

TAX CREDIT PROGRAM GUIDELINES

The Low-Income Housing Tax Credit Program ("Tax Credit Program") is a federal program created by the 1986 Tax Reform Act and amended pursuant to several subsequent federal laws. The Pennsylvania Housing Finance Agency ("Agency") is responsible for the administration of the Tax Credit Program in the Commonwealth of Pennsylvania. The purpose of the Tax Credit Program is to assist in the creation and preservation of affordable housing for low-income households. The Agency has adopted an Allocation Plan containing the criteria to be used in distributing the Tax Credits based upon the housing needs of the Commonwealth. The Allocation Plan is located in the Multifamily Housing Program Guidelines.

The Tax Credit Program makes available to owners of and investors in low-income rental housing developments a federal Tax Credit which is a dollar-for-dollar reduction of their federal tax liability. The Tax Credit may be taken for a ten-year period provided that the development remains in compliance with the Tax Credit Program.

These guidelines are provided to assist applicants for Tax Credits in preparing the Application. The guidelines are a supplement to the Allocation Plan. Should there be an inconsistency between these guidelines and the Allocation Plan, the terms and descriptions set forth in the Allocation Plan will prevail. The terms set forth in these guidelines may change from time to time. The Agency will attempt to notify interested parties of any changes in the Tax Credit Program or the process of implementing the Tax Credit Program through the Agency's website at www.phfa.org.

Applicants are advised to be familiar with the requirements of Section 42 of the Internal Revenue Code, as amended (the "Code"). Information concerning the basic requirements of the Tax Credit Program is provided on the Agency's website. It is recommended that, before completing the Application, applicants should check the Agency's website to ensure that the development meets current program eligibility.

Review Process

An Application, once received by the Agency, **may not be altered, amended or modified except as approved by staff during underwriting and program review.** If a discrepancy is found in an Application during the review process, the applicant may be given five business days to respond to the request for clarification. Corrections allowed by staff may not include replacement, substitution, or amendment of material items used in the ranking of the Application. An omission from the Application Checklist may result in the immediate rejection of the Application.

If the Applicant (or any related entity or material participant) is involved or has been involved in an Agency funded development (including Tax Credit properties) that is: delinquent in payments to the Agency, has materially defaulted on any of its obligations including, meeting required submissions and deadlines, or has misrepresented any material information on a previous applications, the Agency may reject the Application.

The following information and summaries are provided as a general overview only. Applicants must consult their own tax advisors and may be required to provide opinions from qualified professionals regarding any aspect of their development and the Tax Credit Program. All Tax Credits allocations in the Commonwealth are subject to the Agency's review and approval of Applications submitted in accordance with the Allocation Plan and subject to compliance with all of the requirements of the Tax Credit Program. Specific

definitions of all terms used in the following description may be found in the Allocation Plan and in the Code.

Property Eligibility Requirements

- Be located within the Commonwealth.
- Make all units available to the general public and allow units to be occupied in accordance with all federal, state, and local laws, including fair housing and accessibility laws.
- Be suitable for occupancy and comply with all applicable federal, state, and local building and health codes.
- Meet all requirements of the Internal Revenue Code (the "Code") and applicable federal laws relating to rental housing.
- Provide a permanent, decent, safe, and sanitary structure for year round residential use on a non-transient basis.
- Shall consist of 24 or more units that are under common ownership, management, and financing as a single undertaking. (Preservation may be exempt from this unit minimum subject to Agency approval.)
- **Shall not include more than 25% market rate units.**
- **Limit commercial space in a development to 25% of gross income and/or gross area of the development. (However, it is recommended that commercial income not constitute more than 10% of the effective gross income. An exception would apply if the proposed owner guarantees the income for the tax credit compliance period via cash or a letter of credit.) All commercial tenants are subject to the Agency's approval. Additionally, program funds cannot be used in the development of commercial space.**
- Be located in a geographic area which does not have competing developments or an over-concentration of affordable housing.
- Provide new units, substantially improve the quality of or preserve existing units, or preserve existing federally assisted/subsidized housing units.
- Address a demonstrated housing need.
- Be ready to proceed to closing in an expeditious timeframe.
- Properties are encouraged to adopt smoke-free policies to protect residents from the dangers of second-hand smoke and to reduce property maintenance costs. HUD, HHS, the American Lung Association and the American Academy of Pediatrics have new toolkits to assist owners with instituting a smoke-free initiative. The HUD toolkit is found at <http://portal.hud.gov/hudportal/documents/huddoc?id=pdfowners.pdf>.

Preservation of Agricultural Land

The Agency is committed to the preservation of the Commonwealth's primary agricultural lands. Multifamily or single family housing developments proposed for certain priority agricultural lands as defined in Executive Order 2003-2 may not be eligible for Agency funding. Priority agricultural lands include lands that are currently in active non-timber agricultural use and that have been in such use for the preceding three years, lands that are subject to specific land use restrictions, and/or lands that are classified as unique or prime agricultural lands by applicable federal or state agencies.

The Agency will evaluate developments involving conversion of lands in these categories and may deny funding unless specific economic and environmental concerns support the conversion. The Agency will continue to actively encourage both single family and multifamily housing development in rural communities as long as the affected lands meet all applicable program funding criteria.

Equal Opportunity

The equal opportunity policy adopted by the Board of the Agency is as follows:

It is the policy of the Agency to actively encourage and ensure minority and female participation in the ownership, development, design, financing, construction, and management of multifamily housing developments that receive funding from the Agency.

To further this policy, the Agency has developed technical assistance and outreach efforts to increase minority and women's business enterprise ("M/WBE") participation in Agency sponsored developments. The Agency will provide technical assistance to development owners and their development teams on how to identify and include minority and female vendors and establish ongoing working relationships with these enterprises and encourages participation through the Allocation Plan Selection Criteria. Agency staff will also coordinate efforts with state and local M/WBE technical assistance providers and certification offices to apprise M/WBE firms of opportunities available from Agency programs.

Agency staff will review this Equal Opportunity Policy with program applicants and will monitor MBE/WBE outreach activities of funding recipients.

Fees and Cost Limitations

The Agency has developed a Development Cost Limits Schedule and a Fee Schedule. These schedules, included in the Application Instructions, are an applicant's guide for the fees and expenses that are normally incurred in developing a property. The fees and expenses outlined in these two schedules are the maximum amounts that may be included in the total development cost and, if applicable, the eligible basis of the development. Any cost, whether developmental or operational, that is deemed unreasonable may be adjusted by the Agency.

Maximum Per Unit Basis Limitations

The Agency has established Maximum Basis limits as defined in the Allocation Plan. A detailed explanation of the conditions under which an applicant may request a waiver of these limits is found in the Allocation Plan. Maximum Basis is calculated by applying the limits by the number of units, as shown in the Application. To this amount is added the approved developer fee. This total may be adjusted for any federal subsidies, non-recourse debt, non-qualifying units of higher quality, and historic rehabilitation tax credits. In certain developments, these adjustments may be pro-rated. To request a waiver of the Maximum Basis limits, a development's high costs must be due to the existence of one or more of the factors outlined in the current Allocation Plan. An applicant must formally request a high cost waiver at the time of application, supplying detailed information on the high cost conditions, cost estimates, and cost comparisons. This information will be reviewed by Agency staff and a specific waiver amount may be approved. This approved high cost amount will be added to the Maximum Basis amount. If a development also qualifies for Acquisition Tax Credits, the Acquisition Tax Credits will be in addition to the

New Construction/Rehabilitation Tax Credit. There is no high cost waiver provision applicable to Acquisition Tax Credits.

Rural Development Section 515

For developments financed through the Rural Development Section 515 program, the Agency will recognize only those costs that have been approved by Rural Development. The Agency has entered into a Memorandum of Understanding with Rural Development regarding agreed-upon procedures for processing developments involving both Rural Development funds and Tax Credits. These procedures will be applied when processing a Tax Credit request for a development with Rural Development funding and are available upon request.

Indenture of Restrictive Covenants/Restrictive Covenant Agreement

The Indenture of Restrictive Covenants (the "Indenture") sets forth the income and occupancy restrictions for the development for the entire Agency Compliance Period/extended use period. Furthermore, the Indenture requires that the applicable fraction of low-income units will remain the same for each taxable year in the extended use period. In addition to identifying the minimum set-aside election of the buildings, the Indenture will also include the Selection Criteria on which the development was ranked and obtained a reservation of Tax Credits. Tax Credits may not be claimed until the Indenture is executed and recorded. The Indenture must be recorded in the Office of Recorder of Deeds for the county in which the property is located prior to any recording or filing of financing documents for the development. It will be forwarded to the owner with a copy of the executed Carryover Allocation Agreement (or as part of the Agency's closing), and the original, recorded must be returned to the Agency if not prior to, with the Carryover Allocation 10% test documentation evidencing that it has been recorded prior to any other document. The original recorded Indenture must be returned to the Agency.

The Indenture is binding on all successors to the owner.

Developments consisting of the preservation of existing Tax Credit properties will execute a new Indenture of Restrictive Covenants, however to the extent the development is in its extended use period, the existing Agency Indenture/Agreement will remain on the property.

Carryover Allocation Requirements

The Allocation Plan outlines important deadlines and requirements associated with the execution of a Carryover Allocation Agreement. All developments must either be placed in service by December 31, 2021, or by the date set forth in the Reservation letter be eligible for a Carryover Allocation of Tax Credits. The 2021 Carryover requirements will be posted to the Agency's website once available. *Please Note: Prior to the 2021 Carryover requirements being made available, you can review the 2020 Carryover requirements to familiarize yourself with the requirements and process.*

If at the time the 10% test documentation is required construction is complete and the certified public accounting firm is completing the cost certification, submission of the 10% test documentation may be waived. In the event a waiver is approved, the cost certification and Placement-In-Service Package must be submitted within 90 days from the date the 10% test documentation was due, or the placed-in-service date of the last residential building, whichever is earlier, or extension fees will be assessed.

Placed-in-Service Requirements

Upon completion of the development, a cost certification must be performed. The Agency requires the submission of the Placed-in-Service Package no later than 90 days after the last residential building receiving Tax Credits in the development is considered **placed-in-service**, pursuant to IRS Advance Notice 88-116. Please note for rehabilitation buildings, the placed in service date for the rehab work is the close of the 24 month period when the rehab is substantially complete. It is the owner's and syndicator's (investor's) responsibility to review the cost certification prior to its submission to the Agency to ensure that all costs and sources of funds are properly included and categorized. A cost certification once submitted cannot be revised. The Placed-in-Service Package with specific requirements and deadlines can be found on the Agency's website at www.phfa.org.

Owners who are not able to submit a complete Placed-in-Service Package including all documentation required within the 90-day period, may request an extension, but will be required to pay extension fees. The maximum extension that will be granted to any development will be **30 days**, unless the owner is deferring the start of the Tax Credit period, as defined in Section 42 (f)(1) of the Code. For more details concerning extensions and the calculation of the fees, refer to the Placed-In-Service package. In the event a package is found to be incomplete or have material omissions, the Agency, in its sole discretion, may return the incomplete package for resubmission. Agency extension fees will continue to accrue until receipt of a complete package.

Upon submission of all the required documents, review, and satisfaction of all Agency requirements, the IRS Form 8609 (Low-Income Housing Credit Allocation Certification) will be issued. For developments that have received financing through the Agency, the cost certification required by the Loan Program and all requirements must be received by the Agency's Finance Division prior to the release of the IRS Form 8609.

Annual Recertification Exemption

The Housing and Economic Recovery Act of 2008 (HERA) eliminates the annual income recertification requirement for 100% qualified Tax Credit developments. The Agency adopted this provision effective January 1, 2009. Owners of 100% qualified properties are required to certify each year on the Owners Certification of Continuing Program Compliance that no unit was occupied by an ineligible household. In addition, owners must provide annual updates for all units regarding household composition, student status, rent, and information relating to accessible units. All vacancies must be reported in real time on PAHousingSearch.com. Properties that are less than 100% qualified Tax Credit developments must continue to recertify on an annual basis. Also, additional funding sources, such as Section 8 and HOME, have annual recertification requirements that must be adhered to. The Agency may impose additional requirements for Developments utilizing Income Averaging. Please see the additional guidance included on the Agency's website at www.phfa.org.

HUD Tenant Data Collection

HERA requires each state Credit allocating agency to provide HUD with information on the race, ethnicity, family composition, age, income, use of federal rental assistance, disability status, and monthly rental payments of households residing in each property receiving Tax Credits. All developments receiving Tax Credits must participate in this data collection effort and will be expected to provide the required information.