2023
QUALIFIED ALLOCATION PLAN

South Carolina State Housing Finance and Development Authority

LOW-INCOME HOUSING TAX CREDIT PROGRAM
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I. INTRODUCTION

The federal Low-Income Housing Tax Credit (the “LIHTC”), including the 4% LIHTC associated with tax-exempt bond financing, is governed by Section 42 of the Internal Revenue Code (the “Code”) and regulations found in Title 26 of the Code of Federal Regulations. South Carolina Code of Laws Section 12-6-3795 governs the state housing tax credit (“STC”).

The Authority, as the designated LIHTC agency for the state, is responsible for the adoption of a Qualified Allocation Plan (“QAP”). The Authority may post bulletins or public notices on its web page; applicants are responsible to check for updates.

II. ADMINISTRATION OF THE QUALIFIED ALLOCATION PLAN

The Authority will make interpretations, apply criteria to facts and/or representations, and resolve all conflicts, inconsistencies, or ambiguities, if any, in the QAP or that arise in administering the LIHTC Program. Unless otherwise stated, the Authority is entitled to the full discretion allowed by law in making all such decisions. In the event of a natural disaster, disruption in the financial markets, or reduction in subsidy resources available, the Authority may disregard any section of the QAP, including point scoring and evaluation criteria, that interferes with an appropriate response. Applicants should seek guidance from the Authority regarding any situation not explicitly addressed in the QAP.

The Authority will honor Freedom of Information Act requests seeking any documents submitted with and/or related to LIHTC applications after reservation documents are executed and returned. The Authority will not notify the Applicant prior to complying with a request or prior to uploading the applications, or any portion thereof, to a web page.

A. Opinions, Certifications and Exhibits

All opinions, certifications and exhibits must be based on an independent investigation into the facts and circumstances surrounding the proposed development. All opinions, certifications, and exhibits must be in the form specified by the Authority. Applications will be disqualified if an opinion, certification, or exhibit has been materially altered, amended, or changed.

All opinions and certifications submitted by attorneys, architects and/or engineers, and CPAs must be on letterhead with original signatures (scanned copies are acceptable).

B. Third Party Professionals

Architects, engineers and CPAs must be independent third-party professionals and be licensed to practice their respective professions in South Carolina. Attorneys may be licensed to practice law in any state, but matters of South Carolina law may be opined upon only by South Carolina licensed attorneys.
III. THRESHOLD PARTICIPATION CRITERIA

A. Required Documentation:

Applications must include the following documentation.

1. MARKET STUDY

A third party independent market study, prepared by an Authority approved market analyst, adhering to the Authority’s Market Study Guideline Procedures in Appendix A.

2. PERSONS WITH DISABILITIES

A statement agreeing to abide by the following requirements.

The owner will not give a preference based on disability type (actual or perceived) or being a client of a particular service provider (absent approval from the Authority).

Neither the owner’s partners/members nor the property management company may engage in medical, therapeutic, or other activities regulated by the U.S. Centers for Medicare & Medicaid Services with respect to the residents. The owner will:

• expressly include reasonable accommodation in the application for tenancy;
• not ask applicants/residents for medical or other protected information unless and only to the extent legally necessary (e.g., processing reasonable accommodations requests);
• use standard leases with the same rights available to, and responsibilities expected of, all households, including duration of tenancy (i.e., cannot be transitional); and
• ensure participation in any supportive services is entirely voluntary (not a formal or implied condition of occupancy).

3. AFFIRMATIVE FAIR HOUSING

A statement agreeing to adopt and implement an Affirmative Fair Housing Marketing Plan, including outreach, marketing and advertising methods used to attract individuals on public housing waiting lists, prior to placing in service.

4. PHYSICAL NEEDS ASSESSMENT REPORT (PNA) FOR REHABILITATION

An “As Is,” pre-rehabilitation PNA prepared and certified by a third-party independent licensed engineer or architect in compliance with Appendix B. “Post-Rehab” PNAs and Property Condition Reports/Assessments do not qualify. The PNA must be dated not prior to 12 months before the application submission date. RD projects may submit the USDA/RD rehabilitation assessment.

At preliminary application, the Authority will schedule an onsite inspection to discuss the proposed scope of work with the Applicant and third-party independent licensed engineer or architect. The PNA submitted at final application must have the items noted at the onsite inspection.

5. RENT ROLL FOR REHABILITATION

A current rent roll certified by the on-site property manager or a representative of the property management company for rehabilitation projects.
6. UTILITY ALLOWANCE SCHEDULE

One of the following:

a. RD Schedule for those developments financed by and receiving rental assistance from RD;
b. the current allowance approved by HUD for those developments with 100% project based rental subsidies;
c. the S.C. State Housing Finance and Development Authority’s statewide utility allowance calculation; or
d. the Energy Star Statewide Utility Allowance for developments built to meet, at a minimum, the Version 3.0 Energy Star Certification (as per Exhibit G form), EarthCraft, LEED, or another Energy Star Certified Program
e. HUD Utility Schedule Model.

See Exhibit U for an example of a completed utility allowance schedule.

7. RELOCATION CERTIFICATION AND TENANT PROFILE FORM

A detailed, step by step plan describing how any displaced persons will be relocated, including the costs. The Development Team is responsible for all relocation expenses. Rehabilitation projects must submit a FORM 3, Developer Relocation Certification and Tenant Profile Form.

B. Site Control, Ground Leases, and Scattered Sites

1. An application must include one of the following documents executed by a Principal:
   a. a recorded deed;
   b. a purchase option (not options on other options) with date certain performance;
   c. a purchase contract with date certain performance;
   d. a land lease or option on a land lease either of which must not be for a term of less than fifty (50) years in term; or
   e. a legally valid assignment of one of the above.
   The Authority may require a quiet title action be completed prior to placing in service.

2. Projects intended to convert to homeownership after fifteen (15) years may not use land leases.

3. Related party land leases are not allowed without prior approval from the Authority with the exception of local government or public housing authority. The acquisition cost will not be included in the development and operations costs. In all cases the land lessor must execute the Agreement as to Restrictive Covenant.

4. The application must include a copy of the current ownership as indicated in the local tax records.

5. Developments comprised of buildings located on noncontiguous parcels (scattered site) are ineligible for 9% LIHTCs.

C. Zoning

Applications must include proof of proper zoning being in place at the time of application submission, including approval of all necessary special/conditional uses. A letter provided from the City/County official should verify that the proposed development site currently meets the local zoning or land use restrictions.
D. Wetlands, Environmental and Soil Reports

The full application must include:

1. A determination regarding the presence or absence of wetlands, including non-jurisdictional wetlands, The Applicant must retain a qualified professional (i.e., biologist, soil scientist) to complete Exhibit W.

2. Phase I Environmental Site Assessment (ESA) report dated not more than six (6) months from the full application deadline.
   a. The ESA will identify Historical, Controlled and Recognized Environmental Conditions (HRECS, CRECs, and RECs) that impact the suitability of the proposed site and must include the Environmental Professional’s opinion on whether the proposed site requires further examination and the rationale used in making this determination. For proposals with existing buildings built before 1978, the report must also include the results from lead-based paint testing. For any HRECs identified, the ESA must demonstrate that previous efforts to mitigate the issue have been completed to the satisfaction of the applicable regulatory authority and/or that the site under consideration meets current criteria established by the regulatory authority and can be used without mandatory controls. For sites with identified CRECs, the ESA must indicate that the REC has been addressed to the standards and satisfaction of the overseeing regulatory authority and identify the remaining controls in place to mitigate the environmental condition(s).
   b. If the Environmental Professional recommends further examination, the application must include a Phase II ESA. The Phase II ESA must provide a narrative of how the any REC(s) identified will be mitigated using methods recognized and supported by the applicable regulatory authority and the estimated costs of such mitigation.
   c. The report(s) must be prepared by a third-party, independent, licensed environmental professional as defined in 40 CFR § 312.10(b) and addressed to the Authority. The Environmental Professional cannot be a member or affiliate of the Development Team. The report(s) must be prepared in accordance with the American Society for Testing and Materials Practice Standards E-1527-13, or as amended.

3. Geotechnical Soil Report(s)
   a. All new construction developments and rehabilitation projects adding a new building must submit a complete site-specific Geotechnical soil report and boring site plan not more than one (1) year old at the time of full application.
   b. The soil report and boring site plan must reflect the results of laboratory test conducted.
   c. The report must be prepared by a registered professional or a certified testing agency with a current license to practice in the state of South Carolina.

E. Applicant Qualification:

1. Applications must identify all members of the Development Team, which shall consist of the following:
   - Proposed Owner and its Principals
   - Developer and its Principals

   For purposes of this section, Principals include any entity or individual that holds a majority ownership interest in the entity that has material control over the party identified. If the controlling entity includes a nonprofit entity, then Principals include all members making up such controlling entity.
All members of the Development Team must disclose all previous participation in the LIHTC program in any state.

2. No member of the Development Team may be suspended or debarred under Appendix E, Section VIII.

3. The Development Team has an obligation at application submission and an ongoing obligation (including after award) to disclose any and all identities of interest on Exhibit P. An identity of interest means any relationship between any member of the Development Team and
   • the seller of the development site/property;
   • the general contractor or its subcontractors;
   • the lender; or
   • the syndicator.

The Authority may restrict the use of the related party and/or audit all expenditures within the ownership’s entity structure.

F. Required Development Experience

In order to participate in the LIHTC program, the proposed owner’s general partner(s) or managing member(s) must have experience within the last ten (10) years in
   • two (2) LIHTC projects in South Carolina; or
   • four (4) LIHTC projects in other states.

Each project must have received its 8609s, placed in service, and reached stabilized occupancy. The general partner or managing member must have held a controlling stake from initial application through certificate of occupancy, as reflected on Exhibit K and related documentation.

The Authority may use other criteria as necessary to evaluate whether the Development Team has sufficient experience and capacity to successfully develop the project.

G. Required Management Experience

1. The Application must identify the proposed management entity for the development at the time of full application and the Owner will be required to submit management entity’s plan at the time of the real estate closing, but no later than 12 months from the allocation date. The proposed management entity must have at least three (3) LIHTC developments in their current portfolio that it has successfully and continuously managed for the past three (3) years as reflected on Exhibit Y and related documentation. Successfully managing means strict adherence to a detailed written management plan that addresses all of the following:
   a. separation of duties and adequate supervision of employees;
   b. senior management oversight and review through internal audits;
   c. staffing dedicated to compliance reviews of tenant eligibility and programmatic documentation;
   d. approval process for evictions by consensus of senior or regional managers;
   e. physical inspection policies (frequency, generation of work orders, lease violations for housekeeping or other noncompliant resident behaviors);
   f. recordkeeping (including tenant certifications, annual owner certifications, HOME Rent Approvals, if applicable);
   g. security of records containing personally identifiable and other protected information
   h. marketing plan and marketing efforts;
   i. reasonable accommodation plans and policies; and/or
   j. procedures for addressing tenant complaints.
2. The Authority may notify a management company of being ineligible to be part of an awarded application. The reasons for ineligibility include low average occupancy rates, delays in returning vacant units to market ready condition, or other poor performance. If listed in a submitted or awarded application, the Applicant must find an eligible replacement.

3. The lead contact person for the management entity must be certified as a LIHTC compliance specialist by an eligible organization, including: the National Association of Home Builders, Nan McKay, the National Affordable Housing Management Association, TheoPro Compliance & Consulting, Quadel Consulting, Spectrum Seminars, the National Center for Housing Management, Compliance Solutions (Zeffert & Co), Elizabeth Moreland Consulting, Novogradac & Company, Liz Bramlet Consulting, A.J. Johnson Consulting; and, Specialists in Housing Credit Management (SHCM), or any entity offering a functionally equivalent LIHTC certification.

H. Required Capacity

The Authority will assess the financial capacity of the individuals and/or entities proposed as managing members or general partners based on their financial statements. The Authority will accept only financial statements audited, reviewed, or compiled by an independent CPA on or after December 31, 2021. Statements prepared on the income tax basis or cash basis must disclose that basis in the report. The Authority may request additional financial documentation as deemed appropriate by Authority Staff to determine financial capacity of the parties involved as part of the project review process.

The Authority may disqualify a Development Team due to insufficient overall capacity to undertake additional commitments including but not limited to commencing construction in a timely manner, meeting the 10% expenditure test without an extension, placing in service without an extension or exchange, having no projects with recaptured LIHTCs, and meeting other statutory completion deadlines.

I. Appraisals

1. Applications must include a commercial real estate appraisal identifying the Authority as an authorized user, noting the Authority may rely on its representations.
   - The appraiser must be licensed by the South Carolina Real Estate Appraisers Board as a State Certified General Real Estate Appraiser (a temporary practice permit does not qualify). An appraiser in good standing with an active license in another state must obtain a reciprocal license with the South Carolina Real Estate Appraisers Board.
   - The appraisal must be completed by an appraiser listed on the SC Housing Approved Appraisers list.
   - The appraisal must be prepared in conformance with the Uniform Standards of Professional Appraisal Practice (USPAP).
   - Comparable properties must be located in the proposal’s sub-market. If none exist, comparable properties must be located in the proposal’s county or an adjacent county.
   - If a property’s acquisition price exceeds the appraised value, the Authority will write down the purchase price to the appraised value.
   - The Authority may hire another appraiser at the applicant’s expense.

2. For new construction developments, the appraiser must value land using acreage as a measurement without regard to any contemplated improvements/restrictions. The value must be based on comparable land sales in the sub-market or the value of the “land only” portion of improved sales in
the sub-market with common zoning characteristics. Such sales may not be exclusive to previous LIHTC developments.

3. For acquisition/rehabilitation developments, the appraisal must report land value and “as is” building(s) value separately, with the As-Is Building Value provided both
   • as if market rents are in place, not considering the unique aspects of below-market financing, federal subsidies and/or LIHTCs in this value estimate, and
   • based on current restricted rents (not post rehab) taking into consideration the unique aspects of below-market financing, federal subsidies and/or LIHTCs in this value estimate.

4. For RD funded developments only, the appraisal must add together the values for “As-Is, Restricted Rents” and “Interest Credit Subsidy” to arrive at the appraised value. If the purchase price includes acquired reserves (cash), the reserves should be deducted from the purchase price before the comparison to appraised value.

5. The appraisal must disclose and quantify the valuation loss attributable to detrimental characteristic(s) in close proximity to the development being appraised.

J. Mandatory Site Requirements

The Authority may reject a site based on information submitted in the application, site review findings, or other information.

1. At a minimum, the sites must comply with the following:
   a. The surrounding area is residential or a mix of commercial uses appropriate to the targeted tenants; and
   b. Water and Sewer utility tie-ins are accessible and within 500 feet of the parcel line as verified by a letter from the City/County official or utility provider.

2. The following detrimental characteristics will result in an application being disqualified:
   a. Proposing to subdivide an existing development into two (2) or more developments.
   b. Proposing more than one new construction phase of the same project in the same funding cycle regardless of the tenant targeting. This includes, but is not limited to, subdividing a single parcel in the same funding cycle or proposals from the same or related members of the Development Team located adjacent to, in proximity to, or directly across the street from another proposed site.
   c. Sites where the Authority determines the slope/terrain is not acceptable for affordable housing development as indicated by combined site and site preparation costs that exceed the cost of comparable existing buildable land in the area.
   d. Any site listed on the National Priority List under the Comprehensive Environmental Response, Compensation, and Liability Act or that requires the execution of voluntary or involuntary cleanup agreements with Department of Health and Environmental Control or other third-party organizations as noted in a Phase II environmental assessment report (unless fully completed).
   e. Applications for new construction developments located within one (1) mile of a 2021 or 2022 awarded new construction development posted on the Authority’s Proposed & Existing LIHTC and Tax-Exempt Bond Developments list located on the Authority’s website. The distance will be measured using the shortest distance, in a straight line, from the closest site boundary line of the proposed site to the closest site boundary line of the previously awarded development.
3. The Authority may disqualify new construction applications based on the following. Distances indicated are the shortest straight line between the boundary or property lines.
   a. Sites where a nearby active railroad causes excessive noise and vibration. The application should include a map showing the distance to any railroad tracks within 1,000 feet.
   b. Sites within 2,500 feet of a civil airport or 15,000 feet of a military airfield if the site is located within the Runway Clearzone or Protection Zone (civilian and military airports) or Accident Potential Zone (military airports);
   c. Sites within one-quarter (1/4) mile of the following:
      • an operating commercial beef/hog/chicken/turkey farm or processing plant;
      • a treatment, storage, or disposal facility for hazardous wastes, an active or inactive solid waste disposal facility and/or solid waste transfer facility; or
      • a sewage treatment plant;
   d. Sites within 500 feet of the following:
      • commercial junkyard or salvage yard; trash heap, dump pile, or other eyesore;
      • above ground commercial bulk storage (any one tank over 1,500 gallons or multiple tanks exceeding 1,500 gallons total) or distribution facilities for propane/butane gas, hazardous chemical or petroleum/gasoline;
      • adult video/entertainment clubs and stores; or
      • operating industrial facility, including but not limited to steel manufacturers, oil refineries, ports, chemical plants, plastic manufacturers, automotive and engine parts manufacturers, food processing plants.

K. Market Requirements

Proposed developments must be economically viable as justified by the market study findings and meet the following requirements:

1. **CAPTURE RATE**

All developments must have a capture rate at or below 30%.

2. **ABSORPTION/LEASE-UP PERIODS**

Developments must have absorption/lease-up periods of 12 months or less.

3. **SAME MARKET AREA**

Applications may not be for the same tenant populations within the same defined market area of existing Authority funded developments (including but not limited to LIHTCs, tax exempt bonds, small rental development) that have vacancy rates greater than ten percent (10%) during the second and fourth quarter of the previous year’s operations. The Authority may make exceptions if the reason is not a market issue.

The analyst must reach a specific conclusion regarding whether the proposal would cause a lease-up or occupancy problem for any existing or awarded (not yet built) LIHTC project in the primary market area.

L. Targeting, Public Housing Agency Waiting Lists, and Average Income

1. The Application must state whether the development will target families or older persons as described below.
   a. **Family Development**: For new construction developments, at least
• twenty-five percent (25%) of the low-income units must contain three (3) or more bedrooms and
• ten percent (10%) must be one (1) bedroom, studio, or single room occupancy.

b. Older Person Development: All new construction developments are limited to studios, one (1) bedroom or two (2) bedroom units and must be accessible by elevator for all floors above ground level.

2. All developments must serve individuals on Public Housing agency waitlists. After award, the Owner must send a letter to the PHA confirming it intends to serve individuals on the PHA waiting lists.

3. Applications awarded in 2023 may utilize the average income minimum set-aside. Projects utilizing the average income set-aside may not
• contain market-rate units,
• propose average designations exceeding 60% of area median income (AMI) for any bedroom type (pro-rata distribution), or
• change a unit designation without Authority approval.

The Authority may waive the foregoing, if necessary, for a rehabilitation application to better fit the household incomes of in-place tenants.

For projects with more than one building, owners must select that each building is part of a multiple building set-aside on the IRS Form(s) 8609.

M. Mandatory Design Criteria

Projects must comply with the applicable minimum design requirements, in Appendix B. The applicant must request any waiver of the mandatory design criteria specified in the QAP and Appendix B no later than 30 days prior to the full application submission deadline.

N. Rehabilitation

1. The PNA for rehabilitation projects must show a minimum of $40,000 per unit in hard construction costs, excluding major systems that have been replaced within the past seven (7) years. At least $20,000 must be attributed to the interior of the units.

2. Buildings in senior projects with units entirely on floors above the ground level must install elevators. The application must support the costs reflected in the application.

3. No more than ten percent (10%) of the existing tenants may be permanently displaced and any such displacement must have advance approval from the Authority.

4. All buildings must be at least fifteen (15) years old and not be deteriorated to the point of requiring demolition.

O. Financial Underwriting

1. Development Costs
   a. The Authority will
      • determine which new construction projects show development budget amounts outside the standard deviation, and
      • require all such applicants to provide explanations.
Inability to explain the costs may result in disqualification of the application.

b. The Authority will evaluate development costs and may adjust costs for reasonableness, necessity, and eligibility or disqualify applications not reflecting an efficient use of federal and/or state LIHTCs.

2. Reserve Requirements
   a. Operating Reserves
   Developments with loans from RD may satisfy the operating reserve requirement by establishing and maintaining the RD-required operating and maintenance capital reserve account. Developments not subject to the RD reserve requirements must establish and maintain minimum operating reserves equal to six (6) months of:
      • projected operating expenses; and
      • must-pay debt service.

   For any budgeted reserves in excess of the requirement above, justification and support must be provided for the excess amounts (required by syndicators or lenders). If the justification and support is not provided or is insufficient, these reserves may be written down to the Authority requested amounts.

   The reserve must be funded prior to issuance of 8609s and must be maintained throughout the compliance period. Reserves must remain with the property at the time of the investor exit.

   b. Replacement Reserves
   Developments must establish and maintain minimum replacement reserves throughout the compliance period of $300 per unit annually. Any additional reserves must be required by the syndicator and verified in writing and may not exceed $450 per unit annually or the RD-required minimum. The reserves must be reflected in the development’s annual audited financial statements.

   Replacement reserves must be funded with annual deposits from operational cash flow (not pre-funded) during the initial twenty (20) years.

3. Maximum Developer Fees, Developer Overhead, and Consultant Fees (the “Fees”)
   The sum of Fees may not exceed the following:
   a. New Construction and Rehabilitation – the lesser of fifteen percent (15%) of Total Development Costs less Land, Consulting Fees, Developer Fees, Developer Overhead, Other Developer Costs and Reserves, or:
   b. A cumulative amount of:
      • $25,000 per unit for the first 50 units
      • $20,000 per unit for units 51 - 100
      • $15,000 per unit for any units more than 100

4. Deferred Developer Fee
   a. Developer fees can be deferred to cover a gap in funding sources when:
      • The entire amount will be paid pursuant to the standards required by the Code to stay in basis;
      • The deferred portion does not exceed fifty percent (50%) of the total at full application submission. This limitation will not apply when the Placed-in-Service application is submitted if a greater deferral of developer fee is necessary for project feasibility;
      • Payment projections do not jeopardize operations; and
• The application includes a statement describing the terms of the deferred repayment obligation, any interest rate charged, and the source of repayment.

b. Nonprofit organizations must include a resolution from their Board of Directors authorizing a deferred payment obligation from the development.

c. The submitted cost certification must include a Note evidencing the principal amount and terms of repayment of any deferred repayment obligation.

5. **Contractor Cost Limits and Cost Certification**
The combined total of Contractor Profit, Overhead, and General Requirements (the “Contractor Fees”) shall be limited to fourteen percent (14%) of Hard Construction Costs, of which 6% is contractor profit, 2% is overhead and 6% is general requirements. For new construction developments, the contractor contingency may not exceed five percent (5%) of hard construction costs. For rehabilitation and adaptive reuse developments, the contractor contingency may not exceed ten percent (10%) of hard construction costs.

At placed in service, all awarded Development Teams must submit a Contractor Cost Certification as to the actual costs incurred in construction of the project. A CPA must perform an audit and issue an opinion letter in accordance with Generally Accepted Accounting Principles and Generally Accepted Auditing Standards and execute the CPA Certification Form. The Cost Certification will include an audit opinion letter from a CPA certifying the contractor’s actual costs. The Authority will use industry standards to determine the total actual allowable cost for construction and may reduce the LIHTC allocation.

6. **Annual Operating Expenses**
All applications must submit projected annual operating expenses between $3,500 and $5,000 per unit per year, excluding reserves, property taxes, and the annual compliance monitoring fees. The Authority may consider waivers on this operating expense range if special circumstances apply. Placed-in-service applications may utilize the annual operating expense range represented in the QAP that is current at the time that the placed-in-service application is submitted to the Authority.

7. **Debt Coverage Ratio**
The development’s first year DCR must be within the range of 1.15 to 1.45. A proposed development may exceed the maximum for financial feasibility purposes, but the Authority will use the maximum when calculating the LIHTCs. The pro-forma must demonstrate maintaining not less than a 1.10 DCR throughout the first 20 years of operations.

The Authority will waive the 1.45 maximum if the initial projected annual Cash Flow/Unit does not exceed nine hundred dollars ($900).

8. **Expense Coverage Ratio**
For developments without repayable debt, the initial Expense Coverage Ratio must be a minimum of 1.10 and the initial projected annual cash flow per unit may not exceed $900.

9. **Funding Sources**
Applications with “soft loans” (e.g., Affordable Housing Program, Deferred Developer Fees) must adequately explain the repayment terms. Income generated by a property during the construction or rent up period may not be used as a funding source.

If the development is eligible for other types of tax credits, the application must include an Exhibit OC demonstrating the calculation of the equity generated by each of the other types of credits. This exhibit must include information on the basis, annual credit amount, the syndication factor, and any
other variables that determine the equity to be generated by the other types of tax credits.

10. **Permanent Financing**
   a. Applications must include a letter of intent for all permanent financing sources. The Authority will underwrite debt from a bank or other private sector lender at the interest rate determined based on a survey of lenders. The letter must clearly state:
      i. the term;
      ii. the amortization period;
      iii. how the interest rate will be indexed;
      iv. the current rate at the time of the letter;
      v. the anticipated principal amount of the loan; and
      vi. the lien position.

   b. All permanent loans must have a term of at least fifteen (15) years. No balloon payment may be due prior to fifteen (15) years after conversion to permanent. All permanent loans must amortize so that debt service is paid in equal installments over a period between thirty (30) and forty (40) years (fifty (50) years for RD properties).

11. **Annual Rent, Expense Trends and Vacancy Rates**
   The Authority will increase rents two percent (2%) annually and operating expenses three percent (3%) annually. The vacancy rate will be the greater of seven percent (7%) or as represented in the market study.

   For rehabilitation developments with project based rental assistance on at least fifty percent (50%) of the total units, the Authority will consider allowing a five percent (5%) vacancy rate if the development can demonstrate a history of lower vacancy rates for an extended period of time.

   For new construction developments with project based rental assistance on at least seventy-five percent (75%) of the total units, the Authority will allow a five percent (5%) vacancy rate.

   The applicant must request the five percent (5%) vacancy rate and provide justification. The Authority will make the final determination of whether to utilize a five percent (5%) vacancy rate for underwriting.

12. **Other Income**
   Application must clearly specify any projected income from services or charges other than monthly rental of units. Other Income projections may not exceed three percent (3%) of the total potential annual rent.

13. **Brokering / Reselling of Services to Tenants**
   Applications may not include revenue and expenses resulting from acting as a broker or reseller of services to tenants.

14. **Minimum Hard Cost Requirement**
   Applications must reflect a minimum hard cost ratio of not less than sixty-five percent (65%) of total development costs.

   Hard Costs are the following line items on the development cost budget in the Application:
   - Land
   - Existing Structure
   - Demolition
15. **Rent Allowances for Project Based Rental Developments**

At full application, acquisition/rehabilitation developments with existing HUD approved Housing Assistance Payments (HAP) contracts/NOF or RD approved rental assistance contracts may propose rents higher than the current approved contract rents if:

a. the third party market study submitted in the application package supports the higher rents;

b. a copy of the approved rent schedule currently in effect is also submitted; and

c. a copy of the pre-development/rehabilitation Rent Comparability Study, if performed before the full application deadline, is submitted.

For new construction applications, evidence that an application for rental assistance has been submitted and received by the appropriate federal agency; or a copy of the approved contract/NOF if one exists.

At placed in service application submittal, the following must be submitted:

a. a copy of the current contract/NOF from the appropriate federal agency;

b. a copy of the post-development/rehabilitation Rent Comparability Study; and

c. a copy of the approved rent adjustment document in effect on the placed in service date.

16. **Syndication Information**

The Authority will underwrite federal and state LIHTC investment using syndication rates determined based on a survey of equity providers and will post the results no later than 60 days before the full application deadline.

17. **Ground Leases**

The Authority will underwrite debt related to the lease at the lesser of its actual terms or the annual debt service produced by amortizing the appraised value of the land at the same rate and terms as the permanent loan over a term of 50 years. The DCR rules in this QAP will apply.

**IX. POST AWARD AND 4% LIHTC POLICIES AND PROCEDURES**

The policies and procedures applicable to projects awarded in the competitive funding cycle and to 4% LIHTC applications and awards are set forth in the Appendix E, the LIHTC Manual.

**X. AMENDMENTS TO THE QUALIFIED ALLOCATION PLAN**

THE AUTHORITY MAY AMEND THIS QAP AS NEEDED. ALL AMENDMENTS SHALL BE FULLY EFFECTIVE AND INCORPORATED HEREIN IMMEDIATELY.