STATE OF HAWAII

LOW-INCOME HOUSING TAX CREDIT PROGRAM

2025 QUALIFIED ALLOCATION PLAN

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I. INTRODUCTION

The Low-Income Housing Tax Credit (LIHTC) Program is governed by Section 42 of the Internal Revenue Code (IRC). The State of Hawaii created a State LIHTC which is equal to fifty percent (50%) of the Federal LIHTC allocated to a project. The Hawaii Housing Finance and Development Corporation (HHFDC) has been designated as the agency responsible for the administration of both Federal and State LIHTC Programs for the State of Hawaii.

In accordance with Section 42 of the IRC, HHFDC developed this Qualified Allocation Plan (QAP or "allocation plan") which sets forth the criteria to evaluate and allocate LIHTC to projects which best meet the housing needs of the State and preferences required by Section 42 of the IRC, and the procedure to monitor for compliance with the provisions of the LIHTC Program.

This allocation plan is effective for reservations and awards of LIHTC for the calendar year 2025. The QAP is subject to amendment by HHFDC Board of Directors.

In the process of administering the LIHTC and other programs, HHFDC will make decisions and interpretations regarding the QAP and project applications. Unless otherwise stated, HHFDC is entitled to the full discretion allowed by law in making all such decisions and interpretations.

II. APPLICATION AND AWARD PROCESS

Applications for the LIHTC are available on the HHFDC website at
https://dbedt.hawaii.gov/hhfdc/developers/consolidated-application-financing/

Applications for LIHTC must be submitted to HHFDC no later than the indicated deadline. HHFDC may defer the consideration of any application if doing so in the best interest of meeting housing needs.

HHFDC will rank complete and accepted applications in relation to others in the current funding round. The amount of LIHTC reserved or allocated to a particular project will be limited to the minimum HHFDC deems necessary to make the project feasible.

The allocation plan utilizes selection criteria to facilitate project ranking. The criteria are an important component in determining project ranking but may not be the sole determining factor for LIHTC awards. HHFDC also may consider other relevant factors that it deems to be in the best interest of affordable housing for the State of Hawaii, including, but not limited to:

1. Development team experience and performance;
2. Financial condition and performance;
3. Related developments;
4. Development timing;
5. Tenant health and safety;

6. “At-risk” conversions;
7. Housing inventory;
8. Affordable housing policies at the State and County levels;
9. Development and operating budgets; and
10. Market conditions.

III. THRESHOLD AND SELECTION CRITERIA

A. REGISTRATION AND CURRENT APPLICATION:

1. Failure to comply with the requirements of this subsection III(A) by 9% LIHTC or 4% LIHTC applicants will result in immediate rejection of the application for the corresponding application round. The Applicant also will be restricted from applying for any HHFDC resources in the next HHFDC financing round following the rejection date or twelve (12) months from the rejection date, whichever is longer.

   Each application will identify one validly existing entity as the Applicant. Only the identified Applicant will have the ability to make decisions regarding that application. The Applicant may enter into joint venture or other agreements, but HHFDC will not be responsible for evaluating those documents to determine the relative rights of the parties. If the application receives an award, the Applicant or an affiliated entity must become a managing member or general partner of the ownership entity.

2. The Applicant must be registered to do business within the State of Hawaii and provide evidence of such at the time of application along with a vendor compliance certificate from the State of Hawaii Procurement Office.

3. After HHFDC’s Board of Directors adopts a new, amended, or updated QAP, HHFDC will not accept any applications for HHFDC resources until it issues a Consolidated Application that takes into account the corresponding new, amended, or updated QAP. HHFDC prohibits the submission of any prior versions or otherwise unauthorized versions of its Consolidated Application. Only the Consolidated Application posted for the current year’s funding round are acceptable.

B. MINIMUM THRESHOLDS:

Applications must meet all of the following Minimum Threshold requirements to receive consideration for an allocation or award of LIHTC.

Failure to meet any Minimum Threshold will result in the immediate rejection of the application.

1. **Market Study**
   Applications must include a Market Study which complies with Appendix 1.

2. **Site Control**
   The Applicant or an affiliated entity must have control of the site in a form acceptable to HHFDC and submit one of the following with the application: an executed lease or sales option agreement, fee simple deed, executed land lease, or any other documentation acceptable to HHFDC. Evidence of site control must be provided for all proposed sites.

   All lease terms must extend a minimum of five (5) years past the affordability commitment period.

3. **Project Readiness - All LIHTC applications**
   The proposed project must have the following discretionary approvals at the time of application, as applicable (with supporting evidence and documentation satisfactory to HHFDC).

   - Zoning Approval/Compliance
   - Special Management Area (SMA)
   - Other approvals HHFDC deems necessary to determine the readiness of the project.

4. **Engineering or Capital Needs Assessment**

   a. Applications for new construction must include a preliminary engineering report (PER) for the sitework containing analysis of necessary water, sewer, drainage, electrical, and roadway improvements which are needed for the development and the following:

      - scope of report;
      - existing conditions (current state of project);
      - evaluation of existing infrastructure and systems, including but not limited to site conditions, drainage;
      - description of new proposed project;
      - cost estimates including engineering, construction, contingency and overall project cost; and
      - project timeline and schedule.

   b. Applications for projects acquiring an existing property must include a capital needs assessment by a competent third party identifying:

      - deferred maintenance, physical needs and deficiencies, and material building code violations that affect the property's use, structural and mechanical integrity, and future physical and financial needs;

- any work that must be completed immediately to address health and safety issues, violation of Federal or State law, violation of local code, or any work necessary to ensure that the building can continue to operate as affordable housing.

All units need to be reviewed.

5. **Plan and Cost Review (all applications)**

Submit a certified cost estimate (plan and cost review) by an independent, third-party construction estimator (with a minimum of 5 years' experience) for rehabilitation and vertical construction based on a preliminary design.

The plan and cost review should review the following key elements:

a. Cost – Are the costs appropriate for the project?

b. Constructability – Are the plan adequately detailed and well designed so that the project will not run into excessive change orders?

c. Contingencies – Is there an adequate contingency amount for contingencies that arise during construction?

6. **Public Housing Waitlist/Homeless Services Programs**

The Applicant will certify that all low-income units will be made available to people on the waiting list for low-income public housing and/or an acceptable shelter program. Applications must include the following (refer to exhibit list):

a. Public Housing Waitlist/Homeless Services Certification.

b. Copy of the letter submitted to the local public housing authority which administers the public housing waiting list.

c. Copy of the letter submitted to the Department of Human Services, Homeless Programs Office.

7. **Smoke Free**

All projects will be smoke free. Owners must submit a certification that it will prohibit smoking in all indoor common areas, individual living areas (including balconies and lanais), and within 25 feet of building entries or ventilation intakes. A non-smoking clause must be included in the lease for each household.

8. **Contractor Profit Limitation**

a. Contractor's profit, including general requirements and overhead, shall not exceed 14.0% of hard construction costs.

b. Contractor General Requirements include insurance, security, fencing, etc.

c. The Project will evidence compliance with this section at application through the Consolidated Application.

d. The Project will evidence compliance with this section at project completion through the audited final cost certification.

e. The contractor profit limitation is a requirement of the developer and the contractor. Contractor Profit Percentage is calculated as follows:

   i. Contractor Profit (numerator) is the sum of the following items:

      - Site Work: Contractor Profit
      - Site Work: Contractor Overhead
      - Site Work: Contractor General Requirements
      - New Building/Rehabilitation: Contractor Profit
      - New Building/Rehabilitation: Contractor Overhead
      - New Building/Rehabilitation: Contractor General Requirements

   ii. Construction Costs (denominator) is the sum of the following items:

      - Site Work: Cost
      - New Building/Rehabilitation: Cost
      - Excluding Contractor Profit for Sitework and New Building/Rehabilitation

   iii. Contractor Profit Percentage is Contractor Profit divided by hard Construction Costs and shall not exceed 14.0%

   iv. If there are multiple prime contractors, each contractor's profit, including general requirements and overhead, may not exceed 14.0% of the hard construction costs for that contract.

9. **Debt Service Ratio**

a. Projects with hard debt service requirements with or without an application for an RHRF Project Award Loan must evidence a Debt Service Ratio of no less than 1.15x on all hard debt service requirements for the duration of the initial 15-year LIHTC compliance period. Applicants may underwrite an RHRF Project Award based on required terms, including cash flow contingent payments.

b. Projects with no hard debt service requirements and applying for an RHRF Project Award Loan must evidence a Debt Service Ratio of no less than 1.15x on the requested RHRF loan for the duration of the amortization period. The Applicant is required to use the following assumptions in underwriting the RHRF loan:

i. Interest Rate: Long-Term Applicable Federal Rate in effect for the month the Consolidated Application is released.

ii. Amortization: Full Amortization over 35 years.

c. Projects with no hard debt service requirements and not applying for an RHRF Project Award Loan must evidence positive Net Operating Income throughout the affordable commitment period indicated in the Consolidated Application.

d. Hard Debt Service:

i. Defined as scheduled regular and periodic principal and/or interest payments of project loan obligations made for its direct benefit, as evidenced by a note and loan agreement.

ii. The Applicant is required to support all hard debt service loans and terms with executed lenders' commitment letters, letters of interest, or term sheets under the Consolidated Application.

e. Applicants must use the following parameters and assumptions in preparing the Operating Proforma of the Consolidated Application:

i. Annual Income Inflation Rate of 2.0% and Annual Expense Inflation Rate of 3.0% for the first 15 years or term of the first mortgage, whichever is greater.

ii. Annual Income Inflation Rate of 2.0% and Annual Expenses Inflation Rate of 2.0% for the remaining term of affordability.

iii. Vacancy Rate of no less than 5.0%.

iv. Annual Replacement Reserve Allocation of no less than $300 per unit per year with an Annual Inflation Rate of 3.0%.

10. **Phase I Environmental Assessment**

Required for all applications, dated within one (1) year of the application deadline. For acquisition/rehabilitation projects, the Phase I Environmental Assessment should address lead-based paint and asbestos.

11. **Proof of Non-Profit Status**

If applying under the Federal non-profit set aside, submit the following:

a. Articles of Incorporation; and

b. Copy of a current 501(c)(3) IRS Tax Exemption Letter

12. **Developer Fee**

    a. Total Developer Fee includes developer fee, developer overhead, management fee, consultant fee, etc. (as indicated in the Developer Fee section of the Consolidated Application). Exceeding the threshold below results in immediate rejection of the application.

    b. 9% LIHTCs:

        i. New Building – maximum total developer fee of $55,000 per unit or $4,750,000 (whichever is less).

        ii. Existing Building (For both Existing Buildings used for housing and Existing Buildings not used for housing) – maximum total developer fee of 40% of the rehabilitation hard costs (defined in Exhibit B-1 of the Consolidated Application) or $4,750,000 (whichever is less).

    c. 4% LIHTCs and Bonds: Add the following amounts to the calculations above. The $4,750,000 alternative maximum does not apply.

        i. New Building – five percent (5%) of net eligible basis, not including DDA/QCT boost, less total developer fee.

        ii. Existing Building (For both Existing Buildings used for housing and Existing Buildings not used for housing) – five percent (5%) of total acquisition cost up to a maximum of $750,000.

13. **Minimum Affordability Period**

    a. Applicants requesting an award of LIHTCs must commit to a minimum affordability period of 45 years.

    b. Acquisition/Rehabilitation of an Existing Building used for housing: affordability period must also exceed any pre-existing affordability period by no less than 30 years.

    c. All owners will waive their right to request a qualified contract.

14. **LIHTC Developer Experience**

    a. Minimum of one (1) LIHTC project placed in service by the Applicant or an affiliated entity. A LIHTC project that was placed in service in which the Applicant’s consultant had a contractual obligation with the Project Owner throughout the construction/rehabilitation period and continues to participate in the management of the project throughout the extended use period (as defined and required by IRC section 42(h)(6)(D)), may satisfy the LIHTC developer experience requirement, subject to the submission of supporting documentation.

    b. Minimum of one (1) LIHTC project currently managed by the Management Agent.

C. LOW-INCOME HOUSING TAX CREDIT PROJECT FINANCED WITH TAX-EXEMPT BONDS:

Applicants may apply for an allocation of LIHTC with either

- a commitment to issue private activity bonds from a state or local government, or
- an application for Private Activity Tax-exempt bonds from HHFDC.

Applicants requesting LIHTCs must submit all documentation required in the application and will be subject to all feasibility reviews, but are not subject to scoring under the Criteria Point System.

D. CRITERIA POINT SYSTEM:

Each application will be evaluated and awarded points in accordance with the following criteria. Unless otherwise indicated, all references to low-income unit(s) or low-income rental unit(s) shall mean LIHTC unit(s).

Criterion 1. LIHTC and HHFDC Resource - Efficiency and Leveraging 0 to 10 points

1A – LIHTC and HHFDC Resources Efficiency 0 to 5 points

Applicants score under this criterion based on the ratio of HHFDC resources (LIHTC, RHRF, DURF, or any other Permanent Financing provided by or through HHFDC) over the number of LIHTC units as follows:

$$\frac{[(\text{Federal LIHTC Request x 10}) + \text{HHFDC Permanent Financing Request}]}{\text{Number of LIHTC Units}}$$

The applicant with the lowest ratio receives 5 points, the applicant with the highest ratio receives 0 points, and those with ratios between the highest and lowest receive a proportional number of points based on their proximity to the lowest ratio. A project's score depends on the ratio of other projects in its application round.

1B – LIHTC and HHFDC Resources Leveraging 0 to 5 points

Applicants score under this criterion based on the ratio of HHFDC resources requested (LIHTC, RHRF, DURF, or any other Permanent Financing provided by or through HHFDC) over total project cost as follows:

$$\frac{[(\text{Federal LIHTC Request x 10}) + \text{HHFDC Permanent Financing Request}]}{\text{Total Project Cost}}$$

The applicant with the lowest ratio receives 5 points, the applicant with the highest ratio receives 0 points and those with ratios between the highest and lowest receive a proportional number of points based on their proximity to the lowest ratio. A project's score depends on the ratio of other projects in its application round.

Criterion 2. County Income Adjuster 0 to 2 points

Applications receive points under this criterion based on the MTSP income limits as determined by HUD for the county in which the project is located.

HHFDC will use the 60%, 4-person income limit for determining point allocations between the counties as follows:

County based points are 0 to 2 rounded to the nearest hundredth (0.00) based on the lowest income limit. The county with the lowest limit receives 2 points while the county with the highest income limit receives 0 points. Points for the remaining counties are based on their proximity between the highest and lowest income limits. Please see example below based on the 2021 income limits.

		Honolulu	Hawaii	Kauai	Maui
2021 MTSP Income Limit (4 person/60% AMGI)		71,480	51,360	61,140	61,980
Lowest Income Limit		(51,360)	(51,360)	(51,360)	(51,360)
Project's Difference from Lowest Ratio		**20,120**	**-**	**9,780**	**10,620**
Range Between Highest and Lowest Ratio	20,120				
Maximum Points Available	2				
Range Value Per Point	**10,060**				
Project Points Available		2.00	2.00	2.00	2.00
(Project's Difference/Range Value Per Point)		(2.00)	-	(0.97)	(1.06)
Net Points Scored		**-**	**2.00**	**1.03**	**0.94**

Criterion 3. Reasonableness of Development Costs 0 to 12 points

A. Existing Building used for housing projects receive zero (0) points. New Building projects and Existing Buildings not used for housing will be ranked and scored as follows:

1. Projects will receive 0 to 6.0 points (rounded to the nearest 0.00) based on the lowest and highest total development cost per residential square foot (total gross square feet of the residential and manager units).

    - The project with the lowest total development cost per residential square foot will receive 6.0 points.

- The project with the highest total development cost per residential square foot will receive 0 points.
- Other projects will receive a percentage of the 6.0 points based upon where the subject project's cost falls among the range of costs (highest cost less lowest cost).
- For example, a project whose cost is 25% of the way from the lowest cost to the highest cost will receive 75% * 6.0 = 4.5 points, and a project whose cost is 75% of the way from the lowest cost to the highest cost will receive 25% * 6.0 = 1.5 points.
- The formula used is (subject to correction of any typos): = (1 - ([Subject Project's cost] – [Lowest Cost]) / ([Highest Cost] – [Lowest Cost])) * 6.0.

2. Projects will receive 0 to 6.0 points (rounded to the nearest 0.00) based on the lowest and highest total development cost per unit.
   - The project with the lowest total development cost per unit will receive 6.0 points.
   - The project with the highest total development cost per unit will receive 0 points.
   - Other projects will receive a percentage of the 6.0 points based upon where the subject project's cost falls among the range of costs (highest cost less lowest cost)
   - The example and formula are the same as listed above for the cost per square foot.

B. Total development costs of mixed-use projects with substantial non-residential use (including public and commercial uses) with its own non-HHFDC financing, may be evaluated without the non-residential component by proportionately reducing the total development costs based upon the gross floor area of the non-residential, and excluding the gross floor area of the non-residential use from the gross building area. For mixed income projects with a substantial number of units not being financed by LIHTC, the cost and area of these units may be discounted if the applicant can provide a clear and reasonable cost breakdown for the units not considered affordable under this program.

Criterion 4. Applicant's Readiness 0 to 24 points

Identification of serious issues in need of resolution for the project to proceed in a timely manner and the ability of the Development Team to resolve these issues such that the development of the Project will commence in a timely manner. (For example, lack of adequate financing sources; land use and zoning issues; or utility, water, and sewer availability.)

A. Is the project schedule reasonable for the proposed development? Are there any unresolved development issues, e.g., are there restrictions on water or sewer availability? Are there any issues with the project budget (e.g., is it adequate)? (8 points)

B. Are there any discretionary approvals outstanding Chapter 343, HRS environmental requirements, land use/zoning including Chapter 201H exemptions, and other necessary discretionary approvals. (max of 8 points)

C. Are there any ministerial approvals outstanding (e.g., subdivision)? Have the construction drawings been completed and under review by the approving agencies? For existing projects, have all the necessary studies been completed (e.g., hazardous waste assessments)? (8 points)

Criterion 5. Tenant Services and Amenities 0 to 4 points

Tenant services and amenities that will enhance the livability of the project.

Criterion 6. Project-Based Rental Assistance Subsidies 0 to 4 points

Project will be receiving, for the first time, project-based rental assistance subsidies for at least half of the units which would result in eligible tenants paying approximately 30% of their gross monthly income towards rent. Eligible programs include, but are not limited to, the Rural Development 515 Loan Program and HUD Section 8 project-based Rental Assistance Program.

If the answer to the question is NO 0 points are awarded

If the answer to the question is YES 1 to 4 points are awarded

If all the units have project-based subsidies, then the application earns 4 points. If only a portion of a project has project-based subsidies, then the scoring will be adjusted based upon the percentage of units subsidized. The percentage is derived as "Number of Subsidized Units / LIHTC and non-LIHTC subsidized units," provided they are developed simultaneously.

Criterion 7. State/Local Government Financing 0 to 5 points

The project will be receiving a permanent below market loan or grant from a State or local governmental agency other than HHFDC.

The project has received a commitment for a permanent below market loan, or grant, of at least $10,000 but less than $80,000 per unit. A copy of a commitment letter, government action or contractual agreement must be included in the application. 2 points

The project has received a commitment for a permanent below market loan, or grant, of more than $80,000 per unit. A copy of a commitment letter, government action or contractual agreement must be included in the application. 5 points

Criterion 8. State/Local Government Owned Land 0 to 5 points

The project has received a lease from a government agency (including HHFDC) on property owned prior to the application date. Property acquired by the government agency after the application date will not be eligible to receive points under this criterion.

Criterion 9. Energy Efficiency and Green Building 0 to 4 points

Projects which promote smart growth, energy, and water conservation, operational savings and sustainable building practices in affordable housing design may be awarded up to 4 points as follows:

Projects can score points in only one category. If an Applicant attempts to elect more than one category, the project shall not receive any points in this criterion.

Applicants must submit a certification from the architect confirming that the Project can meet the required building standards for the category selected below (refer to exhibit list of the Consolidated Application). For example, if an Applicant selects LEED Gold, the architect must certify that the Project can meet the LEED Gold standard. If the certification is missing or if it does not reconcile with the Applicant's election, the Project will not receive any points in this criterion.

EPA Energy Star v3	Enterprise Green Comminities	USGBC LEED for Homes - v4 HD & C	Normal Green Building Standard (NAHB)	No. Points
X	Certified	Certified	Bronze	1
		Silver	Silver	2
		Gold	Gold	3
		Platinum	Emerald	4

http://www.energystar.gov/index.cfm?c=new_homes.hm_index

http://www.enterprisecommunity.com/solutions-and-innovation/enterprise-green-communities

http://greenhomeguide.com/program/leed-for-homes

http://www.nahbgreen.org/NGBS/default.aspx

Upon completion of the project, owners must submit a certification from either the appropriate regulating entity or the Project architect confirming that the Project has met the standard selected. Failure to provide the certification may result in forfeiture of the good faith deposit.

Criterion 10. Project Location and Market Demand 0 to 6 points

The points awarded will be based on HHFDC's evaluation of factors such as, but not limited to the Project being located in a county's urban core/district (preference) versus rural district and is accessible to employment opportunities and shopping; and recreational, medical and educational facilities are located in the immediate vicinity of the project site.

Located in a County's urban core	3 points
Located in an urbanized area	2 points
Located in a master planned community	1 point
Located in a rural district in proximity to employment opportunities and medical and educational facilities	1 point

Project may earn up to 3 additional points for availability of a mass transit station/stop within 0.5 miles. For Oahu, projects may earn 3 points for being within 0.5 miles of a rail transit station or a bus stop with peak bus service of at least 5 buses per hour, or 1.5 points for being within 0.5 miles of a bus stop with any level of service frequency. For neighbor islands, projects may earn 3 points for being within 0.5 miles of a bus stop with peak bus service of at least 3 buses per hour, or 1.5 points for being within 0.5 miles of a bus stop with any level of service frequency.	3 points

Criterion 11. Developer and Property Management Experience 0 to 10 points

Applicants receive scores for this criterion based on the following:

A. The development team (inclusive of its general partners, co-developers, management agents, and other members/agents) demonstrating the ability to meet all terms, conditions, and requirements set forth in the application materials will be awarded up to 6 points. Any applications submitted to HHFDC within the previous five-year period may be considered when awarding points for this criteria.

B. Number of LIHTC projects placed in service by the Applicant or an affiliated entity. The number of LIHTC projects placed in service in which the Applicant's consultant that had a contractual obligation with the Project Owner throughout the construction/rehabilitation period continues to participate in the management of the project throughout the extended use period (as defined and required by IRC section 42(h)(6)(D)), may be included in the scoring of this Criterion, subject to the submission of supporting documentation.

Projects Placed in Service	Points
None	0
1 – 5	0.5
6+	1

C. Number of LIHTC projects placed in service in Hawaii, without extensions, additional HHFDC resources, or other accommodations, by the Applicant. (HHFDC may elect to award points despite having granted an accommodation.) The number of LIHTC projects placed in service in which the Applicant's consultant that had a contractual obligation with the Project Owner throughout the construction / rehabilitation period and continues to participate in the management of the project throughout the extended use period (as defined and required by IRC section 42(h)(6)(D)), may be included in the scoring of this Criterion, subject to the submission of supporting documentation.

Projects Placed in Service	Points
None	0
1 – 3	0.5
4+	1

D. Number of LIHTC projects managed by the Management Agent.

Projects Managed	Points
None	0
1 – 5	0.5
6+	1

E. Number of LIHTC projects located in the State of Hawaii managed by the Management Agent.

Projects Managed	Points
None	0
1 – 3	0.5
4+	1

Criterion 12. Length of Affordability Commitment 0 to 7 points

Applicants shall receive points for committing to an additional use period beyond the minimum "extended use period" as defined and required by IRC section 42(h)(6)(D). The election will be recorded in the Restrictive Covenant Document.

Points will be awarded based on the following:

Total Extended Use Period (Total Length of Affordability Commitment):	Points
Perpetuity	7 points
61 years or more	5 points
55 to 60 years	4 points
50 to 54 years	3 points
45 to 49 years	2 points

Applicants electing perpetual affordability for their project must submit an additional exhibit detailing a comprehensive plan for funding reserves and necessary capital improvements. The plan must outline strategies to secure sufficient capital throughout the project's useful life and beyond, without relying on additional HHFDC resources. It should include a detailed financial projection to support the property's long-term physical and financial sustainability.

Criterion 13. Available and Minimum Unit Sizes 0 to 5 points

An Application will receive up to 3 points if it elects to provide affordable housing that provide larger units which are available to individuals with children or large families according to the following schedule:

20% or more of the total units are 1-bedrooms	1 point
20% to 39% of the total units are 2-bedrooms or larger	1 point
40% or more of the total units are 2-bedrooms or larger	1 point

For all new construction applications, compliance with the minimum unit sizes below will result in 2 points. The measurements below will be only for square footage which is exclusively for the use of that unit and is fully enclosed, conditioned, and secured, measured interior finish face of wall to interior finish face of wall, and does not include exterior wall square footage. Unconditioned, unenclosed, or unsecured areas such as lanais, patios, decks, porches, stoops, or unattached storage rooms cannot be included.

Studio	300 square feet
1 BR	360 square feet
2 BR	520 square feet
3 BR	720 square feet
4 BR	880 square feet

Criterion 14. Special Housing Needs 0 to 2 points

Projects will provide housing for tenant populations with special housing needs.

For the purpose of this QAP, "special housing needs" mean persons receiving a disability source of income, a survivor of domestic violence, frail elders, or individuals experiencing homelessness.

Projects may receive up to 1 point for the criterion if it commits to provide services that will enhance the livability of the project for tenant populations with special housing needs. The point awarded is based on the quantity and quality of services provided as well as the status of commitment to such services. The maximum points will be awarded only to Applicants that have an executed commitment to serve this project by a third-party service provider or if Applicant or owner is an experienced provider of the proposed services.

All such services shall be optional to the tenant and shall be provided at no additional cost to the tenant.

Projects must demonstrate the feasibility of providing these services throughout the compliance period as part of its application. The owner shall certify the feasibility of the services provided in the application accompanied by supporting documentation during the compliance period.

The Market Study must include an analysis of market demand for tenants with special housing needs.

Projects that commit to providing housing for tenant populations with special housing needs will be required to have those units occupied by the special housing needs tenants. The Declaration of Restrictive Covenants for Low Income Housing Credits will restrict the occupancy of the specified units to special housing needs tenants for the duration of the committed affordability period. For example, if a project commits 10 of the 60 LIHTC units for special housing needs tenants, those units shall be occupied at all times by a special housing needs tenant. The unit shall remain vacant until a special housing needs tenant occupies the unit regardless of whether there is a waitlist for the project for the other remaining units.

Criterion 15. Percentage of Income Targeted Units 0 to 10 points

Applicants receive points by providing a preference to lower income tenants in accordance with the table below.

Applications will earn up to ten (10) points based on agreeing to comply with the applicable limits in the matrix below. In order to receive points, the application must reflect one set-aside election (average income or "original" minimum set-aside (i.e., 40% at 60% or 20% at 50%) and meet the criteria below for the selected set-aside.

- For average income, the percent shown is the average AMI among the units' designations.
- For an original minimum set-aside, at least 30% of the units must be affordable to and occupied by households at the AMI shown.

	MINIMUM SET-ASIDE ELECTION	
POINTS	Average Income	30% in Original @
10	51%	30%
6	54%	40%
2	57%	50%

Criterion 16. Involvement of a Qualified Non-Profit Organization 0 or 2 points

Project involves a Qualified Non-Profit Organization as defined in Section 42 IRC and will elect to receive an allocation from the non-profit set-aside. The Qualified Non-Profit Organization is to own an interest in the project (directly or through a partnership) and materially participate (within the meaning of Section 469(h) IRC) in the development and operation of the project throughout the Extended Use Period.

In addition, HHFDC requires the following for the project to score points in this Criterion:

A. Submission of the Articles of Incorporation of the Qualified Non-Profit Organization

B. Copy of a current 501(c)(3) IRS Tax Exemption Letter for the Qualified Non-Profit Organization

C. Most recent Treasury Form 990 with all supporting documentation, as filed with the IRS

D. The Qualified Non-Profit Organization is required to have a physical office in the State of Hawaii

E. Submission of a valid Certificate of Vendor Compliance for the Qualified Non-Profit Organization indicating the entity is "compliant" or "exempt".

F. One of the exempt purposes of the Qualified Non-Profit Organization includes fostering low-income housing as indicated by Section 42 IRC.

Criterion 17. Opportunity for Home Ownership 0 or 1 point

Project is offering tenants an opportunity for home ownership. The owner will offer tenants a right of first refusal to acquire the property in accordance with Section 42(i)(7) of the Code. To receive consideration for the criterion, the Applicant must provide a feasibility analysis addressing the tenant's ability to purchase the project and a plan discussing how the project will offer the units for homeownership to tenants.

If the answer to the question is NO 0 points

If the answer to the question in YES 1 point

Criterion 18. Qualified Census Tract 0 or 1 point

Project is located in a Qualified Census Tract. The project will redevelop existing housing which contributes to a concerted community revitalization plan as determined by HHFDC.

If the answer to the question is NO 0 points

If the answer to the question in YES 1 point

To receive consideration for this criterion, the Applicant must provide an explanation on how this project is in compliance with such plan and its benefit to the overall community and a letter of interest or a binding agreement with the government agency administering the community revitalization plan.

Criterion 19. Historic Nature 0 or 1 point

Historic Nature. The project will preserve the historic nature of an existing building. Preservation of building(s) on a national or state historic registry will receive 1 point.

If the answer to the question is NO 0 points

If the answer to the question in YES 1 point

Criterion 20. Census Tracts with Concentrated Wealth 0 or 1 point

Applicants score under this criterion based on the percentage of families below the poverty rate in the Census tract containing the project site. The score depends on the other applications. The site in the tract with

the lowest percentage receives 1 point

highest percentage receives 0 points.

Those between the highest and lowest will receive a proportional number of points based on their proximity to the lowest ratio. In the event a project will have buildings in multiple tracts, the calculation will be based on the one with the highest percentage.

Criterion 21. Loan Repayment 0 or 1 point

Applications involving full repayment of a Rental Housing Revolving Fund loan within the committed RHRF affordability period will earn 1 point. Applications not requesting RHRF will receive 1 point.

Criterion 22. State Conveyance 0 or 1 point

Applicants will earn 1 point for agreeing to offer to sell the project to a state agency for fair market value (as determined by a third-party appraisal), subject to commercially standard terms, no later than three years before the end of the Section 42 extended use period. The agreement will be reflected in the Declaration of Restrictive Covenants.

Criterion 23. Need for Rehabilitation -2 to 2 points

HHFDC will award between -2 and 2 points based on its determination of how much the rehabilitation which will materially improve residents' quality of life (the extent of change between current conditions and results after completion). New Construction projects will receive 0 points.

IV. RIGHTS OF HHFDC

HHFDC may disapprove or defer consideration of any application or project for any LIHTC reservation or allocation, regardless of ranking under the criteria and point system in this allocation plan.

HHFDC may (i) hold back a portion of the annual state and federal housing credit ceiling for use during later reservation cycles, (ii) carry over a portion of the current year's housing credit ceiling for allocation to a project which has not yet been placed in service, and (iii) under certain conditions, issue a forward commitment for up to 25% of the next year's housing credit ceiling.

HHFDC is required under Section 42 of the IRC to allocate only the minimum amount of LIHTC required to make a project feasible. HHFDC may, at the time of issuance of the IRS Form(s) 8609 for the project, decrease the amount of LIHTC allocated to a project based on the actual cost and financing of the project.

COMPLIANCE WITH COMMITMENTS AND REPRESENTATIONS:

1. Projects and Applicants receiving an award of LIHTC are required to comply with their commitments and representations made under the QAP and Consolidated Application.
2. HHFDC shall verify compliance of the Project and Applicant during its review of the Form 8609 request. The review shall include, but is not limited to, the following:
    a. Compliance with Contractor Profit and Developer Fee Limitations determined via the audited cost certification.
    b. Completion of project improvements in accordance with plans and specifications determined via architect certification.

c. Compliance with Green Building and Energy Efficiency commitments determined via architect certification or certificate issuance by the appropriate regulating body.

3. The failure of the Project and Applicant to meet the commitments and representations may result in forfeiture of the entire 10% Good Faith Deposit collected during acceptance of the LIHTC Carryover Allocation or Reservation.

HHFDC in no way represents or warrants any interested party which may include, but is not limited to, any developer, project owner, investor or lender that the project is, in fact, feasible or viable.

No member, officer, agent, or employee shall be personally liable concerning any matters arising out of, or in relation to, the reservation or allocation of the LIHTC.

V. FEES

The following fees are associated with the LIHTC program. HHFDC may adjust the fees due to changing circumstances annually each January 1. All fees must be paid via cashier's check and made payable to the Hawaii Housing Finance and Development Corporation.

APPLICATION FEE

An application fee is payable to HHFDC at the time of submission of the application.

GOOD FAITH DEPOSIT

A good faith deposit of ten percent (10%) of the first year's federal LIHTC reservation is payable at the time the executed binding agreement is submitted to HHFDC. Upon allocation and issuance of the IRS Form 8609, HHFDC will retain eighty percent (80%) of the good faith deposit as an administrative fee. The remainder of the good faith deposit may be refunded to the Applicant. Failure by Owner to meet any of the representations made in the scoring criteria at the time of application will result in HHFDC retaining the entire good faith deposit.

COMPLIANCE MONITORING FEE

Please refer to Section VI. Compliance Monitoring Plan.

VI. COMPLIANCE MONITORING PLAN

HHFDC Low-Income Housing Tax Credit Compliance Manual is available at:

https://dbedt.hawaii.gov/hhfdc/

A. SUMMARY

HHFDC will monitor compliance with all applicable Federal and State Program requirements for the period a project is committed to providing low-income rental units. HHFDC will require that all qualified tenants of a project be certified upon occupancy and be re-certified annually to ensure compliance. Projects must maintain copies of the income certification for each tenant on forms approved or provided by HHFDC. Projects also must maintain records regarding number of rental units (including number of bedrooms and size of square footage of each bedroom); percentage of rental units that are low-income units; rent charged on each rental unit including utility allowances; documentation regarding vacancies in the building; eligible and qualified basis of the building at the end of the first year of the credit period, and at the end of each year until required set-asides are met; and character and use of the nonresidential portion of the building that is included in the building's eligible basis, all in accordance with federal rules. HHFDC may perform an audit annually but, at a minimum, once every three years, and shall have access to all books and records upon notice to the project owner. Annually, owners of LIHTC projects will certify to HHFDC that for the previous year, the minimum set-aside requirement was met; there was no change in the applicable fraction, or an explanation if there was a change; appropriate income certifications and documentation have been received for each low-income tenant; each low-income unit was rent-restricted in accordance with IRC Section 42; all units were for use by the general public and used on a non-transient basis (except for transitional housing for the homeless as provided for in IRC Section 42); each building was suitable for occupancy, taking into account local health, safety and building codes; there was no change in the eligible basis in the project, or an explanation if there was a change; all tenant facilities included in the eligible basis were provided on a comparable basis without charge; rentals of vacancies were done in accordance with IRC Section 42; rentals of units were done in accordance with IRC Section 42 if any tenant's income increased above the limit allowed by IRC Section 42; and a Restrictive Covenant document was in effect for the project, for those buildings receiving credits after 1989, all in accordance with federal rules.

If HHFDC becomes aware of non-compliance, it will notify the IRS in accordance with its rules.

B. COMPLIANCE

OWNER/MANAGER TRAINING

Owners, managing agents, and on-site managers should attend or document that they have recently attended training on management and compliance prior to leasing any units, but no later than receipt of IRS Form 8609, which certifies an allocation of LIHTC. Training may be required following significant or repeated noncompliance events. At minimum, such training should cover key compliance terms, qualified basis rules, determination of rents, tenant eligibility, file documentation, next available unit procedures and unit vacancy rules, agency reporting requirements, record retention requirements, and site visits.

SET ASIDE AND AVERAGE INCOME

The project must comply with one of the low-income minimum set-aside requirements of Section 42 IRC as chosen by the owner at the time of receiving the credits.

Tenant income is calculated in a manner consistent with the determination of annual income under Section 8 of the United States Housing Act of 1937, as directed by the Internal Revenue Code.

Only new construction and rehabilitation projects not subject to an existing LIHTC Declaration of Restrictive Covenants are eligible to elect the average income minimum set-aside. Applicants must comply with the following:

- The designations for any bedroom type cannot exceed 60% of area median income.
- The project cannot contain unrestricted, market rate units.
- Owners of projects with more than one building must select that each is part of a multiple building set-aside on line 8b in Part II of IRS Form 8609.

RENT

Units in the project must be rent-restricted to either thirty (30) percent of the median income adjusted for family size for the area in which the project is located or rent-restricted to thirty (30) percent of the imputed income limitations based on unit size. This rent restriction must be maintained throughout the Term of the Compliance and Extended use period.

MINIMUM TERM OF COMPLIANCE

Projects receiving a LIHTC allocation after January 1, 1990, must comply with eligibility requirements for the extended use period [initial 15-year period (compliance period), in addition to the 15 or more years (additional use period)] determined by elections indicated in the Restrictive Covenant Document. The Restrictive Covenant Document must be recorded before credits are allocated.

ANNUAL CERTIFICATION

Summary must be certified annually by the owner through the submission of the Annual Report. The Annual Report includes the Owner's Certificate of Continuing Program Compliance and shall be submitted by February 1 of each year throughout the compliance/extended use period.

RECORDS RETENTION

The Annual Report and the supporting documentation verifying the information on the Annual Report must be kept for a minimum of six (6) 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, however, must be retained for at least 6 years beyond the due date (with extensions) for filing the federal income tax return for the last year of the compliance period of the building, in accordance with published IRS guidelines.

The IRS allows electronic storage of records. However, HHFDC encourages the retention of hard copies of the first year's records.

IRS FORM 8609

The owner shall complete Part II of the IRS Form 8609 and submit it with subsequent Annual Report.

QUALIFIED BASIS TRACKING SHEET (QBTS)

This form shall be submitted annually until the required set-asides are established. Documents will provide information on original tenants qualifying each building for LIHTC minimum set-asides, and other set-asides.

STATUS REPORTS

This report is to be submitted annually by owners in such format as required by HHFDC or its Authorized Delegate to document and track the continuous compliance of LIHTC units. The documents report data that tenants are income eligible at move-in, that occupants of LIHTC units are re-certified at least on an annual basis, and that the unit rents are restricted. Documentation will also indicate compliance with the vacant unit rule and 140% rule. The tracking of LIHTC units substantiates the maintenance, increase or reduction of the qualified basis for each Building Identification Number (BIN).

C. QUALIFYING HOUSEHOLDS

Applicants for low-income units should be advised early in their initial visit to the project that there are maximum income limits which apply for these units. Management should explain to the tenants that the anticipated income of all persons expecting to occupy the unit must be verified and included on a Tenant Income Certification (TIC) prior to occupancy, and re-certified. Applicants should be informed of other IRS requirements such as the Student Rule and Recertifications.

UNBORN CHILDREN

In accordance with the HUD Handbook 4350.3, the owner shall include unborn children in determining household size and applicable income limits. If permitted by state laws, the owner shall require documentation of pregnancy in such circumstances.

STUDENT HOUSEHOLDS

In accordance with the Internal Revenue Code, a household comprised entirely of full-time students may not be counted as a qualified household, unless the household meets at least one exception. Refer to the Internal Revenue Code for additional guidelines on the exceptions.

Owner shall utilize a lease provision requiring tenants to notify managing agent of any change in student status.

CALCULATING ANTICIPATED TENANT INCOME

The owner shall qualify tenants by calculating household income using the gross income the household anticipates it will receive in the 12-month period following the effective date of the initial certification or Recertification. Anticipated income should be documented in the tenant file by third party verification whenever possible, or by an acceptable alternate method of verification with documentation as to why third-party verification was not available. Owner shall use current circumstances to project income, unless verification forms or other verifiable documentation indicate that an imminent change will occur. The owner shall refer to HUD Handbook 4350.3 REV-1 for guidance on the proper calculation and verification of income and assets per IRC regulations.

CERTIFICATION

Upon acceptance of an applicant to the project, a TIC must be completed for the applicant and certified by the applicant and the owner. The form is a legal document which, when fully executed, qualifies the applicants to live in the set-aside units in the project. The head, co-head, spouse and all household members over 18 years of age must sign the TIC.

The TIC must be executed along with the lease prior to move-in. No one may live in a unit in the project unless he is certified and under lease.

The original copy of the executed TIC form is to be retained in the applicant's file. The TIC and the supporting documentation verifying the TIC must be kept for a minimum of six (6) 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, however, must be retained for at least 6 years beyond the due date (with extensions) for filing the federal income tax return for the last year of the compliance period of the building, in accordance with published IRS guidelines.

RECERTIFICATION

For 100% LIHTC set-aside projects, annual recertifications are not required after January 1, 2009. Owners must recertify households at least once on the first anniversary of their initial tenancy. Self-certification of annual income is required for subsequent years.

For projects with less than 100% LIHTC set-aside:

To ensure each unit is complying with the LIHTC income restrictions, HHFDC requires (a) the owner to annually recertify each tenant's income and household composition and (b) each tenant is to report certain changes in income and household composition which occur between regularly scheduled recertifications.

Each tenant's annual recertification is to be completed within one year of last recertification. The request for recertification shall be made between 90 and 120 days before the effective date, and it must clearly state that the tenant has ten (10) calendar days in which to contact the owner to begin recertification processing. The notice must also state the days and hours available for the interview, the information the tenant should bring to the interview, and how and whom to contact to schedule the interview.

Upon reverification of the tenant's income, the owner shall complete a new TIC, which shall be certified by the owner or owner's designee.

PAST-DUE RECERTIFICATION

A recertification is considered past due if the TIC form for the tenant is not certified by the tenant and owner within twelve months of the last recertification.

D. RENT AND INCOME LIMITS

Projects must comply with the following procedures:

- Units in the project must be rent-restricted to 30% of the imputed income limitations for each unit, based upon HUD area median incomes and size of units. Rents are computed by bedroom size in the following manner: a unit which does not have a separate bedroom - 1 individual; and a unit with 1 or more separate bedrooms - 1.5 individuals per bedroom. HHFDC provides rent limits for projects receiving a LIHTC allocation.
- Gross rent does not include any payment for various rental assistance programs and supportive service assistance as outlined in Section 42 IRC. Gross rent must include any allowance for utilities.

HUD publishes the area median incomes for each state annually. Updated income limits must be implemented pursuant to IRS Revenue Ruling 94-57, "Taxpayers may rely on a list of income limits released by HUD until 45 days after HUD releases a new list of income limits, or until HUD's effective date for the new list, whichever is later." Rents may be increased accordingly as the area median income increases. IRS hold harmless policy may apply.

If the income of the tenants in a unit who have been previously verified increases above 140 percent of the applicable income limitation, the unit may continue to be counted as a low-income unit as long as the next unit of comparable or smaller size is occupied by a qualified low-income tenant, and the rent continues to be restricted for the initial unit.

E. EVICTION OF TENANTS

Once an eligible tenant has been certified and admitted to the project, the tenant may not be displaced solely due to an increase in the tenant's household income beyond the restricted limit.

F. AUDITS

The project will be subject to a management audit by HHFDC or its Authorized Delegate: (1) by the end of the second calendar year following the year that the last building in the low-income housing project is placed in service; and (2) at least once every 3 years thereafter. Notification of an audit shall be given to the owner no more than 15 days prior to such audit. The results of the management audit and the recommendations for corrective action to protect and maintain the project shall be transmitted to the owner within thirty (30) days following the completion of the audit.

The purpose of the audit will be to conduct a physical inspection of the building and/or project, for the lessor of 20 percent of the low-income units in the low-income project, rounded up to the nearest whole number of units or the Minimum Unit Sample Size set forth in the Low-Income Housing Credit Minimum Unit Sample Size Reference Chart, 26 CFR § 1.42-5, (c)(2)(iii), to inspect the units and review the low-income certifications, documentation supporting the certifications, and rent records for the tenants in those units. The audit will also consist of a review of first year tenant records, a review of the documentation supporting the Annual Report, and any other documentation necessary for HHFDC to make a determination as to whether the project is not in compliance with Section 42 IRC and Section 235-110.8 of the Hawaii Revised Statutes.

When conducting tenant file reviews, HHFDC's and its Authorized Delegate's reviews shall include, but not be limited to:

- completed rental application, including certification of assets and disposal of assets, if applicable;
- tenant income certification completed for move-in and current year, including all required signatures and dates;
- income verification(s) completed and documented;
- assets verified in accordance with IRC regulations;
- student eligibility documentation;
- lease and lease addendums completed at move-in;
- utility allowance on file;
- review of first year tenant records which qualified the project initially for LIHTC.

The owner shall have a period of forty-five (45) days in which to respond to the findings of the management audit. HHFDC shall review the owner's response to determine the extent to which the issues raised in the management audit letter are addressed. Findings, whether corrected or not, will be reported to the IRS.

See the following Section J for information on notification to the IRS of any non-compliance found in the management audit.

G. RURAL HOUSING SERVICE AND TAX-EXEMPT BOND ISSUE PROJECTS

In accordance with the published IRS guidelines on compliance monitoring, an exception may be granted to Rural Housing Service (RHS) projects under its section 515 program and buildings or projects of which 50 percent or more of the aggregate basis is financed with the proceeds of tax-exempt bonds.

The IRC regulations allow for exception of a building from the inspection requirement if the building is financed by RHS under the section 515 program, the RHS inspects the building [under 7 CFR part 1930(C)], and the RHS and the allocating agency enter into a memorandum of understanding, or other similar arrangement, under which the RHS agrees to notify the allocating agency of the inspection results. Irrespective of the physical inspection standard selected by the allocating agency, a low-income housing project under Section 42 IRC must continue to satisfy local health, safety and building codes. A memorandum of understanding has not been executed between HHFDC and RHS.

Annual Reports, QBTS, Compliance Monitoring Status Reports and other reports are still required of RHS projects. Although HHFDC has allowed the use of the RD 3560-8, the form does not determine eligibility for specific LIHTC requirements. Owners need to determine whether the TIC will be used, or a worksheet will be attached to RD 3560-8 to determine eligibility under the IRC. Management audits will still be conducted as indicated herein.

An owner who for some reason is not able to make any of the required certifications stated in the Annual Report or other requirements must inform the Agency immediately of such inability, as well as explain the reason for said inability.

H. REPORTING REQUIREMENTS

1. The **LIHTC Annual Report** must be submitted annually by February 1 of each year throughout the compliance/extended-use period.
    - Part II of the **IRS Form 8609** must be completed by the owner and submitted with the initial Annual Report.
    - **Qualified Basis Tracking Sheets** are submitted at a minimum annually with LIHTC Annual Report until all set-asides are established.
    - **Status Reports** are submitted annually by owners with the Annual Report to document and track the continuance compliance of LIHTC units throughout the compliance/extended-use period.
    - A copy of the applicable schedule, report or model used to calculate the utility allowance, submitted annually with the Annual Report.
2. Annual submission of required tenant data in accordance with the Housing and Economic Recovery Act of 2008.

These forms must be sent in to HHFDC or its Authorized Delegate at the address shown in Section II.

The Tenant Income Certification and LIHTC forms listed above are available from HHFDC. Additionally, HHFDC has data regarding HUD area median incomes, maximum rental rates, income verification information and third-party verification forms.

I. FEES

A compliance monitoring fee of $25 per unit for all units within each project shall be charged annually for administrative expenses. This fee shall be submitted with the LIHTC Annual Report for each year of the compliance/extended-use period. HHFDC reserves the right to adjust fees due to changing circumstances annually each January 1. It will be the responsibility of HHFDC to inform the owner of any changes in the annual compliance fee prior to the submission of fees. The compliance monitoring fee will be effective as of the Placed-in-Service date for the first building.

J. NON-COMPLIANCE PENALTIES

The penalty for non-compliance with these procedures is the potential recapture of the credits awarded and interest on the amount recaptured. The IRS shall determine penalties for non-compliance.

Upon determination by HHFDC of non-compliance with the LIHTC Program, the owner shall be notified and given forty-five (45) days to correct any discovered violations. In accordance with the IRS published guidelines on compliance monitoring, HHFDC will be required to notify the IRS within forty-five (45) days after the end of the thirty-day correction period, whether or not the non-compliance is corrected. HHFDC will be given the opportunity on the IRS form to indicate whether the owner has corrected the non-compliance. HHFDC may extend the correction period, up to a total of six (6) months, if it is determined by HHFDC that good cause exists for granting such an extension. In such a case, the IRS will not be notified until the end of the extended correction period.

K. ADDITIONAL USE PERIOD

After the initial 15-year compliance period of the Extended Use Period (“Additional Use Period”), HHFDC is no longer required to report instances of non-compliance to the IRS. The Compliance during the Additional Use Period (“AU Compliance Policy”) will concentrate on enforcing the requirements of the LIHTC program through the term of the Declaration of Restrictive Covenants for Low Income Housing Credit recorded on the property.

The AU Compliance Policy is largely based on the procedures of the initial compliance period. Unless noted below, the policy and procedure for compliance during the initial compliance period shall continue to apply to the additional use period.

EFFECTIVE DATE

The AU Compliance Policy shall be effective on the first day after the expiration of the initial 15-year compliance period for the last building placed in service in the project. Generally, the additional use compliance period will begin on January 1 of the year after the expiration of the initial 15-year compliance period of the last building placed in service and be in effect until the end of the additional use period.

INCOME AND RENT SET ASIDE

Owners are subject to the Section 42 occupancy and rent restrictions required in the Declaration of Land Use Restrictive Covenants for Low-Income Housing Credits.

STUDENT HOUSEHOLDS

The IRC student rule no longer applies during the additional use period. However, as HHFDC wants to ensure that properties in the additional use period are not used as dormitory housing, a modified student eligibility requirement will be enforced. During the additional use period, a household comprised entirely of full-time students will qualify as long as at least one member of the household is an independent student or is a student in grades Kindergarten through 12 (including home schooled minors studying course material within these grades). An independent student is defined as one who is not claimed as a dependent on his/her parent's tax return (proof required).

AVAILABLE UNIT RULE / 140% RULE

For projects which include market rate units, the Available Unit Rule and the 140% Rule do not apply during the additional use period. The percentage of LIHTC units as specified in the Declaration of Restrictive Covenants for Low Income Housing Credits must be maintained throughout the additional use period.

CERTIFICATION AND RECERTIFICATION

Certification of tenants at the time of move-in shall be required during the additional use period according to the same procedure as the compliance period.

Recertification of tenants will not be required during the additional use period. However, if any adults are added to the household, then the household must be re-certified.

UNIT TRANSFERS

During the additional use period, unit transfers are allowed without a new income qualification. Documentation of all unit transfers that occur shall be submitted as part of the Reporting Requirements.

REPORTING REQUIREMENTS

The **LIHTC Annual Report** must be submitted annually by February 1 of each year throughout the additional-use period.

Status Reports are submitted annually by owners with the Annual Report to document and track the continuing compliance of LIHTC units throughout the additional-use period.

SITE AUDITS

Commencing within three years after the expiration of the Compliance Period, site audits for projects may be conducted at least once every five years. Projects that have substantial outstanding non-compliance beyond the correction period based on the findings of the most recent site audit may be subject to more frequent site audits.

OWNER INSPECTION

Owners shall conduct an annual physical inspection of each unit and common areas in the project.

CORRECTION PERIOD AND NON-COMPLIANCE PENALTIES

Upon determination by HHFDC of non-compliance with the LIHTC Program during the additional use period, the owner shall be notified and given forty-five (45) days to correct any discovered violations. HHFDC may extend the correction period on a case-by-case basis, up to a total of six (6) months, if it is determined by HHFDC that good cause exists for granting such an extension. Owners may request HHFDC to review all outstanding non-compliance issues for a property once per calendar year after the initial correction period.

Any owner and constituent entities involved in management and ownership of a project with an unresolved finding of non-compliance beyond the initial correction period may be deemed to be Not in Good Standing by HHFDC Finance Branch.

Owners must clear all outstanding non-compliance issues to be deemed in Good Standing with HHFDC Finance Branch.

APPENDIX 1

MARKET STUDY

HHFDC requires a comprehensive Market Study of the housing needs of low-income individuals in the area to be served by the project by a disinterested party. The Market Study will be completed at the Owner's expense and must be dated within six months of the application deadline.

The Market Study must address the following information:

- A statement of the competence of the market analyst.
- A description of the proposed site.
- Demographic analysis of the number of households in the market area which are income eligible and can afford to pay the rent. Estimate of capture rates for the market areas.
- Geographic definition and analysis of the market area.
- Identification of the project including location, unit counts, income levels and target population. The Market Study must be consistent with the proposed project.
- Analysis of household sizes and types in the market.
- A description of comparable developments in the market area.
- Analysis of practically available rents, vacancy rates, operating expenses and turnover rates of comparable properties in the market area.
- Analysis of practically available rents, vacancy rates and turnover rates of market rate properties in the market area.
- Expected market absorption of the proposed rental housing, including a description of the effect of the market area.
- Identification and commentary of proposed projects in the market areas.
- Analysis of market demand for tenants with special housing needs when applicable.

Projects that are requesting credits from eligible basis generated from a Community Service Facility as defined in Section 42 (d) (4) (C) (iii) must provide a market study that addresses the following:

- A description of services provided that improve the quality of life for community residents;
- The market area and demand for services provided;
- The applicability of service provided to the community;
- The affordability of the services provided to persons of 60% AMGI or less.