. This applicable market rate will be based upon factors including the project's market value, comparable, contemporary syndications, and the Authority's judgment regarding market trends. Where a higher than usual ownership percentage is retained, the following will apply: if an owner retains between a 5-50% interest, an additional $.10 will be added to the applicable market rate, and if ownership of over 50% is retained, an additional $.20 will be added to the market rate used for the evaluation.

With regard to these standards, the Authority may choose to evaluate using less than the standards set forth herein.

A limited number of exceptions to standards 1 through 3 above (up to the greater of 10% of the total number of projects reviewed under this procedure in any calendar year, or five projects, may be granted with specific approval from the governing board of the Authority). These exceptions will only be considered where extraordinary circumstances relating to the market or risk factors mentioned above warrant excluding the project from the standards.

## X. Second Evaluation and Commitment

Prior to the expiration of the Reservation, the sponsor must submit to the Authority acceptable evidence of the following:

1) Firm commitment and certification of all federal, state, and local subsidies which will apply to the project.
2) Firm commitment(S) for construction and permanent financing (for RHS projects, the 1944-51 or a letter signed by an official of RHS which commits funds to the project; for conventional construction and permanent financing, letters of commitment from the lender which are accepted by the sponsor, or signed mortgage documents; for Authority financing, a copy of the Mortgage Loan Feasibility Resolution).
3) Necessary local approvals, including zoning (for rehabilitation projects a letter from the municipality must be submitted, stating that the zoning is compatible with the proposed use of the buildings as a tax credit project), the project specific tax abatement ordinance or an area-wide tax abatement ordinance with a qualifying resolution which meet Authority requirements (for projects located in the City of Detroit, the project specific tax abatement resolution, or the Detroit tax abatement ordinance and a letter from the City of Detroit stating that the project is eligible for tax abatement), and final site plan approval. (For rehabilitation projects, a letter from the municipality indicating that the relevant board or commission of the municipality has reviewed the proposal, including the level of rehabilitation work to be completed, the site, and that no further plan approvals are necessary.)
4) Letter of intent from the equity provider indicating that review of the project has begun, and stating the amount of equity to be paid, the timing of such payments, the amount of credit expected by the investor, and which is accepted by the sponsor.
5) Certification from the equity provider that it has received a letter of intent that has been accepted by the sponsor.
6) Project schedule (updated).
7) Pro-forma financial information (updated).
8) Sources and uses Statement (updated).
9) Formation of ownership entity (Documentation received by the Corporation, Securities and Land Development Bureau, where applicable).
10) A capital needs assessment for rehabilitation projects.
11) An appraisal for all acquisition/rehabilitation projects; and an appraisal of the land for all new construction projects where there is an identity of interest between the seller and purchaser.

Upon receipt of this information, the Authority will conduct a second financial evaluation of the project based on updated information, and will, unless for good cause shown, issue a Commitment to the applicant in the amount the Authority deems necessary and reasonable.

If the Authority, in its evaluation, determines that the value of the credit is less than the applicable market rate, the Authority determined applicable rate will be used to determine the amount of equity. If the value of the credit is greater than the applicable market rate, and would result in a reduction of credit because of the funding gap, the sponsor will be allowed to place the additional proceeds into a project escrow account for at least five years, after which time, if not needed for the project, may be taken out as a developer fee.

Commitments of tax credit authority shall be valid until December 31 of the calendar year in which the Commitment is issued, by which time it is expected that the project will have received a Placed-In-Service or Carryover Allocation.

If changes to the Low Income Housing Tax Credit Program as enacted by Congress in any given calendar year so dictate, Reservations and/or Commitments of such authority may be subject to different expiry dates depending on the nature of any changes in the federal program.

## XI. Carryover Allocations

A Carryover Allocation will be available to projects that have received a Reservation and/or Commitment of tax credit and that provide evidence, acceptable to the Authority and in accordance with any applicable federal regulations, from a Certified Public Accountant no later than December 1 that more than 10% of the project's reasonably anticipated basis has been incurred in the year in which the Carryover Allocation is issued. Projects receiving a Reservation after October 1 will be given until December 15 to submit appropriate documentation.

A Carryover application must be submitted to the Authority no later than November 1 of the calendar year in which the Reservation or Commitment was issued, or November 15 for projects receiving a Reservation after October 1. Credit will be rescinded if an application is not submitted by the above-mentioned dates.

In the event that a Commitment has not been issued prior to issuance of a Carryover Allocation, all requirements for the Commitment must be fulfilled within 120 days of the issuance of the Reservation or the Carryover Allocation shall become null and void. In the event that "Readiness to Proceed" points have been awarded to the project prior to issuance of a Carryover Allocation, all requirements must be met within 120 days of the issuance of the Reservation or the Carryover Allocation shall become null and void.

## XII. Project Reconfiguration and Exchange of Credit

Project evaluations are performed on the information that is provided in the initial application for reservation. This information is material to the determination of project score, the amount of credit reserved, and the feasibility of the project during the compliance period. Therefore, changes such as, but not limited to number of units, number of buildings, bedroom mix, service to low-income tenants, must be approved by the Authority.

In certain unusual circumstances, delays may occur which will prevent the project from being placed in service at the end of the second calendar year from the date of the carryover allocation. The Authority may allow the credit to be returned and may issue a carryover allocation in the year in which the credit is returned without the necessity of competing for funding provided certain conditions, including an assessment of facts by the Authority, and the filing of a lawsuit by the applicant, are met.

At no time will any project be allowed more than three calendar years from the date of initial application to project completion unless approved by the Authority.

## XIII. Fees

All applications must be accompanied by cash or a check in an amount equal to $100 plus $5 for each proposed low income unit. This fee is non-refundable and must be paid in each funding round in which a project is seeking to be scored and/or evaluated. The only exception to this is that no additional fee will be charged for applications reconsidered in the second funding round for which no changes or no supplemental information is submitted.

The Authority will charge a fee equal to 4% of the annual tax credit dollar amount awarded to a project. A sum equal to 2% of the annual tax credit dollar amount shall be submitted to the Authority at the time of Reservation. Should a project which has received a Reservation return that Reservation to the Authority within 90 days of its receipt, 50% of the fee already paid shall be refundable; however, after 90 days, 0% shall be refundable. The remaining 2% shall be paid at Commitment. Projects in which the sole general partner is a nonprofit entity or a wholly owned for-profit subsidiary of a nonprofit entity may defer all but the initial application fee, until such time as closing on the equity contribution occurs.

Compliance monitoring fees will be charged for the credit period as follows:

All units for which an allocation of credit was not made by December 31, 1996 must pay the sum of $175 per low income unit, which amount will cover the entire monitoring period and is payable prior to issuance of Form 8609. All units that received an allocation of credit prior to January 1, 1993, and all projects financed by the Authority that received an allocation of credit before January 1, 1997, may elect to submit a sum equal to $15 per low income unit on an annual basis for the remainder of the credit period, or may opt to make one payment similar to that described above. Failure to submit the fee will be considered non-compliance.

## XIV. Tax-Exempt Financed Projects Not Subject to State Volume Cap

In accordance with Section 42(m)(2)(D) of the Internal Revenue Code of 1986, as amended, projects which do not receive an allocation from the State's credit ceiling because they qualify under Section 42(h)(4) by virtue of being financed with tax-exempt obligations issued after December 31, 1989, must satisfy the requirements for allocation of a housing credit dollar amount under this Plan, and shall be subject to the evaluations required herein, but shall not be subject to the funding rounds.

Authority projects financed with tax-exempt obligations shall be subject to the fees enumerated in Section XII above.

## XV. Subsequent Evaluations

The Authority will further evaluate the project at the time of making a Carryover Allocation and again at the date each building is placed in service. When the project/building is placed in service, and prior to the issuance of an 8609, the owner must submit to the Authority acceptable evidence of the following:

1) Updated application.
2) Independent, third party final owner's and contractor's cost certifications for projects of six or more units.
3) Certificates of occupancy, or equivalent for rehabilitation work.
4) Executed limited partnership agreement and all attachments.
5) Copy of permanent mortgage and other permanent financing sources.
6) Copy of deed to property showing partnership as owner, including correct property description.

## XVI. Signatories

Reservations, Commitments, and Allocations (including Carryover Allocations) will be made by the Authority's Executive Director or such person or persons as he shall designate.

## XVII. Modifications to the Qualified Allocation Plan

To the extent necessary to facilitate the award of low income housing tax credits that would not otherwise be awarded, this Plan may be modified by the Authority from time to time. The Executive Director may make minor modifications deemed necessary to facilitate the administration of the credit program or to address unforeseen circumstances. Further, the Executive Director is authorized to waive any conditions which are not mandated by Section 42 of the Internal Revenue Code on a case-by-case basis for good cause shown.

In unusual circumstances, and for good cause shown, the Executive Director may waive project-specific deadlines. In the event a waiver is granted, a fee of 5% of the annual credit amount may be charged.

To the extent that anything contained in this Plan does not meet the minimum requirements of federal law or regulation, such law or regulation shall take precedence over this Plan.

## XVIII. Clarification of Agency Role

In making its determination of the housing credit dollar amount necessary for the financial feasibility of a project and its viability as a qualified low income housing project throughout the credit period, the Authority will consider the sources and uses of funds and the total financing planned for the project, and any proceeds or receipts expected to be generated by reason of tax benefits. HOWEVER, SUCH A DETERMINATION BY THE AUTHORITY SHALL NOT BE CONSTRUED TO BE A REPRESENTATION OR WARRANTY AS TO THE FEASIBILITY OR VIABILITY OF THE PROJECT. Similarly, any monitoring of continuing compliance is being done by the Authority to assure that public purpose goals are being achieved and any failure to receive notice of noncompliance SHOULD NOT BE RELIED UPON BY ANY OWNERS OR THEIR INVESTORS AS A WARRANTY OR REPRESENTATION BY THE AUTHORITY THAT THE PROJECT IS IN COMPLIANCE WITH APPLICATION REQUIREMENTS.