NCSHA 2016 Annual Awards Entry Form

(Complete one form for each entry)

Deadline: Wednesday, June 15, 2016

Visit ncsha.org/awards to view the Annual Awards Call for Entries.

Instructions: Type entry information into the form and save it as a PDF. Do not write on or scan the form. If you have any questions contact awards@ncsha.org or 202-624-7710.

Fill out the entry name *exactly* as you want it listed in the program.

Entry Name: Stretching the 9's

HFA: VHDA - Virginia Housing Development Authority

Submission Contact: (Must be HFA Staff Member) Brian Matt **Email:** Brian.Matt@vhda.com

Please provide a 15-word (maximum) description of your nomination to appear on the NCSHA website.

A program that's "stretching" 9% credits by separating new developments into 9% and 4% deals.

Use this header on the upper right corner of each page:

HFA: VHDA - Virginia Housing Development Authority

Entry Name: Stretching the 9's

Select the appropriate subcategory of your entry and indicate if you are providing visual aids.

Communications	Homeownership	Legislative Advocacy	Management Innovation
○ Annual Report	○ Empowering New Buyers	○ Federal Advocacy	○ Financial
○ Creative Media	○ Encouraging New Production	○ State Advocacy	○ Human Resources
○ Promotional Materials and Newsletters	○ Home Improvement and Rehabilitation		○ Operations
			○ Technology
Rental Housing	**Special Needs Housing**	**Special Achievement**	Are you providing visual aids?
◉ Encouraging New Production	○ Combating Homelessness	○ Special Achievement	◉ Yes
○ Multifamily Management	○ Housing for Persons with Special Needs		○ No
○ Preservation and Rehabilitation			

2016 NCSHA
Award Submission

ENTRY NAME:

Stretching the 9's

ENTRY CATEGORY:

Rental Housing
Encouraging New Production

"By creating a unique tax credit point category in its QAP, VHDA incentivized linking the underutilized 4% bond credits with a 9% competitive application. This pioneered a new financing tool that makes larger deals work. Further, VHDA's multifamily finance team diligently addressed the challenges of financing an innovative new hybrid building, working closely with APAH and our investor to ensure the new program was both compliant and financially viable. This kind of tool is especially important in heavily populated areas with a great demand for affordable housing and limited sites. As a result, we accomplished our shared goal of creating new affordable housing here in Northern Virginia that otherwise may have been impossible to develop and finance."

Nina Janopaul, President and CEO
Arlington Partnership for Affordable Housing

Background

Traditionally, there have been two ways that affordable housing developers can receive tax credits to make their deals financially viable – one is through the use of 9% competitive tax credits, and the other is by using 4% tax-exempt bond credits.

However, in Northern Virginia and several other areas of the state, the need for affordable housing is increasing significantly, and the cost to produce this housing is much higher than in other parts of the state. As a result, it takes more credits to produce a tax credit unit in these areas than it does elsewhere in Virginia.

Why/When it was Undertaken

VHDA's Qualified Allocation Plan (QAP) limits the amount of 9% credits that are allocated to any one developer each year. Additionally, due to underutilization of tax exempt bonds and 4% credits in recent years, there is an abundant supply of bond cap available, and by extension the availability of 4% tax credit equity that would otherwise remain unused. Because some developments in high population and high cost areas may exceed the developer's 9% credit limit, <u>VHDA proposed the innovative idea of combining both 9% and 4% credits into its QAP so that developments could be built using a lower amount of 9% credits and without exceeding the 9% credit limit on developers</u>.

"The 9% credits are a finite resource, and in order to maximize their use, we came up with the idea of pairing them with the non-competitive, or automatic, 4% credits," said Jim Chandler, former VHDA Tax Credit Director. "The 4% tax-exempt bonds are very much underutilized currently, and this new program allows us to take advantage of their available bond cap to take pressure off of the 9% credits and create more affordable housing."

The program works by allowing developers to "divide" a development into two separate deals – with two separate owners – on one parcel of land. One development is built with competitive 9% tax credits, and the other is built with the 4% tax-exempt bond credits, thereby "stretching" the competitive 9% credits to maximize their effectiveness and make the deal financially feasible.

As a result of this idea, VHDA has been successfully "stretching the 9's" to help offset affordable housing demand by blending these two pools of tax credits. VHDA implemented this tax credit QAP option in 2015 by instituting high point category incentives that gave people an increased probability of winning credits for their developments.

Why it is Meritorious and Meet NCSHA Award Judging Criteria

Innovative
VHDA was the first housing finance agency in the nation to put incentives in its QAP to encourage these types of developments. Additionally, we believe we have more of these 9%/4% developments being built or planned than any other state in the nation. In fact, six developments choosing this option in the first year it was available (2015) have already been awarded credits, and five have applied for this option in 2016. There was even an additional development that opted for this program after already winning a 9% award. The project had run into cost problems, and VHDA offered them this path as a way to move forward with their project, which possibly would not have been built if they hadn't taken advantage of the tax credit combination deal.

Replicable
Every state HFA can easily replicate this program. By creating QAP point category incentives to encourage maximizing the use of 9% credits, the HFA's can create a powerful tool to offset the housing demand in higher cost areas of their states.

Responds to an important state housing need
VHDA's program creates the ability to fund more affordable units than if they were only allocated 9% tax credits. "In fact, the six developments awarded credits in 2015 using this program produced enough units to allow us to fund an additional development with the 9% credits that weren't used on the competitive side, because they were provided by the 4% tax-exempt bond credits," said Jim Chandler, VHDA's former Tax Credit Director. "While this new option is popular in Northern Virginia, it also helps in other areas of the state by creating more affordable units when tax credit resources are scarce – in fact, we've had several applications from the Blacksburg, Richmond, and Tidewater areas," he added.

Demonstrates measurable benefits to HFA targeted customers
By utilizing this unique program, VHDA has been able to provide additional affordable housing than would otherwise be possible. Without this program, these buildings may not have been built because developers may not have been able to get under the state's 15% tax credit cap to make the deals work.

Proven track record of success in the market place
This program is successfully accomplishing our goal of producing more units with a given amount of 9% tax credits. VHDA has already produced 890 units of affordable housing from the six developments using this program in 2015, and will potentially create 740 units from the five developments applying to use this program in 2016, for a total of 1,630 units.

Benefits that outweigh the costs
The approach of combining tax-exempt bonds and 4% credits with 9% tax credits creates more affordable housing units in Virginia that are available for a minimum of 30 years. This benefit outweighs any additional costs associated with the program. Owners may initially incur increased transaction costs due to the unique nature of the development as this approach is new to many who must opine to or evaluate certain aspects of the structure.

Demonstrates effective use of resources
By encouraging the use of underutilized tax-exempt bond authority, VHDA has maximized the use of 9% and 4% tax credits, and we believe we are the first HFA in the nation to include this financing option in its QAP. In fact, due to the limitations on the amount of 9% credits that a developer can receive each year (15% per developer), this program allows them to make deals financially feasible while staying beneath the state cap.

For example, this idea originated with the Arlington Partnership for Affordable Housing (APAH), a nonprofit housing developer, which wanted to build the Columbia Hills development but exceeded their cap – with this one deal – due to the high costs in Northern Virginia. APAH became the first developer to receive credits as a result of the program's point category incentive, and as such was able to stay under the 15% cap on 9% credits ($2.9 million in credits instead of $3.8 million), thereby allowing the development to proceed and creating more affordable housing in a high-cost area (see Columbia Hills ad in Attachments).

Effectively employs partnerships

Since this program is relatively new, it has created an enhanced partnership between the Authority and developers to ensure that everyone understands the requirements. Also, tax credit syndicators were brought in to be certain that they understood and supported the program. Additionally, VHDA has become close partners with a number of nonprofit developers due to their ability to donate land for the program's land-lease requirement.

Achieves strategic objectives

By "stretching" the 9% credits, this program helps VHDA develop more affordable units in higher cost areas, such as Northern Virginia, that otherwise would not be possible. In fact, VHDA estimates that 1,630 new units will be built as a result of this program by the end of 2016.

Conclusion

As other sources of subsidized funding have disappeared or been reduced, more developers and others in the affordable housing industry are seeking the 9% tax credit as their source of funding. This places significant demand on the LIHTC program., VHDA's new program takes what has recently been an underutilized resource – tax-exempt bonds and 4% credits – and pairs them with the 9% credit program to make it go further.

The program has been offered for two years now, and has been very successful. In fact, the Authority created 890 units through the program in 2015, and we expect an additional 740 units to be built from this year's allocation of credits. These units would not have been possible using traditional affordable housing finance methods.

VHDA is the only HFA in the nation that offers this option through a structured program – it is included in our QAP and Tax Credit Manual, and we offer a strong point incentive for developers choosing this option to finance their developments.

In addition, the program is very easy to replicate, and VHDA staff members are available to speak with other states if they want to implement it.

Attachments:

- Advertisement for APAH's Columbia Hills East and West
- Architectural renderings of Fieldstone Apartments (Blacksburg, VA)
- VHDA QAP and Tax Credit Manual point categories as part of the selection criteria

Stretching Tax Credit Dollars

Courtesy of KGD Architecture

Stretching the 9’s

Each year, it’s a competition as developers apply for a limited supply of tax credits.
This year, developers earned extra points in their applications, with VHDA’s Stretching the 9’s incentive.

Get Points: Since 9 percent tax credits are in short supply and 4 percent bond credits are plentiful, we’re asking developers to help “stretch the 9’s” by combining the two types of credits. In doing so, you could earn up to 40 points on your application for tax credits to help fund your properties.*

2016 Deadlines: Developers interested in points under this incentive must submit a 9 percent application for 2016, and must have an approved tax-exempt bond application submitted prior to Nov. 1, 2016. Bonds must be issued by April 3, 2017. Developments using the Stretching the 9’s incentive must be closed by April 28, 2017.

Questions? Contact J.D. Bondurant, assistant director of LIHTC programs, at 804-343-5725 or email jd.bondurant@vhda.com.

Look Who’s Already Stretching the 9’s:

- Churchill North (Richmond)
- Columbia Hills (Arlington) *pictured*
- Crescent Apartments (Fairfax)
- Clairmont Apartments (Norfolk)
- Fieldstone (Montgomery)
- Lexington I (Portsmouth)

** Points earned depend on percentage of aggregate units funded by tax-exempt bonds.*

Architectural Conceptual Renderings

Clubhouse

Workforce Residences

Senior Residences

		prior to application, (ii) meet with an EarthCraft representative during development planning, (iii) use energy modeling for projections and (iv) accommodate on-site inspections deemed necessary by an EarthCraft representative. To be eligible for these points, there is an additional form to be signed by EarthCraft and submitted with the Architect's Certification. This form can be found as within the form of the Architect's Certification. Final Certification is not given until construction is complete; however, energy modeling projections and the areas of emphasis worksheet will reflect the developer's plans to meet requirements. Please refer to the EarthCraft and LEED Green Building Certification Program websites to access specific programmatic information and documents.
Developments with Less than 100 Low-Income Housing Units	Up to 20	Up to 20 points will be awarded for any development in which the Applicant proposes to produce up to 100 low-income housing units. At 50 units or less, the Applicant can receive the total **20 points**; however, for every unit over 50 units, the score will be reduced **0.4 points**. The Applicant will receive **0 points** for developments with 100 or greater low-income housing units.
9% Developments with 4% Bond Funding on same site	20,30, or 40	Developments funded with 9% Tax Credits that are also to be funded with 4% Tax Exempt Bonds as evidenced by an Approved Tax Exempt Bond credit application submitted prior to December 30, 2016. Bonds must be issued by April 3, 2017. 1. 30% of Aggregate units funded by Tax-Exempt Bonds (20 Points) 2. 40% of Aggregate units funded by Tax-Exempt Bonds (30 Points) 3. 50% of Aggregate units funded by Tax-Exempt Bonds (40 Points) **NOTE:** The timeline for developments receiving points for combining 9% and 4% tax-exempt bond credits will be that both developments must be closed by April 28, 2017. A onetime extension to September 29, 2017 will be allowed with a $10,000 extension fee. Failure to close the tax-exempt bond development by this date will be the loss of the 9% credits and penalty points for three years that are double the points received.
Units Constructed to Meet VHDA's Universal Design Standards	Up to 15	Universal Design emphasizes use by everyone, to the greatest extent possible, without the need for adaptation or specialized design. It is **mandatory** that the Architect of Record attend Universal Design training for these points. Training must have occurred on January 1, 2011 or later. Points are awarded to Applications for developments in

(c) Any development in which the greater of 5 units or 10% of the units (i) have rents within HUD's Housing Choice Voucher ("HCV") payment standard; (ii) conform to HUD regulations interpreting the accessibility requirements of section 504 of the Rehabilitation Act; and (iii) are actively marketed to persons with disabilities as defined in the Fair Housing Act in accordance with a plan submitted as part of the application for credits (all common space must also conform to HUD regulations interpreting the accessibility requirements of section 504 of the Rehabilitation Act.). (30 points)

(d) Any development in which five percent (5%) of the units (i) conform to HUD regulations interpreting the accessibility requirements of section 504 of the Rehabilitation Act and (ii) are actively marketed to persons with disabilities as defined in the Fair Housing Act in accordance with a plan submitted as part of the application for credits. (15 points)

(e) Any development located within ½ mile of an existing commuter rail, light rail or subway station or ¼ mile of one or more existing public bus stops. (10 points, unless the development is located within the geographical area established by the executive director for a pool of credits for northern Virginia or Tidewater MSA, in which case, the development will receive 20 points if the development is ranked against other developments in such northern Virginia or Tidewater MSA pool, 10 points if the development is ranked against other developments in any other pool of credits established by the executive director)

(f) Any development for which the applicant agrees to obtain either (i) EarthCraft certification or (ii) US Green Building Council LEED green-building certification prior to the issuance of an IRS Form 8609 with the proposed development's architect certifying in the application that the development's design will meet the criteria for such certification, provided that the proposed development's architect is on the Authority's list of LEED/EarthCraft certified architects. (15 points for a LEED Silver development or EarthCraft certified development; 30 points for a LEED Gold development or EarthCraft Gold development; 45 points for a LEED Platinum development or EarthCraft Platinum development.) The executive director may, if needed, designate a proposed development as requiring an increase in credit in order to be financially feasible and such development shall be treated as if in a difficult development area as provided in the IRC for any applicant receiving 30 or 45 points under this subdivision, provided however, any resulting increase in such development's eligible basis shall be limited to 5% of the development's eligible basis for 30 points awarded under this subdivision and 10% for 45 points awarded under this subdivision of the development's eligible basis.

(g) If units are constructed to include the Authority's universal design features, provided that the proposed development's architect is on the Authority's list of universal design certified architects. (15 points, if all the units in an elderly development meet this requirement; 15 points multiplied by the percentage of units meeting this requirement for non-elderly developments)

(h) Any development in which the applicant proposes to produce less than one hundred low-income housing units. (20 points for producing 50 low-income housing units or less, minus .4 points for each additional low-income housing unit produced down to 0 points for any development that produces 100 or more low-income housing units.)

(i) Any applicant for a development which, pursuant to a common plan of development, is part of a larger development located on the same or contiguous sites, financed in part by tax-exempt bonds. (20 points for tax-exempt bond financing of at least 30% of aggregate units, 30 points for tax-exempt bond financing of at least 40% of aggregate units, and 40 points for tax-exempt bond financing of at least 50% of aggregate units; such points being non-cumulative)

4. Tenant population characteristics: