Vermont 2026-2027 Qualified Allocation Plan Update

To: Joint Committee on Tax Credits

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Re: Vermont 2026-2027 Qualified Allocation Plan (QAP) Update

Summary:

Staff started the process of the 2026-2027 Qualified Allocation Plan (QAP) update in June 2024. Over the following months, VHFA received initial written public comments, and also held five QAP public comment meetings in locations around the state and virtually. Staff closed the initial public comment period in mid-August, and over the remainder of the summer and fall, reviewed comments and developed a draft of the 2026-2027 QAP. A summary of written and verbal public comments is available on the VHFA website, along with the current 2024-2025 QAP.

Staff received several suggested topics to research and consider from the Board of Commissioners and other interested parties prior to amending the 2026-2027 QAP. Staff also reviewed national policies, other state housing finance agency QAPs, and National Council of State Housing Agencies (NCSHA) best practices to inform the updated draft. The following is a summary of changes and additional information related to the changes:

Section 1: Program Guidance and Applications

- General clean-up of grammar and flow throughout the QAP with no substantive changes to the meaning of the text. In 1.2 Summary of Program Guidance, the language was changed to reflect the IRS code language more closely.
- 1.3 Applications. This brief section was added and replaces the previous Section 2: Application Process. A more detailed process will be available in the to-be-created VHFA Housing Credit Manual, discussed more in Section 2: Application Process below in this memo.
- 1.4 Credits Available to Projects:

    2. Age-Specific Housing – removed language that was repetitive with evaluation criteria, which requires Service-Enriched Housing (or similar) for all age-specific housing proposals. Also, the language around the process of evaluating general occupancy and age-specific proposals was removed. The process used by VHFA has consistently been grouping applications to compare the evaluation criteria. Now, with the opportunity for all proposals to meet the same number of checkmarks, it didn't seem necessary to state that age-specific proposals would not be evaluated separately. VHFA staff has consistently sought Agency

of Human Services (AHS) feedback for all housing proposals that include services, but not specifically for age-specific projects alone. Since this isn't the practice, the language around an AHS review for only age-specific proposals was eliminated.

3. Basis Boost – removed language around memorandum of understanding with a Human Service Agency for Housing with Services for the Homeless or Service Enriched Housing. This requirement has been added to the common application update. A new pathway to a basis boost is added, which states that a basis boost can be obtained by providing "at least 15% more accessible units in the project than otherwise required by federal, state, and local permitting."

Section 2: Application Process

- Section 2 has been removed entirely from the QAP. This section described the process in which a Sponsor would apply for credits, receive an award, and then go through the remaining steps to get to 8609. Since this process is complicated and changes depending upon the structure differences of projects (tax-exempt vs. taxable, multiyear construction period, multiphase/building projects), Staff has decided to create a more comprehensive Housing Credit Manual. This will describe in depth various processes as they relate to development and will allow more frequent updates instead of on the two-year QAP cycle.

Section 3: Threshold Requirements for all Housing Credits (Federal LIHTC and Vermont Tax Credits for Affordable Rental Housing)

- 3.2 Occupancy and Rent Restrictions: Staff made a minor change to clarify the reference to the HUD-published maximum rent and household income restrictions. Staff also inserted a link to the current VHFA website where these files are located.

- 3.3 Income Diversity: This is the new Mixed Income threshold. Other than the name change, Staff created a new "Non-Housing Credit Unit" definition to reference units within a project which, while not Housing Credit units, are still restricted by other programs such as HOME or VHCB, which may have higher Area Median Income (AMI) limits than the Low-Income Housing Tax Credit (LIHTC) program. There is an automatic exception to the threshold for Average Income Test projects, which will eliminate the need for the VHFA Board to waive these projects from this threshold as they are hitting AMI levels up to 80% AMI.

- 3.6 Age-Specific Housing: Staff broke up the various age-specific housing requirements that were in the previous QAP into pieces that fit into different sections of the QAP more naturally. This threshold requires that age-specific housing projects provide some level of Service-Enriched Housing directly to residents. It also provides that VHFA may ask AHS for their input on the proposed services.

- 3.7 Housing for Previously Homeless Households: In coordination with the Department of Housing and Community Development, Staff proposes removing the requirement that Sponsors submit a Homeless Access Reporting Tool (HART). DHCD stopped requiring the submission of these forms, so VHFA has integrated the information needed from that form into the services portion of the Common Application.

- 3.9 Broadband: This is a new threshold. It requires that all projects provide access to broadband/high-speed internet. This would require all projects to have one of four different types of transmission medium installed for each unit. The project owner is not responsible for providing internet service. If a project location does not have access to broadband/high-speed internet, the threshold requires that the building be constructed in anticipation of access being made available in the future.

- 3.10 Community Development Experience, Compliance, and Diversity: The QAP has historically had a requirement that the developer have the capacity to undertake the proposed development based on the developer's own experience or that of a consultant hired by the developer. This has not changed.

  A new threshold around compliance requires that the project Sponsor has previously been an owner who has followed the rules around tax credit compliance and kept the physical condition of other projects in good repair based on the VHFA and national standards.

  In addition to experience and compliance, the threshold includes diversity, which had previously been part of an evaluation criteria, it has now been broken into different components and blended into other areas of the QAP. The diversity section of this threshold has two parts. The first requires the Sponsor to have a planned approach to increase opportunities for women and Black, indigenous, and people of color (BIPOC) within the Sponsor's organization, housing portfolio, or broader community investments. This would include a demonstrable commitment to partnerships with women- or BIPOC-owned entities to participate in housing development.

- 3.11 Tax Credit Yield and Internal Rate of Return: The threshold now requires a letter of interest or a letter of intent to demonstrate the ability to administer the marketing and sale of LIHTC. This was previously called a financing acknowledgment letter, which often led to confusion for applicants.

- 3.17 Costs: The threshold has been updated to reflect the Staff's practice when looking at project costs during a competitive round and underwriting. The goal of this review isn't to create a cost cap but rather to be able to identify cost outliers. Cost outliers need to be understood better to determine if project costs are reasonable.

- 3.18 Projects Intended for Eventual Tenant Ownership: This threshold creates a formal requirement that the Sponsor of a project intended to transfer to tenants after the 15-year LIHTC compliance period submit a conversion plan, which will be outlined in the Housing Credit Manual.

- 3.19 Project Fees: The developer fee section has now been completely rewritten to make it clearer and easier to determine an appropriate development fee calculation based on the project proposed. Both percentages used for calculating the fee and maximum fees were changed for most calculations. Maximum fees were split into a maximum cash portion of the fee and a corresponding maximum deferred fee. The restructuring of the fees was based on previous fee calculations and limits as well as more recent project development budgets. Both existing subsidized housing, moderate rehabilitations, and acquisitions that are not arm's length are still limited to be based upon hard cost only. The remaining developer-related parties and deferred fees sections were not changed from the previous QAP. A change was made to when developer fees would be considered fixed within the development budget. This is now proposed to be at board approval.

Section 4: Evaluation Criteria

- Several changes are proposed for the evaluation criteria. Many of the proposed criteria are a combination of more than one previous criteria. The resulting number of checkmarks for these combined criteria may appear significantly higher than what has traditionally been proposed but are, in fact, proportionally in keeping with the original number of checkmarks each component held prior to the combination. The overall number of checkmarks is now 45. This is approximately 12 checkmarks more than in the last QAP. Checkmarks were increased for the following: tenancy type (specifically age-specific housing), rural communities (previously vacant lot infill), income diversity, property remediation, historic rehabilitation, underserved areas, high performance and resilient design, and public transportation.

- Project Tenancy and Services – For the update we have combined the Project Tenancy, Eviction Prevention, and Housing with Services for the Homeless evaluation criteria from the 2024-2025 QAP into one section. Age-specific and general occupancy projects are now valued equally depending upon the services each type of project provides. Projects that provide either Housing with Services for the Homeless or Special Needs Housing for at least 15% of the housing credit units will receive 5 checkmarks. This is an overall increase of 1 checkmark for general occupancy projects and 2 checkmarks for age-specific projects. An additional 3 checkmarks are available for projects with either resident service coordinators or service-enriched housing programming available to all residents, focusing on housing retention, and to Sponsors with a history of providing housing retention and eviction prevention services to households occupied by formerly homeless or at-risk residents. This criteria now totals 8 possible checkmarks overall.

- Site Location & Designations – Overall checkmarks were increased in this criteria to maintain the overall importance of location within certain designations and to match percent changes for other sections. Additionally, vacant site infill was replaced with Rural Communities. These are village or town centers without a state designation, like the previous vacant site infill. Rural Communities can also receive an additional checkmark based on the community amenities within walking distance of the site location. This will also allow these projects to be considered equal to New Town Centers or Growth Centers and Neighborhood Development areas that are not associated with Downtowns or Village Centers. An additional 2 checkmarks will also be provided for projects that are in underserved areas. This was previously a separate criterion. This criteria now has a total of 7 possible checkmarks overall.

- Project Characteristics & Amenities – This is a new criteria that offers four different paths to additional checkmarks based on additional accessible units, a community room with free WiFi access to the internet, amenities within walking distance to the project that are in addition to those previous site location amenities, and on-site characteristics such as a community room with a kitchen/meeting space, bike storage, playground or community garden/covered outdoor community meeting space. This criteria totals 6 possible checkmarks overall.

- Deeper Affordability – Projects that have an award of or an open application submitted in response to a NOFA for a federal rental assistance program for new project based rental assistance that is not Section 8 PBRA or Public Housing (e.g., HUD 202) are eligible for an additional checkmark. The criteria now totals 3 possible checkmarks overall.

- Income Diversity – This criteria remains largely the same, except it now distinguishes between non-housing credit units (less than 80% AMI) and unrestricted units (no AMI restriction from any funding source). It also allows for AIT units over 60% AMI to qualify as Non-Housing Credit Units. The criteria remains at 3 possible checkmarks overall.

- High Performance Building and Energy Efficiency Design – This criteria totals 3 possible checkmarks overall. Projects that are LEED Zero or Passive House certified will receive 3 checkmarks. The previous QAP was only for Net Zero or Passive House certification. Staff explored options around this criteria, including eliminating Passive House, but after talking with Vermont Energy Investment Corporation (VEIC) determined that there is value in the certification process even with the cost of certification. The rest of this criteria is new, and these options were created to encourage developers to continue pushing the envelope in improving emissions reduction policies, energy efficiency operations, and data collection. Projects that are all-electric and include on-site renewable for no less than 90% of the electric load of the project will receive 2 checkmarks. These criteria, as well as the following, are performance-based and do not require a full certification process. Projects that are solar-ready to accommodate future solar panels, which would provide 90% of the electric load for an all-electric building, will also be recognized with 1 checkmark. This criteria now also includes a provision for off-site solar if the project constraints prohibit on-site renewables. Finally, projects that are mechanically commissioned by a certified commissioning agent may receive 1 checkmark, and projects that include envelope commissioning by a certified commissioning agent will receive 1 checkmark.

- Permanent Debt – The overall percentage of Total Development Costs (TDC) that is required to be permanent debt to receive this checkmark for projects within Chittenden County, was lowered as a result of looking at recent projects that carried debt and setting a high and low mark. Projects outside of Chittenden County were also looked at, and the current percentage of debt was determined to be reasonable for these projects. Staff continues to value the importance of permanent debt as a way to lower the demand for soft sources. Staff also recognizes that there are tradeoffs in these criteria. A project may not be able to achieve very deep affordability and carry permanent debt without rental assistance. A project like that may be able to achieve greater income diversity instead, which could also be valuable to the project Sponsor. This criteria totals 2 possible checkmarks overall.

- New and Emerging Socially Disadvantaged Sponsors: Sponsors with at least one principal having an ownership interest of at least 25% in the general partner for the proposed development who is a socially disadvantaged individual completing their first tax credit project will receive 2 checkmarks.

  Additionally, a definition for socially disadvantaged individuals was added. Socially disadvantaged individuals are those who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities. The social disadvantage must stem from circumstances beyond their control. There is a rebuttable presumption that the following individuals are socially disadvantaged: Black Americans, Hispanic Americans, Native Americans, and Asian Americans and Pacific Islanders. This provision shall be interpreted in accordance with 13 CFR 124.103.

  Acknowledging social disadvantages within the development community has been a focus of the Agency and the QAP. VHFA continues to prioritize growth in this area in all of the Agency's policies and practices. The addition of these checkmarks would be unique for new and emerging BIPOC sponsors and will perhaps encourage new sponsors to participate in the Vermont affordable housing development community.

- Resilient Design – Projects that conduct a Property Resilience Assessment, and also develop property-specific plans for risk mitigation measures for identified risks, will receive 1 checkmark.

Section 5: Vermont Affordable Housing Tax Credits

- 5.1 Rental Housing Tax Credits: Staff is recommending some slight changes to the prioritization process to create some variation among projects with both tiered priorities and additional specifications. Prioritization is now in order of preference as follows:
  - Targeting a minimum of 15% of Housing Credit units to either Housing with Services to Homeless Households or Special Needs Housing
  - Rehabilitating existing affordable housing, including adding new accessible units and improving visitability.
  - Rehabilitating existing affordable housing.
  - Creating net new Housing Credit units in growing communities.
  - Demonstrating innovation in cost and scarce resource efficiencies.

  A goal of this QAP update is to increase the accessibility of the affordable housing stock in Vermont. There is a high need for housing for individuals with Intellectual or Developmental Disabilities as well as individuals with physical disabilities, which require accessible units. Prioritizing Special Needs Housing, even in state rental credit projects, will hopefully increase the availability of this type of housing around the state. Equally important is prioritizing rehabilitation of existing affordable housing to increase accessibility, even if that accessibility is limited, to improve the visibility of those homes.

- Homeownership Tax Credits: Most of the edits were to update language but not alter the intent of the content. Prioritization of awards was updated to add innovation in cost and scarce resource efficiencies.

Section 6: Compliance

- With the exception of the first two paragraphs of the compliance section, everything has been removed with this QAP update. All information regarding compliance for the LIHTC program is available to developers and owners in the VHFA Compliance Manual. Similar to the goal of the Housing Credit Manual, this change allows more flexibility for Staff to update compliance policies in accordance with changes from the IRS without waiting for a QAP update. This creates a more streamlined and consistent compliance process for owners and managers.

Definitions:

Staff removed certain definitions as they are no longer in the other sections of the QAP due to the transition to a VHFA Housing Credit Manual and VHFA Compliance Manual:

- Advanced Binding Commitment
- Binding Rate Agreement
- Carryover Allocation
- IRS Form 8609
- Letter of Intent
- Reservation Certificate
- Resident Manager's Unit
- Residential Rental Unit
- Violence Against Women and Justice Reauthorization Act of 2013 (VAWA)

Removed or added as part of the update for Thresholds or Evaluation Criteria

- Consultant Fee (removed)
- Dense Infill Sites (removed)
- Highly Ready to Proceed (removed)
- Human Service Agency (removed)
- LEED Zero (added)
- Non-Housing Credit Units (added)
- Property Resilience Assessment (added)
- Dense Infill Sites/Rural Community
- Special Needs Housing (added)
- Socially Disadvantaged (added)
- Underserved Area (added)

Amended as part of the update for Thresholds or Evaluation Criteria or due to a change in the underlying definition

- Housing with Services for the Homeless
- Property Remediation
- Transitional Housing for Homeless

Appendix 1:

Update of members on Joint Committee on Tax Credits, VHFA Board of Commissioners and Staff.

Appendix 2:

Update of related policies for Application Materials.

Appendix 3:

Update of policies listed in Related Policies.