COMMONWEALTH OF
PUERTO RICO

Puerto Rico Housing Finance Authority

SUBSIDIARY OF THE GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

LOW-INCOME HOUSING TAX CREDIT PROGRAM

QUALIFIED ALLOCATION PLAN

2013

PUERTO RICO HOUSING FINANCE AUTHORITY

Subsidiary of the Government Development Bank For Puerto Rico

COMMONWEALTH OF PUERTO RICO

Juan C. Cordero Bldg.
606 Barbosa Ave., 3rd. Floor
Rio Piedras, PR 00919-0345
PO Box. 71361, San Juan, PR 00936-8461
Phone: (787) 765-7577 - Fax: (787) 620-3523

REV.
SEPT. 2013

2013 LOW INCOME HOUSING TAX CREDIT ALLOCATION PLAN

TABLE OF CONTENTS

Contents **Page**

Contents	Page

LIST OF ANNEXES

FOREWORD

Congress adopted the Low-Income Housing Tax Credit Program (**Tax Credits**)[1] as part of the Tax Reform Act of 1986 (see Annex A). The Tax Credits provide a financial incentive to construct, rehabilitate, and operate rental housing for low-income tenants. A 10-year Tax Credit is available for each unit set-aside for low-income use as long as eligible households occupy a specific proportion of units in a building or project. The rents charged on the set-aside units are restricted and eligible households must occupy them or such units becoming vacant must be held open for eligible households for at least 15 years, plus a minimum of 15 additional years that Puerto Rico Housing Finance Authority requires.

IRS Revenue Procedure 2012-41 changed the 2013 Tax Credit to the greater of the annual per capita Tax Credit of **$2.25** or $2,590,000. The population of Puerto Rico is 3,667,084 based on Internal Revenue Bulletin 2013-14 of April 1, 2013. The 2013 annual per capita cap multiplied by the population of Puerto Rico represents **$8,250,939** in Tax Credits. Puerto Rico Housing Finance Authority will only have estimated 2015 per capita low income housing tax credits available for allocation. The estimate is based on 2013 figures: $8,250,939 in Tax Credits. Should legal and/or economic circumstances warrant a modification, Puerto Rico Housing Finance Authority may exert its discretion to comply with the applicable environment.

All procedural and substantive criteria contained in the 2013 Qualified Allocation Plan supersedes any criteria published in previous Allocation Plans administered by the Authority.

---

[1] Tax Credits refer to the LIHTC Program as well as the amount of individual tax credits according to the text.

PUERTO RICO HOUSING FINANCE AUTHORITY
A SUBSIDIARY OF THE GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
STATE CREDIT AUTHORITY

2013

Low Income Housing Tax Credit Allocation Plan

I. Legislative Requirements for the State Allocation Plan (Allocation Plan)

The Omnibus Budget Reconciliation Act of 1989 mandated that state housing credit agencies adopt plans for the allocation of the Tax Credits among qualified low-income housing projects. The Governor of Puerto Rico (**Governor**) must approve the Allocation Plan after the public has had the opportunity to comment through a public hearing.

The guidelines and requirements set forth in this Allocation Plan will be utilized in the processing of Tax Credits.

II. Internal Revenue Code Requirements

The housing credit authority for the Commonwealth of Puerto Rico is Puerto Rico Housing Finance Authority (**Authority**). Section 42(m)(1)(B) of the Internal Revenue Code of 1986, as amended (**Code**), requires the Allocation Plan to:

A. Set forth the selection criteria to determine housing priorities appropriate to local conditions.

B. Prefer allocating Tax Credits to projects:

1. serving the lowest income tenants;

2. obligated to serve qualified tenants for the longest periods; and

3. located in qualified census tracts and the development of which contributes to a concerted community revitalization plan.

C. Create a procedure that the Authority will follow in monitoring noncompliance, notifying the Internal Revenue Service (**IRS**) of such noncompliance, and monitoring for noncompliance with the provisions of the Tax Credits.

Section 42(m)(1)(C) of the Code requires the Allocation Plan to include certain selection criteria:

1. project location;
2. housing needs characteristics;
3. project characteristics, including whether the project includes the use of existing housing as part of a community revitalization plan;
4. sponsor characteristics;
5. tenant populations with special housing needs;
6. public housing waiting lists;
7. tenant populations of individuals with children;
8. projects intended for eventual tenant ownership;
9. energy efficiency of the project; and
10. historic nature of the project.

Every project, including any financed with tax-exempt bonds issued after December 31, 1989, must satisfy the requirements for allocation of Tax Credits.

The Authority may use, at its discretion, the priorities and point rankings set forth to allocate certain other funding sources that it is entrusted to administer by state law or Board of Directors Resolutions, including, without limitation, state tax credits under Act 140 of October 4, 2001 (**Act 140**), as amended, and other funds as its Board of Directors authorizes.

III. Housing Needs Assessment

A. Priorities identified in the State Consolidated Plan for Housing and Community Development Programs 2011-2015 (Consolidated Plan) and in the 2013 State Action Plan for the CDBG, HOME, ESG, and HOPWA Programs (Action Plan)

In reviewing the Allocation Plan, the Authority used information from the United States 2010 Census, the needs assessment on housing and homeless included in the most recent Consolidated Plan, and the information on the most recent Action Plan that the Commonwealth of Puerto Rico presented to the U.S. Department of Housing and Urban Development (**HUD**).

The affordable housing strategies of the Consolidated Plan are to:

1. strengthen the construction sector;
2. provide housing assistance to policemen, firefighters, teachers and nurses;
3. address the needs of the elderly, homeless and HIV affected population;
4. stimulate the development of energy efficient housing;
5. assure affordable housing for all residents, including both affordable homeownership and rental housing;
6. establish quality of life community councils in public housing projects;
7. stimulate community-driven development, redevelopment and revitalization in urban centers and rural areas.

The Action Plan´s main priorities (**Priorities of State Action Plan**) for the benefit of low-income, very low-income and extremely low-income tenants are to:

1. respond to the municipal needs for a sound, safe, decent and appropriate affordable housing as part of a balanced sustainable economic development in the non-entitlement municipalities of Puerto Rico;
2. strengthen non-entitlement communities through community development improvements and public service, which provides a stable platform for economic development;
3. foster the sustainability of the business and industrial sector-and as a result-assist in the economic development of the non-entitlement communities and people;
4. increase the affordable housing stock in the Island, especially for rental purposes;
5. properly administer the assets in public housing;
6. provide the needed subsidies to allow low and moderate income families and individuals to occupy a sound, safe and sanitary dwelling that would enhance quality of life and self-sufficiency;
7. increase the number and quality of emergency and transitional shelter facilities for homeless and HIV affected individuals and families;
8. operate shelter facilities and provide essential services;
9. assist in preventing homelessness.

B. Housing Needs

The Puerto Rico Consolidated Plan 2011-2015 and the 2013 Action Plan analyzed the Island's housing needs based on the 2010 US Census data, the

Comprehensive Housing Affordability Strategy (**CHAS**) Data Book (from HUD), local studies, and other reliable information sources.

According to the U.S. Census, out of 3,725,789 individuals in Puerto Rico 1,818,687 are below poverty level (49%). It represents almost four times the U.S.A. poverty level. Of the total population, 417,218 are 65 years old and over (11%). Of those 65 years old and over, 183,500 (44%) live below the poverty level in Puerto Rico. The vast majority of the older persons that live below the poverty level reside in rural municipalities that have limited job opportunities and limited resources. There are 1,261,325 occupied housing units in Puerto Rico out of 1,418,476 total housing units (88.92%).

The Government of Puerto Rico has identified the following **Housing Needs**:[2]

1. Safe, decent and affordable residential units for very low, low and moderate-income families. In 2000 there were 1,261,325 households, expected to increase to 1,537,218 in 2015, in Puerto Rico, of which 47% had a housing problem, 276,357 had cost burden problems higher than 30% of their earned income, and 137,585 had cost burden problems higher than 50% of their earned income. [3]

2. Below poverty level for individuals in Puerto Rico is almost four times that in U.S.A. This single factor compels a comprehensive approach in order to alleviate the disadvantaged living conditions in this sector. The number of 65 years and over below poverty level is 44% of the total 65 years and over population in Puerto Rico and 11% of the total below the poverty level population.

3. Although the demand for low-income housing is also concentrated in large regions like San Juan and Bayamón, regions like Aguadilla, Guayama, Ponce, Mayagüez, and Fajardo also have large percentage shares of assisted living demand.

4. Municipalities with the highest percentage of rental units were San Juan, Mayagüez, Aguadilla, and Ponce, either densely urbanized or metropolitan. Fajardo had the lowest proportions, located in coastal sectors.

5. Urgency to employ the older population to supplement its income, allows economic self-sufficiency, and contributes to solve its inadequate housing. Fifty two percent (52%) of the total number of households had income below $27,000.

6. Housing units, especially those dedicated to special needs population, must be located near transportation hubs, commercial zones, pharmacies

---

[2] Consolidated Plan 2011-2015.

[3] Housing problems are defined as cost burden greater than 30% of income, overcrowding and without complete kitchen or plumbing facilities. Cost burden is the fraction of a household's total gross income spent on housing costs.

and medical facilities. Population of 65 years or more is expected to grow at a rate of 16,572 persons per year. It will be an increasing problem during the next 10 years.

C. Objectives of the Commonwealth's Affordable Housing Policy (Objectives of Housing Policy)

1. Increase availability of decent, safe and affordable housing by expanding the supply of assisted housing, modernizing and preserving existing housing stock, reducing public housing vacancies, levering private or other public funds to create additional housing opportunities, acquiring or building units or developments, identifying vacant or underutilized land within the PRPHA or state agencies to develop affordable housing, applying for rental vouchers, increasing homeownership opportunities, among others.

2. Improve the quality of assisted living by improving public housing management, increasing the residents satisfaction in the areas of maintenance, repair, communication, safety, services and neighborhood appearance, modernizing public housing units; demolishing or disposing of obsolete public housing, replacing public housing units, providing homeownership initiatives, developing and implementing "Greenhouse" initiatives, and developing affordable housing.

3. Expand assisted housing choices by implementing a public housing site based on waiting list by AMPs.

4. Improve community quality of life and economic vitality by implementing measures that will de-concentrate poverty, improving public housing security via controlled accesses, maximizing surveillance systems, installing surveillance systems in identified high risk projects, reducing crime and other related activities by establishing public safety and preventive programs in collaboration with public and private sectors, designating developments or buildings for the elderly or persons with disabilities, ensuring lease enforcement, and providing homeownership initiatives and/or financial alternatives for residents.

5. Promote self-sufficiency and asset development of assisted families by increasing the number and percentage of employed persons through Section 3 (*Housing and Urban Development Act of 1968 – 12 U.S.C. 1701u*) and other labor programs, providing families with supportive services to improve the persons employability and/or educational schedule through the public and private sector, and enhancing an economic development program for residents business and/or services.

6. Ensure equal opportunity and affirmatively further fair housing by undertaking measures to ensure access to assisted housing, providing a suitable living environment, and completing the goals established in the Voluntary Compliance Agreement (VCA).

7. Establish Cooperative Agreements with the Public and Private Sector, Municipalities and other non-profit organizations for the rehabilitation of the PRPHA's housing stock.

8. Establish Cooperative Agreements with the Public and Private Sector, Municipalities and other non-profit organizations for the establishment of social, educational and economic development programs for the PRPHA's residents.

9. Explore other HUD approved financial strategies, such as, and not limited to, bond issues, new market tax credits, and/or grants for the acquisition and/or rehabilitation of public housing inventory.

IV. Housing Priorities

As per Code requirements, priorities identified in the Consolidated Plan and Action Plan, Housing Needs, and Objectives of Housing Policy, the Authority favors:

A. Strengthening the housing construction sector and its efficiency.

B. Implementing the new permit act process to simplify procedures and reduce housing development costs.

C. Carrying out the recommendations of the Puerto Rico Housing Task Force to improve and act upon the opportunities the housing industry provides.

D. Complementing HUD's *American Housing Survey* with the Puerto Rico State Housing Plan to better serve local housing challenges.

E. Reducing and controlling taxes, fees and other government charges affecting housing prices.

F. Revamping the Property Registry and Municipal Collection Center (CRIM).

G. Promoting housing development for the elderly, including independent and assisted living projects by:

   1. expanding and optimizing the use of local and federal subsidized rental programs to support the development of housing options for elders;

   2. converting under-utilized public or unused government buildings and properties into modern housing complexes for the elderly, and identifying available government land suitable for affordable housing development, housing for middle income families and for populations with special needs.

H. Further the development of energy efficient housing by:

1. creating a voluntary efficient housing certification program;

2. preserving energy, recycling and emphasizing waste reduction programs;

3. establishing an incentives program for developers of energy efficient housing;

4. enacting energy efficiency construction guidelines that maintain or reduce housing cost development and/or housing prices.

I. Encourage housing affordability by:

1. expanding credits and mortgage insurance programs for low and moderate income households;

2. expanding and strengthening incentives and access to capital to affordable housing developers;

3. establishing by Executive Order the State's Affordable Housing Development Policy by which all government agencies will be instructed to prioritize affordable housing development and related issues;

4. retaining and expanding the inventory of rental housing for low income households, in particular for beneficiaries of Section 8 programs (*United States Housing Act of 1937 - 42 U.S.C. 1437f*), single mothers and elderly persons by developing tax incentives programs and increases in funds for assisted housing; and

5. revamping the tax credit program for investments in construction and rehabilitation of rental housing for low and moderate income households.

J. Urge the adoption of social rehabilitation and enhance the quality of life in public housing projects with a multi-strategy approach through "quality of life community councils", community-driven development programs, security and anti-crime measures, renovating programs associated to education, prevention and eradication of social problems, including consumption and sales of illegal drugs, unemployment, school drop-outs, domestic violence, mental health and early pregnancy, and promoting community participation, among other initiatives. Modernization of public housing will be a priority.

K. Advance community-self-development in marginal communities by:

1. granting property titles;

2. fostering housing relocation from areas affected by environmental hazards;

3. stimulating development of cooperative housing;

4. providing assistance to homeless, single mothers, working class families and HIV population;

5. developing civic orientation programs on rules and regulation affecting housing construction and rehabilitation;

6. enforcing laws and regulations against illegal constructions and unregulated single unit developments (known in Spanish as "lotificaciones simples").

V. Set Asides

Non Profit Set Aside: 10% of the Authority's annual Tax Credit ceiling

Unrequested Tax Credits under the set-asides following the close of applications for the cycle shall convert to the general pool. If Tax Credits are exhausted in a designated set-aside pool, all projects submitted for such set-aside pool will compete in the general pool or, if eligible, in another available set-aside pool. The Authority may designate additional set-aside Tax Credits.

VI. Tax Credit Allocation Methodology and Criteria

A. Initial Submission - Basic Threshold Qualifications

To be considered for a reservation of Tax Credits, an applicant must first submit a complete application in **CD-ROM** format, include full payment of fees and demonstrate that the owner and the project meet these initial qualifications:

1. The project is or will be a **qualified residential rental project** with the basic income and rent restrictions of Section 42 of the Code (See Annex C, Low Income Housing Tax Credits Program Maximum Rents), evidenced through:

a. the Owners' Certification (Annex G);

b. the Accountant's Opinion (Annex H);

c. the Attorney's Opinion (Annex I);

d. Projected 30 years pro-forma income and expense cash flow showing a feasible operation, prepared according to the Underwriting Standards described herein, and certified by the proposed Management Agent;

e. the Designer's Preliminary Certification (Annex J);

f. Audited Financial Statements (**updated within six months of the application; only applicable to juridical persons**) of the developer, general partners, and sponsors of each entity.

g. Compiled or Revised Financial Statements (**updated within six months of the application; only applicable to natural persons**) of the shareholders, directors, principals, officers and partners, as applicable, of the owner, developer and general partner.

As a minimum, the combined net worth of all entities and natural persons involved in the ownership structure of the project (excluding actual or future limited partners and/or tax credit equity providers) **must** be equal to or greater than $500,000.00.

Notwithstanding the foregoing, no minimum net worth amount will be required for non-profit owner/developer proponents as long as compliance with non-profit status requirements is met according to this QAP.

2. The owner, developer and their shareholders, directors, officers and partners, as applicable, must demonstrate that they have not been involved in any way (either personally or as shareholders, directors, officers or partners of a corporation, partnership or other form of business organization or joint venture) in any other project for which the Authority has provided any financing and /or grant (as lender, conduit, custodian of funds, or otherwise) and in which a default notice under the terms and conditions of the applicable financing documents has been issued and not cured.

Also, the developer shall identify and explain any identity of interest with any other party of the project.

3. The owner, developer and their shareholders, directors, officers and partners, as applicable, with previous participation in the program, must demonstrate (through a certification letter from the Director of the Authority's Audit and Compliance Department) that they comply with Section 42 requirements and that, as of the application filing date, there is no outstanding finding of noncompliance (including any fees due to the Authority) in another project that received Tax Credits and in which they have an interest or participation.

4. Evidence of construction completion or readiness to proceed as demonstrated through the following information and documents:

a. Percentage of construction completion certified by project construction manager and lending institution inspector (both reports required).

b. Unexpired Construction Permit or Notification of Construction Permit issued by the applicable permitting office (either state or municipal, as the case may be).

c. Evidence of site control.

d. Documents and materials described in the Authority's *Home Investment Partnership Program's* Basic Threshold Checklist relating to federal agencies laws and regulations.

e. Letter of intent from financing source specifying terms of available financing.

   Projects with private permanent financing will need a letter of intent from the financial institution. The letter should detail:

   i. amount and term of the loan;
   ii. fixed interest rate;
   iii. amortization period; and
   iv. prepayment penalties.

   Applicant must submit a letter of firm commitment for financing within 60 days of receiving a reservation of Tax Credits. All projects applying for Tax Credits and financing from the Authority must present the loan application to the Authority on or prior to the Tax Credit application's submittal.

f. Development team in place: architect/designer, general contractor, construction manager, management agent, consultants, their resumes and their contracts with the owner or developer.

g. Plans and specifications certified by the licensed professional (project architect or engineer in charge of permitting process) submitted to the competent permitting office.

h. Cost breakdown certified by the proposed general contractor or architect/designer.

i. Letter of intent from syndicator or direct investor evidencing available private equity and indicating the credit price. In no event the credit price per dollar shall be more than two cents (2¢) higher than the latest average benchmark pricing published by Novogradac & Company, LLP on its official website at the submittal deadline hereinafter established. Contact the Authority for the reference figure if the named source is not updated recently.

j. Pro-forma financial statements certified by the project's proposed management agent.

k. Organizational documents for all entities specified in items 3, 4, 5 and 7 of pages 1 through 3 of the Tax Credit Application worksheet. (Please refer to *Basic Threshold Review* checklist made part of the application package for applicable documents.)

l. IRS Form SS-4 (application for Employer Identification Number) or other evidence of the taxpayer identification number for all entities specified in the previous item.

m. Owner must demonstrate its commitment to extend the initial 15-year period of compliance with the Tax Credit program's income and rent restriction requirements for a minimum of 15 additional years. (See Annex K).

n. Phase I environmental assessment report and/or any other applicable environmental report.

o. Comprehensive market study report **(updated within six months of the application)** performed by an approved provider unaffiliated with the developer, of the low-income housing needs in the area to be served. The Authority will publish a list of approved providers after review of qualifications. The market study should at least include:

   i. A statement of the competence of the market study provider, detailing education and experience of primary author and including statement of non-interest.
   ii. A description of the proposed site and neighborhood, including physical attributes of site, surrounding land uses, and proximity to community amenities or neighborhood features including shopping, healthcare, schools, and transportation.
   iii. A map and photos of the subject site and surroundings showing location of community services.
   iv. An overview of local economic conditions, including employment by sector, list of major employers, and labor force employment and unemployment trends over past 5-10 years.
   v. A description of the proposed development, detailing proposed unit mix (number of bedrooms, bathrooms, square footage, proposed rents, AMI level, utility allowances, and any utilities included in rent), proposed unit features and community amenities, and target population including age restrictions and/or special needs populations.
   vi. Demographic analysis of the number of households in the market area that are part of the target market (*i.e.*, family, senior, etc.), income-eligible, and can afford to pay the rent, including a projected household base at placed in service date.

vii. Geographic definition and analysis of the market area, including description of methodology used to define market area and map of market area including proposed site.

viii. Analysis of household sizes and types in the market area, including households by tenure, income, and persons per household.

ix. A description of comparable developments in the market area, including any rental concessions these developments presently offer.

x. A description of rent levels and vacancy rates of comparable properties in the market area, segmented by property type (market rate, Tax Credit, deep subsidy) and with rents adjusted to account for utility differences and concessions or other incentives. Such description should include all existing Tax Credit developments in the primary market area and any planned additions to rental stock including recently approved Tax Credit developments.

xi. Expected market absorption of the proposed rental housing, including capture/penetration rate analysis of target populations.

xii. A description of the effect on the market area, including the impact on Tax Credit and other existing affordable rental housing.

THE AUTHORITY WILL CONSIDER THE MARKET STUDY, THE MARKET, MARKETABILITY FACTORS, AND ANY ADDITIONAL INFORMATION AVAILABLE TO DETERMINE IF AN ACCEPTABLE MARKET EXISTS FOR THE PROPOSED DEVELOPMENT. THE AUTHORITY WILL NOT BE BOUND BY THE CONCLUSIONS OR RECOMMENDATIONS OF THE MARKET REPORT AND RESERVES THE RIGHT TO DISQUALIFY ANY APPLICANT IN THE COMPETITION IF IT DETERMINES THAT AN ACCEPTABLE MARKET DOES NOT EXIST.

p. **ACQUISITION AND REHABILITATION PROJECTS:** Comprehensive **capital needs assessment** report that a competent third party professional prepares, including an opinion of proposed budget. The assessment should examine and analyze, among other things:

i. site;

ii. structural systems;

iii. interiors (including units and common areas); and

iv. mechanical systems.

TO BE ABLE TO COMPETE FOR 9% TAX CREDITS, ACQUISITION AND REHABILITATION PROJECTS MUST SUBMIT A COMPLETE FINANCIAL ANALYSIS AS TO THEIR NON-FEASIBILITY UNDER THE TAX EXEMPT BOND/4% TAX CREDIT PROGRAM

q. Appraisal report of site and property prepared by an approved appraiser **within six months of the application.**

5. Projects sponsored or developed by non-profit organizations and receiving a Tax Credit reservation and allocation from the non-profit set-aside: the non-profit organization must be a **qualified nonprofit organization** under Section 42(h)(5)(C) of the Code.

6. Projects that Rural Housing Service of the U.S. Department of Agriculture (RHS) finances or sponsors: RHS commitment letter with available funding.

7. Compliance with the Fair Housing Act (*Civil Rights Act of 1968 - 42 U.S.C. 3601 et seq.*) accessibility requirements certified through the Designer's opinion letters and completion of the Fair Housing Act Accessibility Requirements Checklist. (Annex F: requirements checklist; Annexes J and N: models of certification letters).

8. Certification from applicant as to Federal, State, or Local subsidies received or expected to be received for the development and operation of the project. If executed, copies of subsidy/grant contracts or commitment letters must be submitted with the application.

9. Applications requesting more than $2 million ($2,000,000.00) in annual credits will **not** be considered and materials will be returned to the proponent without any further analysis.

10. Community Housing Development Organizations must submit evidence of certification by the Authority's HOME Program.

11. Acquisition/Rehabilitation projects must submit a certification attesting to the fact that there is a period of at least 10 years between the date of its acquisition by the taxpayer and the date the building was last placed in service.

B. Development Budget and Pro Forma Assumptions Review

1. Description

The Authority will evaluate the proposed development budget to ensure that the construction and other costs set forth for the project are reasonable and conform to Authority parameters. In addition, the pro-forma statements will be reviewed in order to ensure that the underwriting parameters conform to Authority parameters. The Authority will use its parameters and resulting numbers to review project feasibility, determine need, and allocate tax credits.

2. **Allowable costs and expenses**

a. **Intermediary costs**

Shall not exceed 5% of total development costs. The intermediary costs will include, but are not limited to:

i. organizational costs;
ii. syndication fees; and
iii. professional fees (architectural, engineering, accounting, legal, design, environmental consulting, construction management).

b. **Developer Fees**

Developer Fees will be restricted to fifteen (15%) of the development cost estimate. For purposes of this calculation, development cost include amounts of items 2, 3, 4, 5, 6, 7, 8, 9, 11, and 12 of the uses detailed in the Sources and Uses of Funds statement (page 15 of the Tax Credit Application worksheet).

The developer fee includes the developer's overhead, profit and consultants other than the types of professional fees discussed above, and all other fees paid in connection with the project for services that would ordinarily be performed by a developer.

The Applicant must submit a copy of each consultant contract that itemizes the services to be performed by each consultant and the amount of the consultant fee for each service or group of services.

In addition, a maximum developer's fee of 4% is allowed on the acquisition cost of buildings (excluding land value or cost) purchased for rehabilitation.

Notwithstanding, the Authority reserves the right, in its sole discretion, to adjust the timing of payment of the developer's fee at any time to achieve or maintain a project's feasibility and long-term viability.

c. **General Contractor Maximum Charges**

i. Builder's profit: 10% of hard construction costs.

ii.	Builder's overhead:	3% of hard construction costs.
iii.	General requirements:	2% of hard construction costs.

d. **Per Unit Minimums**

The cost of rehabilitation of a unit financed with volume-cap tax-exempt obligations will be the greater of:

i. 20% of the adjusted basis of the building being rehabilitated, or

ii. $6,000 per low-income unit in the building, plus the inflation adjustment factor mandated by applicable laws and regulations.

e. **Per Unit Cost Review**

The Authority may appoint an independent consultant to validate construction or rehabilitation costs in projects that passed the basic threshold requirements. The consultant will evaluate:

i. site, including topography, drainage, pavement, curving, sidewalks, parking, landscaping, water sewer, storm drainage, gas and electric utilities and lines;

ii. structural systems;

iii. interiors, including units, common area finishes, and disabled access;

iv. mechanical systems;

v. elevators; and

vi. other factors the Authority deems necessary.

f. **Acquisition Costs**

The acquisition price will be limited to the lesser of the sale price or the appraised value of the land and the property, and in the case of a municipal and/or governmental seller, the costs of rehabilitation already incurred on properties not yet placed in service.

g. **Operating Expenses**

The Authority will consider the reasonableness of the development and operational costs of the project as an additional factor in determining the proper amount of Tax Credits.

3. **Underwriting Parameters**

a. **Vacancy Rate**

i. 5% in projects with project-based rental assistance

ii. 7% all other projects

b. **Income and Reserve for Replacement:** 3% annual growth in rents, other income, and reserve for replacement.

c. **Operating Expenses**: 4% annual growth.

d. **Debt Service Coverage Ratio:**

Minimum 1.15 coverage for the term of the permanent debt financing. Equals the proportion of the development's net operating income (operating income less operating expenses and reserve payments) to foreclosable, currently amortizing debt service obligations.

e. **Required Reserves**

i. **Rent-up reserve** shall be reasonable based upon projected rent-up time according to market and target population, but in no event shall be less than $250 per unit.

ii. **Operating Reserve**

Four (4) months of: (a) projected operating expenses, (b) debt service, and (c) replacement reserve payment. It must be maintained throughout the term of the Tax Credit compliance period.

Deferring the developer's fees of the project can allow the project owner to fund the operating reserve. In that case, the developer's deferred fee can only be repaid from cash flow and after all required replacement reserve deposits are made. Such fee will be projected to be repaid within 10 years and must meet the IRS standards. A statement with the terms of the deferred fee must be included.

Neither interest income earned on any type of reserve funds nor the release of any type of reserve funds will be considered as a source of revenue for a project.

iii. **Replacement Reserve**

(a) New construction for elderly: **$250 per unit per year**.
(b) New construction non-elderly and rehabilitation: **$300 per unit per year**.
(c) Replacement reserve must be capitalized from the project's operations at 3% annual increases.

f. **Project Based Rental Assistance**

The Authority will underwrite the rents according to Tax Credit limits except for projects that intend to use project-based rental assistance (e.g., Section 8, Law 173, or similar legislation), which will be underwritten as per applicable regulations, provided written evidence is submitted (e.g., award letter indicating gross rents approved for the project, or executed rental subsidy agreement).

These limits are based on annual HUD data. If Section 8 HAP, Law 173 contracts, or other similar legislation allows rents above those limits, a project may receive the additional revenue based on such extra revenue.

g. **Tax Credit Percentage**

The Authority will use the applicable monthly percentage rate the IRS publishes to reserve Tax Credits. At the time of the Tax Credit allocation, the applicant must choose the Tax Credit percentage for either the:

i. Carryover Allocation or Binding Commitment month; or
ii. month a project is or will be placed in service.

h. **Equity Pricing**

The Authority will use the price that owners will submit through a letter of intent/commitment from the investor confirming the financial assumptions of the purchase. In no event the credit price per dollar shall be more than two cents (2¢) higher than the latest average benchmark pricing published by Novogradac & Company, LLP on its official website at the submittal deadline hereinafter established. Contact the Authority for the reference figure if the named source is not updated recently.

4. **Record and Notification**

The Authority will record and issue an itemized notice, when it provides notification of a Tax Credit reservation, or lack thereof, of amendments to the pro forma financial statements, changes to development costs, operating expenses, reserves, and underwriting assumptions.

C. **Underwriting and Financial Feasibility Analysis**

1. **Description**

The Authority shall evaluate the amount of Tax Credits, subject to its placement in the Point Ranking System, after it has determined that a project satisfies all basic qualification requirements, that proposed costs and expenses are reasonable and within the prescribed standards, and that underwriting parameters conform to Authority guidelines.

Section 42 of the Code requires the Authority to allocate the Tax Credits necessary to make a project economically viable. Thus, no project may receive, regardless of its absolute or relative score in the Point Ranking System, more credits than the Authority's underwriting process identifies as required for financial viability. Specifically, **the amount of Tax Credits will be the lesser of** the:

a. maximum allowable under the Code according to the project's eligible basis and affordability level (***eligible basis analysis***);

b. project's current necessity as the Authority's underwriting determines (***sources and uses or equity gap analysis***); and

c. amount of credits the applicant requested.

2. Pro-forma statements

Pro-forma statements will be prepared by the Authority based on the above described analysis, which will include recommended sources and uses of funds, as well as projected operating income for the term of affordability. These will include the amount of Tax Credits that a project would be eligible to receive, subject to the Point Ranking System, as well as the amount of permanent financing based on the established parameters, governmental subsidies, capital contributions, and funds from Authority's or other private programs.

The Authority reserves the right, at its sole discretion, to vary the above described methodology and all tax credit allocation methodology and criteria in order to comply with Section 42 requirements, any state law requirements or to further the public policy set forth in this Qualified Allocation Plan (**QAP**).

D. Project Evaluation and Selection (Point Ranking System)

1. Description

The Authority will consider qualified applications for Tax Credits after a project satisfies all basic factors using the Point Ranking System established hereinafter.

The project can accumulate a total of **600** points on the Point Ranking System. The project must accumulate a minimum of **150** points to be entitled to a reservation or an allocation of Tax Credits. The Authority anticipates reserving Tax Credits for projects scoring highest under the

Project Selection Criteria up to the amount permitted by law and the QAP.

Applications for projects that will be placed in service within the next calendar year in which the application is submitted will receive the highest priority, subject to their ranking. Projects returning Tax Credits from a previous year allocation and not placed in service within the established statutory two-year period will receive the lowest priority.

2. **Section 42 mandatory legislative criteria**

Federal legislation requires the Authority to give preference in allocating Tax Credits to those projects serving the lowest income tenants and to those projects committed to serve qualified tenants for the longest period.

3. **Other Criteria**

Applications will be evaluated according to:

a. **Preferred Project Location**

i. Qualified Census Track (**QCT**) (HUD designation; Annex D).

ii. Proximity to mass transportation facilities.

iii. Proximity to urban core areas ("Centros Urbanos").

iv. Proximity to hospital facilities.

b. **Preferred Project Characteristics**

i. Projects under construction or ready to begin immediate construction.
ii. At least 50% of the units will be rent restricted and affordable to households with incomes less than 50% of the median income adjusted for family size.
iii. Recipient of project based rental subsidies.
iv. Proposed rehabilitation will not require relocation of existing tenants.
v. Owner and the Puerto Rico Public Housing Administration (PRPHA) agreed in writing to include the development in the public housing inventory waiting list.
vi. Longest commitment to low income housing evidenced by a waiver of owner's right under Section 42 of the IRC to enter a qualified contract process.
vii. Placed in service within the next calendar year in which the application is submitted for the first time.

viii. Rehabilitation of historic properties certified by the State Historic Preservation Office.
ix. Intended for eventual tenant homeownership.
x. Preservation of existing low-income housing.
xi. Projects emphasizing energy efficiency.

c. **Preferred Housing Needs Characteristics**

i. Projects with larger amounts of 2 or more bedroom units that can accommodate families with children.

d. **Developer Characteristics**

i. Preference will be given to projects developed by a Community Housing Development Organization (**CHDO**) properly certified by the Authority.
ii. Previous successful participation by developer in developing and operating Tax Credit projects.

e. **Preferred Financing Characteristics**

i. Financial strength to ensure project's completion and sound operation.
ii. Project has disbursed funds administered by the Authority's *Home Investment Partnership Program* with recapture risk.
iii. Operational cost efficiency per project type.

f. **Special Tenant Populations**

Preference will be given to projects that provide supportive services to families with children, elderly, homeless or disabled tenants.

g. **Community Revitalization Master Plan**

Preference will be given to projects that are part of a community revitalization master plan which has been approved by the state and/or by the municipal assembly of the municipality within which the project is located ("Community Revitalization Master Plan").

4. **Point Scoring**

a. **Project Location (up to 165 points)**

i. 15 points: Projects located within a qualified census tract ("QCT") (Annex D; include evidence of location)

ii. Up to 50 points: Projects located on or near the following mass transportation facilities: existing ATI Urban Train Stations, central hubs for Metropolitan Bus Authority buses (AMA for its Spanish acronym) or public car terminals. Points will be awarded according to distance in meters to the center of the aforementioned facilities, as follows:

(a) 50 points: Projects located within a 100 meter radius from the center of the station or terminal.

(b) 25 points: Projects located within a 250 meter radius from the center of the station or terminal.

(c) 15 points: Projects located within a 500 meter radius from the center of the station or terminal.

iii. 50 points: Projects located within the urban core areas ("Centros Urbanos") recognized formally by the different municipalities. Points will be awarded only if a certification from the municipality is submitted with the application attesting to the fact that the project lies within the current delimitation map. Copy of the official delimitation map is also required.

iv. Up to 50 points: Projects located near existing public or private hospital facilities. The facilities to be considered will be strictly: 1) general hospitals as defined by the Puerto Rico Department of Health pursuant to Article III, paragraph 21 of "Secretary of Health's Regulation Number 112 to Regulate the Evaluation Process for the Issuance of Convenience and Necessity Certificates", but excluding the term "specialized" from its last sentence, and 2) Treatment and Diagnostic Centers ("Centros de Diagnostico y Tratamiento" or "CDT's" for their Spanish acronym), as defined in Article III, paragraph 7 of the aforementioned regulation. No other type of medical facility will be considered. Points will be awarded according to distance in meters to the center of the aforementioned facilities, as follows:

(a) 50 points: Projects located within a 100 meter radius from the center of the facility.

(b) 25 points: Projects located within a 250 meter radius from the center of the facility.

(c) 15 points: Projects located within a 500 meter radius from the center of the facility.

b. **Project Characteristics (up to 210 points)**

i. Up to 75 points:

a. Evidence of percentage of construction completion based on the construction contract amount (certified by the project's construction manager and bank inspector):

75 points:	more than 75%
70 points:	less than 75% to 50%
60 points:	less than 50%

The project's Construction Permit has to be unexpired to be awarded points in this item.

b. Readiness to Proceed: construction of the project will commence as soon as an allocation or reservation of Tax Credits is made. Readiness to begin construction will be evidenced with:

50 points:	Unexpired Construction Permit issued and approved by OGPE or an Autonomous Municipality, as the case may be.

30 points: Unexpired Notification of Approval of the Construction Permit issued and approved by OGPE or an Autonomous Municipality, as the case may be.

ii. 20 points: At least 50% of units in project are targeted for households with incomes at 50% or less of the median income adjusted for family size.

iii. 10 points: Rental subsidy award:

(a) Agreement to enter into a Housing Assistance Payments Contract, between PHA and Owner.
(b) Contract with the Department of Housing under Act Number 173 of August 31, 1996.
(c) Other similar long-term public or private rental subsidy assistance. In order to be considered, private rental subsidy assistance must be shown, and supported with proper documentation (along with cash-flows), to be economically sustainable for at least 15 years.
(d) Firm commitment letter (**must indicate the gross rents and utility allowances approved for the project**) of HUD's project based assistance (e.g., Section 8, Section 202-Supportive Housing for the Elderly, Section 811-Supportive Housing for Persons with Disabilities, Stewart B. McKinney Homeless Assistance Act of 1987, among others).
(e) Firm commitment letter (**must indicate the gross rents and utility allowance approved for the project**) of PR Department of Housing, Act Number 173 of August 31, 1996, as amended;

iv. 10 points: Proposed rehabilitation does not require relocation of current tenants.

v. 5 points: Written agreement with the Puerto Rico Public Housing Administration, submitted with the application, where PRPHA agrees to include the project in any listing of housing opportunities where households in a public housing project's waiting list are welcomed and where the project's owner or management agent agrees to actively seek referrals from the PRPHA to apply for units at the project.

vi.	Up to 10 points:	Project provides guarantees for longer terms of affordability beyond the extended compliance period (Qualified Contract waiver mandatory for this scoring item):
	10 points:	At least 10 more years beyond the required 30-year period.
	5 points:	At least 5 more years beyond the required 30-year period.

This scoring item is mutually exclusive with item "ix" of this same subsection.

vii.	25 points:	All units in the Project (including multiple building projects) will be placed in service within the next calendar year in which an application for low-income housing Tax Credits is submitted for the first time.
viii.	15 points:	Project will acquire and rehabilitate a certified historic structure; scope of rehab must be certified by the State Historic Preservation Office (SHPO).
ix.	10 points:	Owner will offer the tenants a first option to buy after the initial compliance period of 15 years (**must present a feasible transfer of ownership plan**).
x.	15 points:	Project will acquire, rehabilitate and preserve low-income rental housing which might otherwise be converted from low-income tenancy, including Section 8 projects with expiring contracts.
xi.	15 points:	Project emphasizes its energy efficiency. The Authority will adopt the point scoring criteria related to energy efficiency to be used for its next *Home Investment Partnership*

Program cycle in order to award points under this item.

c. **Housing Needs Characteristics (up to 50 points)**

i.	50 points:	Project bedroom's distribution is at least 75% 2 or more bedrooms units.
ii.	25 points:	Project bedroom's distribution is at least 50% 2 or more bedrooms units.

For purposes of the percentage computation, units targeted for the elderly will not be counted even if they are 2 or more bedrooms units.

d. **Project Developer Characteristics (up to 35 points)**

i.	15 points:	Developer, General Partner or Managing Member is a CHDO certified by Puerto Rico Housing Finance Authority HOME Program.
ii.	20 points:	Developer, General Partner or Managing Member can demonstrate successful past experience in the development of low income housing Tax Credit in Puerto Rico.

e. **Financing Characteristics (up to 90 points)**

i. Up to 50 points: Financial Strength:

(a) 50 points: the combined net worth of all entities and natural persons involved in the ownership structure of the project (excluding actual or future limited partners and/or tax credit equity providers) <u>must</u> be equal to or greater than three million dollars ($3,000,000.00); <u>and</u> the current assets must include at least one million dollars ($1,000,000.00) in liquid assets (cash equivalents and/or marketable securities).

(b) 25 points: the combined net worth of all entities and natural persons involved in the ownership structure of the project (excluding actual or future limited partners and/or tax credit equity providers) <u>must</u> be equal to or greater than two million dollars ($2,000,000.00); <u>and</u>

the current assets must include at least half a million dollars ($500,000.00) in liquid assets (cash equivalents and/or marketable securities).

ii. 20 points:

Project has disbursed funds administered by the Authority's *Home Investment Partnership Program* and construction is stalled because of insufficient sources of funds.

iii. 20 points: Project meets the following underwriting requirements as certified by an independent management agent:

Operating Expenses:

<u>Projects over 50 units:</u>

New Construction: Per-unit per annum (**PUPA**) operating expenses, as management agent certifies, do not exceed $3,000 (or $3,200 in a Community Revitalization Master Plan Project) on the first year of operations.

Substantial Rehabilitation and/or Acquisition Projects:

PUPA operating expenses, as management agent certifies, do not exceed $3,200 (or $3,400 in a Community Revitalization Master Plan Project) on the first year of operations.

<u>Projects with less than 50 units:</u> PUPA operating expenses, as certified by the management agent, do not exceed $3,400 on the first year of operations.

f. **Special Tenant Populations** (up to 25 points)

Up to 25 points: Projects developed to provide supportive services to families with children, elderly, homeless or disabled tenants through a written plan included in the application (an endorsement letter from the entity or entities that will provide supportive services to the targeted special population must be included).

g. **Community Revitalization Master Plan** (25 points)

25 points: Project is an integral part of a Community Revitalization Master Plan that provides a unique opportunity to economically and socially improve, stimulate, develop and transform the community in which it is located, serves as an overall improvement to quality of life, and benefits other adjacent communities consistent with new urban policies of the Commonwealth or of a municipality.

Applicant must provide a copy of the state or municipal plan (evidenced by legislative action or executive order in case of a state plan, or by municipal assembly ordinance in the case of a municipal plan) with an independent economic plan with financial projections to demonstrate the project's impact in the community in all mentioned categories.

h. **Point Ranking Tie Breakers**

If two or more proposals have an equal number of points, the following will be used to determine selection:

- **First tie breaker**: priority will be given to the Project awarded the most points for its proximity to existing ATI Urban Train Stations ("Tren Urbano"). Should a tie still remain, then:

- **Second tie breaker**: priority will be given to the Project requesting the least amount of tax credits per unit based on the application worksheet's total development cost figure. Should a tie still remain, then:

- **Third tie breaker**: priority will be given to the Project requesting the least amount of gap funding. Should a tie still remain, then:

- **Fourth tie breaker** will be by lot. Should this tie breaker arise, its selection process would be duly notified.

E. Tax Credit Allocation

1. Description

Following the Point Ranking calculation, projects will be ranked in descending order, most points to least points. The Authority anticipates reserving Tax Credits for those projects scoring highest under the Project Selection Criteria up to the amount the law and this Allocation Plan allow. The Authority anticipates reserving Tax Credits for each project in the list, starting with the highest scoring project, and continuing down the rankings, reserving Tax Credits and subtracting them from the cumulative balance of available Tax Credit for that year, until that balance reaches zero.

Tax Credit allocations for projects that receive binding commitments in prior years will be honored per the terms of such commitments, and projects competing under set asides will initially be ranked and compete only against other projects competing under such set asides, until the Tax Credit balance of such set asides reaches zero, whereupon such projects will be ranked and compete against all projects outside such set asides.

However, the credit allocation process may vary in order to further the public policy set forth in this Allocation Plan.

THE RANKING UNDER THE PROJECT SELECTION CRITERIA DOES NOT VEST AN APPLICANT OR PROJECT WITH ANY RIGHT TO RESERVATION OR ALLOCATION OF TAX CREDITS.

Applications for new constructions that will be placed in service within the next calendar year in which the application is submitted will receive the highest priority. Projects returning Tax Credits from a previous year allocation and not placed in service within the established two-year period will receive the lowest priority.

2. Allocation of Other Authority Administered Funds

It is possible that other programs and sources of funds the Authority manages may choose to rely on the Point Ranking System set forth in this Allocation Plan, as amended from time to time, to select projects to receive fund allocations.

It is also possible that such other sources of funds may be included as part of a particular project's pro forma statements calculated as described in Section VI(C)(2); that the Point Ranking of such project is sufficient to receive Tax Credits; yet that there are not sufficient funds in one or more of such other programs to meet the recommended amounts for such other program. In such situation, the Authority may, at its sole discretion and based on the criterion of necessity, adjust upwards the recommended Tax Credits up to the maximum limits prescribed in Section 42 of the Code.

F. Notification of Tax Credit Allocation

The Authority will notify, in writing, to each applicant of an initial reservation of Tax Credits, or lack thereof. The Executive Director of the Authority will sign the letter awarding, or denying, reservation of Tax Credits. For successful applicants, the initial reservation letter will specify the preliminary amount of annual tax credits, any additional information and documentation required to adjust said amount to established parameters, and the date by which to submit to the Authority such information and documentation necessary to receive the final allocation. The Initial Reservation Letter will also include:

1. Itemization of adjustments to costs, income, expenses and underwriting assumptions made to the application.

2. Any deficiency in sources of funds for the project based on the information submitted with the application, and a reasonable time to present additional sources of funds already committed to cover such deficiency, subject to cancellation of the Initial Reservation Letter.

G. Review

An applicant adversely affected by a decision of the Authority denying reservation of Tax Credits may submit a written petition for reconsideration to the Executive Director of the Authority within ten (10) calendar days after the notification by mail of the letter denying the application. A copy of the petition for reconsideration must be filed with the Financing and Tax Credit Department.

The Authority shall consider the petition for reconsideration within ten (10) calendar days of filing. If the Authority makes a determination upon the merits of the petition for reconsideration, the term to petition for judicial review shall commence as of the date of the notification by mail of the final determination. If the Authority takes no action with respect to the petition for reconsideration within ten (10) calendar days of filing, the petition for reconsideration shall be deemed to have been denied outright and the term for judicial review shall commence to run as of that date.

An applicant adversely affected by a decision of the Authority denying reservation of Tax Credits may present a petition for review before the Court of Appeals within ten (10) calendar days after the notification by mail of the letter denying the application, or within ten (10) calendar days after the expiration of the term provided to the Authority to consider the petition for reconsideration.

The filing of a petition for reconsideration or a petition for judicial review shall not stay the Authority's allocation of Tax Credits to successful applicants. If an applicant who petitions for review obtains a final order or judicial decree that modifies the decision of the Authority, so that the application is worthy of a reservation of Tax Credits, the Authority shall provide the applicant with a reservation of Tax Credits from the next available allocation round, whether in the current year or a subsequent year.

The reconsideration and judicial review procedure provided herein shall be the exclusive proceeding to review the merits of a decision of the Authority regarding the reservation or allocation of Tax Credits pursuant to this Qualified Allocation Plan. Other regulations regarding formal or informal adjudicatory proceedings before the Authority are not applicable to Tax Credit reservation and allocation decisions.

VII. ISSUANCE OF TAX CREDITS

A. Reservation of Tax Credits Beyond Actual Allocation Year

The Authority recognizes that the process to construct or rehabilitate housing projects in Puerto Rico may become a burdensome one. Moreover, construction or rehabilitation of housing projects that are part of a Community Revitalization Master Plan may occur over a longer period of time than they otherwise might have, had they not been a part of a major venture. The Authority also acknowledges that some projects, especially those participating in an extensive community undertaking might require a larger allocation of credits and placed-in-service dates may occur in different years. The Authority recognizes, as well, that investors require a level of comfort that such type of projects will be completed and placed in service in the scheduled timeframes.

In order to take into account the unique facts and circumstances and concerns described above, and in order to assist with meeting the Housing Needs, Goals of the State Action Plan, and Goals of the Housing Policy, while balancing the Authority's position with respect to any single large allocation of Tax Credits, the Authority may award a binding commitment in one year to make a Carryover Allocation for certain percentages of Tax Credits in following years in limited circumstances (**Binding Commitment**).

Applicants may apply to reserve Tax Credits and sign a Binding Commitment with the Authority to allocate Tax Credits at a future date. To such end, the Authority may reserve Tax Credits or bind itself to allocate Tax Credits to a project during the taxable years following the year in which the application is made. Section 42(h)(1)(C) of the Code determines that a reservation or Binding Commitment to allocate Tax Credits in a future year has no effect on the state housing Tax Credit ceiling until the year in which the Authority actually makes the allocation. (Annex E).

To be considered for a reservation of Tax Credits from future year cap or for a Binding Commitment to allocate Tax Credits at a future date, the Owner must demonstrate that the project falls within one of the following categories:

1. Tax Credit is deemed necessary to facilitate the restructuring of financing provided to a project confronting economic difficulties.
2. Tax Credit is deemed necessary to preserve the low-income housing status of the project or to maintain the total number of available low-income housing units in Puerto Rico.
3. Tax Credit is requested in connection with the acquisition of a project from the federal, state or local governments, or any department, Authority, entity or political subdivision thereof.
4. Tax Credit is requested in connection with a project using the Tax Credits as its only subsidy.
5. Project is part of a Community Revitalization Master Plan.

The Authority might also consider entering into a Binding Commitment with an owner of a project, even if the project fails to meet one of the above categories, if the circumstances of the project, per the Authority's sole discretion, are deemed necessary.

Depending on the circumstances and in the Authority´s sole discretion, Projects with Binding Commitments may be required to file an application in the year the Tax Credits are committed and go through the Basic Threshold Qualification Process and comply with at least the Minimum Requirement of the Point Ranking System. In addition, the owner will not pay the Application Fee but rather a Processing Fee of .25% of the annual Tax Credit requested will be included with the application.

In order for the applicant to preserve a Binding Commitment for an allocation of Tax Credits, the applicant must provide an updated memorandum every six (6) months after receiving the Binding Commitment, to confirm that any information provided in the application remains true, correct and complete in all material respects, or provide specific details for any exceptions, as well as any other information that the Authority may reasonably request. If there are any material exceptions, the Authority reserves the right to revoke the Binding Commitment.

B. Tax Credit dollar amount will be determined at:

1. Initial /Reservation of Tax Credits

2. **Carryover Allocation**

A development with a reservation or a Binding Commitment, but which will not be placed in service by December 31, may be eligible for a carryover allocation ("Carryover Allocation").

To sign the Carryover Allocation, the owner must provide:

a. Any changes in the circumstances of the project (budget, design, and/or permitting); and

b. Owner's Certification, disclosing any Federal, State, or local subsidies that the applicant has received, or expects to receive, for the development and operation of the project.

The Authority reserves the right to disqualify any applicant if it determines that the construction will not be ready to begin within six months after the signing of the Carryover Allocation Agreement.

3. **Additional Tax Credits**

The Tax Credit amount will not automatically be increased above the initial reservation request or allocation amount. If the owner of a project that received a Carryover Allocation of Tax Credits determines that additional credits are necessary to make the project financially feasible, the owner must apply for additional Tax Credits in a subsequent year or cycle. The owner will need to submit a complete package and a full fee.

For projects financed with volume-cap tax-exempt obligations the Authority reserves the right, based upon pertinent circumstances, to reduce or waive the required fee for additional Tax Credits or the requirement of a complete package.

All restrictions and requirements of the original Carryover Allocation shall remain in full force and effect for the additional Tax Credits.

4. **Placed-in-Service**

The Authority will issue IRS Form 8609-Low-Income Housing Credit Allocation and Certification ("Form 8609") after the placement-in-service date, and receipt and review of:

a. Certificate of Occupancy ("Permiso de Uso").

b. Independent CPA Final Cost Certification of project development (Annex M).

c. Designer's Certification of Completion of Construction (Annex N).

d. Updated operating budget and 30-year pro forma cashflows.

e. Owner's Certification of any federal, state, or local subsidies received, or expected to be received, to develop and operate the project.

f. Authority's independent consultant physical inspection and cost certification review.

g. Any other document the Authority may determine as necessary.

The amount of Tax Credits allocated as set forth in Form 8609 may be different from the amount requested in the application, the amount specified in the Initial Reservation Letter, Binding Commitment, or the amount in a Carryover Allocation.

C. Changes of Actual Development Costs or Other Circumstances

The Authority reserves the right, in its sole discretion, to reserve or allocate less Tax Credits than the amount requested in the application based on the information the applicant or any independent consultant submitted and Section 42 requirements.

D. Calendar Requirements

1. Carryover Allocation Requirements

The Code requires more than 10% of the project's reasonably expected basis be incurred by the close of:

a. the carryover allocation calendar year, if Carryover Allocation is made before July 1; or

b. 1 year after the date of the Carryover Allocation Agreement, if made after June 30.

After the reservation process is final, the owner and the Authority must sign a Carryover Agreement allowing the carryover of Tax Credits. At the time of the execution of the Carryover Agreement, Owners must have title of the property, or acquire such title within the next six months, and approval from all the corresponding governmental agencies to develop the project. The Authority requires expenditure of and cost certification of 10% of the costs to be submitted to the Authority within 1 year of the date of the Carryover Allocation (Annex L). All fees due to the Authority must be paid by that date.

2. Placed-in-Service Date

With respect to Carryover Allocations, the building must be placed in service within 24 months after the end of the carryover allocation calendar year.

a. For new construction and existing buildings, placed-in-service usually means the date the building receives a Certificate of Occupancy (Permiso de Uso).

b. For substantial rehabilitation, placed-in-service means the last day of the 24-month period (or shorter period if the rehabilitation is complete, if elected by the owner) for aggregating rehabilitation costs.

E. Other Procedural Requirements

The Authority will notify the Mayor of the Municipality where the project will be located of the proposal at the time of the Tax Credits' reservation and will have a reasonable opportunity to comment on the project.

VIII. Time Frame

Tax Credit applications will abide by the following reservation/allocation cycles. Additional cycles may be available if there are Tax Credits after the Authority exhausted its reservation/allocation process. The interested party may contact the Authority to ask for additional cycles, if any.

2013 Cycle	
Applications Opening Date	December 2, 2013
Applications Closing Date	February 3, 2014
Ranking & Reservation	April 15, 2014
Closing of Carryover Agreement	[TBD]
10% Cost Certification	[TBD]

Any changes to this schedule will be notified to the public through an advertisement in a newspaper of general circulation. If any of the due dates for application or reservation falls on a non-working day or on an official holiday, it will be moved to the following labor day.

Cost Certifications for projects receiving allocations to be placed in service are due during the same calendar year of the application and 10% certification for projects receiving a carryover allocation. (Annexes L and M)

IX. Tax-Exempt Financed Projects not Subject to Annual Tax Credit Volume Cap

Projects financed with tax-exempt obligations issued after December 31, 1989 [Section 42(h)(4)], are not subject to the Tax Credit annual volume cap, but are subject to the state private activity bond volume cap. These applications do not have to comply with the time frames set out in Section VIII and may be filed, and Tax Credits awarded, any time.

Nonetheless, these projects must satisfy the Basic Threshold Qualification Requirements and other requirements for allocation under this Plan pursuant to Section 42(h)(4). Therefore, the projects will be subject to the evaluation of housing priorities, minimum thresholds discussed above, and the fees determined in Section XI. They will not be subject to the Tax Credit allocation process, but must fulfill the Point Ranking System minimum requirement of **150** points. Applicants must include a letter from the lender stating the tax-exempt status of the obligations issued to finance the project and a certification from its tax attorney or CPA certifying that this requirement is met. If the Authority is the Lender, the letter will not be required.

X. Qualified Contract Process

Projects awarded Tax Credits are subject to the extended compliance period embodied in the recorded extended use agreement.

The Qualified Contract (**QC**) option, included in the Tax Credit legislation, is designed to permit owners of Tax Credit properties to exit the program after the initial 15 year compliance period without continued affordability restrictions on the property. The QC is a bona fide contract to acquire the Tax Credit project for a determined price. Should the Authority be unable to present a QC, the extended use period can be terminated. A qualified contract may be requested at any point after the fourteenth (14^{th}) year of the compliance period.

The terms, conditions, and procedures contained herein (Annex P, Qualified Contract Process) will allow the Authority to administer qualified contract requests from property owners who make a request under IRS Code Section 42(h)(6)(E)(i)(II) (**QC Request**).

XI. Compliance, Fees and Penalties

A. Procedure for Notification to IRS of Noncompliance

Federal legislation requires that each Allocation Plan include a procedure that the Authority will follow in notifying the IRS of noncompliance with the program. The Authority will require owners to furnish annual certifications of qualified low income tenants, including tenant income and rents charged, the number of qualifying low income units, as well as any other information pertinent to determine compliance.

The specific requirements of the Authority to implement this mandate are covered in the Compliance Monitoring Plan, which is hereby incorporated and made a part of this Plan (Annex O).

In making the application for Tax Credits, the owner agrees that the Authority and its designees will have access to any project information. This includes physical access to the project, to financial records and tenant information for any monitoring that may be deemed necessary to determine compliance with the Code.

Owners are advised that the Authority is required to do compliance monitoring and to notify the IRS and the owner of any discovered noncompliance with Tax Credit law and regulations, whether corrected or uncorrected.

B. Fees

The application package costs **$100** and includes the Allocation Plan, Compliance Monitoring Plan, Procedural Steps, and Instructions. The Authority will also charge the following fees:

1. Application Related Fees

a. **One thousand dollars ($1,000.00) filing fee**. This is a non-refundable and non-transferable payment, which shall be submitted along with the application, regardless of the result of the Authority's evaluation and determination.

b. **Two percent (2.0%) deposit of annual amount requested**. This is a non-transferable deposit, which shall be submitted along with the application. Notwithstanding the foregoing, any case not awarded with a reservation of credits will have one half (1/2) of its deposit returned and the other one half (1/2) will be charged as Authority compensation for evaluation time expended.

c. **Projects with Binding Commitments** will be charged a processing fee of .25% of the annual Tax Credit requested.

2. Allocating Fee

One percent (1%) of the total ten years allocated amount. The allocating fee will be paid at the time the allocation is made through certified or manager's check. In case of Carryover Allocations under Section 42, the fee will be paid at the time of signing the agreement through certified or manager's check. Allocation fees are neither refundable nor transferable.

3. **Qualified Contract Request Fee**
The Authority will charge a $5,000 fee at the time a Qualified Contract request is filed by an owner.

4. **Monitoring Fee**

If a credit allocation is made, the Authority will charge $50 **per each low income housing tax credit (LIHTC) unit during the compliance period (first 15 years) and the extended use period (after the first 15 years).** This amount will be due and payable by January 31 of each year.

Projects financed with tax-exempt debt will be charged an additional $25 fee per unit for compliance monitoring with IRC Section 142, applicable until all tax-exempt debt is fully extinguished.

The Authority may revise the fees as necessary to insure they cover the Authority's processing expenses and compliance monitoring.

C. Penalties

If a sponsor, owner, developer or consultant has a past due fee (regardless of the type) in a previous project, the Authority will not reserve credits for the new project until the account is paid in full.

XII. Scope and Future Amendments

Federal legislation directs the Authority to allocate only that amount of Tax Credits required to make the project economically feasible. The Authority's determination is discretionary and in no way constitutes a representation or warranty, express or implied, to any sponsor, lender, investor, or third party as to the feasibility of a given project, or to the project owner, investors, lender, or third party that its allocation determines that the project adheres to Code, Treasury regulations, or any other applicable laws or regulations.

The Authority reserves the power to administer, operate and manage tax credits allocation in all situations and circumstances, both foreseen and unforeseen in the Plan. No member, employee, or agent of the Authority shall be personally liable respecting any matter or matters arising out of, or in relation to, the Tax Credits.

José A. Sierra Morales
Executive Director
PUERTO RICO HOUSING FINANCE AUTHORITY

I, Alejandro García Padilla, Governor of the Commonwealth of Puerto Rico, hereby approve the Low Income Housing Tax Credit Allocation Plan for the Commonwealth of Puerto Rico adopted by Puerto Rico Housing Finance Authority, a subsidiary of the Government Development Bank for Puerto Rico, as the State Housing Credit Authority under the provisions of Section 42 of the Internal Revenue Code of 1986, as amended.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of the Commonwealth of Puerto Rico, in San Juan, Puerto Rico, this 26 day of November, 2013.

GOVERNOR